VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2016

PERFORMANCE HIGHLIGHTS

- Group revenue decreased by 1.2% to US$1,856.5 million
- Profit attributable to shareholders of the Company decreased by 8.4% to US$181.4 million
- Gross margin declined from 32.5% to 31.4%
- Final dividend of US25.0 cents per ordinary share, resulting in a full-year dividend of US42.0 cents per ordinary share
- Acquisition of LeapFrog paves the way for future growth

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2016 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2016

	Note	**2016** **US$ million**	2015 US$ million
Revenue	2	**1,856.5**	1,879.8
Cost of sales		**(1,273.2)**	(1,269.3)
Gross profit		**583.3**	610.5
Selling and distribution costs		**(254.3)**	(268.2)
Administrative and other operating expenses		**(70.4)**	(66.1)
Research and development expenses		**(56.3)**	(56.1)
Operating profit	2&3	**202.3**	220.1
Net finance income		**0.8**	1.6
Profit before taxation		**203.1**	221.7
Taxation	4	**(21.7)**	(23.6)
Profit for the year and attributable to shareholders of the Company		**181.4**	198.1
Earnings per share (US cents)	6		
- Basic		**72.2**	78.9
- Diluted		**72.2**	78.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2016

	2016 US$ million	2015 US$ million
Profit for the year	**181.4**	198.1
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	**(1.5)**	(0.6)
	(1.5)	(0.6)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on hedging	**4.8**	5.0
Realisation of hedging reserve	**(5.2)**	4.4
Exchange translation differences	**0.2**	(28.0)
	(0.2)	(18.6)
Other comprehensive income for the year	**(1.7)**	(19.2)
Total comprehensive income for the year	**179.7**	178.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	Note	**2016 US$ million**	2015 US$ million
Non-current assets			
Tangible assets		**68.4**	67.0
Leasehold land payments		**4.8**	5.0
Deposits for acquisition of tangible assets		**3.3**	-
Investments		**3.1**	0.1
Deferred tax assets		**4.0**	4.5
		83.6	76.6
Current assets			
Stocks		**285.4**	290.2
Debtors, deposits and prepayments	7	**266.2**	259.9
Taxation recoverable		**2.3**	-
Deposits and cash		**273.0**	294.2
		826.9	844.3
Current liabilities			
Creditors and accruals	8	**(345.3)**	(342.6)
Provisions for defective goods returns and other liabilities		**(31.5)**	(27.3)
Taxation payable		**(3.6)**	(7.2)
		(380.4)	(377.1)
Net current assets		**446.5**	467.2
Total assets less current liabilities		**530.1**	543.8
Non-current liability			
Net obligations on defined benefit scheme		**(5.1)**	(3.0)
Net assets		**525.0**	540.8
Capital and reserves			
Share capital		**12.5**	12.5
Reserves		**512.5**	528.3
Total equity		**525.0**	540.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Note	Attributable to shareholders of the Company							
		Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Capital reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2014		12.5	144.5	(0.5)	11.2	1.0	(4.2)	397.9	562.4
Changes in equity for the year ended 31 March 2015									
Comprehensive income									
Profit for the year		-	-	-	-	-	-	198.1	198.1
Other comprehensive income									
Fair value gains on hedging		-	-	-	-	-	5.0	-	5.0
Realisation of hedging reserve		-	-	-	-	-	4.4	-	4.4
Exchange translation differences		-	-	-	(28.0)	-	-	-	(28.0)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		-	-	-	-	-	-	(0.6)	(0.6)
Other comprehensive income for the year		-	-	-	(28.0)	-	9.4	(0.6)	(19.2)
Total comprehensive income for the year		-	-	-	(28.0)	-	9.4	197.5	178.9
Final dividend in respect of the previous year		-	-	-	-	-	-	(160.8)	(160.8)
Interim dividend in respect of the current year	5	-	-	-	-	-	-	(42.7)	(42.7)
Shares issued under share option scheme		-	3.4	-	-	-	-	-	3.4
Equity-settled share based payments		-	0.9	-	-	(0.9)	-	-	-
Share option lapsed during the year		-	-	-	-	(0.1)	-	0.1	-
Shares purchased for Share Purchase Scheme		-	-	(1.7)	-	-	-	-	(1.7)
Vesting of shares of Share Purchase Scheme		-	-	1.3	-	-	-	-	1.3
At 31 March 2015		12.5	148.8	(0.9)	(16.8)	-	5.2	392.0	540.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 March 2016

		Attributable to shareholders of the Company						
	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2015		12.5	148.8	(0.9)	(16.8)	5.2	392.0	540.8
Changes in equity for the year ended 31 March 2016								
Comprehensive income								
Profit for the year		-	-	-	-	-	181.4	181.4
Other comprehensive income								
Fair value gains on hedging		-	-	-	-	4.8	-	4.8
Realisation of hedging reserve		-	-	-	-	(5.2)	-	(5.2)
Exchange translation differences		-	-	-	0.2	-	-	0.2
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		-	-	-	-	-	(1.5)	(1.5)
Other comprehensive income for the year		-	-	-	0.2	(0.4)	(1.5)	(1.7)
Total comprehensive income for the year		-	-	-	0.2	(0.4)	179.9	179.7
Final dividend in respect of the previous year	5	-	-	-	-	-	(153.2)	(153.2)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme		-	-	(1.0)	-	-	-	(1.0)
Vesting of shares of Share Purchase Scheme		-	-	1.4	-	-	-	1.4
At 31 March 2016		12.5	148.8	(0.5)	(16.6)	4.8	376.0	525.0

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Note	**2016 US$ million**	2015 US$ million
Operating activities			
Operating profit		**202.3**	220.1
Depreciation of tangible assets	3	**34.9**	31.5
Amortisation of leasehold land payments	3	**0.2**	0.1
Gain on disposal of tangible assets	3	**-**	(0.2)
Decrease / (increase) in stocks		**4.8**	(24.3)
Increase in debtors, deposits and prepayments		**(7.1)**	(18.1)
Increase in creditors and accruals		**3.1**	41.6
Increase / (decrease) in provisions for defective goods returns and other liabilities		**4.2**	(0.6)
Increase in net obligations on defined benefit scheme		**0.4**	0.3
Cash generated from operations		**242.8**	250.4
Interest received		**0.8**	1.6
Taxes paid		**(26.9)**	(22.5)
Net cash generated from operating activities		**216.7**	229.5
Investing activities			
Purchase of tangible assets		**(38.3)**	(30.9)
Proceeds from disposal of tangible assets		**0.3**	0.2
Proceeds received from bank deposits with original maturity greater than three months		**70.0**	65.0
Deposit paid for acquisition of tangible assets		**(3.3)**	-
Purchase of investments		**(3.0)**	-
Net cash generated from investing activities		**25.7**	34.3
Financing activities			
Proceeds from shares issued upon exercise of share options		**-**	3.4
Payment for shares acquired for Share Purchase Scheme		**(1.0)**	(1.7)
Dividends paid	5	**(195.9)**	(203.5)
Net cash used in financing activities		**(196.9)**	(201.8)
Effect of exchange rate changes		**3.3**	(25.7)
Increase in cash and cash equivalents		**48.8**	36.3
Cash and cash equivalents at 1 April		**224.2**	187.9
Cash and cash equivalents at 31 March		**273.0**	224.2
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated statement of financial position		**273.0**	294.2
Less: Bank deposits with original maturity greater than three months		**-**	(70.0)
Cash and cash equivalents in the consolidated statement of cash flows		**273.0**	224.2

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB").

These financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The IASB has issued the following new and revised IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 19, *Employee benefits – Defined benefit plans: Employee contributions*
- *Annual improvements to IFRSs 2010-2012 cycle*
- *Annual improvements to IFRSs 2011-2013 cycle*

Amendments to IAS 19, *Employee benefits – Defined benefit plans: Employee contributions*

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

2. Segment information

The Group manages its businesses by divisions, which are organised by geography. In accordance with IFRS 8 – *Operating segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

- North America (including the United States and Canada)
- Europe
- Asia Pacific
- Others, which covers sales of electronic products to the rest of the world

The Company is domiciled in Bermuda. The results of its revenue from external customers located in North America, Europe, Asia Pacific and elsewhere are set out in the table below.

Each of the above reportable segments primarily derives its revenue from the sale of telecommunication products, electronic learning products and products from contract manufacturing services to customers in the relevant geographical region.

All of these products are manufactured in the Group's manufacturing facilities located primarily in the People's Republic of China under the Asia Pacific segment.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

(a) Segment revenues and results

Revenue is allocated to the reportable segment based on the location of external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue and depreciation and amortisation.

(b) Segment assets and liabilities

Segment assets include all tangible and intangible assets and current assets with the exception of deferred tax assets and other corporate assets including taxation recoverable and investments.

Segment liabilities include creditors and accruals and provisions for defective goods returns and other liabilities with the exception of taxation payable.

Year ended 31 March 2016

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
Reportable segment revenue	**878.3**	**795.9**	**129.0**	**53.3**	**1,856.5**
Reportable segment profit	**97.1**	**79.3**	**18.9**	**7.0**	**202.3**
Depreciation and amortisation	**0.7**	**0.5**	**33.9**	**-**	**35.1**
Reportable segment assets	**141.6**	**81.3**	**678.1**	**0.1**	**901.1**
Reportable segment liabilities	**(46.3)**	**(24.0)**	**(311.5)**	**(0.1)**	**(381.9)**

2. Segment information *(continued)*

(b) Segment assets and liabilities *(continued)*

Year ended 31 March 2015

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
Reportable segment revenue	899.5	812.3	117.6	50.4	1,879.8
Reportable segment profit	89.1	105.8	17.2	8.0	220.1
Depreciation and amortisation	0.6	0.6	30.4	-	31.6
Reportable segment assets	162.2	67.6	686.4	0.1	916.3
Reportable segment liabilities	(41.7)	(21.8)	(309.1)	(0.3)	(372.9)

(c) Reconciliations of reportable segment assets and liabilities

	2016 US$ million	2015 US$ million
Assets		
Reportable segment assets	**901.1**	916.3
Investments	**3.1**	0.1
Taxation recoverable	**2.3**	-
Deferred tax assets	**4.0**	4.5
Consolidated total assets	**910.5**	920.9
Liabilities		
Reportable segment liabilities	**(381.9)**	(372.9)
Taxation payable	**(3.6)**	(7.2)
Consolidated total liabilities	**(385.5)**	(380.1)

For the year ended 31 March 2016, approximately 12% (2015: 13%) of the Group’s revenue is derived from a single external customer. Such revenue is attributable to the North America segment.

3. Operating profit

Operating profit is arrived at after charging / (crediting) the following:

	2016 US$ million	2015 US$ million
Depreciation of tangible assets	**34.9**	31.5
Amortisation of leasehold land payments	**0.2**	0.1
Gain on disposal of tangible assets	**-**	(0.2)
Net foreign exchange loss	**0.3**	0.3
Net (gain) / loss on forward foreign exchange contracts		
- Net (gain) / loss on cash flow hedging instruments reclassified from equity	**(5.2)**	4.4
- Net loss / (gain) on forward foreign exchange contracts	**0.2**	(0.4)

4. Taxation

	2016 **US$ million**	2015 US$ million
Current tax		
- Hong Kong	**15.3**	17.1
- Overseas	**7.0**	8.1
(Over) / Under-provision in respect of prior years		
- Hong Kong	**(0.5)**	0.3
- Overseas	**(0.7)**	-
Deferred tax		
- Origination and reversal of temporary differences	**0.6**	(1.9)
	21.7	23.6

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

(b) Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

5. Dividends

	2016 **US$ million**	2015 US$ million
Interim dividend of US17.0 cents (2015: US17.0 cents) per share declared and paid	**42.7**	42.7
Final dividend of US25.0 cents (2015: US61.0 cents) per share proposed after the end of the reporting period	**62.8**	153.2

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

At a meeting held on 19 May 2015, the Directors proposed a final dividend of US61.0 cents per ordinary share for the year ended 31 March 2015, which was estimated to be US$153.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2015. The final dividend was approved by shareholders at the annual general meeting on 15 July 2015. The final dividend paid in respect of the year ended 31 March 2015 totaled US$153.2 million.

6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$181.4 million (2015: US$198.1 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2015: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

6. Earnings per share *(continued)*

The calculation of diluted earnings per share for the year ended 31 March 2015 was based on 251.1 million ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme. No adjustment has been made to the basic earnings per share presented for the year ended 31 March 2016 as the Company did not have any significant dilutive potential ordinary shares during the year.

7. Debtors, deposits and prepayments

At 31 March 2016, total debtors, deposits and prepayments of US$266.2 million (31 March 2015: US$259.9 million) included net trade debtors of US$230.3 million (31 March 2015: US$221.9 million).

At the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2016 **US$ million**	2015 US$ million
0-30 days	**130.0**	127.9
31-60 days	**59.4**	71.6
61-90 days	**35.2**	21.2
>90 days	**5.7**	1.2
Total	**230.3**	221.9

The majority of the Group's sales are on letters of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

8. Creditors and accruals

At 31 March 2016, total creditors and accruals of US$345.3 million (31 March 2015: US$342.6 million) included trade creditors of US$188.4 million (31 March 2015: US$186.1 million).

An ageing analysis of trade creditors by transaction date is as follows:

	2016 **US$ million**	2015 US$ million
0-30 days	**71.8**	60.7
31-60 days	**36.9**	46.5
61-90 days	**52.7**	56.4
>90 days	**27.0**	22.5
Total	**188.4**	186.1

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 March 2016 as set out in the announcement have been compared by the Group’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Boards and consequently no assurance has been expressed by the auditor.

FINAL DIVIDEND

The Board of Directors (the “Board”) has recommended a final dividend (the “Final Dividend”) of US25.0 cents per ordinary share in respect of the year ended 31 March 2016, payable on 1 August 2016 to shareholders whose names appear on the register of members of the Company as at the close of business on 21 July 2016 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 15 July 2016 (the “2016 AGM”).

The Final Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 19 July 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the 2016 AGM, the register of members of the Company will be closed from 12 July 2016 to 15 July 2016 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2016 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 11 July 2016.

(b) For the purpose of determining shareholders who are qualified for the Final Dividend, the register of members of the Company will be closed on 21 July 2016, during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 20 July 2016.

VTech experienced a challenging environment in the financial year 2016, resulting in a decrease in revenue and profitability. The strong US dollar depressed the Group's reported revenue, while the weak economy in Europe affected sales in that region. In addition, the data breach due to the cyber-attack on VTech's Learning Lodge in November 2015 added to the decline in sales and profitability. Looking at the Group's product lines, strength in standalone electronic learning products, commercial phones, other telecommunication products and contract manufacturing services was offset by weakness in platform products and residential phones. In April 2016 the Group completed the acquisition of LeapFrog Enterprises, Inc., a leading developer of educational entertainment for children, paving the way for future growth in electronic learning products.

Results and Dividend

Group revenue for the year ended 31 March 2016 decreased by 1.2% to US$1,856.5 million. The decrease was due to lower revenue in North America and Europe, which offset higher revenue in Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company decreased by 8.4% to US$181.4 million. This fall in profit was partly attributable to the decline in gross profit margin, which resulted from unfavourable currency movements and a change in product mix. Profitability was also impacted by higher administrative and other operating expenses, which included a provision and expenses related to the cyber-attack on the Learning Lodge® app store.

Basic earnings per share fell by 8.5% to US72.2 cents, compared to US78.9 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US25.0 cents per ordinary share, providing a full-year dividend of US42.0 cents per ordinary share, a 46.2% decrease from the US78.0 cents per ordinary share declared in the previous financial year. This represents a reduction of the dividend payout ratio to 58.2%, from 98.9% in the financial year 2015, in order to fund the acquisition of LeapFrog. It also reflects the year-on-year decline of basic earnings per share.

Costs

Costs presented a mixed picture in the financial year 2016 and the gross profit margin declined year-on-year, largely because of strong headwinds from foreign exchange movements and a change in product mix. Because of these factors, cost of material as a percentage of Group revenue was higher, even though material costs decreased slightly from the previous financial year. Direct labour costs declined as VTech improved productivity further, reducing the number of workers by 9.9% year-on-year. This was achieved through automation, process improvement and product optimisation. Manufacturing overhead increased, however, owing to wage inflation in mainland China and the opening of additional CMS manufacturing facilities in July 2015.

Data Breach due to Cyber-Attack

The financial year 2016 results were affected by the data breach which occurred as a result of a cyber-attack on VTech's databases in November 2015. During the cyber-attack, an unauthorised party accessed databases containing personal information from users of the Learning Lodge, the PlanetVTech website and Kid Connect service. In total over five million parent accounts and related child profiles were affected, though no credit card or other financial information was involved. VTech immediately took steps to suspend all affected websites and services, inform customers and report the incident to the authorities. As a result, Learning Lodge was offline for several weeks during the key holiday period.

VTech is strongly committed to protecting customers' data. With the assistance of one of the world's leading cyber security teams, the Group has taken steps to strengthen data protection on Learning Lodge and its connected services. The Group has also worked with law enforcement to recover the stolen customer data and to ensure that copies of the information that were disseminated to two other parties (a journalist and a cyber-security consultant) have been destroyed or taken off-line, held securely and not disseminated further.

Our Business

In the financial year 2016, electronic learning products (ELPs) remained the largest product line of the Group, followed by telecommunication (TEL) products and contract manufacturing services (CMS).

Sales via e-tailers and other online channels have continued to grow. Revenue from content downloaded from Learning Lodge declined, however, affected by lower sales of children's educational tablets and by the effects of the cyber-attack.

The financial year 2016 posed challenges for VTech's ELPs business. The strong US dollar depressed reported revenue. Globally, sales of children's educational tablets continued to fall owing to keen competition and a contraction in the market. The cyber-attack on Learning Lodge added to the decline in sales, though the sales of Kidizoom® Smartwatch continued to be strong globally. As a result, the share of ELPs revenue from platform products, including related software, fell to about 16% of total ELPs revenue in the financial year 2016, as compared to approximately 23% in the financial year 2015.

Faced with these challenges, VTech's ELPs continued to gain market share. Globally, VTech consolidated its position as the number one supplier of electronic learning toys from infancy through toddler and preschool[1]. Geographically, ELPs achieved notable overall sales growth in Australia, China and Japan. In contrast to platform products, sales of standalone products posted good growth, with their share of ELPs revenue rising to about 84% from approximately 77% in the previous financial year. Among them, the core infant and toddler lines, as well as the Go! Go! Smart family of products, did particularly well. Adding to the momentum, Kidizoom Action Cam was successfully launched globally. These successes enabled VTech to increase market share further and strengthen its market position. The Group remained the number one infant and toddler toys manufacturer in France, the UK and Germany[2], while in the US it was the number one supplier of electronic learning toys from infancy through toddler and preschool in the calendar year 2015[3].

TEL products faced a difficult market environment for residential phones in the financial year 2016. The fixed-line telephone market has continued to shrink globally, a situation that was compounded by the strong US dollar, which affected sales outside the US. As a result, the revenue from residential phones dropped by 19.4% year-on-year.

The weakness in residential phones was partially offset by the continued growth of commercial phones and other telecommunication products. Together, they represented about 27% of total TEL products

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1 Source: NPD Group, Retail Tracking Service and Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015

2 Source: NPD Group, Retail Tracking Service

3 Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015

revenue in the financial year 2016, against approximately 19% in the last financial year. Baby monitors performed particularly well, as VTech gained market share by expanding its distribution channels and extending its geographic reach. The Group also benefited from the further roll out of CAT-iq handsets in France, Germany and Switzerland by the major telecommunication companies, while both ErisStation®, a conference phone with wireless microphones, and ErisTerminal®, a SIP (Session Initiation Protocol) based business phone system, achieved steady growth.

CMS performed well in the financial year 2016, achieving its 14th consecutive year of growth and once again outperforming the global EMS market. Professional audio equipment, hearables, switching mode power supplies and industrial products were the leading product categories. These, together with home appliances, registered sales increases, which offset declines in solid-state lighting, communication products and medical and health products. Sales grew in all four geographical regions.

The good performance from CMS was the result of VTech's ability to attract new customers while securing more orders from existing customers. This in turn reflects the Group's strong reputation, expertise in certain product categories and excellent customer service. The new manufacturing building for CMS that commenced operations in July 2015 has increased capacity by 25% to accommodate future demand.

Acquisition of LeapFrog

On 4 April 2016 VTech completed the acquisition of LeapFrog Enterprises, Inc. (LeapFrog), with the result that it became an indirect wholly-owned subsidiary of VTech. The acquisition was effected by way of a tender offer that had been announced in February 2016. The consideration was approximately US$72 million and the acquisition was financed through internal resources.

LeapFrog is a strong educational toy brand, and complements VTech in geographical strength, product mix, skill sets and operations. VTech is stronger in Europe, while LeapFrog is more US focused. VTech performs well in standalone products, while LeapFrog's platform products are stronger in the US, Canada, the UK and Australia. VTech excels in technology and engineering, whereas LeapFrog has an edge in content development, backed by a strong education team. VTech's manufacturing is done predominantly in its own factories, while LeapFrog out-sourced its entire manufacturing. The Group will make it a priority to consolidate and streamline both companies' back-end operations, including logistics and manufacturing. This presents opportunities for improving the overall cost structure of the combined company. The acquisition will allow VTech to offer the broadest portfolio of products that enhance the education and development of children around the world.

Outlook

Despite a strong US dollar and slow economic growth in both the US and Europe, management expects the Group's revenue to be higher in the financial year 2017. Profitability, however, will be impacted by the integration of LeapFrog, which will make a negative contribution during the financial year 2017.

ELPs revenue is forecast to grow due to a number of positive factors. The acquisition of LeapFrog will result in an immediate sales contribution. Sales of VTech branded standalone products are expected to increase further. The successful baby line and Go! Go! Smart Wheels® will be expanded, while the award-winning Go! Go! Smart Friends® will see the introduction of a princess-themed line that combines traditional role-play with cutting-edge technology, providing a multi-sensory learning experience. The Little Love®/Baby Amaze™ ranges will see more products added to take advantage of good demand. New core infant, toddler and preschool products will also be launched. This will be augmented by the introduction of several new LeapFrog branded learning toys. Geographically, VTech's ELPs sales in China and Australia will grow further, supported by increased sales and marketing efforts, new product launches and the continued growth of online sales.

With the addition of LeapFrog branded products, the combined platform product business will see growth. In the VTech branded line, Touch & Learn Activity Desk™ Deluxe, a three-in-one learning desk designed for children aged between two and five, will be launched globally during the calendar year 2016. The handy communication device for children DigiGo®, which was well received following its launch in Europe in late September 2015, will be rolled out to the US market this year. Similarly, the Group's key European markets will start to launch Kidizoom Smartwatch DX later this year following the successful debut in the US. For the LeapFrog branded line, a new multi-activity learning platform will be launched and will contribute to the overall platform product business. The combined VTech and LeapFrog tablet offerings will give the Group a strong presence in the children's educational tablet category.

The TEL products business is expected to improve, buoyed by higher sales of commercial phones and other telecommunication products. Global product launches, new sales channels and geographic expansion will help to maintain the momentum in baby monitors. Sales of CAT-iq handsets will continue to increase based on the shift from PSTN (Public Switched Telephone Networks) to VoIP (Voice over Internet Protocol) technology. ErisTerminal is gaining customer acceptance and market attention. New models with enhanced features will be rolled out to the US market in the second half of this financial year, while VTech has recently secured a significant new project in Korea. ErisStation will benefit from wider distribution and new SIP-based models designed for large conference rooms that will be introduced in the US market. The Group's wireless monitoring system based on the ULE (Ultra Low Energy) standard will add incremental sales.

The decline in sales of residential phones is expected to moderate. In the US, the Group aims to capture more market share by growing online sales and introducing new products with enhanced Connect-to-Cell features. In Europe, the business is expected to stabilise, while higher sales in Australia and Japan will support growth in Asia Pacific.

Higher sales are forecast for CMS. Professional audio equipment will grow further as VTech's strong reputation attracts more customers and a new design support approach secures new projects. As category leaders, existing customers are expected to grow their businesses further, resulting in additional orders for the Group. Hearables will grow as existing customers expand their businesses. The successful production of the world's first wireless smart earphones shows VTech's manufacturing capability in the growing area of miniaturisation, enabling VTech CMS to target more business in miniaturised electronic devices. Industrial products will grow as the Group continues to benefit from the consolidation of suppliers by a customer. However, for switching mode power supplies, the change of ownership of a customer creates some uncertainty.

The Group has signed an agreement to acquire the assets from a third party, which allows VTech CMS to extend its supply chain vertically and secure the supply of high precision metal tooling and parts. Contribution from this acquisition would start in the fourth quarter of the financial year 2017.

Costs remain a key area of focus for management. Material costs are expected to be largely stable, but labour costs and manufacturing overhead are expected to rise moderately. The Group will therefore continue to offset cost increases through more automation, process improvement and product optimisation.

In closing, I wish to thank all my colleagues for their hard work and dedication over the past year and our business partners for their continuous support.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2016

	2016 US$ million	2015 US$ million	Change US$ million
Revenue	**1,856.5**	1,879.8	(23.3)
Gross profit	**583.3**	610.5	(27.2)
Gross profit margin	**31.4%**	32.5%	
Total operating expenses	**(381.0)**	(390.4)	9.4
Total operating expenses as a percentage of revenue	**20.5%**	20.8%	
Operating profit	**202.3**	220.1	(17.8)
Operating profit margin	**10.9%**	11.7%	
Net finance income	**0.8**	1.6	(0.8)
Profit before taxation	**203.1**	221.7	(18.6)
Taxation	**(21.7)**	(23.6)	1.9
Effective tax rate	**10.7%**	10.6%	
Profit for the year and attributable to shareholders of the Company	**181.4**	198.1	(16.7)
Net profit margin	**9.8%**	10.5%	

Revenue

Group revenue for the year ended 31 March 2016 reduced by 1.2% to US$1,856.5 million compared with the previous financial year. The decrease in revenue was largely driven by lower sales in North America and Europe, which offset the increase in revenue in Asia Pacific and other regions.

	2016		2015		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**878.3**	**47.3%**	899.5	47.8%	(21.2)	-2.4%
Europe	**795.9**	**42.9%**	812.3	43.2%	(16.4)	-2.0%
Asia Pacific	**129.0**	**6.9%**	117.6	6.3%	11.4	9.7%
Other regions	**53.3**	**2.9%**	50.4	2.7%	2.9	5.8%
	1,856.5	**100.0%**	1,879.8	100.0%	(23.3)	-1.2%

Gross Profit/Margin

Gross profit for the financial year 2016 was US$583.3 million, a decrease of US$27.2 million or 4.5% compared to the US$610.5 million recorded in the previous financial year. Gross profit margin for the year also reduced from 32.5% to 31.4%. It was mainly attributable to the depreciation of foreign currencies against United States Dollar and the change in product mix. Cost of materials as percentage of Group revenue was also higher due to these factors, although the material costs decreased slightly during the financial year 2016.

As for the manufacturing overheads, they increased over the last financial year owing to the higher wages and production capacity. Direct labour costs, however, were lower despite the higher wages in China during the financial year 2016. It was mainly due to the Group’s continuous efforts to reduce the workforce through automation and process improvement.

Operating Profit/Margin

Operating profit for the year ended 31 March 2016 was US$202.3 million, a decrease of US$17.8 million or 8.1% compared with the previous financial year. It was mainly due to the decrease in gross profit, which offset the decrease in total operating expenses.

Operating profit margin reduced from 11.7% to 10.9%. It was mainly due to the decrease in gross profit margin, which offset the decrease in total operating expenses as a percentage of Group revenue. The ratio of EBITDA to revenue declined from 13.4% to 12.8%.

Total operating expenses were US$381.0 million, a decrease of 2.4% over the last financial year. Total operating expenses as a percentage of Group revenue also dropped from 20.8% to 20.5%.

Selling and distribution costs declined from US$268.2 million to US$254.3 million, a decrease of 5.2% compared with the last financial year. It was mainly attributable to the reduced spending on advertising and promotional activities and the lower royalty payments for the licensed products by the Group during the financial year 2016. As a percentage of Group revenue, selling and distribution costs also decreased from 14.3% to 13.7%.

Administrative and other operating expenses increased from US$66.1 million to US$70.4 million over the same period last year. They included provision and expenses related to the cyber-attack. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.3 million, same as the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.5% to 3.8%.

During the financial year 2016, the research and development expenses were US$56.3 million, an increase of 0.4% compared with the previous financial year. Research and development expenses as a percentage of Group revenue was 3.0%, same as the last financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2016 was US$181.4 million, a decrease of US$16.7 million or 8.4% as compared to the last financial year. Net profit margin also reduced from 10.5% to 9.8%.

Taxation charges declined from US$23.6 million in the last financial year to US$21.7 million in the financial year 2016. The effective tax rate increased from 10.6% to 10.7%.

Basic earnings per share for the year ended 31 March 2016 were US72.2 cents as compared to US78.9 cents in the previous financial year.

Dividends

During the financial year 2016, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.7 million. The Directors have proposed a Final Dividend of US25.0 cents per share, which is estimated to be US$62.8 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2016 were US$525.0 million, a decrease of 2.9% from US$540.8 million in the last financial year. Shareholders' funds per share decreased by 2.8% from US$2.15 to US$2.09.

The Group had no borrowings as at 31 March 2015 and 31 March 2016.

The Group's financial resources remain strong. As at 31 March 2016, deposits and cash decreased from US$294.2 million to US$273.0 million, a decrease of 7.2% compared with the last financial year-end-date. It was mainly due to the reduction in cash generated from operating activities and increase in purchase of tangible assets.

Analysis of Cash Flow from Operations

	2016 US$ million	2015 US$ million	Change US$ million
Operating profit	**202.3**	220.1	(17.8)
Depreciation and amortisation	**35.1**	31.6	3.5
EBITDA	**237.4**	251.7	(14.3)
Gain on disposal of tangible assets	**-**	(0.2)	0.2
Working capital change	**5.4**	(1.1)	6.5
Cash generated from operations	**242.8**	250.4	(7.6)

The Group's cash generated from operations for the year ended 31 March 2016 was US$242.8 million, a decrease of 3.0% as compared to US$250.4 million in the previous financial year. The reduction was mainly attributable to the decrease in EBITDA in the financial year 2016, which offset the lower working capital investment compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2015 US$ million	**Hedging & others US$ million**	**Working capital change per cash flow US$ million**	**Balance as at 31 March 2016 US$ million**
Stocks	290.2	-	(4.8)	**285.4**
Trade debtors	221.9	-	8.4	**230.3**
Other debtors, deposits and prepayments	38.0	(0.8)	(1.3)	**35.9**
Trade creditors	(186.1)	-	(2.3)	**(188.4)**
Other creditors and accruals	(156.5)	0.4	(0.8)	**(156.9)**
Provisions for defective goods returns and other liabilities	(27.3)	-	(4.2)	**(31.5)**
Net obligations on defined benefit scheme	(3.0)	(1.7)	(0.4)	**(5.1)**
Total working capital	177.2	(2.1)	(5.4)	**169.7**

Stocks as of 31 March 2016 were US$285.4 million, decreased from US$290.2 million as of 31 March 2015. The turnover days also decreased from 96 days to 93 days. The reduction resulted from management's effort to improve stock management.

As at 31 March 2016 and 2015
All figures are in US$ million unless stated otherwise

	2016	2015
Stocks	**285.4**	290.2
Average stocks as a percentage of Group revenue	**15.5%**	14.8%
Turnover days	**93 days**	96 days

Trade debtors as of 31 March 2016 were US$230.3 million, increased from US$221.9 million as of 31 March 2015. Debtor turnover days also increased from 57 days to 63 days. The Group has tight management on credit exposure. The overdue balances greater than 30 days accounted for 2.2% of the gross trade debtors as of 31 March 2016.

As at 31 March 2016 and 2015

All figures are in US$ million unless stated otherwise	**2016**	2015
Trade debtors	**230.3**	221.9
Average trade debtors as a percentage of Group revenue	**12.2%**	11.5%
Turnover days	**63 days**	57 days

Other debtors, deposits and prepayments as of 31 March 2016 were US$35.9 million, decreased from US$38.0 million as of 31 March 2015. It was mainly attributable to the decrease in fair value gain on forward foreign exchange contracts in the financial year 2016.

Trade creditors as of 31 March 2016 were US$188.4 million, as compared to US$186.1 million as of 31 March 2015. Creditor turnover days also increased from 85 days to 93 days.

As at 31 March 2016 and 2015

All figures are in US$ million unless stated otherwise	**2016**	2015
Trade creditors	**188.4**	186.1
Turnover days	**93 days**	85 days

Other creditors and accruals as of 31 March 2016 were US$156.9 million, increased from US$156.5 million as of 31 March 2015.

Provisions for defective goods returns and other liabilities as of 31 March 2016 were US$31.5 million, as compared to US$27.3 million as of 31 March 2015.

Net obligations on defined benefit scheme as of 31 March 2016 were US$5.1 million, as compared to US$3.0 million as of 31 March 2015. The increase was mainly due to the re-measurement of net liability of defined benefit scheme.

Treasury Policies

The Group’s treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group’s global operations. The Group principally uses forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business. It is the Group’s policy not to enter into derivative transactions for speculative purposes.

Capital Expenditure

For the year ended 31 March 2016, the Group invested US$38.3 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

In the financial year 2017, the Group will incur capital expenditure of US$44.1 million for ongoing business operations. These included the acquisition of the tangible assets from Kenny Precision Products (Shenzhen) Company Limited to extend the vertical integration of VTech CMS, and secure the supply of high precision metal tooling and parts.

In addition, the Group has acquired 100% of the outstanding common stock of LeapFrog Enterprises, Inc. ("LeapFrog") subsequent to the financial year 2016 for a consideration of approximately US$72 million. LeapFrog is a leading developer of educational entertainment for children.

As of the financial year end date, the Group had no material contingencies.

Employees

The average number of VTech's employees for the financial year 2016 was around 27,400, compared to 29,500 in the previous financial year. Staff related costs for the year ended 31 March 2016 were approximately US$313 million, as compared to approximately US$308 million in the financial year 2015.

Review of Operations

North America

Group revenue in North America declined by 2.4% to US$878.3 million in the financial year 2016 as lower TEL products revenue offset higher sales of ELPs and CMS. North America remained VTech's largest market, accounting for 47.3% of Group revenue.

ELPs revenue in North America increased by 4.8% to US$314.4 million, led by higher sales of standalone products. In the calendar year 2015, VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[4].

In standalone products, growth was seen in the infant, toddler and pre-school categories, with higher sales of the core infant, toddler and preschool learning products, as well as the Go! Go! Smart family of products. Go! Go! Smart Wheels Ultimate RC Speedway™, the latest playset in the family, hit retailer shelves in August 2015. It was included in all the major retailers' hot toy lists for the season. More recently introduced items, such as Kidizoom Action Cam, Baby Amaze and Flipsies™, added incremental growth. Switch & Go Dinos®, being at the end of the current generation's product cycle and with only minimal retailer shelf space support, recorded a sales decline.

Sales of platform products decreased. Although there was good growth in the Kidizoom Smartwatch range, this could not offset declining sales of InnoTab® educational tablets and related software, as this market has continued to contract and competition remains keen. The cyber-attack on Learning Lodge and other VTech websites in November 2015 also impacted sales. The second generation smartwatch, Kidizoom Smartwatch DX, hit the shelves in the US in August 2015 and performed strongly. The Group also rolled out InnoTV™, an educational TV gaming system designed for preschoolers, in the US in October 2015.

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[4] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015

TEL products revenue in North America decreased by 10.7% to US$371.4 million. Whilst growth in commercial phones and other telecommunication products continued, it was not sufficient to offset declining sales of residential phones.

Residential phones declined due to the continued contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leading position in the US residential phones market[5] and increased its product placements among retailers.

Within commercial phones and other telecommunication products, baby monitors posted the strongest growth, driven by good sell-through of video models and additional product placements. Sales of commercial phones also rose, supported by demand for VTech's new range of four-line small business phone systems, which has been well-received by the market. The VTech branded ErisStation, a conference phone with wireless microphones, and ErisTerminal, the SIP based business phone system, enjoyed steady sales growth as distribution channels were expanded and the products gained solid traction in the market.

The revenue from CMS in North America increased by 4.9% to US$192.5 million, as higher sales of professional audio equipment, industrial products and home appliances offset lower sales of solid-state lighting, communication and medical and health products.

Sales of professional audio equipment achieved good growth owing to a number of positive factors. A major customer increased orders after resolving excess inventory issues. Several other customers saw higher demand for their products. VTech's strong reputation also attracted new professional audio equipment customers during the financial year 2016. Industrial products benefited from supplier consolidation by a customer, while home appliances received more orders from existing clients. Solid state lighting, however, was affected by a fall in demand for the customer's products. Lower sales of communication products were recorded from a few existing customers, the reasons being overstocking, poor market response or the end of a product life cycle. The reduction in revenue from medical and health products was due to the change in outsourcing policy of one customer.

Europe

Group revenue in Europe decreased by 2.0% to US$795.9 million in the financial year 2016, as lower sales of both TEL products and ELPs offset an increase in CMS revenue. Europe was VTech's second largest market, accounting for 42.9% of Group revenue.

ELPs revenue in Europe fell by 10.2% to US$325.5 million. This decline in US dollar terms was driven by the depreciation of the European currencies. Among the Group's key Western European markets, sales in France, the UK, Germany and Spain grew slightly in local currency terms. Despite the tough foreign exchange environment, VTech gained further market share in the calendar year 2015, strengthening its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[6]. The Group also maintained its number one position in preschool electronic learning in France, Germany and Spain[7].

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5 Source: MarketWise Consumer Insights, LLC
6 Source: NPD Group, Retail Tracking Service
7 Source: NPD Group, Retail Tracking Service

Standalone products saw a decrease in sales. Core infant, toddler and preschool learning products, as well as Switch & Go Dinos, recorded sales declines. However, there was growth in the Toot-Toot family of products and Little Love, while Kidizoom Action Cam and Flipsies brought additional revenue. In the financial year 2016, VTech won four "2015 Grand Prix du Jouet" awards, presented by *La Revue du Jouet* magazine in France. This was the highest number of awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award.

In platform products, sales of InnoTab/Storio® children's educational tablets and software contracted further. The market has continued to decline and competition remained keen, while the cyber-attack had a negative impact on sales. Although sales of Kidizoom Smartwatch also experienced a slight decrease, the range continues to win industry awards. In November 2015, Kidizoom Smart Watch Plus was named one of the "Dream Toys 2015 – Toys for Christmas 2015 (Category of Tots Get Busy)" by the UK Toy Retailers Association. In late September 2015, VTech's new multi-function handheld device DigiGo hit the shelves in the Group's key European markets, giving children a handy gadget for text messaging, pictures, videos and music. It has been well-received. The 5" Storio MAX tablets, which were launched in France and Germany, also enjoyed success.

Revenue from TEL products in Europe decreased by 13.3% to US$136.4 million. The sales growth in commercial phones and other telecommunication products was unable to offset fully the decline in sales of residential phones.

Sales of residential phones decreased as the fixed-line telephone market contracted. This was compounded by a weak Euro, which reduced the purchasing power of the Group's customers, leading to a further decline in sales.

In contrast, commercial phones and other telecommunication products posted good growth. Baby monitors was the best performing sector, driven by higher sales of video models. CAT-iq handsets registered a sales increase, benefiting from their first full-year sales contribution. Sales of integrated access devices (IADs) also grew as customers began shipments of a new generation of products. In addition to the well-established ODM (original design manufacturing) business in Europe, during the financial year 2016 VTech started selling ErisTerminal and ErisStation under the VTech brand in selected European markets, achieving steady growth in both product lines.

CMS revenue in Europe increased by 14.3% to US$334.0 million, with sales rising in all product categories.

Professional audio equipment benefited from being given more projects by existing customers, while new customers also made a sales contribution. Sales of hearables trended higher, as VTech grew its revenue share with a major existing customer, while a new customer offering the world's first wireless smart earphones ramped up orders. Despite the change in ownership of a customer, switching mode power supplies experienced a temporary boost in sales. Sales of home appliances rose owing to more orders from an existing customer.

Asia Pacific

Group revenue in Asia Pacific increased by 9.7% to US$129.0 million in the financial year 2016, as higher sales of ELPs and CMS offset a decline in TEL products. Asia Pacific represented 6.9% of Group revenue.

Revenue from ELPs in Asia Pacific was up 57.9% to US$40.9 million, mainly driven by growth in China, Australia and Japan. In China, there was strong demand for core infant and toddler products, Switch & Go Dinos and Go! Go! Smart Wheels. Growth was further supported by the expansion of distribution channels and higher online sales. Sales in Australia increased significantly as VTech completed the first full fiscal year of conducting sales and marketing through its own local office. The revenue growth in Japan was mainly attributable to the launch of Kidizoom Smartwatch in that market.

TEL products revenue in Asia Pacific declined by 16.3% to US$36.0 million. Sales growth in India, Taiwan and Hong Kong only partially compensated for lower sales in Australia, Japan and China. In Australia, the Group successfully replaced all Telstra-branded phones with VTech branded phones across all channels during the financial year 2016, while gaining more placements for its range of baby monitors. In Japan, sales were lower due to delays of new product launches by customers, while in China demand for residential phones was generally weak.

CMS revenue in Asia Pacific rose by 7.0% to US$52.1 million, primarily driven by higher sales of home appliances, hearables and professional audio equipment. In home appliances, a customer closed its own factory and moved all manufacturing to VTech, leading to a significant sales increase. Sales of hearables also rose due to a new product introduction from an existing customer. Professional audio equipment recorded growth as an existing customer launched new product. Solid-state lighting, however, registered lower sales as the customer faced keen competition from mainland Chinese brands.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, grew by 5.8% to US$53.3 million in the financial year 2016. Other Regions accounted for 2.9% of Group revenue.

ELPs revenue in Other Regions decreased by 22.3% to US$11.5 million, as higher sales in the Middle East and Africa were offset by lower sales in Latin America.

TEL products revenue in Other Regions increased by 17.4% to US$41.2 million. Growth was mainly attributable to a sales increase in the Middle East as shipments of IADs rose, offsetting lower sales in Latin America.

CMS revenue in Other Regions was US$0.6 million in the financial year 2016, as compared to US$0.5 million in the previous financial year.

CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2016, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviations from code provisions A.2.1 and A.6.7 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as independent non-executive directors form the majority of the Board, with four out of seven of the Directors being independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

Under code provision A.6.7 of the Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Dr. Patrick WANG Shui Chung was unable to attend the annual general meeting of the Company held on 15 July 2015 due to his other prior business engagement. However, the Board believes that the presence of other independent non-executive Directors at such general meetings has allowed the Board to develop a balanced understanding of the views of shareholders.

In May 2015, the charters of the Audit Committee and the Risk Management and Sustainability Committee were updated to incorporate the new code provisions in the revised Code relating to the risk management and internal control effective from 1 January 2016.

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee, each with defined terms of reference which are no less exacting than those set out in the Code. Full details of the Company's corporate governance practices will be disclosed in the Company's Annual Report for the year ended 31 March 2016.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management, corporate governance functions and evaluation of internal control and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. WONG Kai Man, as the chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee has held two meetings during the financial year. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Chief Compliance Officer, the Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial year included, but not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2015;
- report from the external auditor for the year ended 31 March 2015;
- corporate governance report in the 2015 Annual Report;
- unaudited Group Interim Financial Report for the six months ended 30 September 2015 in the 2015/2016 Interim Report;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2015 in the 2015/2016 Interim Report;
- corporate governance section in the 2015/2016 Interim Report;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under the Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- training and continuous professional development of Directors and senior management;
- 2015 Sustainability Report;
- updates on the new changes to the Code and revised Audit Committee Charter; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

In addition, the Audit Committee reviewed the Company's responses to cyber attack and implementation of data security measures. The Company has been subject to class action litigation in the US and governmental investigations in various jurisdictions. As the investigations are still in the early stages and taking into account legal advice received, the Audit Committee is satisfied that adequate provisions have been made only to the extent that the amounts can be reliably estimated.

On the date of this announcement, the Audit Committee met to review the audited Group's consolidated financial statements and reports for the year ended 31 March 2016 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results for the year ended 31 March 2016 have been reviewed with no disagreement by the Audit Committee.

In addition to the above, the Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial year. It reviews the process by which the Group evaluates its control environment and risk assessment procedures, and the way in which business and control risks are managed.

It should be noted that a system of internal control, no matter how well it is designed and operated, can only provide reasonable but not absolute assurance that the objectives of the system of internal control, such as safeguarding assets from inappropriate use or ensuring compliance with regulations, are met. As a result, it should not be expected that a system of internal control will prevent or detect all errors and frauds.

Based on the information received from the management, the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls of the Group continued to be effective and adequate.

The Audit Committee has also been given the responsibility to oversee the effectiveness of formal procedures for employees to raise any matters of serious concerns and is required to review any reports made by the Internal Audit Department regarding this.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After specific enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company and its subsidiaries have not redeemed any of its shares during the financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the financial year, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 77,000 Company’s shares at a consideration of US$1 million.

By Order of the Board
VTech Holdings Limited
Allan WONG Chi Yun
Chairman

Hong Kong, 17 May 2016

As at the date of this announcement, the Executive Directors of the Company are Dr. Allan WONG Chi Yun (Chairman and Group Chief Executive Officer), Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong. The Independent Non-executive Directors of the Company are Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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