vtech

VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2017

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 12.0% to a record US$2,079.3 million
- Gross margin improved from 31.4% to 33.2%
- Profit attributable to shareholders of the Company decreased by 1.3% to US$179.0 million, mainly due to the one-off costs associated with LeapFrog integration
- Final dividend of US53.0 cents per ordinary share, resulting in a full-year dividend of US70.0 cents per ordinary share, an increase of 66.7% year-on-year
- Positioned for growth following the completion of three strategic acquisitions

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 2017 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Note	**2017** **US$ million**	2016 US$ million
Revenue	2	**2,079.3**	1,856.5
Cost of sales		**(1,389.9)**	(1,273.2)
Gross profit		**689.4**	583.3
Selling and distribution costs		**(319.0)**	(254.3)
Administrative and other operating expenses		**(93.2)**	(70.4)
Research and development expenses		**(77.2)**	(56.3)
Operating profit	2&3	**200.0**	202.3
Net finance income		**0.1**	0.8
Profit before taxation		**200.1**	203.1
Taxation	4	**(21.1)**	(21.7)
Profit for the year and attributable to shareholders of the Company		**179.0**	181.4
Earnings per share (US cents)	6		
- Basic		**71.3**	72.2
- Diluted		**71.3**	72.2

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	2017 US$ million	2016 US$ million
Profit for the year	**179.0**	181.4
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	**2.7**	(1.5)
	2.7	(1.5)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on hedging, net of deferred tax	**5.2**	4.8
Realisation of hedging reserve	**(4.8)**	(5.2)
Exchange translation differences	**(17.2)**	0.2
	(16.8)	(0.2)
Other comprehensive income for the year	**(14.1)**	(1.7)
Total comprehensive income for the year	**164.9**	179.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	**2017 US$ million**	2016 US$ million
Non-current assets			
Tangible assets		**72.1**	68.4
Leasehold land payments		**4.5**	4.8
Intangible assets		**20.5**	-
Deposits for acquisition of tangible assets		**-**	3.3
Investments		**3.1**	3.1
Goodwill		**31.1**	-
Deferred tax assets		**7.0**	4.0
		138.3	83.6
Current assets			
Stocks		**324.9**	285.4
Debtors, deposits and prepayments	7	**325.6**	266.2
Taxation recoverable		**2.4**	2.3
Deposits and cash		**268.8**	273.0
		921.7	826.9
Current liabilities			
Creditors and accruals	8	**(422.2)**	(345.3)
Provisions for defective goods returns and other liabilities		**(34.9)**	(31.5)
Taxation payable		**(10.8)**	(3.6)
Secured bank loans		**(0.7)**	-
		(468.6)	(380.4)
Net current assets		**453.1**	446.5
Total assets less current liabilities		**591.4**	530.1
Non-current liabilities			
Secured bank loans		**(1.0)**	-
Net obligations on defined benefit scheme		**(2.5)**	(5.1)
Deferred tax liabilities		**(3.2)**	-
		(6.7)	(5.1)
Net assets		**584.7**	525.0
Capital and reserves			
Share capital		**12.5**	12.5
Reserves		**572.2**	512.5
Total equity		**584.7**	525.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

		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		-	-	-	-	-	(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 / 1 April 2016		12.5	148.8	(0.5)	(16.6)	4.8	376.0	525.0
Changes in equity for the year ended 31 March 2017								
Comprehensive income								
Profit for the year		-	-	-	-	-	179.0	179.0
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		-	-	-	-	5.2	-	5.2
Realisation of hedging reserve		-	-	-	-	(4.8)	-	(4.8)
Exchange translation differences		-	-	-	(17.2)	-	-	(17.2)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		-	-	-	-	-	2.7	2.7
Other comprehensive income for the year		-	-	-	(17.2)	0.4	2.7	(14.1)
Total comprehensive income for the year		-	-	-	(17.2)	0.4	181.7	164.9
Final dividend in respect of the previous year	5	-	-	-	-	-	(62.8)	(62.8)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme		-	-	(5.3)	-	-	-	(5.3)
Vesting of shares of Share Purchase Scheme		-	-	5.6	-	-	-	5.6
At 31 March 2017		12.5	148.8	(0.2)	(33.8)	5.2	452.2	584.7

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	Note	**2017** **US$ million**	2016 US$ million
Operating activities			
Operating profit		**200.0**	202.3
Depreciation of tangible assets	3	**33.9**	34.9
Amortisation of leasehold land payments	3	**0.3**	0.2
Amortisation of intangible assets	3	**0.6**	-
Gain on disposal of tangible assets	3	**(0.7)**	-
Share-based payment expenses		**5.6**	-
(Increase) / decrease in stocks		**(14.5)**	4.8
Increase in debtors, deposits and prepayments		**(19.4)**	(7.1)
Increase in creditors and accruals		**2.9**	3.1
(Decrease) / increase in provisions for defective goods returns and other liabilities		**(7.1)**	4.2
Increase in net obligations on defined benefit scheme		**0.4**	0.4
Cash generated from operations		**202.0**	242.8
Interest received		**0.1**	0.8
Taxes paid		**(16.8)**	(26.9)
Net cash generated from operating activities		**185.3**	216.7
Investing activities			
Purchase of tangible assets		**(35.7)**	(38.3)
Proceeds from disposal of tangible assets		**1.5**	0.3
Proceeds received from bank deposits with original maturity greater than three months		**-**	70.0
Deposit paid for acquisition of tangible assets		**-**	(3.3)
Purchase of investments		**-**	(3.0)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	9	**(28.2)**	-
Net cash (used in) / generated from investing activities		**(62.4)**	25.7
Financing activities			
Repayment of bank loans arising from acquisition of Snom		**(2.0)**	-
Payment for shares acquired for Share Purchase Scheme		**(5.3)**	(1.0)
Dividends paid	5	**(105.5)**	(195.9)
Net cash used in financing activities		**(112.8)**	(196.9)
Effect of exchange rate changes		**(14.3)**	3.3
(Decrease) / increase in cash and cash equivalents		**(4.2)**	48.8
Cash and cash equivalents at 1 April		**273.0**	224.2
Cash and cash equivalents at 31 March		**268.8**	273.0

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:

- *Annual improvements to IFRSs 2012-2014 cycle*
- Amendments to IAS 16, *Property, plant and equipment*, and IAS 38, *Intangible assets, Clarification of acceptable methods of depreciation and amortisation*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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 principal activity of the Group is design, manufacturing and distribution of consumer electronic products.

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.

2. Segment information *(continued)*

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 non-current assets and current assets with the exception of deferred tax assets, taxation recoverable and other corporate assets including intangible assets, goodwill and investments.

Segment liabilities include creditors and accruals, provisions for defective goods returns and other liabilities, secured bank loans and net obligations on defined benefit scheme with the exception of taxation payable and deferred tax liabilities.

Year ended 31 March 2017

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
Reportable segment revenue	**1,016.2**	**867.8**	**148.6**	**46.7**	**2,079.3**
Reportable segment profit	**91.4**	**82.3**	**20.0**	**6.3**	**200.0**
Depreciation and amortisation	**1.4**	**1.2**	**32.2**	**-**	**34.8**
Reportable segment assets	**175.2**	**119.2**	**701.5**	**-**	**995.9**
Reportable segment liabilities	**(71.6)**	**(32.9)**	**(356.7)**	**(0.1)**	**(461.3)**

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)*

(c) Reconciliations of reportable segment assets and liabilities

	2017 US$ million	2016 US$ million
Assets		
Reportable segment assets	**995.9**	901.1
Intangible assets	**20.5**	-
Investments	**3.1**	3.1
Goodwill	**31.1**	-
Taxation recoverable	**2.4**	2.3
Deferred tax assets	**7.0**	4.0
Consolidated total assets	**1,060.0**	910.5
Liabilities		
Reportable segment liabilities	**(461.3)**	(381.9)
Taxation payable	**(10.8)**	(3.6)
Deferred tax liabilities	**(3.2)**	-
Consolidated total liabilities	**(475.3)**	(385.5)

For the year ended 31 March 2017, approximately 12% (2016: 12%) 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:

	2017 US$ million	2016 US$ million
Depreciation of tangible assets	**33.9**	34.9
Amortisation of leasehold land payments	**0.3**	0.2
Amortisation of intangible assets	**0.6**	-
Gain on disposal of tangible assets	**(0.7)**	-
Net foreign exchange loss	**0.4**	0.3
Net (gain) / loss on forward foreign exchange contracts		
- Net gain on cash flow hedging instruments reclassified from equity	**(4.8)**	(5.2)
- Net loss on forward foreign exchange contracts	**-**	0.2

4. Taxation

	2017 **US$ million**	2016 US$ million
Current tax		
- Hong Kong	**17.9**	15.3
- Overseas	**6.4**	7.0
Over-provision in respect of prior years		
- Hong Kong	**(0.1)**	(0.5)
- Overseas	**-**	(0.7)
Deferred tax		
- Origination and reversal of temporary differences	**(3.1)**	0.6
	21.1	21.7
Current tax	**24.2**	21.1
Deferred tax	**(3.1)**	0.6
	21.1	21.7

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2016: 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

	2017 **US$ million**	2016 US$ million
Interim dividend of US17.0 cents (2016: US17.0 cents) per share declared and paid	**42.7**	42.7
Final dividend of US53.0 cents (2016: US25.0 cents) per share proposed after the end of the reporting period	**133.1**	62.8

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 17 May 2016, the Directors proposed a final dividend of US25.0 cents per ordinary share for the year ended 31 March 2016, which was estimated to be US$62.8 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2016. The final dividend was approved by shareholders at the annual general meeting on 15 July 2016. The final dividend paid in respect of the year ended 31 March 2016 totaled US$62.8 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$179.0 million (2016: US$181.4 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2016: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

6. Earnings per share *(continued)*

No material adjustment has been made to the basic earnings per share presented for the years ended 31 March 2016 and 31 March 2017 as the Company did not have any significant dilutive potential Awarded Shares during the year.

7. Debtors, deposits and prepayments

At 31 March 2017, total debtors, deposits and prepayments of US$325.6 million (31 March 2016: US$266.2 million) included net trade debtors of US$275.4 million (31 March 2016: US$230.3 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:

	2017 **US$ million**	2016 US$ million
0-30 days	**144.7**	130.0
31-60 days	**92.0**	59.4
61-90 days	**30.6**	35.2
>90 days	**8.1**	5.7
Total	**275.4**	230.3

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 2017, total creditors and accruals of US$422.2 million (31 March 2016: US$345.3 million) included trade creditors of US$227.2 million (31 March 2016: US$188.4 million).

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

	2017 **US$ million**	2016 US$ million
0-30 days	**81.7**	71.8
31-60 days	**59.8**	36.9
61-90 days	**44.7**	52.7
>90 days	**41.0**	27.0
Total	**227.2**	188.4

9. Acquisition of subsidiaries

(a) LeapFrog Enterprises, Inc.

On 5 February 2016, Bonita Merger Sub, L.L.C., an indirect wholly-owned subsidiary of the Company, entered into a merger agreement with LeapFrog Enterprises, Inc. ("LeapFrog"), a developer of educational entertainment for children, to acquire LeapFrog by way of merger. Under the terms of the merger agreement, the Group agreed to acquire 100% of the outstanding common stock of LeapFrog at US$1.00 per share through an all cash tender offer followed by a second-step merger. The tender offer commenced on 3 March 2016 and expired on 1 April 2016.

The transaction was completed on 4 April 2016 with total consideration of approximately US$71.2 million, upon which LeapFrog has become an indirect wholly-owned subsidiary of the Company.

9. Acquisition of subsidiaries *(continued)*

(a) LeapFrog Enterprises, Inc. *(continued)*

The acquisition will bring synergistic benefits to the Group and will enhance the electronic learning products business worldwide. The goodwill of US$23.2 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and LeapFrog. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$1.4 million and US$0.5 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the years ended 31 March 2016 and 31 March 2017 respectively.

(i) Details of net assets acquired and goodwill in respect of the acquisition of LeapFrog at the acquisition date were as follows:

	Net assets acquired and goodwill US$ million
Aggregate consideration	**71.2**
Less: Estimated fair value of net assets acquired	**(48.0)**
Goodwill on acquisition	**23.2**

	Estimated fair value US$ million
Tangible assets	**0.3**
Intangible asset – Brand	**20.0**
Deferred tax assets	**0.6**
Stocks	**18.3**
Debtors, deposits and prepayments	**36.1**
Taxation recoverable	**0.2**
Deposits and cash	**54.8**
Creditors and accruals	**(68.9)**
Provisions for defective goods returns and other liabilities	**(10.5)**
Deferred tax liabilities	**(2.9)**
Net identifiable assets and liabilities	**48.0**

	Net cash outflow US$ million
Purchase consideration settled in cash	**71.2**
Less: Deposits and cash of LeapFrog acquired	**(54.8)**
	16.4

The fair value of debtors, deposits and prepayments is US$36.1 million and includes trade debtors with a fair value of US$26.4 million. The gross contractual amount for trade debtors due is US$27.4 million, of which US$1.0 million is expected to be uncollectible.

9. Acquisition of subsidiaries *(continued)*

(a) LeapFrog Enterprises, Inc. *(continued)*

(ii) Revenue and profit contribution

Following the acquisition, LeapFrog contributed revenue and loss after taxation of US$173.8 million and US$16.5 million respectively for the year ended 31 March 2017.

The effect to the Group's revenue and loss for the year ended 31 March 2017 would not have been materially different from US$173.8 million and US$16.5 million respectively as if the above acquisition had taken place on 1 April 2016.

(b) Snom Technology GmbH (Formerly known as Snom Technology AG)

On 21 October 2016, the Group entered into a binding definitive agreement with Snom Technology GmbH ("Snom"), the pioneer and a leading brand of professional and enterprises Voice over Internet Protocol ("VoIP") telephones. Under the terms of the agreement, the Group agreed to acquire 100% share capital of Snom.

The transaction was completed on 21 November 2016 with total consideration of approximately US$15.1 million. Upon completion, Snom has become an indirect wholly-owned subsidiary of the Company.

The main synergies of the acquisition will be in hardware and software development, expanded markets channels in VoIP telephony, and improvement in operational efficiency. The goodwill of US$7.9 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and Snom. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$0.2 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 March 2017.

(i) Details of net assets acquired and goodwill in respect of the acquisition of Snom at the acquisition date were as follows:

	Net assets acquired and goodwill US$ million
Aggregate consideration	**15.1**
Less: Estimated fair value of net assets acquired	**(7.2)**
Goodwill on acquisition	**7.9**

9. Acquisition of subsidiaries *(continued)*

(b) Snom Technology GmbH (Formerly known as Snom Technology AG) *(continued)*

(i) Details of net assets acquired and goodwill in respect of the acquisition of Snom at the acquisition date were as follows: (continued)

	Estimated fair value US$ million
Tangible assets	**1.9**
Intangible asset – Technology	**1.1**
Stocks	**6.7**
Debtors, deposits and prepayments	**3.0**
Deposits and cash	**3.3**
Creditors and accruals	**(5.0)**
Secured bank loans	**(3.7)**
Deferred tax liabilities	**(0.1)**
Net identifiable assets and liabilities	**7.2**

	Net cash outflow US$ million
Purchase consideration settled in cash	**15.1**
Less: Deposits and cash of Snom acquired	**(3.3)**
	11.8

The fair value of debtors, deposits and prepayments is US$3.0 million and includes trade debtors with a fair value of US$2.4 million. The gross contractual amount for trade debtors due is US$2.5 million, of which US$0.1 million is expected to be uncollectible.

(ii) Revenue and profit contribution

Following the acquisition, Snom contributed revenue and profit after taxation of US$9.6 million and US$0.5 million respectively for the year ended 31 March 2017.

The effect to the Group's revenue and loss for the year ended 31 March 2017 would not have been materially different from US$28.1 million and US$0.2 million respectively if the above acquisition had taken place on 1 April 2016.

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 2017 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 US53.0 cents per ordinary share in respect of the year ended 31 March 2017, payable on 8 August 2017 to shareholders whose names appear on the register of members of the Company as at the close of business on 28 July 2017 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 24 July 2017 (the "2017 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 26 July 2017.

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 2017 AGM, the register of members of the Company will be closed from 19 July 2017 to 24 July 2017 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2017 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 18 July 2017.

(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 28 July 2017, 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 27 July 2017.

LETTER TO SHAREHOLDERS

In the financial year 2017 VTech achieved record revenue, surpassing the US$2 billion mark. A relatively favourable cost environment saw gross margin improve, although profit was affected by one-off costs associated with the integration of LeapFrog. The Group also laid the ground for future growth, with the completion of three strategic acquisitions.

Results and Dividend

Group revenue for the year ended 31 March 2017 increased by 12.0% to US$2,079.3 million, supported by higher sales in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company decreased by 1.3% to US$179.0 million. The fall in profit was mainly due to the one-off costs associated with the acquisition and integration of LeapFrog, including the professional and legal costs associated with the investigation by the UK's Competition & Markets Authority. This investigation was initiated in April 2016, with final and unconditional approval given in January 2017. The expenses related to the cyber-attack that occurred in November 2015 also contributed to the decline in profit.

Basic earnings per share fell by 1.2% to US71.3 cents, compared to US72.2 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US53.0 cents per ordinary share, providing a full-year dividend of US70.0 cents per ordinary share. This 66.7% increase from the US42.0 cents declared in the previous financial year reflects a rise of the dividend payout ratio from 58.2% to 98.2%, a return to its historic level.

Costs

For the financial year 2017, the gross profit margin of the Group improved to 33.2%, from 31.4% in the financial year 2016. This was mainly due to the change in product mix, a relatively favourable cost environment and productivity gains.

Our Business

The Group completed three strategic acquisitions during the financial year 2017.

The acquisition of LeapFrog, a leading developer of educational entertainment for children, was completed in April 2016. LeapFrog is a strong educational toy brand, and its product ranges complement those of VTech. The acquisition allows VTech to offer the broadest portfolio of products that enhance the education and development of children around the world, and positions VTech for higher growth.

LeapFrog's industry-leading content development, education, product marketing, consumer insight and infrastructure teams have been retained at its office in California, where they continue to develop the curriculum-based educational content for which the company is renowned. Its back-end operations have been integrated into VTech's global organisation. Production has been consolidated, with the majority of LeapFrog products now being manufactured in-house.

Combining VTech and LeapFrog products, the share of total electronic learning products (ELPs) revenue from platform products, including related software, increased to 23% in the financial year 2017, from 16% in the previous financial year.

Standalone products continued their strong performance. Growth was led by higher sales of core VTech infant, toddler and preschool products. There was also a contribution from LeapFrog standalone toys. This has reaffirmed VTech's leadership position in the industry. In the calendar year 2016, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool[1].

In November 2016, the Group completed the acquisition of Snom, a German company which is a pioneer in VoIP phone development. There will be strong synergies from combining Snom's technical expertise and well-established sales channels in Europe with VTech's engineering and manufacturing capabilities. This acquisition will enable VTech to become a major player in the growing market for VoIP phones.

This development follows the Group's strategy of recent years, which has seen telecommunication (TEL) products expanding outside the residential phones sector. During the financial year 2017, sales of residential phones declined by 12.9% year-on-year, partially offset by a 22.4% growth in commercial phones and other telecommunication products. As a result, the share of commercial phones and other telecommunication products rose to 34% of total TEL products revenue, from 27% in the previous financial year.

The good performance of commercial phones and other telecommunication products came from higher sales of baby monitors, VoIP phones, hotel phones, headsets, wireless monitoring systems and conference phones. This was the result of more placements and the launch of new products, such as baby monitors featuring a video camera with interchangeable standard and wide-angle lenses and headsets designed for the professional trucker market.

Contract Manufacturing Services (CMS) once again delivered good results in the financial year 2017. Its growth outpaced the global EMS (Electronic Manufacturing Services) market, in which the top 50 providers grew by 0.3% in the calendar year 2016[2]. A strong reputation, deep manufacturing know-how and a stable management team have enabled CMS to achieve 15 years of uninterrupted growth. This exceptional performance further testifies to VTech's strategy of focusing on professional, industrial and commercial products.

In October 2015, the Group signed an agreement to acquire the fixed assets of Kenny Precision Products (Shenzhen) Company Limited. With the acquired fixed assets, VTech established its own facilities in Liaobu, Dongguan for manufacturing high precision metal tooling and parts. This is entirely new expertise for VTech. It not only extends the supply chain vertically, thereby improving the Group's cost base, but also brings a new product category to CMS that is an additional source of revenue. The new facilities have commenced operations and started contributing to CMS revenue in the fourth quarter of the financial year 2017.

Outlook

Group revenue is expected to be higher in the financial year 2018, with sales increases across all three product lines. The trend in gross margin is more difficult to predict. There are likely to be strong headwinds from foreign exchange movements. Cost of materials is also expected to be higher. Meanwhile, direct labour costs and manufacturing overheads as a percentage of Group revenue are forecast to decrease slightly.

---

[1] Source: NPD Group, Retail Tracking Service and Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales of VTech and LeapFrog products 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 2016

[2] Source: *Manufacturing Market Insider,* March 2017

The growth in ELPs will be driven by higher sales of both standalone and platform products. Standalone products will be boosted by the expansion of the VTech baby, infant, toddler and preschool lines, supported by the launch of more learning toys under the LeapFrog brand. Growth in platform products will be driven by the introduction of new platforms. The VTech brand will see launches of new children's communication devices and Kidizoom® Smartwatch. For LeapFrog, the new LeapPad™ Ultimate, a first tablet for children, will be complemented by LeapFrog Epic™ (Academy edition), an enhanced version of the tablet that caters to older children. The LeapStart™ interactive learning platform will also expand.

Leveraging LeapFrog's expertise in education further, the Group plans to launch LeapFrog Academy™ in major English-speaking countries in the second half of the calendar year 2017. This is a subscription-based guided learning system designed by educational experts. At launch, it will offer over 1,000 curriculum based activities for children aged 3 to 6 years.

TEL products are also expected to achieve growth in the financial year 2018, with higher sales of commercial phones and other telecommunication products. The acquisition of Snom will be a key driver. Its strong brand and extensive sales network, particularly in Europe, will accelerate the Group's introduction of new VoIP phones into this growing market. The migration from traditional Public Switched Telephone Network (PSTN) to VoIP telephony is supporting the much wider adoption of CAT-iq (Cordless Advanced Technology – internet and quality) handsets, particularly via major telecoms operators. This will boost sales of CAT-iq products globally. The strong momentum in VTech baby monitors will be maintained through the introduction of the innovative new models and increased product placements. Hotel phones and conference phones will also continue their positive trend. Although sales of residential phones will again decline, the pace will moderate as VTech gains more shelf space with US retailers.

CMS is also positioned for growth. Sales are expected to rise on the back of increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products, offsetting a further decline in switching mode power supplies. The medical and health products category is expanding rapidly and showing particular promise. To target the growing opportunities, a new strategic business unit for medical and health products has been set up. VTech began producing entire diagnostic ultrasound systems for a Japanese customer in the second half of the financial year 2017 and orders have been ramping up for the financial year 2018. The Group is also beginning to produce hearing aids for a European customer, adding another product to this category. Contributing to the overall momentum in CMS, there will be a full-year sales contribution from the newly acquired high precision metal parts business.

Finally, I wish to thank my fellow directors and our teams around the world for their tremendously hard work in successfully completing the three acquisitions and integrating the businesses during the year. I also want to thank our colleagues for their dedication and our business partners for their valued support. With our strong commitment to sustainability, VTech will continue to bring out innovative products, increase market share, expand geographically and strive for operational excellence to enhance shareholder value.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2017

	2017 US$ million	2016 US$ million	Change US$ million
Revenue	**2,079.3**	1,856.5	222.8
Gross profit	**689.4**	583.3	106.1
Gross profit margin	**33.2%**	31.4%	
Total operating expenses	**(489.4)**	(381.0)	(108.4)
Total operating expenses as a percentage of revenue	**23.6%**	20.5%	
Operating profit	**200.0**	202.3	(2.3)
Operating profit margin	**9.6%**	10.9%	
Net finance income	**0.1**	0.8	(0.7)
Profit before taxation	**200.1**	203.1	(3.0)
Taxation	**(21.1)**	(21.7)	0.6
Effective tax rate	**10.5%**	10.7%	
Profit for the year and attributable to shareholders of the Company	**179.0**	181.4	(2.4)
Net profit margin	**8.6%**	9.8%	

Revenue

Group revenue for the year ended 31 March 2017 rose by 12.0% to US$2,079.3 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in North America, Europe and Asia Pacific, which offset the decrease in revenue in other regions. The acquisition of LeapFrog on 4 April 2016 and Snom on 21 November 2016 also contributed to the sales growth compared with the last financial year.

	2017		2016		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**1,016.2**	**48.9%**	878.3	47.3%	137.9	15.7%
Europe	**867.8**	**41.7%**	795.9	42.9%	71.9	9.0%
Asia Pacific	**148.6**	**7.2%**	129.0	6.9%	19.6	15.2%
Other regions	**46.7**	**2.2%**	53.3	2.9%	(6.6)	-12.4%
	2,079.3	**100.0%**	1,856.5	100.0%	222.8	12.0%

Gross Profit/Margin

Gross profit for the financial year 2017 was US$689.4 million, an increase of US$106.1 million or 18.2% compared to the US$583.3 million recorded in the previous financial year. Gross profit margin for the year also increased from 31.4% to 33.2%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from LeapFrog and Snom, and the depreciation of Renminbi against the US dollar during the financial year. Cost of materials as percentage of Group revenue was also lower than the last financial year as material costs decreased during the period. As for the direct labour costs and manufacturing overheads as percentage of Group revenue, they were also lower than the same period last year as the Group continued to reduce workforce through automation and process improvement, with number of workers falling by about 3% year-on-year.

Operating Profit/Margin

Operating profit for the year ended 31 March 2017 was US$200.0 million, a decrease of US$2.3 million or 1.1% compared with the previous financial year. Operating profit margin also reduced from 10.9% to 9.6%. The reduction in both operating profit and operating profit margin was mainly due to the integration of LeapFrog and the related restructuring costs incurred during the financial year 2017. The ratio of EBITDA to revenue declined from 12.8% to 11.3%.

Total operating expenses were US$489.4 million, an increase of 28.5% over the last financial year. Total operating expenses as a percentage of Group revenue also increased from 20.5% to 23.6%.

Selling and distribution costs increased from US$254.3 million to US$319.0 million, an increase of 25.4% compared with the last financial year. It was mainly attributable to the consolidation of LeapFrog's business and operation. As a percentage of Group revenue, selling and distribution costs also increased from 13.7% to 15.3%.

Administrative and other operating expenses increased from US$70.4 million to US$93.2 million over the same period last year. The increase was mainly due to the consolidation of LeapFrog and the associated restructuring costs as well as the higher employee related costs compared with the last financial year. The expenses related to the cyber-attack happened in November 2015 and the investigation conducted by United Kingdom Competition & Markets Authority from April 2016 to January 2017 were also incurred during the financial year 2017. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.4 million, as compared with an exchange loss of US$0.3 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.8% to 4.5%.

During the financial year 2017, the research and development expenses were US$77.2 million, an increase of 37.1% compared with the previous financial year. It was mainly attributable to the acquisition of LeapFrog and the related restructuring costs. Research and development expenses as a percentage of Group revenue also increased from 3.0% to 3.7%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2017 was US$179.0 million, a decrease of US$2.4 million or 1.3% as compared to the last financial year. Net profit margin also reduced from 9.8% to 8.6%.

Taxation charges reduced from US$21.7 million in the last financial year to US$21.1 million in the financial year 2017. The effective tax rate decreased from 10.7% to 10.5%.

Basic and diluted earnings per share for the year ended 31 March 2017 were US71.3 cents as compared to US72.2 cents in the previous financial year.

Dividends

During the financial year 2017, 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 US53.0 cents per share, which is estimated to be US$133.1 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2017 were US$584.7 million, an increase of 11.4% from US$525.0 million in the last financial year. Shareholders' funds per share increased by 11.5% from US$2.09 to US$2.33.

The Group's financial resources remain strong. As at 31 March 2017, the Group had net cash of US$267.1 million, a decrease of 2.2% as compared to US$273.0 million as of 31 March 2016. It was mainly due to the payment for acquisition of LeapFrog and Snom, and the reduction in cash generated from operating activities. As at 31 March 2017, the Group had bank loan of US$1.7 million acquired from Snom. The Group had no borrowings as at 31 March 2016.

Analysis of Cash Flow from Operations

	2017 US$ million	2016 US$ million	Change US$ million
Operating profit	**200.0**	202.3	(2.3)
Depreciation and amortisation	**34.8**	35.1	(0.3)
EBITDA	**234.8**	237.4	(2.6)
Gain on disposal of tangible assets	**(0.7)**	-	(0.7)
Share-based payment expenses	**5.6**	-	5.6
Working capital change	**(37.7)**	5.4	(43.1)
Cash generated from operations	**202.0**	242.8	(40.8)

The Group's cash generated from operations for the year ended 31 March 2017 was US$202.0 million, a decrease of 16.8% as compared to US$242.8 million in the previous financial year. The reduction was mainly attributable to the decrease in EBITDA in the financial year 2017 and the higher working capital investment compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2016 US$ million	**Acquisition of LeapFrog and Snom US$ million**	**Hedging & others US$ million**	**Working capital change per cash flow US$ million**	**Balance as at 31 March 2017 US$ million**
Stocks	285.4	25.0	-	14.5	**324.9**
Trade debtors	230.3	27.8	-	17.3	**275.4**
Other debtors, deposits and prepayments	35.9	11.3	0.9	2.1	**50.2**
Trade creditors	(188.4)	(12.8)	-	(26.0)	**(227.2)**
Other creditors and accruals	(156.9)	(61.1)	(0.1)	23.1	**(195.0)**
Provisions for defective goods returns and other liabilities	(31.5)	(10.5)	-	7.1	**(34.9)**
Net obligations on defined benefit scheme	(5.1)	-	3.0	(0.4)	**(2.5)**
Total working capital	169.7	(20.3)	3.8	37.7	**190.9**

Stocks as of 31 March 2017 were US$324.9 million, increased from US$285.4 million as of 31 March 2016. The turnover days also increased from 93 days to 96 days. The higher stock level was largely due to the acquisition of LeapFrog and Snom, and the increased demand for the Group's products in the first quarter of the financial year 2018. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	**2017**	2016
Stocks	**324.9**	285.4
Average stocks as a percentage of Group revenue	**14.7%**	15.5%
Turnover days	**96 days**	93 days

Trade debtors as of 31 March 2017 were US$275.4 million, increased from US$230.3 million as of 31 March 2016. Debtor turnover days also increased from 63 days to 64 days. The higher trade debtor balance as at 31 March 2017 was mainly due to an increase in revenue in the fourth quarter of the financial year 2017 compared with the corresponding period of the previous financial year. The Group has tight management on credit exposure. The overdue balances greater than 30 days accounted for 2.0% of the gross trade debtors as of 31 March 2017.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	**2017**	2016
Trade debtors	**275.4**	230.3
Average trade debtors as a percentage of Group revenue	**12.2%**	12.2%
Turnover days	**64 days**	63 days

Other debtors, deposits and prepayments as of 31 March 2017 were US$50.2 million, increased from US$35.9 million as of 31 March 2016. It was mainly attributable to the acquisition of LeapFrog and Snom.

Trade creditors as of 31 March 2017 were US$227.2 million, as compared to US$188.4 million as of 31 March 2016. Creditor turnover days was 93 days, same as last financial year.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	**2017**	2016
Trade creditors	**227.2**	188.4
Turnover days	**93 days**	93 days

Other creditors and accruals as of 31 March 2017 were US$195.0 million, increased from US$156.9 million as of 31 March 2016, which was mainly due to the acquisition of LeapFrog and Snom.

Provisions for defective goods returns and other liabilities as of 31 March 2017 were US$34.9 million, as compared to US$31.5 million as of 31 March 2016.

Net obligations on defined benefit scheme as of 31 March 2017 were US$2.5 million, as compared to US$5.1 million as of 31 March 2016. The decrease 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 2017, the Group invested US$39.0 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 2018, the Group will incur capital expenditure of US$38.9 million for ongoing business operations.

All of these capital expenditures will be financed from internal resources.

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 2017 was around 27,200, compared to 27,400 in the previous financial year. Staff related costs for the year ended 31 March 2017 were approximately US$351 million, as compared to approximately US$313 million in the financial year 2016.

Review of Operations

North America

Group revenue in North America increased by 15.7% to US$1,016.2 million in the financial year 2017 as higher sales of ELPs and CMS offset lower revenue from TEL products. North America remained VTech's largest market, accounting for 48.9% of Group revenue.

ELPs revenue in North America rose by 44.7% to US$454.9 million. The increase was driven in part by the sales contribution from LeapFrog, following completion of the acquisition in April 2016. Higher sales of VTech standalone products also contributed to the increase. The addition of LeapFrog strengthened VTech's position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[3].

In standalone products, growth was driven by higher sales of core VTech infant, toddler and preschool products, augmented by contributions from LeapFrog standalone toys. Among notable successes, the VTech Sit-to-Stand Learning Walker™ and Smart Shots Sports Center™ were the top two best-selling infant and toddler toys in the US in the calendar year 2016[4]. Sales of the Go! Go! Smart family of

---

[3] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the 12 months ending December 2016

[4] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of early electronic learning, toddler figures/playsets & accessories, other infant toys, infant plush, bath toys, other toddler toys, playnests/playgyms, walkers, rattle & toy teether/toy pacifier and mobiles for the 12 months ending December 2016

products were down as growth in the Go! Go! Smart Friends® line was offset by lower revenues from Go! Go! Smart Wheels® and Go! Go! Smart Animals®.

Sales of platform products were up as a result of new VTech and LeapFrog product launches, together with the combined offering of children's educational tablets under both brands. VTech's Touch and Learn Activity Desk™ Deluxe and LeapFrog's LeapStart Interactive Learning System hit US retail shelves in August 2016 and were favourably received by the market. They won a total of 15 top industry accolades, including the National Parenting Center's Seal of Approval and being named to TTPM's "Most Wanted" list. Among children's educational tablets, LeapFrog Epic was named the "Best Tablet" by Kidscreen. Sales of Kidizoom® Smartwatch declined as the market awaited the launch of the next generation of products.

TEL products revenue in North America decreased by 1.5% to US$365.7 million. Continued growth in commercial phones and other telecommunication products was insufficient to offset declining sales of residential phones.

The drop in sales of residential phones reflected a further contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leading position in the US residential phones market[5].

The growth in commercial phones and other telecommunication products was driven by higher sales of baby monitors, hotel phones, headsets, wireless monitoring systems, conference phones and VoIP phones. Baby monitors benefited from more placements and new product launches. A new model featuring a video camera with interchangeable standard and wide-angle lenses proved very popular with consumers and sold particularly well. In hotel phones, VTech's growing reputation enabled it to win new projects and increase market share. Sales of headsets were boosted by new Bluetooth models specially designed for the professional trucker market. The VTech branded ErisStation®, a conference phone with wireless microphones, and ErisTerminal®, the VoIP business phone system, saw steady growth.

CMS revenue in North America increased by 1.6% to US$195.6 million, as higher sales of industrial products, solid-state lighting and home appliances offset lower sales of professional audio equipment and communication products. Industrial products and home appliances saw more orders from existing customers, and the Group also gained additional business from their parent companies. Sales of solid-state lighting increased because of a sales contribution from a new customer and an existing customer transferring a new product range to VTech. By contrast, sales of professional audio equipment declined as a major customer placed fewer orders, owing to excess inventory and delays to new projects. Communication products sales decreased on lower orders of a home security system.

Europe

Group revenue in Europe increased by 9.0% to US$867.8 million in the financial year 2017, as higher sales of ELPs and CMS offset a decline in TEL products. Europe was VTech's second largest market, accounting for 41.7% of Group revenue.

ELPs revenue in Europe rose by 9.8% to US$357.4 million. The sales increase was attributable to growth in VTech standalone products and sales contributions from LeapFrog. Geographically, all of the Group's key Western European markets, namely France, the UK, Germany, the Netherlands and Spain, recorded sales increases. VTech strengthened its position as the number one infant and toddler toy manufacturer in France, the UK and Germany in the calendar year 2016[6].

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

Growth in standalone products was driven by higher sales of the core VTech infant, toddler and preschool products, Kidizoom Camera, as well as the Kidi and the Little Love® lines. It was also supported by the consolidation of LeapFrog sales. Sales of the Toot-Toot family of products were down. During the financial year 2017, VTech ELPs won more than 30 leading industry awards across continental Europe, including three "2016 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine in France.

Platform products sales in Europe grew slightly in the financial year 2017, mainly due to new product launches and the sales contribution from LeapFrog. During the financial year, the second generation of Kidizoom Smartwatch was rolled out to all major European countries and LeapStart was launched in the UK. Sales of children's educational tablets held steady, with LeapFrog branded tablets added to the portfolio.

Revenue from TEL products in Europe decreased by 5.5% to US$128.9 million. Sales of residential phones fell because of the contraction of the fixed-line telephone market. In contrast, commercial phones and other telecommunication products saw further growth. Sales of VoIP phones increased on the contribution from Snom, following completion of this acquisition in November 2016. There were also higher sales of hotel phones as VTech's reputation continues to grow in the industry. Sales of integrated access devices also increased, due to new product launches by customers in the second half. Sales of CAT-iq handsets were lower, however, as a major customer changed its sales and marketing strategy on product bundling. Orders for baby monitors declined due to the delayed launch of new products by some customers.

CMS revenue in Europe increased by 14.2% to US$381.5 million, with higher sales of hearables, industrial products and medical and health products. Hearables benefited from rising sales of the world's first wireless smart earphones and as customers' other products were received well by the market. In industrial products, the sales growth was led by smart meters for the UK market as utility suppliers, backed by Government regulation, encouraged households to install the devices to track their energy consumption. Medical and health products sales increased as the Group started shipping hearing aids to a European customer. Sales of professional audio equipment were stable, as more orders for USB audio interface products offset lower demand for audio mixers. Switching mode power supplies and home appliances, however, saw their sales decline. The change of ownership of a switching mode power supplies customer led to production being moved back in-house, while lower demand from end consumers affected the home appliances business of existing customers.

Asia Pacific

Group revenue in Asia Pacific increased by 15.2% to US$148.6 million in the financial year 2017, with higher sales in all three product lines. Asia Pacific represented 7.2% of Group revenue.

Revenue from ELPs in Asia Pacific was up 28.9% to US$52.7 million, as growth in Australia, South Korea and mainland China offset a decline in Japan. VTech achieved significant growth and market share gains in Australia following the establishment of its own office in the country. The good performance in South Korea resulted from increased sales efforts and product launches. In mainland China, sales growth was held back by the depreciation of the Renminbi. Sales in Japan were affected by excess inventory at one customer. LeapFrog branded products contributed to overall sales growth in the region.

TEL products revenue in Asia Pacific rose by 5.8% to US$38.1 million. Higher sales in Japan, Hong Kong, India and South Korea offset lower sales in Australia. During the financial year, VTech increased sales further with a new customer in Japan. In Hong Kong, VTech's 3-in-1 connected home system was rolled out in the second half with a key broadband service provider. In India, the Group won more orders for cordless phones from a key customer, while in South Korea VTech started shipping VoIP business phone systems to a new customer in the second half. Sales declined in Australia as a direct result of the contraction of the fixed-line telephone market, though sales of baby monitors continued to grow.

CMS revenue in Asia Pacific rose by 10.9% to US$57.8 million, primarily driven by higher sales of home appliances, medical and health products, solid-state lighting and professional audio equipment. Home appliances benefited from good sell-through of a customer's products. For medical and health products, the Group started producing and shipping entire diagnostic ultrasound systems to a Japanese customer in the second half. Professional audio equipment and solid-state lighting posted higher sales as existing customers sold more products to mainland China. Communication products and hearables, however, saw sales declines.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, fell by 12.4% to US$46.7 million in the financial year 2017. Higher revenue from ELPs and CMS was insufficient to offset lower revenue from TEL products. Other Regions accounted for 2.2% of Group revenue.

ELPs revenue in Other Regions increased by 15.7% to US$13.3 million, as sales to Latin America, the Middle East and Africa improved and the sales of LeapFrog products were consolidated.

TEL products revenue in Other Regions fell by 20.9% to US$32.6 million. The decline was attributable to lower orders from Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$0.8 million in the financial year 2017, as compared to US$0.6 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 2017, 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 half of the Board members are 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. Mr. Michael TIEN Puk Sun was unable to attend the 2016 annual general meeting of the Company held on 15 July 2016 ("2016 AGM") due to his other engagement. However, the Board believes that the presence of the other independent non-executive Directors at such general meeting has allowed the Board to develop a balanced understanding of the views of shareholders.

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 2017.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun (retired with effect from the conclusion of the 2016 AGM) and Dr. Patrick WANG Shui Chung (appointed with effect from the conclusion of the 2016 AGM) 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 Company Secretary and Group Chief Compliance Officer, the Group Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial year included, but is not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2016;
- report from the external auditor for the year ended 31 March 2016;
- corporate governance report in the 2016 Annual Report;
- unaudited Group Interim Financial Report for the six months ended 30 September 2016 in the 2016/2017 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 2016 in the 2016/2017 Interim Report;
- corporate governance section in the 2016/2017 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;
- 2016 Sustainability Report;
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions; and
- the fee level and nature of non-audit work performed by external auditor.

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 2017 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results of the Group for the year ended 31 March 2017 have been reviewed with no disagreement by the Audit Committee.

In addition to the above, the Audit Committee assisted the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial year. It reviewed 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 on a regular basis.

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, and the internal audit function 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 2017.

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 464,400 Company's shares at a consideration of approximately US$5.3 million.

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

Hong Kong, 16 May 2017

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, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

www.vtech.com/en/investors