VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2018

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 2.4% to US$2,130.1 million
- Profit attributable to shareholders of the Company increased by 15.3% to US$206.3 million
- Final dividend of US63.0 cents per ordinary share, resulting in a full-year dividend of US80.0 cents per ordinary share, an increase of 14.3% year-on-year
- Gross margin declined from 33.2% to 33.0%
- Well-positioned for further 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 2018 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018

	Note	**2018 US$ million**	2017 US$ million
Revenue	2	**2,130.1**	2,079.3
Cost of sales		**(1,428.1)**	(1,389.9)
Gross profit		**702.0**	689.4
Other income	3	**4.2**	-
Selling and distribution costs		**(318.9)**	(319.0)
Administrative and other operating expenses		**(78.4)**	(93.2)
Research and development expenses		**(77.6)**	(77.2)
Operating profit	2&3	**231.3**	200.0
Net finance (expense) / income		**(0.3)**	0.1
Profit before taxation		**231.0**	200.1
Taxation	4	**(24.7)**	(21.1)
Profit for the year and attributable to shareholders of the Company		**206.3**	179.0
Earnings per share (US cents)	6		
- Basic		**82.1**	71.3
- Diluted		**82.1**	71.3

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	2018 **US$ million**	2017 US$ million
Profit for the year	**206.3**	179.0
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net assets / obligations on defined benefit scheme, net of deferred tax	**5.0**	2.7
	5.0	2.7
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses) / gains on hedging, net of deferred tax	**(4.5)**	5.2
Realisation of hedging reserve	**(4.7)**	(4.8)
Exchange translation differences	**32.7**	(17.2)
	23.5	(16.8)
Other comprehensive income for the year	**28.5**	(14.1)
Total comprehensive income for the year	**234.8**	164.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	**2018** **US$ million**	2017 US$ million
Non-current assets			
Tangible assets		**76.2**	72.1
Leasehold land payments		**4.8**	4.5
Intangible assets		**19.6**	20.5
Investments		**5.4**	3.1
Goodwill		**31.1**	31.1
Net assets on defined benefit scheme		**2.7**	-
Deferred tax assets		**6.3**	7.0
		146.1	138.3
Current assets			
Stocks		**349.9**	324.9
Debtors, deposits and prepayments	7	**348.0**	325.6
Taxation recoverable		**1.6**	2.4
Deposits and cash		**254.4**	268.8
		953.9	921.7
Non-current asset held for sale		**2.7**	-
		956.6	921.7
Current liabilities			
Creditors and accruals	8	**(416.7)**	(422.2)
Provisions for defective goods returns and other liabilities		**(28.4)**	(34.9)
Taxation payable		**(8.0)**	(10.8)
Secured bank loans		**-**	(0.7)
		(453.1)	(468.6)
Net current assets		**503.5**	453.1
Total assets less current liabilities		**649.6**	591.4
Non-current liabilities			
Secured bank loans		**-**	(1.0)
Net obligations on defined benefit scheme		**-**	(2.5)
Deferred tax liabilities		**(3.0)**	(3.2)
		(3.0)	(6.7)
Net assets		**646.6**	584.7
Capital and reserves			
Share capital		**12.6**	12.5
Reserves		**634.0**	572.2
Total equity		**646.6**	584.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	Note	Attributable to shareholders of the Company						
		Share capital	Share premium	Shares held for Share Purchase Scheme	Exchange reserve	Hedging reserve	Revenue reserve	Total equity
		US$ million	US$ million	US$ million	US$ million	US$ million	US$ million	US$ million
At 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 assets / obligations on 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		-	-	-	-	-	(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 / 1 April 2017		12.5	148.8	(0.2)	(33.8)	5.2	452.2	584.7
Changes in equity for the year ended 31 March 2018								
Comprehensive income								
Profit for the year		-	-	-	-	-	206.3	206.3
Other comprehensive income								
Fair value losses on hedging, net of deferred tax		-	-	-	-	(4.5)	-	(4.5)
Realisation of hedging reserve		-	-	-	-	(4.7)	-	(4.7)
Exchange translation differences		-	-	-	32.7	-	-	32.7
Effect of remeasurement of net assets / obligations on defined benefit scheme, net of deferred tax		-	-	-	-	-	5.0	5.0
Other comprehensive income for the year		-	-	-	32.7	(9.2)	5.0	28.5
Total comprehensive income for the year		-	-	-	32.7	(9.2)	211.3	234.8
Final dividend in respect of the previous year	5	-	-	-	-	-	(133.2)	(133.2)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		0.1	3.0	(3.1)	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(4.0)	-	-	-	(4.0)
Vesting of shares of Share Purchase Scheme		-	-	7.1	-	-	-	7.1
At 31 March 2018		12.6	151.8	(0.2)	(1.1)	(4.0)	487.5	646.6

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Note	**2018 US$ million**	2017 US$ million
Operating activities			
Operating profit		**231.3**	200.0
Depreciation of tangible assets	3	**35.0**	33.9
Amortisation of leasehold land payments	3	**0.2**	0.3
Amortisation of intangible assets	3	**0.9**	0.6
Gain on disposal of an investment	3	**(4.2)**	-
Loss / (gain) on disposal of tangible assets	3	**0.5**	(0.7)
Share-based payment expenses		**7.1**	5.6
Increase in stocks		**(25.0)**	(14.5)
Increase in debtors, deposits and prepayments		**(24.0)**	(19.4)
(Decrease) / increase in creditors and accruals		**(14.0)**	2.9
Decrease in provisions for defective goods returns and other liabilities		**(6.5)**	(7.1)
Decrease in net assets / increase in net obligations on defined benefit scheme		**0.3**	0.4
Cash generated from operations		**201.6**	202.0
Interest (paid) / received		**(0.3)**	0.1
Taxes paid		**(25.6)**	(16.8)
Net cash generated from operating activities		**175.7**	185.3
Investing activities			
Purchase of tangible assets		**(37.6)**	(35.7)
Proceeds from disposal of tangible assets		**0.2**	1.5
Proceeds from disposal of an investment		**4.3**	-
Payment for acquisition of an investment		**(2.4)**	-
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)		**-**	(28.2)
Net cash used in investing activities		**(35.5)**	(62.4)
Financing activities			
Repayment of bank loans arising from acquisition of Snom		**(1.7)**	(2.0)
Payment for shares acquired for Share Purchase Scheme		**(4.0)**	(5.3)
Dividends paid	5	**(176.0)**	(105.5)
Net cash used in financing activities		**(181.7)**	(112.8)
Effect of exchange rate changes		**27.1**	(14.3)
Decrease in cash and cash equivalents		**(14.4)**	(4.2)
Cash and cash equivalents at 1 April		**268.8**	273.0
Cash and cash equivalents at 31 March		**254.4**	268.8

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 several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in the Company's Annual Report to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

2. Segment information

The principal activity of the Group is design, manufacture 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
- Other Regions, 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 2018

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Reportable segment revenue	**1,041.0**	**849.1**	**197.1**	**42.9**	**2,130.1**
Reportable segment profit	**119.1**	**65.4**	**39.5**	**7.3**	**231.3**
Depreciation and amortisation	**1.3**	**1.1**	**33.7**	**-**	**36.1**
Reportable segment assets	**161.5**	**133.6**	**743.6**	**-**	**1,038.7**
Reportable segment liabilities	**(71.9)**	**(32.2)**	**(340.9)**	**(0.1)**	**(445.1)**

Year ended 31 March 2017

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions 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)

2. Segment information *(continued)*

(c) Reconciliations of reportable segment assets and liabilities

	2018 US$ million	2017 US$ million
Assets		
Reportable segment assets	**1,038.7**	995.9
Intangible assets	**19.6**	20.5
Investments	**5.4**	3.1
Goodwill	**31.1**	31.1
Taxation recoverable	**1.6**	2.4
Deferred tax assets	**6.3**	7.0
Consolidated total assets	**1,102.7**	1,060.0
Liabilities		
Reportable segment liabilities	**(445.1)**	(461.3)
Taxation payable	**(8.0)**	(10.8)
Deferred tax liabilities	**(3.0)**	(3.2)
Consolidated total liabilities	**(456.1)**	(475.3)

For the year ended 31 March 2018, approximately 12% (2017: 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:

	2018 US$ million	2017 US$ million
Gain on disposal of an investment (Note (i))	**(4.2)**	-
Depreciation of tangible assets	**35.0**	33.9
Amortisation of leasehold land payments	**0.2**	0.3
Amortisation of intangible assets	**0.9**	0.6
Loss / (gain) on disposal of tangible assets	**0.5**	(0.7)
Net foreign exchange loss	**0.1**	0.4
Net gain on forward foreign exchange contracts		
- Net gain on cash flow hedging instruments reclassified from equity	**(5.2)**	(4.8)
- Net gain on forward foreign exchange contracts	**(2.2)**	-

Note:

(i) Included in other income in the Consolidated Statement of Profit or Loss

4. Taxation

	2018 **US$ million**	2017 US$ million
Current tax		
- Hong Kong	**17.7**	17.9
- Overseas	**7.2**	6.4
(Over) / under-provision in respect of prior years		
- Hong Kong	**(1.5)**	(0.1)
- Overseas	**0.5**	-
Deferred tax		
- Origination and reversal of temporary differences	**0.8**	(3.1)
	24.7	21.1
Current tax	**23.9**	24.2
Deferred tax	**0.8**	(3.1)
	24.7	21.1

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year.

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

5. Dividends

	2018 **US$ million**	2017 US$ million
Interim dividend of US17.0 cents (2017: US17.0 cents) per share declared and paid	**42.8**	42.7
Final dividend of US63.0 cents (2017: US53.0 cents) per share proposed after the end of the reporting period	**158.4**	133.2

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 16 May 2017, the Directors proposed a final dividend of US53.0 cents per ordinary share for the year ended 31 March 2017, which was estimated to be US$133.1 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2017. The final dividend was approved by shareholders at the annual general meeting on 24 July 2017. The final dividend paid in respect of the year ended 31 March 2017 totaled US$133.2 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$206.3 million (2017: US$179.0 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2017: 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 2018 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 2018, total debtors, deposits and prepayments of US$348.0 million (31 March 2017: US$325.6 million) included net trade debtors of US$264.9 million (31 March 2017: US$275.4 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:

	2018 US$ million	2017 US$ million
0-30 days	**145.6**	144.7
31-60 days	**77.1**	92.0
61-90 days	**30.9**	30.6
>90 days	**11.3**	8.1
Total	**264.9**	275.4

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 2018, total creditors and accruals of US$416.7 million (31 March 2017: US$422.2 million) included trade creditors of US$209.4 million (31 March 2017: US$227.2 million).

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

	2018 US$ million	2017 US$ million
0-30 days	**74.6**	81.7
31-60 days	**39.9**	59.8
61-90 days	**57.0**	44.7
>90 days	**37.9**	41.0
Total	**209.4**	227.2

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 2018 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 US63.0 cents per ordinary share in respect of the year ended 31 March 2018, payable on 26 July 2018 to shareholders whose names appear on the register of members of the Company as at the close of business on 17 July 2018 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 11 July 2018 (the "2018 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 13 July 2018.

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 2018 AGM, the register of members of the Company will be closed from 6 July 2018 to 11 July 2018 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2018 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 5 July 2018.

(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 17 July 2018, 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 16 July 2018.

LETTER TO SHAREHOLDERS

The financial year 2018 saw revenue at VTech reach another record high, mainly driven by strong growth in the Asia Pacific region. Profit was also higher, owing to increased revenue and the absence of one-off costs associated with the integration of LeapFrog Enterprises, Inc. (LeapFrog). The Group remains well-positioned for further growth.

Results and Dividend

Group revenue for the year ended 31 March 2018 increased by 2.4% to US$2,130.1 million, driven by higher sales in North America and Asia Pacific. Growth of electronic learning products (ELPs) was negatively impacted by Toys"R"Us, as it filed for bankruptcy protection in the US and Canada in September 2017, followed by the liquidation of its US and UK businesses in early 2018.

Profit attributable to shareholders of the Company increased by 15.3% to US$206.3 million. The rise in profit was mainly due to higher revenue, as well as the absence of the one-off costs associated with the integration of LeapFrog that were taken in the previous financial year.

Basic earnings per share rose by 15.1% to US82.1 cents, compared to US71.3 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US63.0 cents per ordinary share, providing a full-year dividend of US80.0 cents per ordinary share, an increase from the US70.0 cents declared in the previous financial year. This represents a reduction in the dividend payout ratio from 98.2% to 97.5%.

Costs

The gross profit margin of the Group fell from 33.2% in the financial year 2017 to 33.0% in the financial year 2018. This was mainly due to higher cost of materials, which offset a positive currency impact and productivity gains. In the financial year 2018, the Group successfully brought most of the products of LeapFrog and Snom Technology GmbH (Snom) in-house for manufacture.

Our Business

The financial year 2018 was challenging for the Group's ELPs business. Toys"R"Us, the major toy retailer and one of the Group's top five customers, filed for bankruptcy protection in the US and Canada in September 2017, followed by the liquidation of its US and UK businesses in early 2018. These developments resulted in a significant reduction of sales to the retailer, affecting growth primarily in North America and Europe. VTech's sales up to the date of the bankruptcy protection filing were covered by credit insurance. Since then, VTech's management has exercised prudence and discipline in securing payment for goods supplied to Toys"R"Us. Consequently, no material bad debt was incurred as a result of the liquidation. Despite this challenge, VTech was able to grow its ELPs revenue overall, buoyed by a strong performance in Asia Pacific.

Standalone and platform products both achieved sales increases in the financial year 2018. In standalone products, further progress was made in growing LeapFrog's standalone products business, as more new standalone toys were launched under the brand. Sales of VTech standalone products also rose, supported by higher sales of infant and preschool products, as well as Kidizoom® Camera. This offset the sales decline of the Go! Go! Smart/Toot-Toot family of products. Growth in platform products was primarily driven by VTech platform products, with the Kidizoom Smartwatch range, KidiBuzz™/KidiCom™ MAX and Touch and Learn Activity Desk Deluxe™ all recording sales increases.

LeapFrog reading systems, including LeapStart®/MagiBook™[1] and LeapReader™, also registered sales increases. The percentage shares from standalone and platform products within total ELPs revenue remained unchanged during the financial year 2018, at 77% and 23% respectively.

Sales of telecommunication (TEL) products in the financial year 2018 were lower than expected. This was mainly due to a higher-than-expected decline in sales of residential phones in the second half, which offset the growth in commercial phones and other telecommunication products.

Sales of residential phones were down by 16.8% year-on-year. This was mainly attributable to the weaker-than-expected fixed-line telephone market, compounded by the tight global supply of materials in the second half. Sales of commercial phones and other telecommunication products continued to trend higher, however, rising by 15.0% year-on-year. VoIP (Voice over Internet Protocol) phones performed particularly well, benefitting from the full-year sales contribution of Snom and increased sales of VTech branded VoIP phones. VTech baby monitors also maintained their momentum. According to The NPD Group, Inc. (NPD), VTech was the number one baby monitor brand by dollar sales in the US during the financial year 2018[2]. Cordless headsets, integrated access devices (IADs), CAT-iq (Cordless Advanced Technology – internet and quality) handsets, hotel phones and conference phones all posted sales increases. The continued growth of commercial phones and other telecommunication products saw their share of total TEL products revenue rise from 34% in the previous financial year to 42% in the financial year 2018.

VTech's contract manufacturing services (CMS) achieved their sixteenth consecutive year of growth in the financial year 2018. Professional audio equipment, industrial products, medical and health products and solid-state lighting recorded sales increases. This offset a decline in switching mode power supplies following the change of ownership of a customer, which saw production taken back in-house. The full-year sales contribution of the high precision metal parts business added to growth. Sales of hearables and communication products held steady, while home appliances saw a slight decline in sales. During the financial year, good progress was made on migrating the business towards "Industry 4.0", in which machines are augmented with web connectivity and connected to a system that can visualise the entire production chain and make autonomous decisions.

The continued outperformance of CMS testifies to its strong reputation, deep manufacturing know-how, stable management and excellent services. It also demonstrates the success of the business strategies of customer focus and commitment to utilising state-of-the-art manufacturing technology.

Outlook

Group revenue is expected to rise in the financial year 2019. TEL products are anticipated to return to growth, while CMS sales are forecast to increase. ELPs revenue is more difficult to gauge, as in the short run sales in North America and Europe will be negatively impacted by the liquidation of Toys"R"Us.

The uncertainty of ELPs sales as well as foreign exchange movements makes the trend in gross margin difficult to predict. Raw material and direct labour costs will be higher, while the global supply of materials will continue to be tight in the financial year 2019.

[1] LeapStart is sold in the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as MagiBook

[2] Source: The NPD Group Inc., US Retail Tracking Service, Security & Monitoring, Camera Technology: Baby Monitor, Based on Dollar Sales, April 2017 – March 2018

Furthermore, there is an ongoing trade conflict between the US and mainland China. Thus far, the target list announced of products potentially subject to punitive tariffs does not include VTech product categories. However, further deterioration of the trade relationship may affect the Group's results.

ELPs revenue in the financial year 2019 will be affected by the Toys"R"Us liquidation, although we believe the bulk of the sales lost will eventually be taken up by existing customers. The longer term prospects for the Group's ELPs remain positive, however. In North America and Europe, the Group plans to strengthen its market position by launching new products. Standalone products will see the expansion of the VTech baby, infant and preschool lines, as well as LeapFrog branded learning toys. In platform products, during the financial year Kidizoom Smartwatch DX2 will be rolled out to most European markets, while the new LeapStart 3D will be launched in the US and UK, featuring an interactive 3D-like holographic display and touch-and-talk games. The LeapStart library will also expand with new titles. In Asia Pacific, growth is expected to remain robust.

TEL products revenue is forecast to return to growth, as the sales increase of commercial phones and other telecommunication products is expected to more than compensate for the decline in residential phones. Commercial phones and headsets will lead the way, driven by new product launches, increased sales channels and geographic expansion. The latest VTech and Snom VoIP phones have been extremely well-received. The good momentum in headsets will continue, supported by new product launches and geographic expansion to Europe and Australia. VTech will continue to drive innovation in its successful line of baby monitors by introducing relevant new features. Sales of CAT-iq handsets will also increase, as the Group launches new products in Germany in June and begins supplying the products to a UK telecom operator in the third quarter of the financial year. In contrast to the growth in commercial phones and other telecommunication products, sales of residential phones will decline further, as the fixed-line telephone market continues to contract.

CMS is also poised for further growth. Sales will increase across the board, driven by the business expansion of existing customers and VTech's ability to gain additional business by offering customers more design support.

In April 2018, VTech signed an agreement with Pioneer Corporation under which VTech will acquire a manufacturing facility in Malaysia owned by Pioneer Technology (Malaysia) Sdn Bhd, a subsidiary of the Japanese company. The acquisition includes its fixed assets and business in manufacturing high performance audio equipment tailored for DJs, producers and artists. This will strengthen CMS' leading position as a manufacturer of professional audio equipment and expand VTech's global footprint, enhancing CMS' ability to meet customers' needs in the years ahead. This acquisition, plus the opening of a new factory building in the current manufacturing facilities in Dongguan, mainland China, will add almost 50% to the production capacity of CMS.

Finally, I wish to thank my fellow directors and our colleagues around the world for their dedication and hard work during the year. I also want to thank our business partners for their much valued support.

VTech's product innovation and operational excellence have given it market-leading positions in a number of areas. It continues to gain market share and expand geographically, while maintaining a strong financial position. Alongside its commitment to sustainability, VTech will continue to explore every avenue of growth, generating higher returns for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2018

	2018 US$ million	2017 US$ million	Change US$ million
Revenue	**2,130.1**	2,079.3	50.8
Gross profit	**702.0**	689.4	12.6
Gross profit margin	**33.0%**	33.2%	
Gain on disposal of an investment	**4.2**	-	4.2
Total operating expenses	**(474.9)**	(489.4)	14.5
Total operating expenses as a percentage of revenue	**22.3%**	23.6%	
Operating profit	**231.3**	200.0	31.3
Operating profit margin	**10.9%**	9.6%	
Net finance (expense) / income	**(0.3)**	0.1	(0.4)
Profit before taxation	**231.0**	200.1	30.9
Taxation	**(24.7)**	(21.1)	(3.6)
Effective tax rate	**10.7%**	10.5%	
Profit for the year and attributable to shareholders of the Company	**206.3**	179.0	27.3
Net profit margin	**9.7%**	8.6%	

Revenue

Group revenue for the year ended 31 March 2018 rose by 2.4% to US$2,130.1 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in North America and Asia Pacific, which offset the decrease in revenue in Europe and other regions.

	2018		2017		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**1,041.0**	**48.9%**	1,016.2	48.9%	24.8	2.4%
Europe	**849.1**	**39.9%**	867.8	41.7%	(18.7)	(2.2%)
Asia Pacific	**197.1**	**9.2%**	148.6	7.2%	48.5	32.6%
Other regions	**42.9**	**2.0%**	46.7	2.2%	(3.8)	(8.1%)
	2,130.1	**100.0%**	2,079.3	100.0%	50.8	2.4%

Gross Profit/Margin

Gross profit for the financial year 2018 was US$702.0 million, an increase of US$12.6 million or 1.8% compared to the US$689.4 million recorded in the previous financial year. However, gross profit margin for the year decreased from 33.2% to 33.0%. This was mainly attributable to the higher cost of materials, which offset the positive currency impact and productivity gains through automation and process improvement during the financial year. As for the direct labour costs and manufacturing overheads as percentage of Group revenue, they were lower than the same period last year.

Operating Profit/Margin

Operating profit for the year ended 31 March 2018 was US$231.3 million, an increase of US$31.3 million or 15.7% compared with the previous financial year. Operating profit margin also increased from 9.6% to 10.9%. The improvement in operating profit and operating profit margin was primarily due to the increase in gross profit and the reduction in operating expenses as the restructuring costs arising from the integration of LeapFrog were incurred in the same period last year. Operating profit for the financial year 2018 also included the gain on disposal of an investment.

Total operating expenses were US$474.9 million, a decrease of 3.0% compared with the last financial year. Total operating expenses as a percentage of Group revenue also decreased from 23.6% to 22.3%.

Selling and distribution costs decreased from US$319.0 million to US$318.9 million compared with the same period last year. As a percentage of Group revenue, selling and distribution costs also decreased from 15.3% to 15.0%.

Administrative and other operating expenses decreased from US$93.2 million to US$78.4 million compared with the same period last year. It was mainly due to the decrease in employee related costs as the restructuring costs associated with the consolidation of LeapFrog were incurred in the same period last 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 in the last financial year. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.1 million, as compared with an exchange loss of US$0.4 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 4.5% to 3.7%.

During the financial year 2018, the research and development expenses were US$77.6 million, an increase of 0.5% compared with the previous financial year. Research and development expenses as a percentage of Group revenue decreased from 3.7% to 3.6%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2018 was US$206.3 million, an increase of US$27.3 million or 15.3% as compared to the last financial year. Net profit margin also increased from 8.6% to 9.7%.

Taxation charges increased from US$21.1 million in the last financial year to US$24.7 million in the financial year 2018. The effective tax rate increased from 10.5% to 10.7%.

Basic earnings per share for the year ended 31 March 2018 were US82.1 cents as compared to US71.3 cents in the previous financial year.

Dividends

During the financial year 2018, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.8 million. The Directors have proposed a Final Dividend of US63.0 cents per share, which is estimated to be US$158.4 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2018 were US$646.6 million, an increase of 10.6% from US$584.7 million in the last financial year. Shareholders' funds per share increased by 10.3% from US$2.33 to US$2.57.

The Group's financial resources remain strong. As at 31 March 2018, the Group had net cash of US$254.4 million, a decrease of 4.8% as compared to US$267.1 million as of 31 March 2017. The reduction was mainly attributable to the higher dividend payment as compared with the previous financial year. The Group had no borrowings as at 31 March 2018.

Analysis of Cash Flow from Operations

	2018 US$ million	2017 US$ million	Change US$ million
Operating profit	**231.3**	200.0	31.3
Depreciation and amortisation	**36.1**	34.8	1.3
EBITDA	**267.4**	234.8	32.6
Loss / (gain) on disposal of tangible assets	**0.5**	(0.7)	1.2
Gain on disposal of an investment	**(4.2)**	-	(4.2)
Share-based payment expenses	**7.1**	5.6	1.5
Working capital change	**(69.2)**	(37.7)	(31.5)
Cash generated from operations	**201.6**	202.0	(0.4)

The Group's cash generated from operations for the year ended 31 March 2018 was US$201.6 million, as compared to US$202.0 million in the previous financial year. The decrease was mainly attributable to the higher working capital investment compared with the previous financial year, which offset the increase in EBITDA in the financial year 2018.

Working Capital Change

	Balance as at 31 March 2017 US$ million	Hedging & others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2018 US$ million**
Stocks	324.9	-	25.0	**349.9**
Trade debtors	275.4	-	(10.5)	**264.9**
Other debtors, deposits and prepayments	50.2	(1.6)	34.5	**83.1**
Trade creditors	(227.2)	-	17.8	**(209.4)**
Other creditors and accruals	(195.0)	(8.5)	(3.8)	**(207.3)**
Provisions for defective goods returns and other liabilities	(34.9)	-	6.5	**(28.4)**
Net (obligations) / assets on defined benefit scheme	(2.5)	5.5	(0.3)	**2.7**
Total working capital	190.9	(4.6)	69.2	**255.5**

Stocks as of 31 March 2018 were US$349.9 million, increased from US$324.9 million as of 31 March 2017. The turnover days also increased from 96 days to 102 days. The higher stock level was largely due to the increase in in-house production after acquisition of LeapFrog and Snom, reduction of shipments to Toys“R” Us. and mitigation of the negative impact arising from the tight global supply of materials. We had also arranged early production of the Group’s products in order to better utilise the Group’s production capacities.

As at 31 March 2018 and 2017 All figures are in US$ million unless stated otherwise	**2018**	2017
Stocks	**349.9**	324.9
Average stocks as a percentage of Group revenue	**15.8 %**	14.7%
Turnover days	**102 days**	96 days

Trade debtors as of 31 March 2018 were US$264.9 million, decreased from US$275.4 million as of 31 March 2017. Debtor turnover days increased from 64 days to 65 days. The decrease in the trade debtor balance as at 31 March 2018 was mainly due to continuous efforts to tighten debt collection and credit exposure management. The overdue balances greater than 30 days accounted for 3% of the gross trade debtors as of 31 March 2018.

As at 31 March 2018 and 2017 All figures are in US$ million unless stated otherwise	**2018**	2017
Trade debtors	**264.9**	275.4
Average trade debtors as a percentage of Group revenue	**12.7 %**	12.2%
Turnover days	**65 days**	64 days

Other debtors, deposits and prepayments as of 31 March 2018 were US$83.1 million, increased from US$50.2 million as of 31 March 2017. It was mainly attributable to the increase in insurance claim receivable arising from the bankruptcy protection filing of Toys“R”Us in US and Canada during the financial year 2018.

Trade creditors as of 31 March 2018 were US$209.4 million, as compared to US$227.2 million as of 31 March 2017. Creditor turnover days also decreased from 93 days to 91 days.

As at 31 March 2018 and 2017 All figures are in US$ million unless stated otherwise	**2018**	2017
Trade creditors	**209.4**	227.2
Turnover days	**91 days**	93 days

Other creditors and accruals as of 31 March 2018 were US$207.3 million, increased from US$195.0 million as of 31 March 2017, which was mainly due to the fair value change on forward foreign exchange contracts in the financial year 2018.

Provisions for defective goods returns and other liabilities as of 31 March 2018 were US$28.4 million, as compared to US$34.9 million as of 31 March 2017.

Net assets on defined benefit scheme as of 31 March 2018 were US$2.7 million, as compared to net obligations on defined benefit scheme of US$2.5 million as of 31 March 2017. 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 2018, the Group invested US$37.6 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 2019, the Group will incur capital expenditure of US$36.8 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 2018 was around 26,100, compared to 27,200 in the previous financial year. Staff related costs for the year ended 31 March 2018 were approximately US$354 million, as compared to approximately US$351 million in the financial year 2017.

Review of Operations

North America

Group revenue in North America increased by 2.4% to US$1,041.0 million in the financial year 2018, as higher sales of ELPs and CMS offset lower sales of TEL products. North America was VTech's largest market, accounting for 48.9% of Group revenue.

ELPs revenue in North America rose by 0.7% to US$458.2 million. Growth was negatively impacted by the reduction of shipments to Toys"R"Us following its filing for bankruptcy protection in September 2017. In the calendar year 2017, VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[3].

Standalone products posted flat sales. Sales of LeapFrog standalone products grew, as the Group launched more new products under the brand. This strategy saw success in the financial year 2018, with both infant and preschool products recording higher sales. Sales of VTech standalone products decreased, mainly owing to the weaker performance of the Go! Go! Smart family of products.

Sales of platform products were higher, driven by increased sales of VTech platform products including the Kidizoom Smartwatch range, KidiBuzz and Touch and Learn Activity Desk Deluxe. Sales of LeapFrog platform products declined, owing to a decrease in sales of children's educational tablets. Sales 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, toddler figure and playset, walker, electronic entertainment (excluding tablet) and preschool electronic learning for the 12 months ending December 2017

LeapFrog reading systems, including LeapStart and LeapReader, remained flat. In August 2017, LeapFrog Academy™ was launched in the major English-speaking countries and subscriptions have been growing steadily.

The Group's ELPs were included in major holiday toy lists during the financial year 2018. Pop-a-Balls™ Drop & Pop Ball Pit™ was named to Walmart's "Chosen by Kids" Top Toys List. Scoop & Learn Ice Cream Cart™ was featured in *The Toy Insider's* "Hot 20" list, alongside Go! Go! Smart Wheels® Race & Play Adventure Park™. Four VTech and LeapFrog ELPs were included in the "Top 100 Holiday Toys" list at Amazon.com. Four VTech products were also finalists in the 2018 Toy of the Year (TOTY) awards from The Toy Association, Inc. GearZooz™ Roll & Roar Animal Train™ and Pop-a-Balls Push & Pop Bulldozer™ were finalists in the infant/toddler category. Storytime Rhymes Sheep™ was a finalist in the plush category and Go! Go! Smart Wheels Race & Play Adventure Park was a finalist in the playset category.

TEL products revenue in North America decreased by 10.6% to US$327.0 million. Although sales of commercial phones and other telecommunication products continued to grow, this was insufficient to offset a further decline in sales of residential phones.

Rising sales of commercial phones and other telecommunication products were driven mainly by higher sales of headsets and VoIP phones. In headsets, the Bluetooth models specially designed for the professional trucker market maintained strong sales momentum. New VTech branded VoIP phones based on the Snom technology platform helped drive the sales increase. Although sales of baby monitors declined due to customer order delay, the VTech branded range continued to gain market share. According to NPD, VTech is the number one baby monitor brand by dollar sales in the US[4]. Both hotel phones and VTech's line of conference phones, ErisStation®, saw steady growth.

In contrast, the drop in sales of residential phones reflected a higher-than-expected decline in the fixed-line telephone market. Nonetheless, VTech maintains its leadership position in the US residential phones market[5].

CMS revenue in North America rose by 30.8% to US$255.8 million, with growth across the board. Professional audio equipment recorded a significant sales increase, driven by strong demand for the new active speakers launched by an existing customer, as well as more orders from another customer which had worked through excess inventory. The transfer of production to VTech by an existing customer boosted sales of solid state lighting. Industrial products benefitted from new orders for printed circuit board assembly for industrial printers, electronic locks and note counting devices. Sales of home appliances rose as a customer expanded its market share in the US. Sales of communication products declined, however, as the customer's product line reached the end of its life cycle.

Europe

Group revenue in Europe fell by 2.2% to US$849.1 million in the financial year 2018, as higher sales of ELPs and TEL products were unable to offset lower sales of CMS. Europe remained VTech's second largest market, accounting for 39.9% of Group revenue.

ELPs revenue in Europe showed a 1.6% increase to US$363.2 million in the financial year 2018, despite the negative impact from Toys"R"Us. Geographically, Germany, Spain and the Netherlands recorded growth while France and the UK maintained stable sales. In the calendar year 2017, VTech

[4] Source: The NPD Group Inc., US Retail Tracking Service, Security & Monitoring, Camera Technology: Baby Monitor, Based on Dollar Sales, April 2017 – March 2018

[5] Source: MarketWise Consumer Insights, LLC

strengthened its position as the number one infant and toddler toy manufacturer in France, the UK, Germany and Spain[6].

Standalone products achieved slightly higher sales, with LeapFrog standalone products posting growth. This was driven by new product launches, with both the infant and preschool categories seeing increases. Sales of VTech standalone products were stable. Sales of infant and preschool products, Kidizoom cameras and the Kidi line were higher, compensating for lower sales of the Toot-Toot family of products and Kidizoom Action Cam. Sales of the Little Love® line were steady.

Platform product sales in Europe increased during the financial year 2018. Sales of VTech platform products were higher. The second generation Kidizoom Smartwatch DX continued to perform well and sales momentum was augmented by new Star Wars themed Kidizoom Smartwatches. KidiCom MAX, the new version of DigiGo® that was launched in October 2017, also delivered a good performance. Sales of LeapFrog platform products posted growth, as an updated version of LeapStart/MagiBook[7] was introduced in most of the major European countries, offsetting a decline in children's educational tablets.

The Group's ELPs garnered many leading industry awards in the UK and continental Europe. LeapStart and Chase Me Casey were chosen as "Dream Toys 2017 – Toys for Christmas 2017 (Category of Top of the Tots)" by the UK Toy Retailers Association. In France, VTech won four "2017 Grand Prix du Jouet" awards from *La Revue du Jouet* magazine, the highest number granted to any manufacturer, with Little Love Puppy Pal gaining the top "Toy of the Year 2017" award. Little Love Puppy Pal and Kidizoom Flix® were both named "Toy of the Year 2017" by the Belgian Federation of Toys. Kidizoom Flix also gained the "Toy of the Year 2017" award from the Dutch Toy Association.

Revenue from TEL products in Europe increased by 2.9% to US$132.7 million, as higher sales of commercial phones and other telecommunication products offset lower sales of residential phones. Growth in commercial phones and other telecommunication products was driven by a full-year sales contribution from Snom, which recorded strong growth in its existing product lines. A new, high-end VoIP phone from Snom began shipping to Europe in January 2018, featuring a high-resolution colour display, 24 programmable keys, a USB port and Bluetooth integration. This has been very well-received by the market and added incrementally to sales growth. IADs achieved good growth as the Group added new customers, while sales of CAT-iq handsets also rose as the Group increased promotions with its telecom operator customers. Baby monitors and hotel phones maintained stable sales. Residential phones saw a sales decline as the fixed-line telephone market continued to contract.

CMS revenue in Europe fell by 7.4% to US$353.2 million, mainly due to the decline in sales of switching mode power supplies. Hearables, home appliances and medical and health products all experienced sales decreases, offsetting growth in professional audio equipment, industrial and communication products. Switching mode power supplies were affected by a change in ownership, which led a customer to move production back in-house. Sales of hearables fell as customers faced keen competition in the headset market. Home appliances sales declined as a customer reduced orders. In medical and health products, growth in hearing aids was offset by declines in hair removal products. Professional audio equipment grew as orders from two major customers increased, while industrial products continued to benefit from rising sales of smart meters for the UK market. Communication products also saw strong growth, driven by increased orders for VoIP phones and the addition of a new customer for Wi-Fi routers.

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[6] Source: NPD Group, Retail Tracking Service

[7] LeapStart is sold in the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as MagiBook

Asia Pacific

Group revenue in Asia Pacific increased by 32.6% to US$197.1 million in the financial year 2018, with higher sales in all three product lines. Asia Pacific represented 9.2% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 36.4% to US$71.9 million, with growth led by Australia and mainland China. In Australia, increased marketing efforts and broader listings contributed to higher sales of both VTech and LeapFrog branded products. The VTech branded First Steps™ Baby Walker was named "Infant/Preschool Toy of the Year 2018" by the Australian Toy Association. Mainland China grew as the Group continued to expand sales channels, step up marketing efforts and roll out new products. Tapping into the opportunity created by the relaxation of the country's one-child policy, more infant products were launched, which generated significantly higher sales of this category. The fifth generation of Switch & Go Dinos™, which has been specifically designed for the Chinese market, was launched and sales were strong. Increased sales of LeapFrog branded products in other Asia Pacific markets also contributed to overall growth.

TEL products revenue in Asia Pacific increased by 16.0% to US$44.2 million. Japan, Hong Kong and Korea led the growth. In Japan, VTech increased sales of cordless phones to existing customers, while in Hong Kong, the Group supplied telecommunication devices to a leading local broadband service provider, driving sales of IADs and CAT-iq handsets. During the financial year 2018, the Group began shipping cordless phones and VoIP phones to a new customer in South Korea, driving a sales increase in the country. Sales in Australia saw a decline despite increased sales of baby monitors, which were insufficient to offset lower sales of residential phones.

CMS revenue in Asia Pacific grew by 40.1% to US$81.0 million. This was attributable to a full-year sales contribution from the high precision metal parts business and higher sales in most product categories. VTech's technical know-how in miniaturisation has established it in the field of hearables and orders of this product category rose strongly. Marine radios benefitted from more orders for a new digital version, supporting higher sales of communication products. Medical and health products were boosted by further growth in orders for diagnostic ultrasound systems from a Japanese customer. Sales of solid-state lighting and home appliances, however, recorded declines as customers faced keen competition.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, fell by 8.1% to US$42.9 million in the financial year 2018. Lower sales of TEL products offset higher sales of ELPs and CMS. Other Regions accounted for 2.0% of Group revenue.

ELPs revenue in Other Regions increased by 5.3% to US$14.0 million, as higher sales in the Middle East and Latin America compensated for lower sales in Africa.

TEL products revenue in Other Regions declined by 14.7% to US$27.8 million. The decline was attributable to lower sales in Latin America and Middle East, offsetting a small growth in Africa.

CMS revenue in Other Regions was US$1.1 million in the financial year 2018, as compared to US$0.8 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 2018, 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 the majority 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. WONG Kai Man was unable to attend the 2017 annual general meeting of the Company held on 24 July 2017 due to his other prior 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 2018.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung (appointed on 30 January 2018) and Dr. Patrick WANG Shui Chung 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 2017;
- report from the external auditor for the year ended 31 March 2017;
- corporate governance report in the 2017 Annual Report in compliance with the Code;
- unaudited Group Interim Financial Report for the six months ended 30 September 2017 in the 2017/2018 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 2017 in the 2017/2018 Interim Report;
- corporate governance section in the 2017/2018 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- fee level and nature of non-audit work performed by external auditor;
- 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 the Directors and senior management;
- 2017 Sustainability Report; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

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 2018 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 2018 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 having made 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 2018.

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 293,100 Company's shares at a consideration of approximately US$4.0 million.

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

Hong Kong, 17 May 2018

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, Professor KO Ping Keung, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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