vtech

VTech Holdings Ltd

HKSE : 303

Bringing Innovation to Life

ANNUAL REPORT 2009

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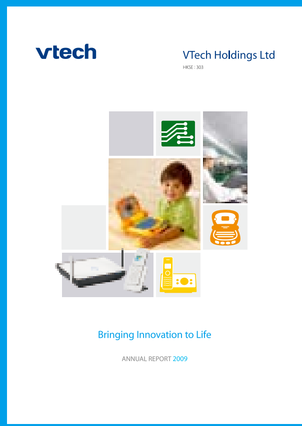


COVER STORY

At VTech, innovation is not just a word, it's something we bring to life every day in our work. Our goal is always to create products that make the world more enjoyable for everyone, making a better tomorrow.

CORPORATE PROFILE

VTech is one of the world's largest suppliers of corded and cordless telephones and electronic learning products. It also provides highly sought-after contract manufacturing services. Founded in 1976, the Group's mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronic products and to distribute them to markets worldwide in the most efficient manner.

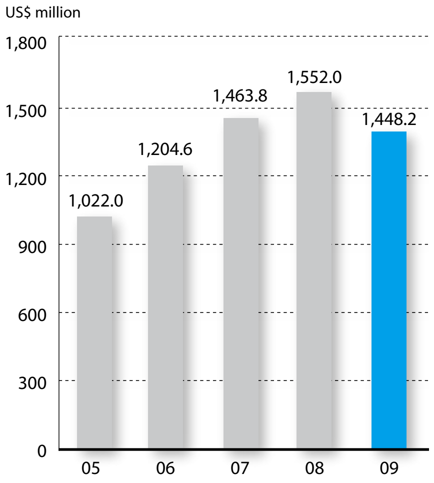
With headquarters in the Hong Kong Special Administrative Region and state-of-the-art manufacturing facilities in mainland China, VTech currently has a presence in 11 countries and approximately 27,000 employees, including around 1,600 R&D professionals in R&D centres in Canada, Hong Kong and mainland China. This network allows VTech to stay abreast of the latest technology and market trends throughout the world, while maintaining a highly competitive cost structure.

The Group invests significantly in R&D and launches numerous new products each year. VTech sells its products via a strong brand platform supported by an extensive distribution network of leading retailers in North America, Europe and Asia Pacific. Apart from the well-known VTech brand, the Group has the rights to use the AT&T brand in connection with the manufacture and sale of its wireline corded and cordless telephones.

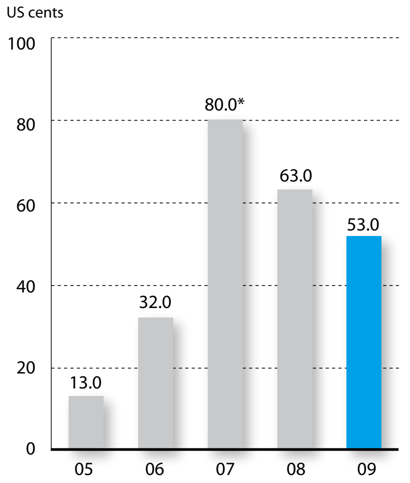
Shares of VTech Holdings Limited are listed on the Stock Exchange of Hong Kong Limited (HKSE: 303). Ordinary shares are also available in the form of American Depositary Receipts (ADRs) through the Bank of New York Mellon (ADR: VTKHY).

FINANCIAL HIGHLIGHTS

Group Revenue in Last 5 Years

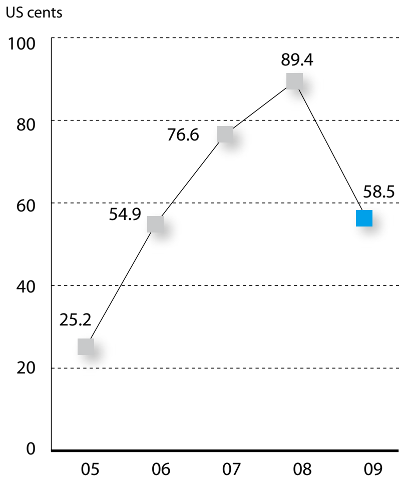


Dividend per Share in Last 5 Years



* *Include a special dividend of US30.0 cents per share*

Earnings per Share in Last 5 Years



For the year ended 31st March	2009	2008	Change
OPERATING RESULTS (US$ MILLION)			
Revenue	**1,448.2**	1,552.0	-6.7%
Gross profit	**527.5**	583.0	-9.5%
Operating profit	**154.3**	228.9	-32.6%
Profit before taxation	**159.0**	237.6	-33.1%
Profit attributable to shareholders	**143.2**	215.7	-33.6%
FINANCIAL POSITION (US$ MILLION)			
Cash generated from operations	**196.1**	228.8	-14.3%
Net cash	**287.2**	285.4	0.6%
Shareholders' funds	**440.2**	452.3	-2.7%
PER SHARE DATA (US CENTS)			
Earnings per share – basic	**58.5**	89.4	-34.6%
Earnings per share – diluted	**58.4**	88.2	-33.8%
Dividend per share – Interim and Final	**53.0**	63.0	-15.9%
OTHER DATA (US$ MILLION)			
Capital expenditure	**27.1**	47.1	-42.5%
R&D expenditure	**56.9**	51.3	10.9%
KEY RATIOS (%)			
Gross profit margin	**36.4**	37.6	-1.2% pts
Operating profit margin	**10.7**	14.7	-4.0% pts
Net profit margin	**9.9**	13.9	-4.0% pts
EBITDA/Revenue	**12.9**	16.6	-3.7% pts
Return on shareholders' funds	**32.5**	47.7	-15.2% pts

LETTER TO SHAREHOLDERS

Dear Shareholders,

The financial year 2009 was very much a year of two halves. In the first half, we achieved higher revenue despite a slowing US economy. Although raw material prices and labour costs stayed high, we were able to maintain a stable gross profit margin.

However, in the middle of September 2008, the global economy began to deteriorate dramatically. Consumer confidence plunged and demand shrank. This occurred when the bulk of our products for the holiday season had already been manufactured.

To respond to the sudden change in market conditions, we moved swiftly to step up retail level promotions to stimulate sales. Although margins were affected, it enabled VTech to end the full year with lower inventory than last year. In addition, our balance sheet remains strong, with our net cash position as at 31st March 2009 slightly ahead of the previous financial year. Our decisive and aggressive action enabled us to establish a solid financial position from which to move forward.

RESULTS

Group revenue for the year ended 31st March 2009 decreased by 6.7% over the previous financial year to US$1,448.2 million. Profit attributable to shareholders declined by 33.6% to US$143.2 million. The decrease in profit was mainly due to lower sales, increased price promotions and an exchange loss of US$27.6 million arising from the Group's global operations in the ordinary course of business, as the Euro and Sterling weakened sharply against the US dollar. Excluding the impact of exchange differences, profit attributable to shareholders decreased by 16.7% over the previous financial year.

Basic earnings per share decreased by 34.6% to US58.5 cents, compared to US89.4 cents in the financial year 2008. The Board of Directors (the "Board") has proposed a final dividend of US41.0 cents per ordinary share, as compared to US51.0 cents per ordinary share in the previous financial year.

OPERATIONS

Revenue at the telecommunication products (TEL) business for the year declined by 9.8% over the financial year 2008 to US$620.7 million.

In North America, still the largest market for our TEL business, revenue declined as consumer demand was weak. Retailers also reduced inventory in view of the slowing economy. Despite the decrease in sales, VTech continued to be the largest supplier in the US cordless phone market, and we expanded our market share further during the financial year.

In Europe, we continued to work on an Original Design Manufacturing (ODM) basis with major fixed line telephone operators and well-known brand names. The European market was more stable than that in North America, and we managed not only to gain market share, but also to increase revenue. The sole supplier agreement we signed in September 2008 with Deutsche Telekom AG (Deutsche Telekom) helped us to increase our presence in Germany.

Revenue at the electronic learning products (ELP) business dropped by 7.9% over the financial year 2008 to US$566.9 million. The ELP business initially saw rising sales in the first half, but sales quickly turned negative owing to the rapidly deteriorating market conditions.

In Europe, sales declined more as the European business was further affected by the steep depreciation of the Euro and Sterling against the US dollar. In response to the worsening market environment, we moved aggressively to step up price promotions to stimulate sales and reduce inventory.

Despite a slowing second half, revenue at the contract manufacturing services (CMS) business managed to increase by 5.0% over the previous financial year to another record of US$260.6 million. This was a considerably better performance than the global Electronic Manufacturing Services (EMS) industry, which has been badly affected by the global slump in manufacturing.

Our superior performance was due to higher sales to existing customers, as some of them outsourced more production to VTech in search of lower costs. We also continued to gain new customers, who were attracted by our growing reputation.

SENIOR MANAGEMENT CHANGE

Our Group Chief Operating Officer, Mr. Edwin YING Lin Kwan, retired on 1st January 2009. I would like to express my sincere gratitude to him for his valuable contributions to the Group. Following his retirement, Mr. Andy LEUNG Hon Kwong, Chief Executive Officer of our CMS business, was appointed as Executive Director.

In addition, Dr. PANG King Fai, our Group Chief Technology Officer, was promoted to Group President on 1st January 2009. He continues to hold the position of Executive Director.

OUTLOOK

There seems little doubt that consumer sentiment will remain weak throughout most of the calendar year 2009. The International Monetary Fund estimates that global GDP will contract by 1.3% for the year, and the decline is likely to be even more severe in many of our key markets.

Top line growth will therefore be very difficult to achieve in the financial year 2010, even though economies may recover and we anticipate increasing market shares for our TEL business. We are, however, cautiously optimistic that profitability will improve, as the Euro, Sterling and Renminbi show stability. We are also benefiting from the fall in raw material prices and labour costs, which will ease cost pressure.

To drive growth for the Group, we will continue to pursue our strategy based on product innovation, gains in market share, geographic expansion and operational excellence.

> “We are cautiously optimistic that profitability will improve, as the Euro, Sterling and Renminbi show stability. We are also benefiting from the fall in raw material prices and labour costs, which will ease cost pressure.”

The TEL business is expected to perform well as industry consolidation strengthens our market lead even further. For the branded business, we expect to see the full benefit of the exit of a major competitor in North America. For the ODM business, we have recently signed a licensing agreement with Telstra, a leading telecommunications and information services company in Australia, to become its direct supplier of fixed line handsets. The agreement will further increase our presence in the Australian market. In addition, the sole supplier agreement with Deutsche Telekom will start to make a full-year sales contribution.

> “As a company with market leadership, excellent R&D, efficient operations and a strong balance sheet, we are very well placed not merely to ride out the storm, but to grow even stronger as global economy eventually recovers.”

In addition to gains in market share, the second half of the financial year should also see contributions from two new product categories. The enterprise phone for small and medium sized business in the United States will allow VTech to enter the commercial sector. Another potential new growth area is Integrated Access Devices, which we are developing jointly with Funkwerk Enterprise Communications GmbH.

The market for ELPs is likely to remain challenging, and consumers are expected to look for deals. In response, we will step up our efforts to deliver products that offer tremendous value. Across our product ranges, we will continue to support sales with aggressive retail level promotions. We expect margin pressure to be partially offset by lower raw material costs, especially of plastics, and by our proven ability to engineer for lower cost.

Product innovation will remain an important factor in driving sales for the ELP business. For standalone products, following the successes of the infant category in recent years, we are introducing “Jungle Gym”. Combining electronic learning, fun and physical activities, Jungle Gym products continue the push outside the learning aisle, giving the ELP business new avenues for growth.

Our platform products will be augmented with a new reading system, Bugsby, which offers pen-touch technology and ease-of-use at an affordable price. Children will be able to read along with Bugsby and interact with their favourite characters in stories that build early reading skills.

Although the global EMS market is forecast to contract in the calendar year 2009, we expect the Group’s CMS business will continue to outperform the global EMS market. Our position in the professional audio segment will continue to increase following the establishment of a new state-of-the-art audio laboratory at our R&D centre in Shenzhen. Staffed by specially trained engineers, the facility enables our customers to design, test and fine-tune products on site, giving a great advantage over the competition in time-to-market for new products. We also expect considerable momentum from solid-state lighting, where the market is growing and our existing customers are expanding their presence.

It has been a year of unprecedented volatility in both the financial and consumer markets. I would like to thank my fellow directors, employees, customers and suppliers for staying the course as we navigate the turbulence. As a company with market leadership, excellent R&D, efficient operations and a strong balance sheet, we are very well placed not merely to ride out the storm, but to grow even stronger as global economy eventually recovers.

Allan WONG Chi Yun
Chairman

Hong Kong, 15th June 2009

REVENUE

Group revenue for the year ended 31st March 2009 decreased by 6.7% over the previous financial year to US$1,448.2 million as a result of a decrease in revenue at TEL business and ELP business despite an increase in revenue at the CMS business. Revenue from TEL business fell by 9.8% to US$620.7 million, accounting for 42.9% of Group revenue. For ELP business, revenue decreased by 7.9% to US$566.9 million, representing 39.1% of Group revenue. Revenue of the CMS business rose by 5.0% to US$260.6 million, accounting for 18.0% of Group revenue.

Geographically, North America continued to be the largest market for the Group in the financial year 2009. Revenue from this market was US$772.8 million, a decrease of 11.0% over the previous financial year, and it accounted for 53.4% of Group revenue. In Europe, revenue decreased by 3.3% to US$570.5 million, representing 39.4% of Group revenue. Revenue from Asia Pacific declined by 1.6% to US$55.2 million, accounted for 3.8% of Group revenue. However, revenue from other regions grew by 31.8% to US$49.7 million, representing 3.4% of Group revenue.

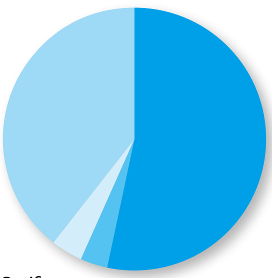
Although the ODM business had sales growth in the financial year 2009, the TEL business recorded a 9.8% decline in revenue to US$620.7 million due to the sales decline at the branded business in North America. Revenue from the North American market declined by 19.5% over the previous financial year to US$383.8 million, 61.8% of total TEL revenue. The decline was mainly due to the economic downturn in the United States, which led to slowing demand and a reduction of inventories by retailers. Due to the good performance of our ODM business, revenue in Europe rose by 7.4% over the previous year to US$193.7 million, 31.2% of total TEL revenue. Growth was mainly driven by new customers and increasing orders from existing customers owing to the weakening of other suppliers. With good progress in penetrating into Latin America, Middle East, Australia and India, revenue from the Asia Pacific and other emerging markets rose by 38.5% and 40.5% to US$14.4 million and US$28.8 million respectively, representing 2.3% and 4.7% of total TEL revenue.

Revenue of the ELP business fell by 7.9% to US$566.9 million for the financial year 2009. The decrease was mainly due to a rapid and severe deterioration of the global economy in the second half of the financial year that led to softening of consumer demand and necessitated aggressive retail level promotions. As consumers flocked to value in the weak economy, standalone products played a significant role in our overall ELP business. During the financial year 2009, standalone products accounted for 64.0% of total ELP revenue whereas platform products accounted for the remaining 36.0%. Due to the economic slowdown, both North America and Europe recorded sales declines during the financial year 2009. Revenue in North America decreased by 5.7% to US$274.6 million, 48.4% of total ELP revenue. In Europe, revenue fell by 12.7% to US$258.6 million, representing 45.6% of total ELP revenue. However, revenue in Asia Pacific and other regions increased by 13.3% and 21.5% to US$12.8 million and US$20.9 million respectively as the business increased its penetration into areas such as Latin America and Middle East.

For the CMS business, revenue increased by 5.0% over the previous financial year, reaching US$260.6 million. The growth was mainly driven by strong demand from certain major customers in the area of solid-state lighting, professional audio equipment and switching mode power supply. Geographically, revenue in North America and Europe increased by 14.1% and 4.0% to US$114.4 million and US$118.2 million respectively. Revenue in the Asia Pacific region, however, declined by 18.6% to US$28.0 million.

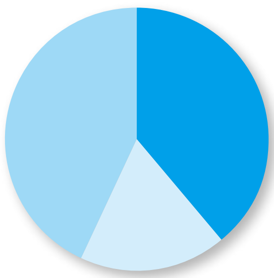
Group Revenue by Region (FY2009)

TOTAL US$1,448.2 MILLION

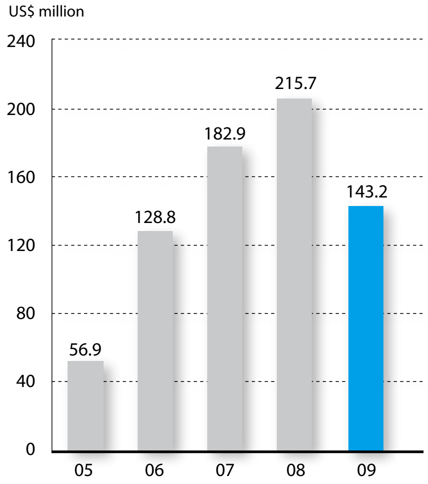


Group Revenue by Product Line (FY2009)

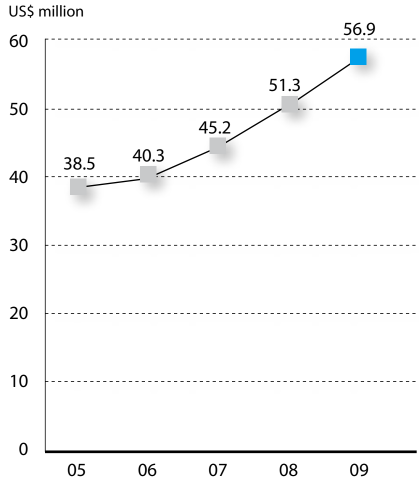
TOTAL US$1,448.2 MILLION



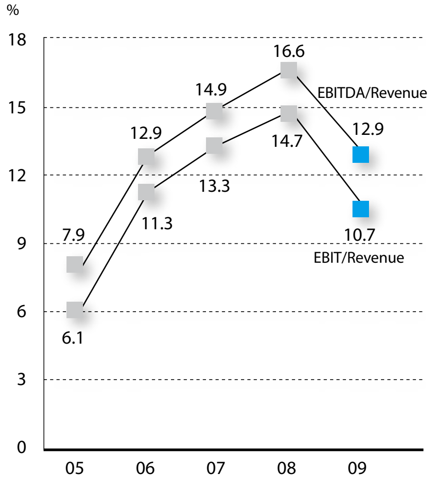
Profit Attributable to Shareholders in Last 5 Years



Group R&D Expenditure in Last 5 Years



Group EBITDA/Revenue and EBIT/Revenue in Last 5 Years



GROSS PROFIT/MARGIN

The gross profit for the financial year 2009 was US$527.5 million, a decrease of US$55.5 million or 9.5% compared to the US$583.0 million recorded in the previous financial year. Gross margin for the financial year reduced from 37.6% to 36.4%. The decrease in gross margin arose mainly from cost pressure from rising labour costs in China and raw material cost increases. In addition, the prices of the Group's products were reduced as poor conditions in the global markets led to softening of consumer demand and necessitated aggressive retail level promotions.

OPERATING PROFIT/MARGIN

The operating profit for the year ended 31st March 2009 was US$154.3 million, a decrease of US$74.6 million or 32.6% over the previous financial year. The operating profit margin also decreased from 14.7% in the previous financial year to 10.7% in the financial year 2009. The decrease was mainly attributable to the decline in gross profit and gross margin together with the steep depreciation of the Euro and Sterling against the US dollar.

Selling and distribution costs decreased by 6.6% from US$248.5 million in the previous financial year to US$232.1 million in the financial year 2009. The decrease was mainly attributable to the decreased spending on advertising and promotional activities of the Group. Royalty payments to licensors for the use of popular cartoon characters for certain ELPs also decreased, which led the decline in selling and distribution costs in the financial year 2009. As a percentage of Group revenue, selling and distribution costs were 16.0% in the financial year 2009, the same as the previous financial year.

Administrative and other operating expenses increased from US$54.3 million in the previous financial year to US$84.2 million in the financial year 2009. An exchange loss of US$27.6 million arising from the Group's global operations in the ordinary course of business was recorded under administrative and other operating expenses in the financial year 2009 as the Euro and Sterling weakened abruptly against the US dollar. This contrasted with an exchange gain of US$10.7 million recorded in the previous financial year. Excluding the effect of exchange differences, the administrative and other operating expenses decreased by US$8.4 million compared to the previous financial year. Administrative and other operating expenses as a percentage of Group revenue, excluding the effect of exchange differences, improved from 4.2% in the previous financial year to 3.9% in the financial year 2009.

Research and development activities are vital for the long-term development of the Group. During the financial year 2009, the research and development expense was US$56.9 million, an increase of 10.9% over the previous financial year. Research and development expenses as a percentage of Group revenue increased from 3.3% in the previous financial year to 3.9% in financial year 2009.

NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31st March 2009 was US$143.2 million, a decrease of US$72.5 million as compared to the previous financial year. The ratios of EBIT and EBITDA to revenue were 10.7% and 12.9% respectively.

Basic earnings per share for the year ended 31st March 2009 were US58.5 cents as compared to US89.4 cents in the previous financial year. During the year, the Group declared and paid an interim dividend of US12.0 cents per share, which aggregated to US$29.5 million. The directors have proposed a final dividend of US41.0 cents per share, which will aggregate to US$100.8 million.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' funds as at 31st March 2009 were US$440.2 million, a 2.7% decrease from the US$452.3 million reported for the financial year 2008. The net assets per share decreased by 3.8% from US$1.86 to US$1.79.

As at 31st March 2009 and 2008	**2009 US$ million**	2008 US$ million
Deposits and cash	**287.2**	285.4
Less: Total interest bearing liabilities	**–**	–
Net cash position	**287.2**	285.4
Currency-linked deposits	**4.9**	14.7
	292.1	300.1

As at 31st March 2009, the net cash plus currency-linked deposits with principal protection had decreased to US$292.1 million, which fell 2.7% from US$300.1 million at the previous year-end. The Group is debt-free as at 31st March 2009.

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 and to minimise the Group's financial risks. The Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes.

WORKING CAPITAL

As at 31st March 2009 and 2008 All figures are in US$ million unless stated otherwise	**2009**	2008
Stocks	**128.0**	132.4
Average stocks as a percentage of Group revenue	**9.0%**	8.3%
Turnover days	**67 days**	72 days
Trade debtors	**154.0**	182.2
Average trade debtors as a percentage of Group revenue	**11.6%**	11.6%
Turnover days	**73 days**	65 days

The stock balance as at 31st March 2009 decreased by 3.3% over the balance at 31st March 2008 to US$128.0 million. The turnover days decreased from 72 days to 67 days. The trade debtor balance as at 31st March 2009 was US$154.0 million as compared to US$182.2 million in the previous financial year. The turnover days increased from 65 days to 73 days. The decrease in trade debtor balance as at 31st March 2009 was mainly due to a decrease in revenue in the fourth quarter when compared with the corresponding period of the previous financial year.

CAPITAL EXPENDITURE

For the year ended 31st March 2009, the Group invested US$27.1 million in the construction of buildings, purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

CAPITAL COMMITMENTS AND CONTINGENCIES

In the financial year 2010, the Group will incur capital expenditure of US$21.2 million for ongoing business operations.

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

As of the financial year end date, the directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. In the opinion of the legal counsels, it is too early to evaluate the outcome of these cases and provisions have been made only to the extent that the amounts can be reliably estimated.

BUSINESS OVERVIEW

TELECOMMUNICATION PRODUCTS

Description of Business

VTech is one of the world's largest suppliers of corded and cordless telephones.

In North America, we are the largest player in the market, selling both VTech and AT&T branded products in major retail stores.

Outside North America, we mainly operate an ODM business. We supply products to major fixed line telephone operators in Europe and other well-known brand names.

Review of FY2009

- Revenue declined 9.8% over the previous financial year to US$620.7 million.
- Sales to North America declined by 19.5% to US$383.8 million. The decline in sales was attributable to slowing demand and a reduction of inventories by retailers, in anticipation of an uncertain US economy.
- Sales to Europe, Asia Pacific and other markets continued to expand as VTech's market share in Europe continued to grow. We have also made good progress in penetrating into Latin America, Middle East, Australia and India.

ELECTRONIC LEARNING PRODUCTS

Description of Business

VTech is a pioneer in the industry and we are currently one of the world's leaders in this field.

Our products cover a broad spectrum of age groups, from infants to pre-teens, and from standalone items to platform products:

- Standalone products
  - Infant toys
  - Pre-school toys
  - Electronic learning aids
  - Jungle Gym
- Platform products
  - V.Smile TV Learning System
  - Bugsby Reading System

Review of FY2009

- Revenue decreased by 7.9% to US$566.9 million.
- After a solid first half, the financial year witnessed a rapid and severe deterioration of the global economy in the second half.
- North America and Europe were the markets most affected by the slowdown. Sales to North America dropped 5.7% to US$274.6 million, while sales to Europe declined 12.7% to US$258.6 million.
- Standalone products accounted for 64.0% of total ELP revenue, while platform products accounted for 36.0%.

CONTRACT MANUFACTURING SERVICES

Description of Business

VTech's CMS business provides one-stop shop electronic manufacturing services for medium sized customers mainly in four areas:

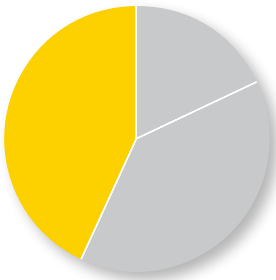
- Professional audio equipment
- Switching mode power supplies
- Home appliances
- Communications products

We offer a comprehensive service from design, R&D support to full production.

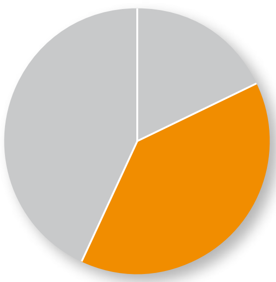
Review of FY2009

- The business continued to outperform the global EMS market and achieved a fifth consecutive record in its revenue.
- Sales rose by 5.0% to US$260.6 million.
- The growth in sales was mainly driven by customers in the area of professional audio equipment, switching mode power supplies and solid-state lighting.
- Our high quality of service, acknowledged expertise in the professional audio area and word-of-mouth recommendations enabled us to secure additional orders.

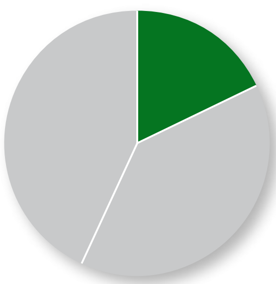
% of Group Revenue (FY2009)



42.9%

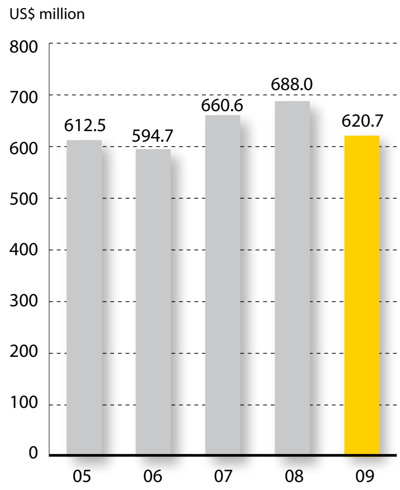


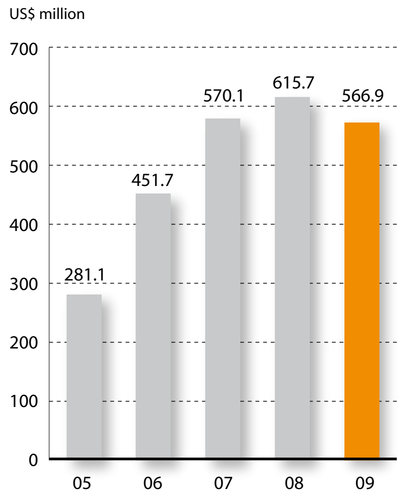
39.1%

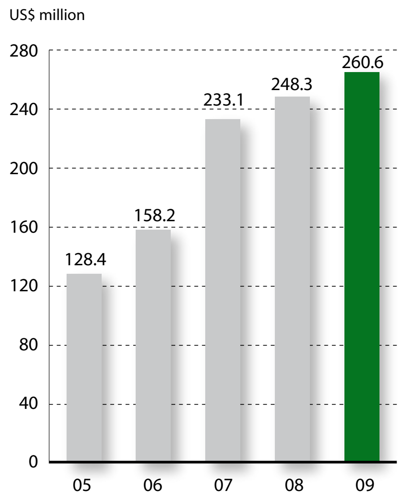


18.0%

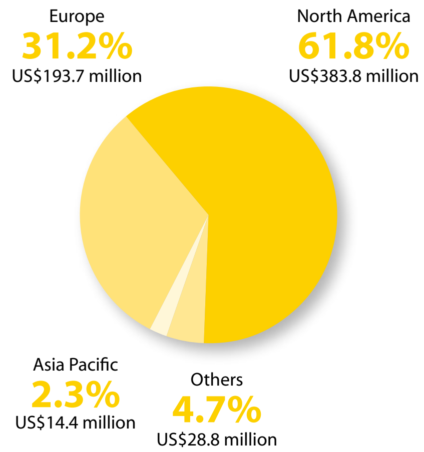
Revenue in Last 5 Years

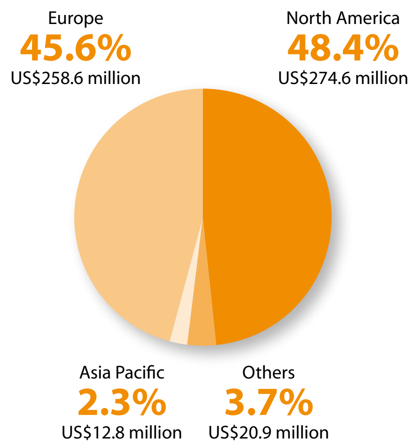


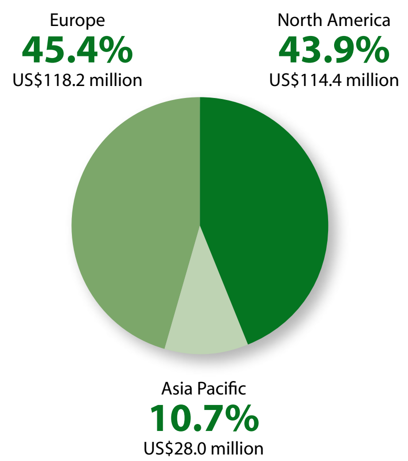




Revenue by Region (FY2009)







TELECOMMUNICATION PRODUCTS

We have been successfully leveraging our long-established leadership in the US cordless phone market to enter new product areas.

CREATING CONNECTIVITY AT HOME

In the second half of the financial year 2010, we will start shipping Integrated Access Devices (IADs), a new product category that we are jointly developing with Funkwerk Enterprise Communications GmbH, to our customers in Europe.

VTech's IADs are all-in-one gateways including ADSL modem, Wi-Fi (802.11b/g/n), VoIP, router and PSTN/ISDN telephony. By connecting to our IADs, consumers can gain easy access to broadband and wireless internet service, with high definition sound quality telephony. As these devices and applications are developing rapidly, IADs are expected to enjoy strong potential in the consumer market.

Our commitment is to provide consumers and small and medium sized enterprises with products that offer excellent quality and performance.

The Bluetooth feature of our AT&T DECT 6.0 products is highly regarded by consumers.

Revenue for the financial year 2009 at the TEL business declined 9.8% over the previous financial year to US$620.7 million. The business accounted for 42.9% of Group revenue, against 44.3% in the previous financial year. The decline was mainly due to the poor market conditions in the United States, following the onset of problems in the global credit markets.

As in the financial year 2008, sales to Europe, Asia Pacific and other markets, where we mainly operate an ODM business, continued to expand. Sales to Europe rose by 7.4% to US$193.7 million, equivalent to 31.2% of total TEL revenue. VTech's market share continued to grow, as customers placed more orders with us owing to our strong cash position and the weakening of other suppliers. In September 2008, we signed an exclusive supplier agreement with Deutsche Telekom and the co-branded "T-Home/VTech" products began shipping in January 2009.

Sales to Asia Pacific and other markets grew 38.5% and 40.5% to US$14.4 million and US$28.8 million respectively. We have made good progress in penetrating into Latin America, Middle East, Australia and India, demonstrating the success of the Group's strategy of geographic expansion.

Sales to North America, where we operate a branded business, declined by 19.5% to US$383.8 million and it accounted for 61.8% of total TEL revenue. The decline in sales was attributable to slowing demand and a reduction of inventories by retailers, in anticipation of an uncertain US economy.

Despite the weak economic conditions, both the VTech and AT&T brands performed well and we continued to increase our market share, maintaining the number one position in the US cordless phone market. During the financial year, VTech DECT 6.0 models for warehouse clubs sold well, while the AT&T DECT 6.0 products with Bluetooth technology outperformed the competition, as their Bluetooth feature became highly regarded by consumers.

A new product category, AT&T cordless headsets, was introduced in October last year. These products have been well received by the market, although shipments have so far been on a modest scale.

The enterprise phones for small and medium sized business allow VTech to enter the commercial sector.

ELECTRONIC LEARNING PRODUCTS

"To make learning fun" is the thinking behind our electronic learning products, which continue to win many of the industry's top awards.

BRINGING STORIES TO LIFE

Arriving in summer 2009, Bugsby Reading System uses the latest pen touch technology to bring stories to life. Children will have fun listening to the story read aloud by Bugsby as they drag along the sentences in the book. They can also play any of the skill building reading activities that focus on reading comprehension, phonics, sentence structure, word recognition and more.

Designed with convenience in mind, Bugsby includes the software cartridge with every book title – no additional download is required.

Our ELPs give kids the power to discover while they play. They are not just playing, they are also learning valuable skills for the years ahead.

The ELP business saw revenue decrease by 7.9% to US$566.9 million in the financial year 2009 as compared with the financial year 2008. This is equivalent to 39.1% of total Group revenue, as compared to 39.7% in the previous financial year. After a solid first half, the financial year witnessed a rapid and severe deterioration of the global economy in the second half. This led to a softening of consumer demand, and necessitated aggressive retail level promotions.

North America and Europe were the markets most affected by the slowdown. Sales to North America dropped 5.7%, from US$291.1 million to US$274.6 million, while sales to Europe declined 12.7%, from US$296.1 million to US$258.6 million. It should be noted that results from the European operations were further impacted by the steep depreciation of the Euro and Sterling against the US dollar. Results from Asia Pacific and other markets were more promising, with revenues increasing by 13.3% and 21.5%, to US$12.8 million and US$20.9 million respectively.

As consumers flocked to value in the weak economy, standalone products played a significant role in our overall business. They accounted for 64.0% of total ELP revenue, against 57.0% in the financial year 2008. The infant category showed the strongest growth. Among pre-school products, the Kidizoom Camera, launched in the previous financial year, continued to sell well.

Platform products, led by the V.Smile range, accounted for 36.0% of total ELP revenue, compared to 43.0% in the last financial year. Three new members, V-Motion, Cyber Pocket and PC Pal, were added to the V.Smile family. As the new flagship learning console, V-Motion met our sales expectations in spite of a challenging year for new platform products. Overall, unit sales of both consoles and handhelds across the V.Smile range managed to hold their ground.

VTech's electronic learning products again garnered a good number of awards during the financial year. Among the award winners, V-Motion won the National Parenting Center Seal of Approval and *Family Fun* magazine Toy of the Year 2008 award, both in the United States. In the United Kingdom, the Kidizoom Camera was named Pre-School Toy of the Year 2008 by the Toy Retailers Association.

Among pre-school products, the Kidizoom Camera continued to sell well.

CONTRACT MANUFACTURING SERVICES

Flexibility and the quality of our services are the main keys to customer satisfaction, which have helped us outperform the global EMS market in recent years.

PROVIDING SERVICE WITH INNOVATION

VTech's CMS business offers a complete one-stop shop electronic manufacturing service to customers, focusing on medium sized companies who are leaders in their categories. In the past two decades, we have grown with our customers and have built long-term partnerships with them.

Our excellence in product quality and service has earned us industry and supplier awards year after year, and enabled us to win new business through word-of-mouth recommendation.

The state-of-the-art audio laboratory at our R&D centre enables our customers to design, test and fine-tune products on site.

The CMS business achieved a fifth consecutive record in its revenue in the financial year 2009 as sales rose by 5.0% over the financial year 2008 to US$260.6 million. The business accounted for 18.0% of Group revenue, against 16.0% in the previous financial year.

The growth in sales was mainly driven by customers in the area of professional audio equipment, switching mode power supplies and solid-state lighting. Our high quality of service, acknowledged expertise in the professional audio area and word-of-mouth recommendation enabled us to secure additional orders. In the financial year 2009, professional audio remained the largest product category of the CMS business, accounting for 29.4% of total CMS revenue. This category was followed by switching mode power supplies at 25.4%, home appliances at 17.8% and communications products at 9.8%.

Geographically, Europe remained the largest market for the CMS business, despite North America having shown a greater growth momentum. Sales to Europe in the financial year 2009 rose by 4.0% to US$118.2 million, while sales to North America increased by 14.1% to US$114.4 million. Sales to Asia Pacific, however, fell by 18.6% to US$28.0 million.

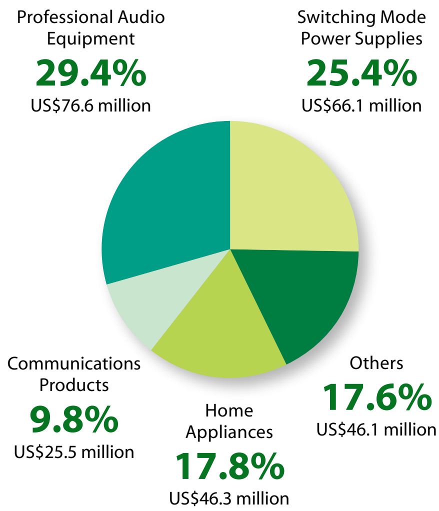
VTech continued to outperform the global EMS market in the financial year 2009. As with other EMS providers generally, we experienced a reduction in business from many existing customers in the second half of the financial year as they scaled back orders across the board in the face of economic turmoil. However, the economic slump also brought more business from our existing customer base, as certain companies ceased to manufacture their own products, instead transferring their production to VTech in search of cost savings.

VTech also benefited from industry consolidation within the EMS market. Tight credit conditions have forced some smaller players to exit the market. VTech, with its strong balance sheet, economies of scale and tradition of socially responsible manufacturing has been able to gain market share overall as the industry consolidates.

An important factor in our ability to attract business is the high quality of service we offer, which again resulted in a number of industry and supplier awards. These include the Hong Kong Awards for Industries 2008 – Productivity and Quality Award presented by the Hong Kong Productivity Council. This recognises the achievement of the CMS business in continuously improving productivity and quality. The business was also greatly encouraged by the findings of the latest annual customer survey, conducted in December 2008, which showed high levels of satisfaction, especially in the areas of flexibility and quality.

CMS Revenue by Product Line (FY2009)

TOTAL US$260.6 MILLION



VTECH AND **OUR SHAREHOLDERS**

VTech aims to enhance shareholder value through:

- Strengthening the competitive position of the Group's businesses
- Continuous efforts to achieve sustainable growth in shareholder returns and in the Group's return on investment
- Ensuring timely, true, comprehensive and non-selective disclosure of the Group's financial information and operating performance

Dividends

The dividend payout ratio of the Group is linked to its operating earnings performance, financial position and future investment opportunities. In the financial year 2009, the dividend payout ratio was 91.0% of the Group's net profit, against 71.6% in the previous financial year.

Share Performance

(for the year ended 31st March 2009)

Highest closing price	HK$50.95 (13th May 2008)
Lowest closing price	HK$18.7 (25th November 2008)

Investor Communications

VTech has a proactive investor relations and communications programme that keeps investors and shareholders abreast of the Group's latest developments and we encourage suggestions for improvement. During the financial year, we held one-on-one meetings with investors, organised site visits to our manufacturing facilities in mainland China and participated in investor conferences.

Key financial announcements are webcast, accompanied by the detailed slide presentations and other important financial information. Up-to-date information on the Group's development, financial data and stock information are available at the corporate website www.vtech.com. All key information can be downloaded.

VTECH AND **OUR EMPLOYEES**

The average number of employees for the financial year 2009 was 28,300, a decrease of 2.4% from 29,000 in the previous financial year. Staff related costs for the year ended 31st March 2009 were approximately US$168 million, as compared to approximately US$157 million in the financial year 2008.

More than 400 staff members joined the Standard Chartered Hong Kong Marathon 2009.

The VTech team showed their high spirits at the 2008 dragon boat race .

Employment and Remuneration Policy

VTech's policy is to treat all employees on the basis of merit, qualifications and competence. The Group creates a supportive work environment in which all employees can enjoy equal opportunities at work and avoid discrimination on the grounds of age, sex, marital status, disability or any other non-job related factor.

There is an incentive bonus scheme and share option scheme for employees, with salaries, bonuses and benefits determined with reference to the performance, qualifications and experience of individual employees.

Communications

In addition to maintaining a high standard of care towards employees, we encourage dialogue as an important contributor to harmony in the work place.

Management makes every effort to maintain open channels of communication with everyone in the Group. A regular internal newsletter updates employees on important developments, and employees are encouraged to give feedback via email and through suggestion boxes.

Personal Development

To ensure that employees have the necessary skills to carry out their tasks, and to provide a stimulus for self-advancement, we offer a variety of training courses throughout an employee's life with the Group. Staff members may also apply for external training sponsorships.

Employee Relations

To maintain good relations, each year VTech organises popular social events for its employees, helping to foster a team spirit, promote a balanced life and enhance motivation.

During the financial year 2009, we again entered a team in the annual dragon boat races in Hong Kong and put in a strong showing at the Standard Chartered Hong Kong Marathon. Various activities such as one-day tours, a dinner buffet and sports competition were held throughout the year.

Staff and their families enjoyed the beautiful scenery at the trip to Tung Ping Chau, an island of Hong Kong.

VTECH AND OUR COMMUNITIES

In its philanthropic efforts, VTech focuses on initiatives supporting education, innovation and disaster relief. In Hong Kong, the VTech Group has been recognised as a "Caring Company" by the Hong Kong Council of Social Service, in recognition of our work in relation to the community.

During the financial year 2009, we again supported Business of Design Week and the Hong Kong Awards for Industries in Hong Kong, helping foster a spirit of innovation.

We continued our support for Heifer International – Hong Kong, an organisation that undertakes work in rural areas of mainland China, providing livestock and training that will help poorer families to live a more prosperous life. We have established a programme with the Savannah College of Art and Design (SCAD) in the United States to offer job opportunities and internships for students selected on the basis of design submissions. In 2008, VTech hired one student and offered internships to another two.

In response to the Sichuan earthquake, VTech quickly mobilised the enthusiasm of the entire organisation to provide help to the victims. Fund raising initiatives resulted in donations totalling over HK$3 million, helping the victims recover from the disaster and rebuild their lives.

The donation was channeled to various relief agencies, principally the Hong Kong Red Cross, but including World Vision Hong Kong, the Hong Kong Committee for UNICEF, Oxfam, branches of the Red Cross in Dongguan and Qingyuan, the Shenzhen Municipal Charity Organization and Liaobu Town Government.

VTECH AND THE ENVIRONMENT

VTech regards care for the environment and making a positive contribution to efforts to tackle climate change as an important part of its corporate social responsibility.

Throughout our operations worldwide, we encourage waste reduction, environmentally sound processes, energy efficiency and recycling. For our products, we are committed to conform to the highest standards of environmental legislation and guidelines.

Sustainable Manufacturing

VTech aims to reduce environmental impacts in its manufacturing process through the use of technology and by adopting international environmental practices in its operations. The manufacturing facilities of both our

商界展關懷
caringcompany 2008/09
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

VTech received a "Certificate of Commendation" from the Hong Kong Red Cross in recognition of our meritorious service.

TEL and CMS businesses are ISO14001 certified, while the ELP business abides by the International Council of Toy Industries (ICTI) CARE (Caring, Awareness, Responsible, Ethical) Process.

Annual audits are conducted to ensure we meet the national standards for air quality, noise pollution and waste water disposal. We adopt a strict classification system for waste and toxic waste, based on international norms, which is disposed by a specialist contractor. Stringent procedures are in place to handle hazardous materials. Electricity usage is benchmarked against production to ensure that we make continuous improvements in energy intensity, through installing new equipment or changing processes.

In offices and factories, we encourage reduced use of paper and recycling of materials. We also encourage our vendors to take environmental considerations into account when supplying parts and raw materials.

Safe & Green Products

When VTech designs a new product, or upgrades an existing product, we always try to see whether it can be improved not just in the way it looks and works, but from an environmental point of view. This also benefits consumers through lower costs.

Our products comply with the strictest international safety and environmental regulations. Notably, all products of the Group sold in Europe comply with RoHS, the European Directive on the "Restriction on the use of certain Hazardous Substances". In addition, despite not being required by legislation, in 2009 we have extended the RoHS standard to our entire cordless phone lineup for the US market.

Through constant refinements to designs, we steadily reduce the number of components, reducing cost and waste. We are currently studying the use of bio-degradable plastic resins for ELPs in order to reduce the impact to the environment.

Since one of the biggest environmental impacts from electronics products is in the use of electricity, we pay particular attention to improving the energy efficiency of our products. All VTech cordless phones delivered to the US have been Energy Star® certified set by the US Environmental Protection Agency and the Department of Energy. In other countries, we are updating our cordless phone lineup gradually to include "Eco Mode" function which reduces power consumption.

Environmentally-Friendly Packaging

Packaging is another area of focus. The packaging for our latest phones, for example, uses only two materials. The box size has been reduced by 20-30% and it is printed with vegetable oil based inks, using fewer colours. Similar effort is also ongoing with the ELP business. We are making more effort to optimise the size and the structure of our packaging to preserve the environment.

RoHS Compliant

ENERGY STAR

ECO

The new packaging of our TEL products uses only two materials.
The box size is reduced and it is printed with fewer colours.

APRIL 2008

Telecommunication Products
VTech Communications, Inc. announced the availability of the 2008 new lineup in the United States.

MAY 2008

Contract Manufacturing Services
VTech Communications Limited received an award from a wireless product customer in recognition of its outstanding collaboration and execution in manufacture.

JUNE 2008

Electronic Learning Products
V.Smile Cyber Pocket received the "Comenius Award" in Germany.

JULY 2008

Electronic Learning Products
V-Motion, KidiArt Studio and three other products were awarded a "Seal of Excellence" by *Creative Child* magazine in the United States.

AUGUST 2008

Electronic Learning Products
V-Motion, V.Smile Cyber Pocket and KidiArt Studio received a "Seal of Approval" from the National Parenting Center in the United States.

SEPTEMBER 2008

Telecommunication Products
VTech Telecommunications Limited signed a licensing agreement with Deutsche Telekom, giving it an exclusive right to supply corded and cordless telephones.

Electronic Learning Products
KidiArt Studio was a winner of the "Toy grand prix 2008" in the artistic category in France.

OCTOBER 2008

Corporate
VTech Holdings Limited was voluntarily delisted from the London Stock Exchange on 7th October 2008 and continued to maintain its primary listing in Hong Kong.

VTech Holdings Limited's 2007 annual report won a Silver Award in the electronics category of the 2008 Annual Report Competition (ARC) Awards.

Telecommunication Products
The LS5145 5.8GHz cordless phone was presented a Bronze Award in the category of consumer electronics at the 2008 HKEIA Innovation & Technology Award.

NOVEMBER 2008

Corporate
VTech Holdings Limited was ranked one of the best companies in the Cash Masters Survey carried out by *CFO Asia* magazine, based upon the cash conversion efficiency of the company.

Electronic Learning Products
KidiJamz Studio was awarded the Children's Choice Award by the Canadian Toy Testing Council.

Contract Manufacturing Services
VTech Communications Limited was named "Supplier of the Year 2008" by a communications product customer.

DECEMBER 2008

Electronic Learning Products
V.Smile Cyber Pocket and KidiJamz Studio were presented the "Teachers' Choice Awards for the Family" by *Learning* magazine in the United States.

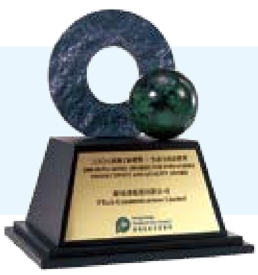
JANUARY 2009

Telecommunication Products
VTech Communications, Inc. received the "Partnership Award 2009" from BJ's wholesale club in the United States for its outstanding performance in several areas, including on-time delivery, in-stock percentage, return on investment and growth.

Electronic Learning Products
Kidizoom Camera was named "Pre-School Toy of the Year 2008" by the Toy Retailers Association in the United Kingdom.

FEBRUARY 2009

Electronic Learning Products
VTech Electronics North America, L.L.C. was presented with Walmart's "Supply Chain Award of Excellence" for its overall excellence in inventory management.



Contract Manufacturing Services
VTech Communications Limited received a "Productivity and Quality Award" at the Hong Kong Awards for Industries 2008, recognising its achievement in continuously improving productivity and quality.

MARCH 2009

Contract Manufacturing Services
VTech Communications Limited was ranked 43th among the "Top 50 EMS Providers in 2008" by the magazine *Manufacturing Market Insider*.

CORPORATE GOVERNANCE PRACTICES

VTech Holdings Limited is incorporated in Bermuda. The Company has its share listing on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and had its share listing on the London Stock Exchange Plc ("London Stock Exchange") until 6th October 2008. With effect from 7th October 2008, the Company was voluntarily delisted from London Stock Exchange. The corporate governance rules applicable to the Company is the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Throughout the year ended 31st March 2009, 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 deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer 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 non-executive directors form the majority of the Board, as four out of seven of our directors are independent non-executive directors. The Board believes the appointment of Dr. Allan WONG to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

MODEL CODE OF SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by directors and senior management in relation to the accounting period covered by the Annual Report. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out therein for the year ended 31st March 2009.

BOARD OF DIRECTORS

The Board currently comprises three executive directors and four independent non-executive directors. The names and brief biographies are set out on page 25 of this report. The non-executive directors are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Group. They bring to the Company independent judgement on issues of strategy, performance, risk and people through their contribution at Board meetings. The Board considers that four non-executive directors, being the majority of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules. All non-executive directors are appointed for a specific term of three years and all directors are required to submit themselves for re-election at least once every three years under the Company's Bye-laws. In accordance with the Company's Bye-laws, each new director appointed by the Board shall hold office until the next following annual general meeting and thereafter the directors will be subject to retirement by rotation.

The Board has received from each independent non-executive director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Board's focus is on the formulation of business strategy and policy, and control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include: preliminary announcements of interim and final results, dividend policy, the annual budgets, major corporate activities such as material acquisitions and disposals, and connected transactions.

Four Board meetings at approximately quarterly interval are scheduled for 2009/10 with additional meetings held as and when required. All Directors have access to the advice and services of the Company Secretary and independent professional advice may be taken by the Directors as required.

BOARD OF DIRECTORS (CONTINUED)

The attendance of individual members of the Board and other Board Committees during the financial year is set out below:

	Meetings attended/Eligible to attend				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee
Executive Directors					
Allan WONG Chi Yun	4/4	–	–	2/2	2/2
Edwin YING Lin Kwan (resigned with effect from 1st January 2009)	3/3	–	–	–	2/2
PANG King Fai	4/4	–	–	–	2/2
Andy LEUNG Hon Kwong (appointed on 1st January 2009)	1/1	–	–	–	–
Independent Non-Executive Directors					
Raymond CH'IEN Kuo Fung (retired on 5th September 2008)	1/2	0/1	1/1	0/1	–
William FUNG Kwok Lun	4/4	2/2	2/2	2/2	–
Denis Morgie HO Pak Cho (appointed on 3rd November 2008)	2/2	1/1	1/1	1/1	–
Michael TIEN Puk Sun	2/4	2/2	1/2	2/2	–
Patrick WANG Shui Chung	2/4	1/1	–	1/2	–

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee are of no less exacting than those set out in the Code which are posted on the Company's website.

Subsequent to the retirement of Dr. Raymond CH'IEN Kuo Fung as an independent non-executive director of the Company, Mr. Denis Morgie HO Pak Cho was appointed as a member of the Board and participated in the board committees.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Michael TIEN Puk Sun with Dr. William FUNG Kwok Lun and Mr. Denis Morgie HO Pak Cho as members, all of whom are independent non-executive directors. It is responsible for reviewing and recommending all elements of the executive directors and senior management remuneration. The fees of the non-executive directors are determined by the Board.

The Remuneration Committee met twice during the year. The Committee discussed and reviewed the remuneration packages of all executive directors and the granting of share options to the executive directors and senior management.

Nomination Committee

The Nomination Committee is chaired by Dr. William FUNG Kwok Lun with Mr. Denis Morgie HO Pak Cho, Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung and Dr. Allan WONG Chi Yun as members. The majority of the members of the Nomination Committee are independent non-executive directors. It is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience.

The Nomination Committee met twice during the year and considered the appointment of independent non-executive director and executive director during the year.

Audit Committee

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, succeeding Dr. Raymond CH'IEN Kuo Fung, with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun as members, all of whom are independent non-executive directors. Dr. Patrick WANG Shui Chung was appointed a member of Audit Committee on 5th September 2008 and ceased to be a member with effect from 1st January 2009. It has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. Denis Morgie HO Pak Cho, succeeding Dr. Raymond CH'IEN Kuo Fung, is the Chairman of the Audit Committee and has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the year. The meetings were attended by the Chairman, Chief Compliance Officer, Chief Financial Officer and external auditors. The major work performed by the Committee during the year included:

- reviewing the financial reports for the year ended 31st March 2008 and for the six months ended 30th September 2008;
- reviewing the significant findings by the internal audit department and recommendations for corrective actions;
- reviewing the reports from external auditors for the year ended 31st March 2008 and for the six months ended 30th September 2008;
- reviewing the new International Financial Reporting Standards, where applicable, and the progress of implementation;
- considering and recommending to the Board the appointment of external auditors and their remuneration for the year.

BOARD COMMITTEES (CONTINUED)

Auditors' Remuneration

An analysis of remuneration in respect of audit and non-audit services provided by KPMG, the auditors, is shown in note 2 to the financial statements.

Risk Management Committee

The Risk Management Committee, comprising the executive directors, held two meetings during the year to review the Group's risk management and internal control systems and their effectiveness. The Committee also ensured that any new and emerging risks are promptly evaluated and appropriate actions are taken by the management.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Board is responsible for the timely presentation of balanced, clear and understandable annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 33. The statement of the external auditors about their reporting responsibilities on the financial statements is set out on page 33.

INTERNAL CONTROLS

The Directors have the overall responsibility for internal control, including risk management, and set appropriate policies having regard to the objectives of the Group. The Directors, through the Audit Committee, have conducted an annual review of the effectiveness of the Group's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits.

The annual review also considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

The Audit Committee reviews the effectiveness of the internal control environment of the Group. The Internal Audit Department carries out annual risk assessment on each audit area and derives an annual audit plan according to their risk rankings. The audit plan is reviewed and approved by the Audit Committee. In addition to the agreed schedule of work, the Internal Audit Department conducts other review and investigative work as may be required. The Audit Committee receives summary reports from the internal and external auditors periodically. The results of internal audit reviews and responses to the recommended corrective actions are reported to the executive directors and Audit Committee. The Internal Audit Department is also responsible for following up the corrective actions to ensure that satisfactory controls are maintained. The Audit Committee considered that the key areas of the corrective actions required for the year were reasonably implemented.

The Group has put in place an organisational structure with formal defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, treasury transactions, information and reporting systems, and for monitoring the Group's businesses and their performance.

WHISTLEBLOWER POLICY

The Group maintains a whistleblower policy to facilitate the raising of concerns by employees. Procedures are established for employees to report complaints and internal malpractice directly to the Chief Compliance Officer, who will review complaints and determine the mode of investigation and subsequent corrective action. Recommendations on improvements are communicated to the respective departments senior management for implementation. The Chief Compliance Officer reports the results of the review of the complaints received to the Audit Committee twice a year.

CODE OF CONDUCT

Employees are required to strictly follow the Code of Conduct to ensure the Group operates to the highest standards of business conduct and ethics in our dealings with customers, business partners, shareholders, employees, and the business communities. Every employee is provided a copy of the Code of Conduct and is required to confirm compliance with the Code in writing each year.

PROFILE OF DIRECTORS

Allan WONG Chi Yun, GBS, MBE, JP, aged 58, Chairman and Group Chief Executive Officer, co-founded the Group in 1976. Dr. WONG holds a Bachelor of Science degree in Electrical Engineering from the University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from the Hong Kong Polytechnic University. Dr. WONG is a member of the Commission on Strategic Development, a member of the Greater Pearl River Delta Business Council and a council member of the University of Hong Kong. He is an independent non-executive director of The Bank of East Asia, Limited, China-Hong Kong Photo Products Holdings Limited and Li & Fung Limited.

PANG King Fai, aged 53, Executive Director and President of the Group, holds BSc (Eng) from the University of Hong Kong, MPhil from Imperial College of Science, Technology and Medicine, London and PhD (EE) from Stanford University. He is a Fellow of the Institution of Engineering and Technology. Dr. PANG joined the Group in 2004 as Group Chief Technology Officer and promoted to the position of President of the Group in 2009. He has over 20 years of experience in design engineering for consumer electronics products. He is also an Honorary Professor of the Electrical and Electronic Engineering Department of the University of Hong Kong.

Andy LEUNG Hon Kwong, aged 50, Executive Director and Chief Executive Officer of Contract Manufacturing Services business, holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Newcastle upon Tyne in the United Kingdom and an MBA degree from Oklahoma City University in the United States. In addition to the executive role in the division, he is also responsible for overseeing China Services Department of the Group. Mr. LEUNG joined the Group in 1988, left the Group in 1990 and re-joined in 1991. He became the CEO of Contract Manufacturing Services business in 2002 after serving as General Manager for 9 years. Mr. LEUNG has over 20 years of experience in the electronics and manufacturing industry.

William FUNG Kwok Lun, SBS, OBE, JP, aged 60, appointed as Independent Non-executive Director in 2001. Dr. FUNG is the Group Managing Director of Li & Fung Limited and a deputy chairman of The Hongkong and Shanghai Banking Corporation Limited. He is a non-executive director of Convenience Retail Asia Limited, Integrated Distribution Services Group Limited, HSBC Holdings plc. and an independent non-executive director of Shui On Land Limited. He has held key positions in major trade associations. He is the past Chairman of the Hong Kong General Chamber of Commerce, the Hong Kong Committee for the Pacific Economic Cooperation Committee and the Hong Kong Exporters' Association. He has been awarded the Silver Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2008. Dr. FUNG holds a Bachelor of Science degree in Engineering from Princeton University and an MBA degree from the Harvard Graduate School of Business. He has been awarded an Honourary Doctorate degree of Business Administration by the Hong Kong University of Science & Technology and by the Hong Kong Polytechnic University.

Denis Morgie HO Pak Cho, aged 67, appointed as Independent Non-executive Director in 2008. Mr. HO is a retired senior partner of PricewaterhouseCoopers in Hong Kong. Mr. HO holds a Bachelor degree in Commerce from the University of Melbourne. He is a fellow member of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He has over 40 years of professional accounting experience.

Michael TIEN Puk Sun, BBS, JP, aged 58, appointed as Independent Non-executive Director in 2001. Mr. TIEN holds a Bachelor of Science Degree in Electrical Engineering from Cornell University, USA and an MBA degree from Harvard Business School. Mr. TIEN is the Chairman and founder of the G2000 Group which started its business back in 1979. Before starting up G2000, he worked with Macy's Department Store in New York, USA. Mr. TIEN is an active member in Hong Kong community affairs, holding posts including the Chairman of the Standing Committee on Language Education and Research and a member of the Education Commission. Mr. TIEN is also a member of National People's Congress Hong Kong Deputy.

Patrick WANG Shui Chung, JP, aged 58, appointed as Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor and Master of Science degrees in Electrical Engineering and received an Honourary Doctorate of Engineering from Purdue University in Indiana, USA. Dr. WANG is currently the Chairman and Chief Executive Officer of Johnson Electric Holdings Limited. Appointed by the Government of the Hong Kong Special Administrative Region, Dr. WANG is a member of the Task Force on Economic Challenges and a member of the Steering Committee on the Promotion of Electric Vehicles. He is also the Chairman and a director of the Hong Kong Applied Science and Technology Research Institute Company Limited, a non-executive director and a member of the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited, and a non-executive director of Tristate Holdings Limited.

PROFILE OF SENIOR MANAGEMENT

Telecommunication Products

TONG Chi Hoi, aged 44, President of Telecommunication Products business, is responsible for overseeing the ODM (Original Design Manufacturing) of the division worldwide. Mr. TONG joined the Group in 2006. He has over 20 years of experience in the electronics and manufacturing industry. Mr. TONG holds a First Class Honours Bachelor degree in Electrical and Electronics Engineering from the University of London. He is a member of Institute of Electrical and Electronics Engineers, Inc., US.

Nicholas P. DELANY, aged 57, President of VTech Communications, Inc., is responsible for the Telecommunication Products business in US specifically business development, sales, customer support, business intelligence processes, supply chain, logistics, IT, HR/Administration, finance and marketing. Prior to joining the Group in 2000, Mr. DELANY had over 20 years of sales and management experience in the industrial, retail, construction and mining industries in Asia, Europe and South Africa. He also has 10 years of experience in developing supply chain systems with leading corporations in North America including The Stanley Works, Inc. Mr. DELANY holds a Bachelor Degree in Marketing and Financial Management from the University of South Africa & Damlein College.

Gordon CHOW, aged 53, President of VTech Technologies Canada Ltd, is responsible for both the Telecommunication Products and Electronic Learning Products business in Canada. He established the Canadian operations in 1986. Mr. CHOW holds a Bachelor of Commerce degree from the University of British Columbia and is a member of the Institute of Chartered Accountants of British Columbia. He is a member of the Board of Governors of Crofton House School in Vancouver. Mr. CHOW has served as a member of the President's Advancement Council of British Columbia Institute of Technology and a director of the BCIT Foundation. He was also a member of the Royal Roads University – MBA Advisory Board and a director of the Canadian Toy Association.

Gary TAM Wai Keung, aged 45, Senior Vice President of Sales, is responsible for the business development and sales and marketing activities of ODM (Original Design Manufacturing) Telecommunication Products business worldwide. Mr. TAM has over 20 years of sales and marketing experience. Mr. TAM joined the Group in 1986 and he held management positions in a number of areas including operations, sales and marketing. He holds a Bachelor degree in Electronics from the Chinese University of Hong Kong and an MBA degree from Strathclyde Business School, UK.

Matt RAMAGE, aged 39, Senior Vice President of Product Management, is responsible for product management, channel marketing and customer support services of VTech and AT&T licensed brands in North America. Mr. RAMAGE joined the Group in 1992 and over the years has held management positions in a number of areas including sales, marketing and product management.

Hillson CHEUNG Hoi, aged 41, General Manager – Operations, is responsible for factory operations, quality assurance and logistics management for Telecommunication Products business. Mr. CHEUNG joined the Group in 2000 as Factory Manager for Electronic Learning Products business and rejoined the Group in 2007. Prior to rejoining the Group, he has held management positions in a number of areas including product development, factory operations and supply chain management in the electronics manufacturing industry. Mr. CHEUNG holds a Bachelor of Engineering degree in Manufacturing Engineering from the City University of Hong Kong and an MBA degree from the Hong Kong University of Science and Technology.

Ray LAI Chi Wai, aged 39, Senior Vice President of Product Management, is responsible for product management of both VTech and AT&T branded products and products outsourcing. Mr. LAI joined the Group in 1995 and relocated to the branch in the United States during 2003 to 2005. Mr. LAI holds a Bachelor degree in Applied Chemistry from the Hong Kong Baptist University and an MBA degree from Strathclyde Business School, UK.

PROFILE OF SENIOR MANAGEMENT (CONTINUED)

Electronic Learning Products

William TO, aged 53, President of VTech Electronics North America, L.L.C., joined the Group in 1983. Mr. TO is responsible for the Group's Electronic Learning Products business in the United States of America, Puerto Rico and Mexico. He holds a Master degree in Business Administration from the University of Chicago.

Gilles SAUTIER, aged 53, European Chief Executive Officer, joined the Group in 2000 and is responsible for Electronic Learning Products business in UK, France, Belgium, Holland, Luxembourg, Spain and Germany. He is also responsible for the support centre in Holland which takes care of finance, logistic and IT systems for the European sales companies. With over 30 years of experience in marketing, sales and management in the toy industry, he held various positions in Kenner-Parker, Spear's Games, Ideal Toys and Majorette. He holds a Bachelor degree in Law from the University of Paris and an MBA degree from L'ESSEC, a French business school. Mr. SAUTIER is the general secretary of the French Toy Federation.

CHU Chorng Yeong, aged 49, Vice President of Product Development, is responsible for product development of the division. Dr. Chu joined the Group in 2009, he holds a Bachelor of Science degree in Computer Science from Columbia University, MS and PhD in Electrical Engineering from Stanford University. Prior to joining the Group, he held Senior Vice President positions at SiS (a listed company in Taiwan) and ESS Technology (a listed company in the United States). He had worked in the Silicon Valley for 20 years specializing in integrated circuit and software developments for the Consumer Electronics Industry.

LEUNG Chun Kwan, aged 43, General Manager – Operations. Mr. LEUNG joined the Group in 1998 and transferred to the division in 2000. He had been working in the telecommunication products manufacturing industry before joining the division. Mr. LEUNG holds a Bachelor of Science degree in Electronics Engineering and a Master of Philosophy degree in Electronics Engineering from the City University of Hong Kong. He is a member of the Institute of Engineering and Technology and a Chartered Engineer of the Engineering Council, UK.

Vincent YUEN Chi Ming, aged 49, Product Development Director. Mr. YUEN joined the Group in 1984, he holds a Bachelor of Science degree in Electronics from the Chinese University of Hong Kong.

AU Ip Sing, aged 49, Product Development Director. Mr. AU joined the Group in 1988, he has more than 10 years of experience in mechanical engineering design of switches, TV and toy products, and over 15 years in toy product development management. He holds a Diploma in Production and Industrial Engineering from the Hong Kong Polytechnic and a Master Degree in Engineering Management from the University of Technology Sydney, Australia.

Rowena SO Lin Ying, aged 54, Chief Financial Officer, is responsible for financial reporting and control of the Electronic Learning Products business. Ms. SO joined the Group in 1986. She holds an MBA degree from the University of Lincolnshire and Humberside. She has over 20 years of managerial experience in finance and accounting in the company.

Contract Manufacturing Services

Kent CHEUNG King Fai, aged 47, General Manager, is responsible for the operations of Contract Manufacturing Services business mainly in the European market including project management, manufacturing, quality assurance, engineering and materials functions. Mr. CHEUNG joined the Group in 1989. He holds a Master of Business degree from University of Newcastle, Australia. Mr. CHEUNG has more than 24 years of experience in the electronics industry. Prior to joining the Group, he held senior positions in various electronic companies.

Alex CHOI Lap Hung, aged 46, General Manager, is responsible for the operations of Contract Manufacturing Services business mainly in the US market including project management, manufacturing, quality assurance, engineering and materials functions. Before joining the Group in 2002, Mr. CHOI worked in two other EMS companies for 16 years in various areas including marketing, project management and quality assurance. He holds a Master of Engineering degree in Manufacturing Systems Engineering from Warwick University, UK, and is a part-time lecturer of the Electronic Engineering Department of the City University of Hong Kong.

PROFILE OF SENIOR MANAGEMENT (CONTINUED)

Contract Manufacturing Services (Continued)

Rix CHAN Ching Pun, aged 38, Operations Manager, is responsible for the operations of Contract Manufacturing Services business in the Japan market including project management, manufacturing, quality assurance, engineering and materials functions. Mr. CHAN joined the Group in 1996, with 13 years prior experience in EMS industry. Mr. CHAN holds a Bachelor degree of Electronics Engineering from the Hong Kong Polytechnic University and an MBA degree from the City University of Hong Kong.

Kenneth LAM Chi Kin, aged 51, Business Development Director, is responsible for business development and marketing for Contract Manufacturing Services business. Mr. LAM joined the Group in 1994 and held management positions in a number of areas including engineering, project management and marketing. Mr. LAM holds a Higher Diploma in Applied Science from the Hong Kong Polytechnic and a Higher Diploma in Management Services from the City University of Hong Kong.

POON Yuen Fung, aged 39, R&D Director, is responsible for R&D and development engineering of Contract Manufacturing Services business. Mr. POON holds a Bachelor degree of Engineering in Electronic Engineering from the City Polytechnic of Hong Kong, a Master degree of Science in Electronic Engineering from the City University of Hong Kong and an MBA degree from University of Durham, UK. Mr. POON has more than 15 years of experience in electronic engineering development and project management, mainly in the wireless and telecommunication products area. Before joining the division in 2002, Mr. POON had worked for VTech Telecommunications Ltd for cordless phone development for 7 years from 1994 to 2001.

Rolf D. SEICHTER, aged 66, President of VTech Telecom, L.L.C., is responsible for the overseas development and marketing of Contract Manufacturing Services business. Mr. SEICHTER joined the Group in 1999, left in 2001 and re-joined in 2004. Prior to joining the Group, he held senior management positions with several large high-tech corporations in Europe and the United States. He is well familiar with high-tech applications in the telecommunications, industry, automation and consumer markets. He holds a Master of Science degree in RF Electronics from Gauss University, Berlin, Germany and an MBA degree from Suffolk University, Boston, MA, USA.

Corporate Services

CHANG Yu Wai, aged 49, Company Secretary and Group Chief Compliance Officer. Joined the Group in 2000 after spending 8 years with one of the leading international accounting firms in Hong Kong. He has over 15 years of experience in professional accounting and auditing. He holds a Bachelor of Science degree in Mathematics and Management Sciences from the University of Manchester Institute of Science and Technology. Mr. CHANG is a member of the Institute of Chartered Accountants in England and Wales.

Shereen TONG Ka Hung, aged 40, Group Chief Financial Officer, is responsible for the Group accounting and tax, treasury and financial as well as information technology and human resources management functions. Ms. TONG joined the Group in 1994 and has held management positions in a number of areas including internal audit and financial control of the Group. She holds an MBA degree from Manchester Business School, UK, a Master of Science degree in Information Systems from Hong Kong Polytechnic University and a Bachelor of Laws degree from Manchester Metropolitan University, UK. She is an associate member of Chartered Institute of Bankers, UK, Chartered Institute of Management Accountants, UK and a fellow member of Hong Kong Institute of Certified Public Accountants.

Davis CHAN Hon Hung, aged 45, Group General Manager – Operations. Mr. CHAN joined the Group in 1999. He holds a Master degree in Logistics and Operations Management from Macquarie University, Australia. Mr. CHAN has over 20 years of experience in toys industry. Prior to joining the Group, he held a senior position in an OEM (Original Equipment Manufacturing) toys company.

Ellen SIU Oi Ling, aged 47, Group General Manager – Procurement, is responsible for the procurement functions of the Telecommunication Products and Electronic Learning Products businesses. Ms. SIU joined the Group in 2007, she has over 20 years management experience in the electronics and manufacturing industry. Ms. SIU holds a Master of Science degree in Engineering Business Management jointly from Warwick University and the Hong Kong Polytechnic University. She is a member of Chartered Institute of Purchasing & Supply in UK.

REPORT OF THE DIRECTORS

The directors have pleasure to present their report and the audited financial statements of the Group for the year ended 31st March 2009.

PRINCIPAL ACTIVITY

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

GROUP RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st March 2009 are set out in the consolidated income statement on page 34.

An interim dividend of US12.0 cents (2008: US12.0 cents) per ordinary share was paid to shareholders on 24th December 2008. The directors have recommended the payment of a final dividend of US41.0 cents (2008: US51.0 cents) per ordinary share payable on 10th August 2009 to shareholders in respect of the year ended 31st March 2009 whose names appear on the register of members of the Company as at the close of business on 7th August 2009 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The final dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the 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 mid rate of exchange prevailing on 29th July 2009.

COMMENTARY ON PERFORMANCE

A commentary on the performance of the Group is included in the review of operations set out on pages 10 to 15.

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 58.

TANGIBLE ASSETS

Details of the movements in tangible assets are shown in note 7 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year are set out in note 18 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 19 to the financial statements.

DONATIONS

During the year, the Group made charitable and other donations in aggregate of US$425,000.

DIRECTORS

The directors who held office during the year and up to 15th June 2009 were:

Executive Directors

Allan WONG Chi Yun *Chairman and Group Chief Executive Officer*
Edwin YING Lin Kwan (Resigned with effect from 1st January 2009)
PANG King Fai
Andy LEUNG Hon Kwong (Appointed on 1st January 2009)

Independent Non-Executive Directors

Raymond CH'IEN Kuo Fung (Retired on 5th September 2008)
William FUNG Kwok Lun
Denis Morgie HO Pak Cho (Appointed on 3rd November 2008)
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Dr. Allan WONG Chi Yun shall retire by rotation in accordance with Bye-law 112 of the Bye-laws of the Company while Mr. Denis Morgie HO Pak Cho and Mr. Andy LEUNG Hon Kwong shall also retire from the Board as the new directors appointed by the Board in accordance with Bye-law 94 of the Bye-laws of the Company, all of the above directors being eligible, shall offer themselves for re-election as directors of the Company at the forthcoming annual general meeting.

Brief biographical details of directors and senior management are set out on pages 25 to 28.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with any company in the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The director's service contract entered into between the Company and Dr. Allan WONG Chi Yun in 1999 has no expiry date, but can be terminated by the giving of 2 months' prior notice, and is exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2009, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

(1) Interests in the Company

Name of director	Number of shares			Equity derivatives (share options)	Total	Approximate percentage of shareholding
	Personal interest	Family interest	Other interest			
Allan WONG Chi Yun	17,654,393	3,968,683	74,101,153 *(Note 1)*	1,488,000	97,212,229	39.5%
PANG King Fai	–	–	–	794,000	794,000	0.3%
Andy LEUNG Hon Kwong	500	–	–	372,000	372,500	0.2%
William FUNG Kwok Lun	449,430	–	592,200 *(Note 2)*	–	1,041,630	0.4%
Michael TIEN Puk Sun	–	211,500 *(Note 3)*	211,500 *(Note 3)*	–	423,000	0.2%

Notes:

(1) The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was a wholly owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success was a wholly owned subsidiary of Trustcorp Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a director of the Company, was the founder. Trustcorp Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares.

(2) The shares were registered in the name of Golden Step Limited which was beneficially owned by Dr. William FUNG Kwok Lun.

(3) The shares were registered in the name of Romsley International Limited which was jointly owned by Mr. Michael TIEN Puk Sun and his spouse.

(4) All the interests stated above represent long position.

(2) Share Options of the Company

Name of director	Date of grant	Exercise price	Exercisable period	Number of share options held as at 1st April 2008	as at 31st March 2009
Allan WONG Chi Yun	12th August 2005	HK$19.30	26th August 2008 to 25th August 2010	2,000,000	– *(Note 1)*
	17th April 2008	HK$41.07	24th April 2009 to 23rd April 2011	–	496,000 *(Note 2)*
	17th April 2008	HK$41.07	24th April 2010 to 23rd April 2012	–	496,000 *(Note 2)*
	17th April 2008	HK$41.07	24th April 2011 to 23rd April 2013	–	496,000 *(Note 2)*
PANG King Fai	8th April 2005	HK$11.41	8th April 2008 to 7th April 2010	50,000	50,000
	17th April 2008	HK$41.07	23rd April 2009 to 22nd April 2011	–	248,000 *(Note 2)*
	17th April 2008	HK$41.07	23rd April 2010 to 22nd April 2012	–	248,000 *(Note 2)*
	17th April 2008	HK$41.07	23rd April 2011 to 22nd April 2013	–	248,000 *(Note 2)*
Andy LEUNG Hon Kwong	17th April 2008	HK$41.07	25th April 2009 to 24th April 2011	–	124,000 *(Note 2)*
	17th April 2008	HK$41.07	25th April 2010 to 24th April 2012	–	124,000 *(Note 2)*
	17th April 2008	HK$41.07	25th April 2011 to 24th April 2013	–	124,000 *(Note 2)*

Notes:

(1) The weighted average closing price per share immediately before the date on which options were exercised was HK$47.00.

(2) The closing price per share immediately before the date on which the options were granted was HK$39.50.

Save as disclosed above, as at 31st March 2009, none of the directors and chief executive of the Company had any interest or short position in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the paragraph headed "Continuing Connected Transactions", no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDINGS

As at 31st March 2009, other than the interests of the directors or chief executive of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Trustcorp Limited	Interest of controlled corporation *(Note 1)*	74,101,153	30.1%
Newcorp Limited	Interest of controlled corporation *(Note 1)*	74,101,153	30.1%
Honorex Limited	Beneficial owner *(Note 1)*	1,416,325	27.2%
	Interest of controlled corporation *(Note 1)*	65,496,225	
Conquer Rex Limited	Beneficial owner *(Note 1)*	65,496,225	26.6%
Templeton Asset Management Limited	Investment manager	24,631,000	10.0%
Capital Research and Management Company	Investment manager	14,831,000	6.0%

Notes:

(1) The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was a wholly owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success was a wholly owned subsidiary of Trustcorp Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun ("Dr. WONG"), a director of the Company, was the founder. Trustcorp Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Dr. WONG's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "Directors' Interests and Short positions in Shares, Underlying Shares and Debentures" above. Trustcorp Limited was wholly owned by Newcorp Limited which was deemed to be interested in such shares by virtue of SFO.

(2) All the interests stated above represent long position.

Save as disclosed above, as at 31st March 2009, the Company has not been notified by any person (other than the directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by Company under Section 336 of the SFO.

PUBLIC FLOAT

Based on the information publicly available, the Company has maintained at least 25% of the total issued share capital of the Company to be held by the public at all times during the year ended 31st March 2009 and up to the date of this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31st March 2009.

SECURITIES PURCHASE ARRANGEMENTS

At the annual general meeting held on 5th September 2008, shareholders renewed the approval of a general mandate authorizing the directors to effect repurchases of the Company's own shares up to a limit of 10% of the shares in issue as at that date.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2009, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases. The Group's largest customer accounted for approximately 16.5% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 35.6% of the Group's revenue during the year. None of the directors, their associates or any shareholder (who, to the knowledge of the directors, owns more than 5% of the Company's share capital) had an interest in the customers and the suppliers noted above.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-laws of the Company and there are no statutory restrictions against such rights under the laws of Bermuda in which the Company is incorporated.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of these share option schemes include executive directors and employees of the Company and its subsidiaries. On 10th August 2001, the Company adopted a share option scheme (the "2001 Scheme") under which the directors may, at their discretion, at any time during the 10 years from the date of adoption of the 2001 Scheme, invite employees of the Company and any subsidiaries of the Group, including executive directors (but excluding non-executive directors) to take up shares of the Company in accordance with the terms of the 2001 Scheme.

Details of the 2001 Scheme are set out in note 18 to the financial statements.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31st March 2009, the Group had the following continuing connected transactions under Rule 14A.34 of the Listing Rules, details of which are set out below:

(A) On 11th April 2007, the Company as tenant renewed a lease (the "Lease") with Aldenham Company Limited ("Aldenham") as landlord for the lease of the premises situated at Bowen Road, Hong Kong for 2 years commencing 1st April 2007 and expiring on 31st March 2009 at a monthly rental of HK$250,000 for the purpose of providing housing to Dr. Allan WONG Chi Yun ("Dr. WONG"), a director, chief executive and a substantial shareholder of the Company. Aldenham is an indirect wholly owned subsidiary of a trust in which the family members of Dr. WONG are beneficiaries. Aldenham is therefore a connected person of the Company as ascribed by the Listing Rules and the Lease constituted a continuing connected transaction under Rule 14A.34 of the Listing Rules.

(B) On 10th August 2007, VTech Communications Limited, an indirect wholly owned subsidiary of the Company as manufacturer, and Ality Limited ("Ality") as purchaser entered into a Manufacturing Agreement for an initial term of 24 months commencing on 10th August 2007 with the Annual Caps of HK$51.25 million for the year ended 31st March 2009. Ality is a company which is wholly owned by Mr. William WONG Yee Lai, the son of Dr. WONG. Ality is therefore a connected person of the Company.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions have been (i) entered into in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain factual finding procedures in respect of the continuing connected transactions of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings on these procedures to the Board and confirmed that for the year ended 31st March 2009, the continuing connected transactions (i) have received the approval of the Board; and (ii) have charged for the price in accordance with the pricing terms set out in the relevant agreement governing such transactions or where the related agreement did not clearly specify a price, were consistent with the price charged for comparable transactions that were identified by management; and (iii) have been entered into in accordance with the relevant agreements governing the transactions, and (iv) have not exceeded the cap amounts disclosed in the respective announcements.

The Company renewed the Lease on 31st March 2009 for another three years commencing on 1st April 2009 with the same principal terms of the Lease as described above. Since the total rental value payable by the Company under the Lease represents less than 0.1% of the applicable percentage ratios of the Company under Rule 14A.33 of the Listing Rules, the Lease constitutes an exempted continuing connected transaction and no disclosure or independent shareholders' approval is required.

AUDITORS

The financial statements have been audited by KPMG, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 15th June 2009

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of VTech Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of VTech Holdings Limited ("the Company") set out on pages 34 to 57, which comprise the consolidated and Company balance sheets as at 31st March 2009, and the consolidated income statement, the consolidated statement of changes in shareholders' funds and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31st March 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15th June 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2009

	Note	2009 US$ million	2008 US$ million
Revenue	1	**1,448.2**	1,552.0
Cost of sales		**(920.7)**	(969.0)
Gross profit		**527.5**	583.0
Selling and distribution costs		**(232.1)**	(248.5)
Administrative and other operating expenses		**(84.2)**	(54.3)
Research and development expenses		**(56.9)**	(51.3)
Operating profit	1&2	**154.3**	228.9
Net finance income		**4.7**	8.7
Profit before taxation		**159.0**	237.6
Taxation	4	**(15.8)**	(21.9)
Profit attributable to shareholders	19	**143.2**	215.7
Interim dividend	5	**29.5**	29.1
Final dividend	5	**100.8**	124.2
Earnings per share (US cents)	6		
– Basic		**58.5**	89.4
– Diluted		**58.4**	88.2

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS

For the year ended 31st March 2009

	Note	2009 US$ million	2008 US$ million
Shareholders' funds at 1st April		**452.3**	343.3
Exercise of share options	18&19	**6.9**	5.9
Surplus arising on revaluation of properties	19	**4.8**	–
Realisation of hedging reserve	19	**(0.6)**	9.8
Fair value gains/(losses) on hedging during the year	19	**1.3**	(10.8)
Capital reserve on employee share option scheme	19	**1.8**	0.9
Exchange translation differences	19	**(14.6)**	15.4
Net (losses) and gains not recognised in the income statement		**(0.4)**	21.2
Profit attributable to shareholders	19	**143.2**	215.7
Dividends approved and paid during the year	19	**(154.9)**	(127.9)
Shareholders' funds at 31st March		**440.2**	452.3

CONSOLIDATED BALANCE SHEET

As at 31st March 2009

	Note	2009 US$ million	2008 US$ million
Non-current assets			
Tangible assets	7	**99.9**	101.3
Leasehold land payments	8	**3.8**	3.8
Deferred tax assets	9	**5.2**	6.9
Investments	10	**0.2**	0.2
		109.1	112.2
Current assets			
Stocks	11	**128.0**	132.4
Debtors and prepayments	12	**190.2**	229.2
Financial assets at fair value through profit or loss	13	**4.9**	14.7
Taxation recoverable		**3.1**	0.7
Deposits and cash	14	**287.2**	285.4
		613.4	662.4
Current liabilities			
Creditors and accruals	15	**(232.9)**	(262.1)
Provisions	16	**(41.8)**	(46.4)
Taxation payable		**(3.3)**	(9.3)
		(278.0)	(317.8)
Net current assets		**335.4**	344.6
Total assets less current liabilities		**444.5**	456.8
Non-current liabilities			
Deferred tax liabilities	9	**(4.3)**	(4.5)
Net assets		**440.2**	452.3
Capital and reserves			
Share capital	18	**12.3**	12.1
Reserves	19	**427.9**	440.2
Shareholders' funds		**440.2**	452.3

Approved and authorised for issue by the Board of Directors on 15th June 2009.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes on pages 35 to 57 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2009

	Note	2009 US$ million	2008 US$ million
Operating activities			
Operating profit		**154.3**	228.9
Depreciation of tangible assets	2	**31.7**	29.0
Amortisation of leasehold land payments	2	**0.1**	0.1
Loss on disposal of tangible assets	2	**0.4**	0.5
Decrease/(increase) in stocks		**4.4**	(8.3)
Decrease/(increase) in debtors and prepayments		**39.0**	(25.5)
(Decrease)/increase in creditors and accruals		**(29.2)**	5.6
Decrease in provisions		**(4.6)**	(1.5)
Cash generated from operations		**196.1**	228.8
Interest received		**4.7**	8.7
Taxes paid		**(22.9)**	(24.5)
Net cash generated from operating activities		**177.9**	213.0
Investing activities			
Purchase of tangible assets	7	**(27.1)**	(47.1)
Proceeds from disposal of tangible assets		**–**	0.5
Purchase of financial assets	13	**(5.0)**	(15.0)
Proceeds received upon maturity of financial assets	13	**15.0**	–
Deposits	14	**(45.0)**	–
Net cash used in investing activities		**(62.1)**	(61.6)
Financing activities			
Proceeds from issued shares upon exercise of share options	18&19	**6.9**	5.7
Dividends paid	5	**(154.9)**	(127.9)
Net cash used in financing activities		**(148.0)**	(122.2)
Effect of exchange rate changes		**(11.0)**	9.7
(Decrease)/increase in cash and cash equivalents		**(43.2)**	38.9
Cash and cash equivalents at beginning of the year		**285.4**	246.5
Cash and cash equivalents at end of the year	14	**242.2**	285.4
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated balance sheet	14	**287.2**	285.4
Less: Bank deposits with maturity greater than three months	14	**(45.0)**	–
Cash and cash equivalents in the consolidated cash flow statement		**242.2**	285.4

The notes on pages 35 to 57 form part of these financial statements.

PRINCIPAL ACCOUNTING POLICIES

A Principal Activities and Organisation

The Group's principal activities and separable segments are set out in note 1 to the financial statements.

The Company was incorporated in Bermuda. In view of the international nature of the Group's operations, the financial statements are presented in United States dollars.

B Statement of Compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs includes International Accounting Standards ("IASs") and related Interpretations. These financial statements also comply with the 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 a number of new interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of these new interpretations and amendment has no material impact to the financial statements of the Group for the years ended 31st March 2008 and 31st March 2009.

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

The accounting policies described in notes (C) to (X) have been consistently applied by the Group.

C Basis of Preparation of the Financial Statements

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain properties, financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments stated at their fair value.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

C Basis of Preparation of the Financial Statements (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and accounting estimates made by management in the application of IFRSs that have significant effect on the financial statements are described in note 27.

D Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries together with the Group's share of the results and retained post acquisition reserves of its associates under the equity method of accounting drawn up for the year ended 31st March. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit after taxation. Investments in subsidiaries are stated at cost less impairment losses (see note (K)) in the Company's balance sheet.

Associates are those entities, not being subsidiaries, in which the Group exercises significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates under the equity method, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of that associate. Investments in associates are stated at cost less impairment losses (see note (K)) in the Company's balance sheet.

E Revenue Recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is stated net of sales taxes and discounts, after eliminating sales within the Group.

Revenue from the provision of services is recognised when the services are rendered.

Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised when the Group's right to receive payment is established.

F Research and Development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised only if the product or process is clearly defined, technically and commercially feasible, the attributable expenditure is separately identifiable and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads which are directly attributable to development activities. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note (K)). Development expenditure that does not meet the above criteria is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off capitalised development costs on a straight-line basis over their estimated useful lives, commencing from the date when the products are put into commercial production.

G Foreign Currencies

Transactions denominated in foreign currencies are translated into United States dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the rates of exchange ruling at the balance sheet date.

Income statements of foreign entities are translated into the Group's reporting currency at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions and balance sheets are translated at the exchange rates ruling at the balance sheet date.

Net exchange differences arising from the translation of the financial statements of subsidiaries and associates expressed in foreign currencies are taken directly to exchange reserve. All other exchange differences are dealt with in the income statement.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in exchange reserve which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

H Tangible Assets and Depreciation

Land and buildings are stated at cost or valuation performed by professional valuers every three years less amounts provided for depreciation except in the case of freehold land which is not depreciated. In the intervening years the directors review the carrying value and adjustment is made where there has been a material change. The valuations are on an open market value basis and are incorporated in the financial statements. Increases in valuation are credited to the revaluation reserve; decreases are first set off against increases on earlier valuations in respect of the same assets and thereafter are charged to the consolidated income statement. Upon the disposal of a revalued property, the relevant portion of the realised revaluation reserve in respect of previous revaluations is transferred from revaluation reserve to revenue reserve.

All other tangible assets are stated at cost less accumulated depreciation and impairment losses (see note (K)).

Depreciation is calculated to write off the cost or revalued amount of assets on a straight-line basis over their estimated useful lives which are as follows:

Long-term leasehold buildings	Lease term
Freehold buildings, short-term leasehold buildings and leasehold improvements	10 to 30 years or lease term, if shorter
Moulds	1 year
Machinery and equipment	3 to 5 years
Computers, motor vehicles, furniture and fixtures	3 to 7 years

Where parts of a tangible asset have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of tangible assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

I Construction in Progress

Construction in progress represents land and buildings under development and are stated at cost less impairment losses (see note (K)). Cost comprises the construction costs of buildings and costs paid to acquire land use rights.

Building construction costs are transferred to leasehold buildings when the assets are completed and put into operational use and depreciation will be provided at the appropriate rates in accordance with the depreciation policies specified in note (H).

Costs paid to acquire land use rights are transferred to leasehold land payments upon obtaining the land use right certificates and amortisation will be provided at the appropriate rates in accordance with the amortisation policies specified in note (J).

No depreciation or amortisation is provided in respect of construction in progress.

J Leases

Leases of property, plant and equipment in terms of which that the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses (see note (K)). Finance charges are charged to the income statement in proportion of the capital balances outstanding.

Leases of assets under which all the benefits and risks of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Leasehold land payments are up-front payments to acquire long-term leasehold interests in land. These payments are stated at cost and are amortised on a straight-line basis over the respective period of the leases.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

K Impairment of Assets

(i) Impairment of receivables and other financial assets

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

K Impairment of Assets (Continued)

(i) Impairment of receivables and other financial assets (Continued)

Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(ii) Impairment of other assets

The carrying amounts of the Group's assets including property, plant and equipment and other non-current assets, including goodwill, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

L Other Investments

Other investments held by the Group are stated at fair value, with any resultant gain or loss being recognised in the income statement. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

M Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average or the first-in-first-out basis, and comprises materials, direct labour and an appropriate share of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimates of costs of completion and selling expenses.

N Trade and Other Debtors

Trade and other debtors are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the debtors are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

O Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and which have a maturity of three months or less at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

P Trade and Other Creditors

Trade and other creditors are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Q Provisions and Contingent Liabilities

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Group recognises the estimated liability on expected return claims with respect to products sold. This provision is calculated based on past experience of the level of repairs and returns.

The Group recognises the expected costs of accumulating compensated absences when employees render a service that increases their entitlement to future compensated absences, measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

R Income Tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is being realised or the liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provision for withholding tax which could arise on the remittance of earnings retained overseas is only made where there is a current intention to remit such earnings.

S Employee Benefits

The Group operates a number of defined contribution retirement schemes throughout the world, including Hong Kong, and a defined benefit retirement scheme in Hong Kong. The assets of all schemes are held separately from those of the Company and its subsidiaries.

(i) Defined contribution plans

Contributions to the defined contribution schemes are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to the income statement as incurred.

(ii) Defined benefit plans

For long-term employee benefits, the Group's net obligations arising under the defined benefit scheme are assessed and calculated by a qualified actuary using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every year. Plan assets are measured at fair value. Pension obligations are measured as the present value of the estimated future cash flows of benefits derived from employee past service, with reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

(iii) Equity and equity related compensation benefits

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share option is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserves).

T Derivative Financial Instruments

The Group's activities expose it to financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts to hedge certain exposures.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised initially at fair value. At each balance sheet date, the fair value is remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge), a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or a hedge of a net investment in a foreign entity.

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

T Derivative Financial Instruments (Continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in the hedging reserve. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in hedging reserve are transferred from hedging reserve and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in hedging reserve are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

If certain derivative transactions, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting under the specific rules in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), changes in the fair value of these derivative instruments are recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised, when the committed or forecasted transaction ultimately is recognised in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objective and strategy for undertaking various hedge transactions.

U Borrowings

Borrowings are recognised as the proceeds are received, net of transaction costs incurred.

V Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

W Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

X Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediates, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

1 SEGMENT INFORMATION

Revenue represents turnover of the Group derived from the amounts received and receivable for sale of goods and rendering of services to third parties.

The principal activity of the Group is the design, manufacture and distribution of consumer electronic products. The directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

Segment information by geographical market is presented below:

Although the Group's business segments are managed on a worldwide basis, they principally operate in the following geographical areas:

North America – the operations are principally the sale and distribution of telecommunication and electronic products.

Europe – the operations are principally the sale and distribution of telecommunication and electronic products.

Asia Pacific – the Group is headquartered in the Hong Kong Special Administrative Region ("Hong Kong SAR") and the Group's principal manufacturing operations are located in mainland China.

Year ended 31st March 2009

		North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
i	Revenue	**772.8**	**570.5**	**55.2**	**49.7**	**1,448.2**
	Operating profit	**59.6**	**78.0**	**10.2**	**6.5**	**154.3**
ii	Total assets	**128.9**	**67.0**	**523.4**	**3.2**	**722.5**
	Total liabilities	**50.9**	**26.2**	**204.8**	**0.4**	**282.3**
iii	Capital expenditure	**1.6**	**0.7**	**24.8**	**–**	**27.1**
	Depreciation	**1.6**	**0.8**	**29.3**	**–**	**31.7**
	Amortisation of leasehold land payments	**–**	**–**	**0.1**	**–**	**0.1**
	Other non-cash (revenue)/expenses	**(3.3)**	**(1.8)**	**7.2**	**(0.2)**	**1.9**

Year ended 31st March 2008

		North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
i	Revenue	868.2	590.0	56.1	37.7	1,552.0
	Operating profit	113.3	96.7	10.5	8.4	228.9
ii	Total assets	128.6	119.1	525.2	1.7	774.6
	Total liabilities	52.0	41.7	228.2	0.4	322.3
iii	Capital expenditure	0.9	0.4	45.8	–	47.1
	Depreciation	1.5	1.0	26.5	–	29.0
	Amortisation of leasehold land payments	–	–	0.1	–	0.1
	Other non-cash expenses	5.9	2.1	5.0	0.4	13.4

2 OPERATING PROFIT

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

	Note	2009 US$ million	2008 US$ million
Staff related costs			
– salaries and wages		**161.9**	153.0
– pension costs: defined contribution schemes	17	**4.9**	3.3
– pension costs: defined benefit scheme	17	**1.3**	1.0
– severance payments		**1.6**	0.7
– equity-settled share-based payment expenses		**1.8**	0.8
		171.5	158.8
Cost of inventories		**920.7**	969.0
Depreciation of tangible assets	7	**31.7**	29.0
Amortisation of leasehold land payments	8	**0.1**	0.1
Loss on disposal of tangible assets		**0.4**	0.5
Operating leases charges: minimum lease payments			
– land and buildings		**12.0**	12.2
– others		**2.6**	3.1

	Note	2009 US$ million	2008 US$ million
Auditors' remuneration			
– audit services		**0.8**	0.7
– audit related services		**0.1**	0.1
– tax services		**0.4**	0.5
– other services		**–**	0.2
Impairment loss recognised for stock obsolescence		**3.3**	15.2
Reversal of provision for stock obsolescence		**(4.8)**	–
Impairment loss recognised/(reversal) for doubtful debts	12	**1.7**	(2.6)
Royalties		**22.5**	28.9
Provision for defective goods	16	**35.0**	54.1
Net foreign exchange loss/(gain)		**28.2**	(20.5)
Net (gain)/loss on forward foreign exchange contracts	19	**(0.6)**	9.8
Net realised and unrealised (gains)/losses on financial assets at fair value through profit or loss		**(0.2)**	0.3

3 DIRECTORS' AND INDIVIDUALS' EMOLUMENTS

Directors' emoluments

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payments *(vii)* US$ million	2009 Total US$ million
Executive directors *(i)*						
Allan WONG Chi Yun	**–**	**0.8**	**1.4**	**0.1**	**0.8**	**3.1**
Edwin YING Lin Kwan *(iii)*	**–**	**0.2**	**0.2**	**–**	**–**	**0.4**
PANG King Fai	**–**	**0.3**	**0.3**	**–**	**0.3**	**0.9**
Andy LEUNG Hon Kwong *(iv)*	**–**	**0.1**	**0.1**	**–**	**–**	**0.2**
Independent non-executive directors *(ii)*						
Raymond CH'IEN Kuo Fung *(v)*	**–**	**–**	**–**	**–**	**–**	**–**
William FUNG Kwok Lun	**–**	**–**	**–**	**–**	**–**	**–**
Denis Morgie HO Pak Cho *(vi)*	**–**	**–**	**–**	**–**	**–**	**–**
Michael TIEN Puk Sun	**–**	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung	**–**	**–**	**–**	**–**	**–**	**–**
	–	**1.4**	**2.0**	**0.1**	**1.1**	**4.6**

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payments *(vii)* US$ million	2008 Total US$ million
Executive directors *(i)*						
Allan WONG Chi Yun	–	0.8	2.5	0.1	0.5	3.9
Edwin YING Lin Kwan	–	0.3	0.6	0.1	–	1.0
PANG King Fai	–	0.3	0.6	0.1	–	1.0
Independent non-executive directors *(ii)*						
Raymond CH'IEN Kuo Fung	–	–	–	–	–	–
William FUNG Kwok Lun	–	–	–	–	–	–
Michael TIEN Puk Sun	–	–	–	–	–	–
Patrick WANG Shui Chung	–	–	–	–	–	–
	–	1.4	3.7	0.3	0.5	5.9

3 DIRECTORS' AND INDIVIDUALS' EMOLUMENTS (CONTINUED)

Directors' emoluments (Continued)

Notes:

(i) *The directors' fee paid to each executive director of the Company was US$20,000 (2008: US$20,000) per annum.*

(ii) *The emoluments paid to each independent non-executive director of the Company was US$20,000 (2008: US$20,000) per annum, being wholly in the form of directors' fees.*

(iii) *Mr. Edwin YING Lin Kwan resigned as a director of the Company effective from 1st January 2009.*

(iv) *Mr. Andy LEUNG Hon Kwong appointed as a director of the Company effective from 1st January 2009. Prior to his directorship, Mr. LEUNG received salaries, allowances and benefits in kind of US$0.3 million, discretionary bonuses of US$0.3 million and share-based payments of US$0.2 million from the Group during the year ended 31st March 2009.*

(v) *Mr. Raymond CH'IEN Kuo Fung retired as an independent non-executive director of the Company on 5th September 2008.*

(vi) *Mr. Denis Morgie HO Pak Cho appointed as an independent non-executive director of the Company effective from 3rd November 2008.*

(vii) *Share-based payments represent fair value of share options granted to the directors which were charged to the income statement in accordance with the accounting policy set out in Note (S).*

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2008: three) are directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2008: two) individuals are as follows:

	2009 US$ million	2008 US$ million
Salaries, allowances and benefits in kind	**0.5**	0.5
Discretionary bonuses	**0.6**	3.1
Contribution to retirement benefit schemes	**–**	–
Share-based payments	**0.2**	–
	1.3	3.6

The emoluments fell within the following bands:

	2009 Individuals	2008 Individuals
US$		
513,001 – 577,000	**1**	–
833,001 – 897,000	**1**	–
1,025,001 – 1,089,000	**–**	1
2,625,001 – 2,689,000	**–**	1
	2	2

During the years ended 31st March 2008 and 31st March 2009, there were no amounts paid to directors and individuals for compensation for loss of office and inducement for joining the Group.

4 TAXATION

	Note	2009 US$ million	2008 US$ million
Current tax			
– Hong Kong		**10.9**	16.3
– Overseas		**4.5**	6.8
Over-provision in respect of prior years			
– Hong Kong		**(0.1)**	–
– Overseas		**(0.1)**	(0.1)
Deferred tax			
– Origination and reversal of temporary differences	9	**0.6**	(1.1)
		15.8	21.9

(a) Hong Kong profits tax has been calculated at the rate of 16.5% (2008:17.5%) on the estimated assessable profit for the year. In 2008, the Hong Kong SAR Government enacted a reduction in the profits tax rate from 17.5% to 16.5% for the fiscal year 2008/09, and the deferred tax balances have been calculated at 16.5% (2008: 16.5%).

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

(c) Reconciliation between the effective income tax rate and the statutory domestic income tax rate

The consolidated effective income tax rate for the year ended 31st March 2009 was 9.9% (2008: 9.2%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2009 %	2008 %
Statutory domestic income tax rate	**16.5**	17.5
Difference in overseas income tax rates	**1.1**	1.1
Non-temporary differences	**(5.0)**	(6.6)
Tax losses not recognised	**1.4**	1.1
Others	**(4.1)**	(3.9)
Effective income tax rate	**9.9**	9.2

5 DIVIDENDS

	Note	2009 US$ million	2008 US$ million
Interim dividend of US12.0 cents (2008: US12.0 cents) per share declared and paid	19	**29.5**	29.1
Final dividend of US41.0 cents (2008: US51.0 cents) per share proposed after the balance sheet date	19	**100.8**	124.2

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

At a meeting held on 3rd July 2008, the directors proposed a final dividend of US51.0 cents per ordinary share for the year ended 31st March 2008, which was estimated to be US$124.2 million at the time calculated on the basis of the ordinary shares in issue as at 31st March 2008. The final dividend was approved by shareholders at the Annual General Meeting on 5th September 2008. As a result of shares issuance upon exercise of share options during the period between 1st April 2008 and 5th September 2008, the final dividend paid in respect of the year ended 31st March 2008 totaled US$125.4 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 US$143.2 million (2008: US$215.7 million).

The basic earnings per share is based on the weighted average of 244.8 million (2008: 241.2 million) ordinary shares in issue during the year. The diluted earnings per share is based on 245.3 million (2008: 244.7 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares under the Company's share option scheme.

	2009 million	2008 million
Weighted average number of ordinary shares at 31st March	**244.8**	241.2
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**0.5**	3.5
Weighted average number of ordinary shares (diluted) at 31st March	**245.3**	244.7

7 TANGIBLE ASSETS

	Land and buildings US$ million	Moulds, machinery and equipment US$ million	Furniture and fixtures, computers, motor vehicles and leasehold improvements US$ million	Construction in progress US$ million	Total US$ million
Cost or valuation					
At 1st April 2007	43.3	220.3	82.4	2.8	348.8
Additions	–	18.1	11.7	17.3	47.1
Disposals	–	(6.5)	(4.5)	–	(11.0)
Effect of changes in exchange rates	3.4	2.6	4.0	0.3	10.3
At 31st March 2008 and 1st April 2008	46.7	234.5	93.6	20.4	395.2
Additions	0.3	9.2	15.3	2.3	27.1
Disposals	(0.3)	(2.9)	(2.3)	–	(5.5)
Transfer from construction in progress	11.1	0.2	2.3	(13.6)	–
Revaluation	2.7	–	–	–	2.7
Effect of changes in exchange rates	(1.9)	(1.3)	(1.1)	0.4	(3.9)
At 31st March 2009	**58.6**	**239.7**	**107.8**	**9.5**	**415.6**
Accumulated depreciation					
At 1st April 2007	20.4	185.4	64.6	–	270.4
Charge for the year	1.3	17.9	9.8	–	29.0
Disposals	–	(5.8)	(4.2)	–	(10.0)
Effect of changes in exchange rates	0.3	1.4	2.8	–	4.5
At 31st March 2008 and 1st April 2008	22.0	198.9	73.0	–	293.9
Charge for the year	2.5	16.2	13.0	–	31.7
Disposals	(0.2)	(2.6)	(2.3)	–	(5.1)
Revaluation	(2.1)	–	–	–	(2.1)
Effect of changes in exchange rates	–	(1.4)	(1.3)	–	(2.7)
At 31st March 2009	**22.2**	**211.1**	**82.4**	**–**	**315.7**
Net book value at 31st March 2009	**36.4**	**28.6**	**25.4**	**9.5**	**99.9**
Net book value at 31st March 2008	24.7	35.6	20.6	20.4	101.3
Cost or valuation of tangible assets is analysed as follows:					
At cost	40.9	239.7	107.8	9.5	397.9
At professional valuation – 2009 *(note (i))*	17.7	–	–	–	17.7
	58.6	239.7	107.8	9.5	415.6

7 TANGIBLE ASSETS (CONTINUED)

Land and buildings comprise:

	Freehold land and buildings and long-term leasehold buildings US$ million	Short-term leasehold buildings US$ million	Total US$ million
Cost or valuation			
At 1st April 2007	14.7	28.6	43.3
Effect of changes in exchange rates	2.1	1.3	3.4
At 31st March 2008 and 1st April 2008	16.8	29.9	46.7
Additions	0.3	–	0.3
Disposals	–	(0.3)	(0.3)
Transfer from construction in progress	–	11.1	11.1
Revaluation	2.7	–	2.7
Effect of changes in exchange rates	(2.1)	0.2	(1.9)
At 31st March 2009	**17.7**	**40.9**	**58.6**
Accumulated depreciation			
At 1st April 2007	1.3	19.1	20.4
Charge for the year	0.5	0.8	1.3
Effect of changes in exchange rates	–	0.3	0.3
At 31st March 2008 and 1st April 2008	1.8	20.2	22.0
Charge for the year	0.4	2.1	2.5
Disposals	–	(0.2)	(0.2)
Revaluation	(2.1)	–	(2.1)
Effect of changes in exchange rates	(0.1)	0.1	–
At 31st March 2009	**–**	**22.2**	**22.2**
Net book value at 31st March 2009	**17.7**	**18.7**	**36.4**
Net book value at 31st March 2008	15.0	9.7	24.7
Cost or valuation of tangible assets is analysed as follows:			
At cost	–	40.9	40.9
At professional valuation – 2009 *(note (i))*	17.7	–	17.7
	17.7	**40.9**	**58.6**
Net book value of land and buildings comprises:			
Hong Kong			
Long-term leasehold buildings (not less than 50 years)	5.1	–	5.1
Overseas			
Freehold land and buildings	12.6	–	12.6
Short-term leasehold buildings	–	18.7	18.7
	12.6	18.7	31.3
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	5.3	–	5.3

Note (i): *Property revaluation – The amount included valuation of land and buildings denominated in Hong Kong dollars or Euros which were revalued by independent valuers as at 31st March 2009 on an open market value basis.*

8 LEASEHOLD LAND PAYMENTS

	Note	2009 US$ million	2008 US$ million
Net book value at 1st April		**3.8**	3.7
Amortisation	2	**(0.1)**	(0.1)
Effect of changes in exchange rates		**0.1**	0.2
Net book value at 31st March		**3.8**	3.8
Leasehold land payments in respect of:			
Owner-occupied properties		**3.8**	3.8

9 DEFERRED TAX

The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31st March 2008 and 31st March 2009 are attributable to the following items:

	1st April 2007 US$ million	Credited/ (charged) to consolidated income statement US$ million	31st March 2008 and 1st April 2008 US$ million	Credited/ (charged) to consolidated income statement US$ million	Charged to reserve US$ million	**31st March 2009 US$ million**
Deferred tax assets						
Tax losses carried forward	2.5	0.8	3.3	(0.9)	–	**2.4**
Other deductible temporary differences	3.0	0.6	3.6	(0.8)	–	**2.8**
	5.5	1.4	6.9	(1.7)	–	**5.2**
Deferred tax liabilities						
Accelerated tax depreciation	(2.0)	(0.2)	(2.2)	1.3	–	**(0.9)**
Revaluation of properties	(2.0)	–	(2.0)	–	(0.9)	**(2.9)**
Others	(0.2)	(0.1)	(0.3)	(0.2)	–	**(0.5)**
	(4.2)	(0.3)	(4.5)	1.1	(0.9)	**(4.3)**
Net deferred tax assets	1.3	1.1	2.4	(0.6)	(0.9)	**0.9**

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity. The following amounts are shown in the consolidated balance sheet:

	2009 US$ million	2008 US$ million
Deferred tax assets	**5.2**	6.9
Deferred tax liabilities	**(4.3)**	(4.5)
	0.9	2.4

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of US$22.9 million (2008: US$22.9 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$85.1 million (2008: US$85.5 million) have not been recognised as the availability of future taxable profits against which the assets can be utilised is not considered to be probable at 31st March 2009.

10 INVESTMENTS

	2009 US$ million	2008 US$ million
(i) **Associates**		
Share of net tangible assets	**0.1**	0.1
(ii) **Other investments**		
Unlisted investments, at cost	**0.1**	0.1
	0.2	0.2

11 STOCKS

	2009 US$ million	2008 US$ million
Telecommunication and electronic products		
Raw materials	**31.7**	39.8
Work in progress	**14.0**	11.0
Finished goods	**82.3**	81.6
	128.0	132.4

Stocks carried at net realisable value at 31st March 2009 amounted to US$26.4 million (2008: US$43.1 million).

12 DEBTORS AND PREPAYMENTS

	Note	**2009 US$ million**	2008 US$ million
Trade debtors (Net of provision for doubtful debts of US$7.7 million (2008: US$9.7 million))		**154.0**	182.2
Other debtors and prepayments		**33.7**	44.5
Pension assets	17	**2.5**	2.5
		190.2	229.2

Ageing Analysis

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

	2009 US$ million	2008 US$ million
0-30 days	**67.2**	88.8
31-60 days	**43.4**	48.1
61-90 days	**22.6**	30.3
>90 days	**20.8**	15.0
Total	**154.0**	182.2

The majority of the Group's sales are on letter 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.

12 DEBTORS AND PREPAYMENTS (CONTINUED)

Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Note	2009 US$ million	2008 US$ million
At 1st April		**9.7**	12.5
Impairment loss recognised/(reversed)	2	**1.7**	(2.6)
Uncollectible amounts written off		**(3.1)**	(0.4)
Effect of changes in exchange rates		**(0.6)**	0.2
At 31st March		**7.7**	9.7

Trade debtors that are not impaired

As at 31st March 2009, 94% (2008: 94%) of the Group's trade debtors were not impaired, of which 98% (2008: 100%) was either not past due or less than two months past due.

Based on past experience of the Group, it is determined that no impairment allowance is necessary in respect of these balances as these are considered to be fully recoverable. The Group does not hold any collateral over these balances.

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss represented currency-linked deposits. Their fair values are determined based on the quoted prices provided by securities brokers for equivalent instruments at the balance sheet date. The currency-linked deposits are principal protected and mature within one year from the balance sheet date.

14 DEPOSITS AND CASH

	2009 US$ million	2008 US$ million
Short term bank deposits	**192.0**	224.0
Cash at bank and in hand	**95.2**	61.4
Deposits and cash	**287.2**	285.4
Less: bank deposits with maturity greater than 3 months	**(45.0)**	–
Cash and cash equivalents in the consolidated cash flow statement	**242.2**	285.4

Deposits and cash as at 31st March 2009 include US$5.7 million equivalent (2008: US$4.8 million) placed with banks in the People's Republic of China ("PRC"), the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

15 CREDITORS AND ACCRUALS

	Note	2009 US$ million	2008 US$ million
Trade creditors		**102.4**	106.2
Other creditors and accruals		**130.2**	154.9
Derivative financial instruments held as cash flow hedging instruments	20(b) &(d)	**0.3**	1.0
		232.9	262.1

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

	2009 US$ million	2008 US$ million
0-30 days	**49.2**	53.3
31-60 days	**30.9**	27.7
61-90 days	**10.2**	17.7
>90 days	**12.1**	7.5
Total	**102.4**	106.2

16 PROVISIONS

At 31st March 2009, provisions of US$41.8 million (2008: US$46.4 million) include provisions for defective goods returns of US$37.0 million (2008: US$41.5 million).

	Defective goods returns US$ million
At 1st April 2008	**41.5**
Effect of changes in exchange rates	**(1.1)**
Additional provisions	**35.4**
Unused amounts reversed	**(0.4)**
Charged to consolidated income statement	**35.0**
Utilised during the year	**(38.4)**
At 31st March 2009	**37.0**

The Group undertakes to repair or replace items that fail to perform satisfactorily in accordance with the terms of the sales. A provision is recognised for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns.

17 PENSION SCHEMES

The Group operated a defined benefit scheme and a defined contribution scheme in Hong Kong. The defined contribution scheme operated in Hong Kong complied with the requirements under the Mandatory Provident Fund ("MPF") Ordinance. For the defined contribution schemes operated for overseas employees and Hong Kong employees under the MPF Ordinance, the retirement benefit costs expensed in the consolidated income statement amounted to US$4.4 million (2008: US$2.9 million) and US$0.5 million (2008: US$0.4 million) respectively. For the defined benefit scheme (the "Scheme") operated for Hong Kong employees, contributions made by the Group during the year were calculated based on advice from Watson Wyatt Hong Kong Limited ("Watson Wyatt"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Watson Wyatt as at 31st March 2009 using the projected unit credit method.

For the defined benefit scheme, the amounts recognised in the consolidated balance sheet are as follows:

	Note	2009 US$ million	2008 US$ million
Fair value of Scheme assets		**13.7**	18.7
Present value of funded defined benefit obligations		**(24.2)**	(21.3)
Unrecognised actuarial losses		**13.0**	5.1
Assets recognised in the consolidated balance sheet	12	**2.5**	2.5
The amounts recognised in the consolidated income statement are as follows:			
Current service cost		**1.8**	1.5
Interest cost		**0.6**	0.7
Expected return on plan assets		**(1.3)**	(1.2)
Net actuarial losses recognised in the year		**0.2**	–
Expenses recognised in the consolidated income statement	2	**1.3**	1.0
The actual return on plan assets was as follows:			
Expected return on plan assets		**1.3**	1.2
Actuarial losses on plan assets		**(6.4)**	(0.2)
Actual return on plan assets		**(5.1)**	1.0
Movement in the assets recognised in the consolidated balance sheet:			
At 1st April		**2.5**	2.1
Expenses recognised in the consolidated income statement		**(1.3)**	(1.0)
Contributions paid		**1.3**	1.4
At 31st March		**2.5**	2.5

	2009 US$ million	2008 US$ million
Movement in fair value of Scheme assets:		
At 1st April	**18.7**	17.2
Expected return on plan assets	**1.3**	1.2
Actual Group's contributions	**1.3**	1.4
Actual benefit paid	**(1.2)**	(0.9)
Actuarial losses on plan assets	**(6.4)**	(0.2)
At 31st March	**13.7**	18.7
Movement in present value of funded defined benefit obligations:		
At 1st April	**21.3**	16.3
Interest cost	**0.6**	0.7
Current service cost	**1.8**	1.5
Actual benefit paid	**(1.2)**	(0.9)
Actuarial losses on obligations	**1.7**	3.7
At 31st March	**24.2**	21.3

	2009 US$ million	2008 US$ million	2007 US$ million
Historical information			
Present value of the defined benefit obligations	**24.2**	21.3	16.3
Fair value of Scheme assets	**(13.7)**	(18.7)	(17.2)
Deficit/(surplus) in the plan	**10.5**	2.6	(0.9)
Experience gains on Scheme liabilities	**(0.6)**	(0.1)	–
Experience losses/(gains) on Scheme assets	**6.4**	0.2	(1.4)

	2009	2008
Scheme assets consist of the following:		
Equities	**65.0%**	70.0%
Bonds	**29.0%**	24.0%
Cash and others	**6.0%**	6.0%
	100.0%	100.0%
The principal actuarial assumptions used for accounting purposes were:		
Discount rate	**2.0%**	2.8%
Expected return on plan assets	**7.0%**	7.0%
Future salary increases	**5.0%**	5.0%

18 SHARE CAPITAL AND SHARE OPTIONS

(a) Share Capital

	2009 US$ million	2008 US$ million
Authorised		
Ordinary shares:		
400,000,000 (2008: 400,000,000) of US$0.05 each	**20.0**	20.0

	2009 No. of shares	**2009 US$ million**	2008 No. of shares	2008 US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
Balance as at 1st April	**242,577,133**	**12.1**	239,112,133	11.9
Issued shares upon exercise of share options	**3,275,000**	**0.2**	3,465,000	0.2
Balance as at 31st March	**245,852,133**	**12.3**	242,577,133	12.1

(b) Share Options

Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the directors are authorised, at any time during the 10 years from the date of adoption of the 2001 Scheme, to grant options to full time employees of the Company or subsidiaries of the Group, including executive directors (but excluding non-executive directors) or any other person who devotes substantially all of his time and efforts to the business, management and operation of the Company and/or any subsidiary of the Group to subscribe for shares in the Company at prices to be determined by the directors in accordance with the requirements of the Listing Rules.

Pursuant to Chapter 17 of the Listing Rules, the Company can issue options so that number of shares that may be issued upon exercise of all options to be granted under the schemes does not in aggregate exceed 10% of the relevant class of shares in issue from time to time. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular. The Company may also seek separate shareholders' approval for granting options beyond the 10% limit to eligible employees specifically identified by the Company, subject to shareholders' approval and the issue of a circular. The Company can issue options so that shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of shares in issue from time to time. Subject to the further restrictions in the Listing Rules concerning grant of options to substantial shareholders, the maximum entitlement for any one eligible employee is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12-month period up to the date of the last grant does not exceed 1% of the relevant class of shares in issue. The Company can grant further options in excess of this limit, subject to shareholders' approval (with that eligible employee and his associates abstaining from voting) and the issue of a circular. The offer of a grant of options may be accepted within 30 days from the date of offer, upon payment of a non-refundable sum of HK$1.0 by the grantee. The 2001 Scheme has a life of 10 years and will expire on 9th August 2011.

18 SHARE CAPITAL AND SHARE OPTIONS (CONTINUED)

(b) Share Options (Continued)

As at 31st March 2009, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 3,998,000, which represented approximately 1.6% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the year were as follows:

Date of grant	Exercise price	Exercisable period *(Note 1)*	Balance in issue at 1st April 2008	Number of share options granted during the year	Number of share options exercised during the year	Balance in issue at 31st March 2009
23rd March 2005	HK$11.41	23rd March 2008 to 22nd April 2010	1,355,000	–	(1,275,000) *(Note 3)*	**80,000**
12th August 2005	HK$19.3	26th August 2008 to 25th August 2010	2,000,000	–	(2,000,000) *(Note 4)*	**–**
17th April 2008	HK$41.07	23rd April 2009 to 29th April 2011	–	1,306,000 *(Note 2)*	–	**1,306,000**
17th April 2008	HK$41.07	23rd April 2010 to 29th April 2012	–	1,306,000 *(Note 2)*	–	**1,306,000**
17th April 2008	HK$41.07	23rd April 2011 to 29th April 2013	–	1,306,000 *(Note 2)*	–	**1,306,000**
			3,355,000	3,918,000	(3,275,000)	**3,998,000**

Notes:

(1) Due to the large number of employees participating in the 2001 Scheme, the relevant information can only be shown within a reasonable range in this Annual Report. The 2001 Scheme does not specify any minimum holding period before the option can be exercised but the Board has the authority to determine the minimum holding period at the time of grant of any particular option.

(2) On 17th April 2008, the Company granted 3,918,000 options to certain employees of the Company and its subsidiaries pursuant to the 2001 Scheme. The closing price per share as at the date immediately before on which options were granted was HK$39.50.

(3) An aggregate of 1,275,000 share options were exercised at the exercise price of HK$11.41 per share during the financial year. The weighted average closing prices of the shares of the Company immediately before the dates on which the options were exercised and at the dates of exercise were HK$43.82 per share and HK$43.49 per share respectively.

(4) An aggregate of 2,000,000 share options were exercised at the exercise price of HK$19.3 per share during the financial year. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$47.00 per share and HK$45.40 per share respectively.

(5) No options were lapsed or cancelled during the year.

(6) At the Company's annual general meeting held on 5th September 2008, the scheme mandate limit was refreshed to 24,584,213 shares, representing 10% of the number of shares of the Company as at the date of passing the resolution.

Share option expenses charged to the consolidated income statement are determined with the Black-Scholes option pricing model based on the following assumptions:

			Date of grant		
	23rd March 2005 *(Note 1)*	12th August 2005 *(Note 1)*	17th April 2008 *(Note 2)*	17th April 2008 *(Note 2)*	17th April 2008 *(Note 2)*
Fair value of each share option as of the date of grant	HK$3.1	HK$5.4	HK$5.18	HK$5.76	HK$5.95
Closing price at the date of grant	HK$11.4	HK$19.3	HK$40.1	HK$40.1	HK$40.1
Exercise price	HK$11.41	HK$19.3	HK$41.07	HK$41.07	HK$41.07
Expected volatility	47.5%	48.0%	43.33%	43.33%	43.33%
Annual risk-free interest rate	4.0%	3.9%	1.22%	1.56%	1.88%
Expected average life of options	3.5 years	3.5 years	1.5 years	2.5 years	3.5 years
Expected dividend yield *(Note 3)*	5.5%	5.1%	10.3%	10.3%	10.3%
Exercisable period	23rd March 2008 to 22nd April 2010	26th August 2008 to 25th August 2010	23rd April 2009 to 29th April 2011	23rd April 2010 to 29th April 2012	23rd April 2011 to 29th April 2013

Notes:

(1) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.

(2) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the two years immediately preceding the grant date.

(3) Expected dividend yield is based on historical dividends over one year prior to grant date.

(4) Changes in the subjective input assumptions could significantly affect the fair value estimate.

18 SHARE CAPITAL AND SHARE OPTIONS (CONTINUED)

(c) Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group has no bank borrowings as at 31st March 2009 (2008: $nil). Adjusted capital comprises all components of equity less unaccrued proposed dividends.

In order to monitor its capital structure, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares, return capital to shareholders or raise new debt financing.

The adjusted capital at 31st March 2009 and 2008 was as follows:

	Group		Company	
	2009	2008	**2009**	2008
	US$ million	US$ million	**US$ million**	US$ million
Total equity	**440.2**	452.3	**386.2**	246.7
Less: Proposed dividends	**(100.8)**	(124.2)	**(100.8)**	(124.2)
	339.4	328.1	**285.4**	122.5

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19 RESERVES

		Group		Company	
		2009	2008	**2009**	2008
	Note	**US$ million**	US$ million	**US$ million**	US$ million
Share premium		**106.9**	98.3	**106.9**	98.3
Properties revaluation reserve		**10.9**	6.1	**–**	–
Revenue reserve		**306.6**	318.3	**266.5**	135.7
Exchange reserve		**2.1**	16.7	**(1.2)**	(1.2)
Capital reserve		**1.7**	1.8	**1.7**	1.8
Hedging reserve		**(0.3)**	(1.0)	**–**	–
		427.9	440.2	**373.9**	234.6
An analysis of movements in reserves is set out below:					
Share premium					
At 1st April		**98.3**	90.7	**98.3**	90.7
Exercise of share options		**6.7**	5.7	**6.7**	5.7
Transfer from capital reserve		**1.9**	1.9	**1.9**	1.9
At 31st March		**106.9**	98.3	**106.9**	98.3
Properties revaluation reserve					
At 1st April		**6.1**	6.1	**–**	–
Surplus arising from revaluation, net of deferred tax		**4.8**	–	**–**	–
At 31st March		**10.9**	6.1	**–**	–
Revenue reserve					
At 1st April		**318.3**	230.5	**135.7**	164.3
Profit attributable to shareholders		**143.2**	215.7	**285.7**	99.3
Final dividend in respect of the previous year	5	**(125.4)**	(98.8)	**(125.4)**	(98.8)
Interim dividend in respect of the current year	5	**(29.5)**	(29.1)	**(29.5)**	(29.1)
At 31st March		**306.6**	318.3	**266.5**	135.7

19 RESERVES (CONTINUED)

		Group		Company	
		2009	2008	2009	2008
	Note	US$ million	US$ million	US$ million	US$ million
Exchange reserve					
At 1st April		**16.7**	1.3	**(1.2)**	(1.2)
Exchange translation differences		**(14.6)**	15.4	**–**	–
At 31st March		**2.1**	16.7	**(1.2)**	(1.2)
Capital reserve					
At 1st April		**1.8**	2.8	**1.8**	2.8
Equity-settled share-based transactions		**1.8**	0.9	**1.8**	0.9
Transfer to share premium		**(1.9)**	(1.9)	**(1.9)**	(1.9)
At 31st March		**1.7**	1.8	**1.7**	1.8
Hedging reserve					
At 1st April		**(1.0)**	–	**–**	–
Transfer to income statement	2	**(0.6)**	9.8	**–**	–
Fair value gains/(losses) on hedging during the year		**1.3**	(10.8)	**–**	–
At 31st March		**(0.3)**	(1.0)	**–**	–

The consolidated profit attributable to shareholders includes a profit of US$285.7 million (2008: US$99.3 million) which has been dealt with in the financial statements of the Company.

Reserves of the Company available for distribution to shareholders amounted to US$266.5 million (2008: US$135.7 million).

The application of share premium account is governed by the Companies Act 1981 of Bermuda. The properties revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note (H). The exchange reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations. The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the company recognised in accordance with the accounting policy adopted for share-based payments. The hedging reserve comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow.

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The Group enters into foreign exchange contracts and interest rate swaps to hedge certain exposures on fluctuations of foreign currency exchange rates and interest rates respectively. The Group does not use derivative financial instruments for speculative purposes.

(a) Credit risk

Financial assets which potentially subject the Group to credit risk consist principally of cash, short-term deposits and trade debtors. The Group's deposits and cash are placed with major financial institutions. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to trade debtors is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. In addition, credit risks are mitigated by the use of insurance plans.

The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty.

(b) Foreign exchange risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in currencies other than the functional currency of the operations to which they relate. As the Hong Kong Dollar ("HKD") is pegged to United States Dollar ("USD"), the Group does not expect any significant movements in the HKD/USD exchange rate. The currencies giving rise to foreign currency risk are primarily denominated in Canadian dollars ("CAD"), Euro ("EUR"), Pounds Sterling ("GBP"), and Japanese Yen ("JPY").

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(b) Foreign exchange risk (Continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk rising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2009				2008			
	CAD million	**EUR million**	**GBP million**	**JPY million**	CAD million	EUR million	GBP million	JPY million
Group								
Trade and other debtors	**–**	**3.4**	**–**	**–**	–	–	–	–
Cash and cash equivalents	**13.0**	**12.9**	**5.0**	**–**	6.7	25.0	4.5	–
Trade and other creditors	**–**	**(1.2)**	**–**	**(117.1)**	–	(1.0)	–	(154.7)
Notional amount of forward exchange contracts held as cash flow hedging instruments	**(6.0)**	**(5.3)**	**(3.0)**	**–**	–	(11.7)	(2.9)	–
Net exposure to currency risk	**7.0**	**9.8**	**2.0**	**(117.1)**	6.7	12.3	1.6	(154.7)

The Group enters into foreign exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on specific transactions. Foreign exchange contracts are matched with anticipated future cash flows in foreign currencies, primarily from sales.

The net fair value gains/(losses) at 31st March 2009 and 31st March 2008 on open forward foreign exchange contracts which hedge anticipated future foreign currency sales and purchases will be transferred from the hedging reserve to the consolidated income statement when the forecast sales and purchases occur, at various dates between 1 month to 6 months from the balance sheet date.

Details of the movements of fair value gains/(losses) arising from forward foreign exchange contracts entered by the Group are set out in note 19 to the financial statements.

The contracted amounts of the outstanding forward exchange contracts at 31st March 2009 were US$26.3 million (2008: US$23.0 million).

The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these financial instruments, nor does it anticipate non-performance by any of its counterparties.

(ii) Sensitivity analysis

The approximate changes in the Group's profit after tax and total equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date are as follows:

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and total equity US$ million**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and total equity US$ million
EUR	**5%**	**0.6**	5%	0.6
	(5)%	**(0.6)**	(5)%	(0.6)
CAD	**5%**	**(0.6)**	5%	(0.8)
	(5)%	**0.6**	(5)%	0.8

The impact on the Group's profit after tax and total equity is not expected to be material in response to possible changes in the foreign exchange rates of other currencies to which the Group is exposed.

The sensitivity analysis includes balances between group companies where the denomination is in a currency other than the functional currencies of the Group's entities to which they relate.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates occurred at the balance sheet date and had been applied to each of the Group's entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

It is assumed that the pegged rate between the HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Results of the analysis as presented above represent an aggregation of the effects on each of the Group entities' profit and equity measured in the respective functional currencies, translated into USD at exchange rates ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2008.

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rates changes on income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

Deposits and cash

	2009		2008	
	Effective interest rate	**Within one year US$ million**	Effective interest rate	Within one year US$ million
Floating	**0.72%**	**95.3**	2.23%	61.2
Fixed	**2.61%**	**191.9**	4.75%	224.2

20 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

(c) Interest rate risk (Continued)

Interest rate sensitivity

At the respective balance sheet dates, if interest rates had been increased/decreased by 25 basis points and all other variables were held constant, the Group's profit after tax and total equity would increase/decrease by approximately US$0.7 million and US$0.7 million for the year ended 31st March 2009 and 2008 respectively. This is mainly attributable to the Group's exposure to interest rate changes on its variable rate income-earning financial assets.

(d) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are substantially centralised at the Group level. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date of the Group can be required to pay:

		Contractual undiscounted cash flow				
	Carrying amount US$ million	**Total** US$ million	**Within 1 year or on demand** US$ million	**More than 1 year but less than 2 years** US$ million	**More than 2 years but less than 5 years** US$ million	**More than 5 years** US$ million
At 31st March 2009						
Creditors and accruals	**232.9**	**232.9**	**232.9**	**–**	**–**	**–**
Forward foreign exchange contracts – cash flow hedge (net settled)	**(0.2)**	**(0.1)**	**(0.1)**			
Derivatives settled gross: Forward foreign exchange contracts – cash flow hedge						
– outflow		**16.3**	**16.3**	**–**	**–**	**–**
– inflow		**(16.0)**	**(16.0)**	**–**	**–**	**–**
At 31st March 2008						
Creditors and accruals	262.1	262.1	262.1	–	–	–
Derivatives settled gross: Forward foreign exchange contracts – cash flow hedge						
– outflow		23.0	23.0	–	–	–
– inflow		(24.2)	(24.2)	–	–	–

Derivative financial instruments

Forward foreign exchange contracts were designated as cash flow hedges and remeasured to fair values. The negative fair value of derivative financial instruments at 31st March 2009 designated for cash flow hedges were US$0.3 million (2008 negative: US$1.0 million).

Fair values

The fair values of trade debtors, bank balances and trade creditors and accruals approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

21 COMMITMENTS

	2009 US$ million	2008 US$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	**18.0**	29.0
Contracted but not provided for	**25.9**	28.2
	43.9	57.2
(ii) Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
In one year or less	**11.1**	10.1
Between one and two years	**10.1**	9.7
Between two and five years	**12.7**	20.1
In more than five years	**1.2**	2.0
	35.1	41.9

21 COMMITMENTS (CONTINUED)

The Group has entered into agreements with an independent third party in the PRC to lease factory premises in Houjie, Dongguan comprising several factory buildings. There are a number of leases which expire in 2010, 2011, 2012, 2019 and 2022 respectively. The leases expiring in 2019 and 2022 have a non-cancellable period of five years which expires in 2012. At the end of this non-cancellable period, the lease can only be cancelled on six months' notice with a penalty equivalent to three months' rentals. The leases expiring in 2010, 2011 and 2012 are non-cancellable over the lease term. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

In January 1996, the Group entered into an agreement with an independent third party in the PRC whereby the PRC party constructed in phases and leases to the Group a production facility in Liaobu, Dongguan. Under a fifty year lease agreement, the Group rented the first and second phases of the facility for non-cancellable periods of six and eight years after completion respectively. The first phase became fully operational in April 1998 and the completed production facility of the second phase became operational in October 2001. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

Under a Brand License Agreement expiring on 31st March 2015, whereby a wholly-owned subsidiary of the Group is required to make royalty payments to AT&T Intellectual Property II, L.P., calculated as a percentage of net sales, as defined of the relevant categories of products, subject to certain minimum aggregate royalty payments. The percentage of net sales payable varies over time and between products. There is no maximum royalty payment. The annual minimum royalty payment is determined based on a percentage of the preceding year's earned royalty payment (calculated based on the preceding year's net sales payable). The Brand License Agreement may be extended for an additional term of five years. As at 31st March 2009, the Group has paid royalty prepayment of US$14.5 million to AT&T Intellectual Property II, L.P. to set off against future royalty payments.

Certain wholly-owned subsidiaries of the Group (the "licensees") entered into certain licensing agreements with various third party licensors for the granting of certain rights to use the relevant cartoon characters in the Group's electronic learning products. Under these licensing agreements, the licensees are required to make royalty payments to the licensors, calculated as a percentage of net sales of the relevant character licensed products, subject to certain minimum aggregate royalty payments. The percentage of royalty payable varies over time and between licensed characters. There is no maximum royalty payment. The aggregate minimum royalty payments as at 31st March 2009 amount to US$4.0 million (2008: US$3.8 million), of which US$3.3 million and US$0.7 million are payable in the financial years ended 31st March 2010 and 2011 respectively.

22 CONTINGENT LIABILITIES

The directors have been advised that certain accusations of infringements of patents, trademarks and tradenames have been lodged against the Company and its subsidiaries. In the opinion of the legal counsel, it is too early to evaluate the outcome of these claims and provisions have been made only to the extent that the amounts can be reliably estimated.

Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

As at 31st March 2009, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities of up to US$233.4 million (2008: US$233.4 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at the balance sheet date, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

23 BALANCE SHEET OF THE COMPANY AS AT 31ST MARCH

	Note	**2009 US$ million**	2008 US$ million
Non-current assets			
Subsidiaries		**227.5**	227.5
Current assets			
Amounts due from subsidiaries	(i)	**479.9**	330.2
Cash and cash equivalents		**0.1**	0.1
		480.0	330.3
Current liabilities			
Amounts due to subsidiaries	(i)	**(319.7)**	(309.4)
Creditors and accruals		**(1.6)**	(1.7)
		(321.3)	(311.1)
Net assets		**386.2**	246.7
Capital and reserves			
Share capital	18	**12.3**	12.1
Reserves	19	**373.9**	234.6
Shareholders' funds		**386.2**	246.7

(i) The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

24 PRINCIPAL SUBSIDIARIES

Details of the Company's interest in those subsidiaries which materially affect the results or assets of the Group as at 31st March 2009 are set out below:

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
Incorporated and operating in Hong Kong:			
VTech Communications Limited	Ordinary HK$1,000 Deferred HK$5,000,000	*100	Design, manufacture and sale of electronic equipment
VTech Electronics Limited	Ordinary HK$5,000,000	*100	Design, manufacture and distribution of electronic products
VTech Telecommunications Limited	Ordinary HK$1,000 Deferred HK$5,000,000	*100	Design, manufacture and distribution of telecommunication products
Perseus Investments Limited	Ordinary HK$1,000 Deferred HK$1,000	100	Property holding
Valentia Investment Limited	Ordinary HK$1,000 Deferred HK$1,000	100	Property holding
Incorporated and operating in Canada:			
VTech Technologies Canada Limited	Class A CAD5,000 Class B CAD195,000	*100 *100	Sale of telecommunication and electronic products
Incorporated and operating in France:			
VTech Electronics Europe S.A.S.	EUR450,000	*100	Sale of electronic products
Incorporated and operating in Germany:			
VTech Electronics Europe GmbH	EUR500,000	*100	Sale of electronic products
Incorporated and operating in the Netherlands:			
VTech Electronics Europe B.V.	EUR18,100	*100	Sale of electronic products
Established and operating in the People's Republic of China:			
VTech (Qingyuan) Plastics & Electronics Limited**	HK$263,000,000	*100	Manufacturing of plastics products
Incorporated and operating in Spain:			
VTech Electronics Europe, S.L.	EUR500,000	*100	Sale of electronic products
Incorporated and operating in the United Kingdom:			
VTech Electronics Europe Plc	GBP500,000	*100	Sale of electronic products
Incorporated and operating in the United States:			
VTech Electronics North America, L.L.C.	US$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US$300,000	*100	Sale of telecommunication products

* *Indirectly held by subsidiary companies*

** *Wholly-owned foreign enterprise*

25 MATERIAL RELATED PARTY TRANSACTIONS

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and the five highest paid individuals is disclosed in note 3 to the financial statements.

Pursuant to a lease entered into by the Company with Aldenham Company Limited ("Aldenham"), the Company paid rental of HK$3,000,000 for the year to provide housing for a director in accordance with the terms of his service contract for a term of 2 years expired on 31st March 2009. Aldenham is an indirect wholly owned subsidiary of a trust in which the family members of the director are beneficiaries and therefore Aldenham is a connected person of the Company.

VTech Communications Limited, an indirect wholly owned subsidiary of the Company and Ality Limited ("Ality") entered into a Manufacturing Agreement for an initial term of 24 months commencing on 10th August 2007 with an annual cap of HK$51.25 million for the year. Ality is a company which is wholly owned by Mr. William WONG Yee Lai, the son of Dr. Allan WONG Chi Yun. Dr. WONG is a director, chief executive and a substantial shareholder of the Company, Ality is therefore a connected person of the Company.

In the normal course of business and on normal commercial terms, the Group undertakes certain transactions with its associates. None of these transactions were material to the Group's results.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31ST MARCH 2009

Up to the date of issue of these financial statements, the International Accounting Standard Board has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31st March 2009 and which have not been adopted in these financial statements.

IFRSs (Amendments) (1)	Improvements to IFRSs 2008
IFRSs (Amendments) (2)	Improvements to IFRSs 2009
IAS 1 (Revised) (3)	Presentation of Financial Statements
IAS 27 (Revised) (4)	Consolidated and Separate Financial Statements
IAS 39 (Amendments) (4)	Eligible Hedged Items
IFRS 2 (Amendment) (3)	Vesting Conditions and Cancellations
IFRS 8 (3)	Operating Segments
IFRIC 13 (5)	Customer Loyalty Programmes

Notes:

(1) Effective for annual periods beginning on or after 1st January 2009 except the amendments to IFRS5, "Non-current Assets Held for Sale and Discounted Operations" which is effective for annual periods beginning 1st July 2009.

(2) Effective for annual periods beginning on or after 1st January 2010 except the amendments to IFRS2, "Share-based Payment", IAS 38, "Intangible Assets", IFRIC 9 "Reassessment of Embedded Derivatives" and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", which are effective for annual period beginning 1st July 2009.

(3) Effective for annual periods beginning on or after 1st January 2009.

(4) Effective for annual periods beginning on or after 1st July 2009.

(5) Effective for annual periods beginning on or after 1st July 2008.

The Group is in the process of making an assessment of the expected impact of these amendments, new standards and new interpretations in the period of initial application. So far it has concluded that while the adoption of the Revised IAS 1 and IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

27 ACCOUNTING ESTIMATES AND JUDGEMENTS

The presentation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

Notes 17, 18 and 20 contain information about the assumptions and their risk factors relating to pension scheme obligations, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

The Group recognises provision for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns. The Group uses all available information in determining an amount that is a reasonable approximation of the costs including estimates based on reasonable historical information and supportable assumptions. Changes in these estimates could have a significant impact on the provision and could result in additional charges or reversal of provision in future years.

VTECH IN THE LAST FIVE YEARS

	Consolidated balance sheet as at 31st March				
	2005 US$ million	2006 US$ million	2007 US$ million	2008 US$ million	**2009 US$ million**
Non-current assets					
Tangible assets	52.6	64.6	78.4	101.3	**99.9**
Leasehold land payments	1.8	3.7	3.7	3.8	**3.8**
Other non-current assets	2.8	5.3	5.7	7.1	**5.4**
	57.2	73.6	87.8	112.2	**109.1**
Current assets					
Stocks	124.2	133.8	124.1	132.4	**128.0**
Debtors and prepayments	175.7	183.6	203.4	229.2	**190.2**
Financial assets at fair value through profit or loss	–	–	–	14.7	**4.9**
Deposits and cash	123.9	242.4	246.5	285.4	**287.2**
Other current assets	2.4	1.8	1.6	0.7	**3.1**
	426.2	561.6	575.6	662.4	**613.4**
Current liabilities	(279.3)	(324.9)	(315.9)	(317.8)	**(278.0)**
Net current assets	146.9	236.7	259.7	344.6	**335.4**
Total assets less current liabilities	204.1	310.3	347.5	456.8	**444.5**
Non-current liabilities					
Borrowings	(0.1)	–	–	–	**–**
Deferred tax liabilities	(0.7)	(4.1)	(4.2)	(4.5)	**(4.3)**
	(0.8)	(4.1)	(4.2)	(4.5)	**(4.3)**
Net assets/shareholders' funds	203.3	306.2	343.3	452.3	**440.2**

	Consolidated income statement for the year ended 31st March				
	2005 US$ million	2006 US$ million	2007 US$ million	2008 US$ million	**2009 US$ million**
Revenue	1,022.0	1,204.6	1,463.8	1,552.0	**1,448.2**
Profit before taxation	63.7	140.1	201.5	237.6	**159.0**
Taxation	(6.8)	(11.3)	(18.6)	(21.9)	**(15.8)**
Profit attributable to shareholders	56.9	128.8	182.9	215.7	**143.2**
Earnings per share (US cents)	25.2	54.9	76.6	89.4	**58.5**

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Allan WONG Chi Yun
(Chairman and Group Chief Executive Officer)
PANG King Fai
Andy LEUNG Hon Kwong

Independent Non-Executive Directors

William FUNG Kwok Lun
Denis Morgie HO Pak Cho
Michael TIEN Puk Sun
Patrick WANG Shui Chung

AUDIT COMMITTEE

Denis Morgie HO Pak Cho *(Chairman)*
William FUNG Kwok Lun
Michael TIEN Puk Sun

NOMINATION COMMITTEE

William FUNG Kwok Lun *(Chairman)*
Denis Morgie HO Pak Cho
Michael TIEN Puk Sun
Patrick WANG Shui Chung
Allan WONG Chi Yun

REMUNERATION COMMITTEE

Michael TIEN Puk Sun *(Chairman)*
William FUNG Kwok Lun
Denis Morgie HO Pak Cho

RISK MANAGEMENT COMMITTEE

Allan WONG Chi Yun
PANG King Fai
Andy LEUNG Hon Kwong

COMPANY SECRETARY

CHANG Yu Wai

QUALIFIED ACCOUNTANT

Shereen TONG Ka Hung

REGISTERED OFFICE

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Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank

AUDITORS

KPMG
Certified Public Accountants
Hong Kong

INFORMATION FOR SHAREHOLDERS

LISTING

Shares of VTech Holdings Limited are listed on the Stock Exchange of Hong Kong Limited. Ordinary shares are also available in the form of American Depositary Receipts through the Bank of New York Mellon.

STOCK CODE

The Stock Exchange of Hong Kong Limited	303
American Depositary Receipts	VTKHY

FINANCIAL CALENDAR

Closure of Register of Members
31st July 2009 – 7th August 2009 (both dates inclusive)

2009 Annual General Meeting
7th August 2009

Payment of Final Dividend
10th August 2009

2009/2010 Interim Results Announcement
November 2009

SHARE INFORMATION

Board Lot	1,000 shares
Issued Shares as at 31st March 2009	245,852,133 shares

DIVIDEND

Dividend per ordinary share for the financial year ended 31st March 2009

– Interim dividend	US12.0 cents per share
– Final dividend	US41.0 cents per share

SHARE REGISTRARS

Principal
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A Chinese translation of the annual report may be obtained on request from Computershare Hong Kong Investor Services Limited, Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. If there is any discrepancies between the Chinese translation and the English version of this report and accounts, the English version shall prevail.

本年報備有中文譯本，請向位於香港皇后大道東183號合和中心17樓1712-16室香港中央證券登記有限公司索取。本報告書及賬目之中文譯本與英文本如有任何歧義，概以英文本為準。

TdA - concept, design and production tda.com.hk

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