

VTech Holdings Ltd

HKSE : 303

vtech

Annual Report 2011



Corporate Profile

VTech is the world's largest manufacturer of cordless telephones and a leading supplier of electronic learning products. It also provides highly sought-after contract manufacturing services. Founded in 1976, VTech's mission is to be the most cost effective designer and manufacturer of innovative, high quality consumer electronics 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 operations in 11 countries and regions and approximately 34,000 employees, including around 1,500 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 is licensed to design, manufacture and distribute AT&T branded wireline telephones and accessories, as well as Telstra branded fixed line telephones in Australia. Shares of VTech Holdings Limited are listed on The Stock Exchange of Hong Kong Limited (HKSE: 303).

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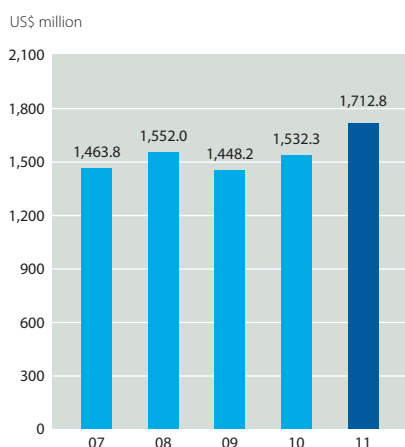
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Financial Highlights

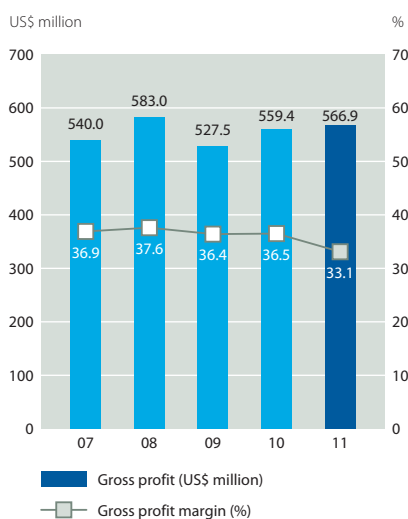
| For the year ended 31 March | 2011 | 2010 | Change |
|--|----------------|---------|----------|
| Operating results (US\$ million) | | | |
| Revenue | 1,712.8 | 1,532.3 | 11.8% |
| Gross profit | 566.9 | 559.4 | 1.3% |
| Operating profit | 218.7 | 224.1 | -2.4% |
| Profit before taxation | 220.3 | 225.5 | -2.3% |
| Profit attributable to shareholders of the Company | 202.0 | 206.5 | -2.2% |
| Financial position (US\$ million) | | | |
| Cash generated from operations | 176.8 | 255.8 | -30.9% |
| Deposits and cash | 333.1 | 382.6 | -12.9% |
| Shareholders' funds | 543.9 | 515.7 | 5.5% |
| Per share data (US cents) | | | |
| Earnings per share – basic | 81.5 | 83.7 | -2.6% |
| Earnings per share – diluted | 81.2 | 83.4 | -2.6% |
| Dividend per share – Interim and Final | 78.0 | 78.0 | – |
| Other data (US\$ million) | | | |
| Capital expenditure | 25.9 | 26.3 | -1.5% |
| R&D expenditure | 56.8 | 56.8 | – |
| Key ratios (%) | | | |
| Gross profit margin | 33.1 | 36.5 | -3.4 pts |
| Operating profit margin | 12.8 | 14.6 | -1.8 pts |
| Net profit margin* | 11.8 | 13.5 | -1.7 pts |
| EBITDA/Revenue | 14.7 | 17.0 | -2.3 pts |
| Return on shareholders' funds | 37.1 | 40.0 | -2.9 pts |

* Net profit margin is calculated by profit attributable to shareholders of the Company to revenue

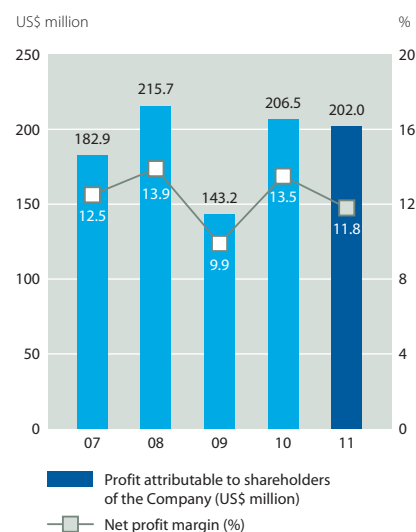
Group Revenue in Last 5 Years



Gross Profit and Gross Profit Margin in Last 5 Years



Profit Attributable to Shareholders of the Company and Net Profit Margin in Last 5 Years



“I am pleased to report that VTech continued to implement its growth strategy in the financial year 2011, which enabled us to achieve record revenue.”



Dear Shareholders,

I am pleased to report that VTech continued to implement its growth strategy in the financial year 2011, which enabled us to achieve record revenue.

In telecommunication (TEL) products, we maintained our leadership position in the US and expanded our presence in the rest of the world. In electronic learning products (ELPs), we successfully launched two new platform products in North America and parts of Europe, which has laid an important foundation for future growth. Contract manufacturing services (CMS) again outperformed the global electronic manufacturing services (EMS) market and delivered record revenue, as we benefited from the recovery in the global economy. Our superior performance as a supplier also allowed us to gain new customers and additional business from existing customers in all regions.

Despite the solid growth in revenue, the profitability of the Group was affected by a significant increase in the cost of materials and labour. This was compounded with the appreciation of the Renminbi, higher promotional costs for new ELP launches and a change in product mix. These challenges notwithstanding, their impacts have been alleviated through operational efficiency gains, product design optimisation and other cost control measures.

Results and Dividend

Group revenue for the year ended 31 March 2011 rose by 11.8% over the previous financial year to US\$1,712.8 million. Profit attributable to shareholders of the Company declined by 2.2% to US\$202.0 million. The decline in profit was mainly attributable to the decrease in gross margin, as we faced higher costs of materials, rising labour costs, Renminbi appreciation, increased promotional expenses and a change in product mix during the financial year.

Basic earnings per share consequently decreased by 2.6% to US81.5 cents, compared to US83.7 cents in the financial year 2010. The Board of Directors (the Board) has proposed a final dividend of US62.0 cents per ordinary share. Together with the interim dividend of US16.0 cents per ordinary share, this gives a total dividend for the year of US78.0 cents per ordinary share, the same as the previous financial year.

Segment Results

In North America, which remains our largest market, higher sales of ELPs and CMS offset lower revenue from TEL products. For ELPs, sales of our platform products recorded strong growth during the financial year, driven by the successful launch of MobiGo® and V.Reader®. Standalone products also delivered good sales increases, as our infant and pre-school products sold well. CMS posted the strongest growth in North America, as the economy recovered and we gained additional business from existing customers due to our customer focused approach.

All three product lines recorded revenue growth in Europe, despite the economic uncertainties in some countries. Sales of TEL products were boosted by increasing sales to existing customers. Standalone products, particularly the infant category and the Kidi line, led the growth in ELPs. CMS grew across all key product categories, as we secured more business from existing customers.

The Group continued to expand in Asia Pacific and other regions, mainly through increasing sales in Australia, Japan, Latin America and the Middle East. Our TEL products have made good inroads into the Asia Pacific market, where we increased our market share in Australia and ramped up orders for a Japanese customer. ELP sales grew modestly in this region during the financial year, led by Latin America and the Middle East. Our CMS sales also rose in Asia Pacific, driven by an increase in sales of medical equipment.

Outlook

The global economy is continuing its recovery, but the situation is fragile. Unemployment is high in most developed countries and the oil price remains elevated, which threatens to undermine consumer sentiment.

We are nonetheless planning for top line growth in the financial year 2012. Our product innovations,

market leadership and growing reputation in the EMS industry position us well to achieve sales growth across our markets.

Profitability, however, is difficult to gauge as we expect to face stronger headwind from rising costs. Cost of materials may rise further as commodity prices remain high and volatile. The disruption of the Japanese supply chain may also lead to a tightening of the supply of certain components, which may result in price escalation. Wages in China are forecast to rise further, while the appreciation of the Renminbi is likely to continue.

We will continue to exercise tight cost control and improve our productivity, striving to minimise margin impacts. Programmes are in place to speed up the automation of our processes and re-engineer our products for lower cost. In addition, we have taken appropriate actions to pass on certain cost increases to our customers. With our product innovations, efficient operations and economies of scale, we will remain competitive in our markets.

North America

Even though the US cordless phone market is maturing, our goal is to deliver overall growth for TEL products in North America in the financial year 2012.

To achieve this, we will introduce feature-rich products at competitive prices to maintain our market lead in the US corded and cordless consumer phone market. Our new products include enhanced features, such as push-to-talk "walkie-talkie" capability for immediate communication throughout the house and HD audio for the clearest call experience. We have also revamped our successful Bluetooth® line of products that allow consumers to connect their cellular phones to our cordless phones.

Tech's Hot Growth Companies 2010

VTech was ranked 8th on *Bloomberg Businessweek's* 2010 list of "Tech's Hot Growth Companies". Most importantly, the Group is the only Hong Kong company to make the list.

No. 1 Global Manufacturer of Cordless Phones

MZA Ltd, a UK based telecommunications and IT analyst firm, confirmed that VTech was the number one player in the global consumer cordless telephony market in the calendar year 2009, with 27% of market share*.

* The Global Telecommunications Market Report 2010 Edition published by MZA Ltd

The small to medium sized business (SMB) phones offer the Group tremendous opportunity for growth. We have restructured our sales team to better align ourselves with distributors and value added resellers. At the same time, we will continue to launch new SMB products into the market. In the hospitality area, we have signed agreements with a number of leading hotel chains to supply corded and cordless phone systems for use in their hotels.

The outlook for our ELPs in North America continues to be positive. Our two new platform products, MobiGo and V.Reader, are selling well and we expect good contribution from both hardware and software sales. They will be joined by InnoTab™, which will hit the shelves in Autumn. InnoTab is a multi-function educational tablet for children aged between four and nine years old. It combines interactive and animated reading, learning games, creative activities and a rich collection of internet downloadable applications.

Growth momentum for standalone products is expected to continue. In addition to new products to the existing infant and pre-school lines, a new line of interactive vehicles will be introduced to the infant range. Our grade school line of electronic learning aids will also be revamped with two new laptops, both with colour displays.

The global EMS market is forecast to register growth in the calendar year 2011 and we are confident that our CMS will again outperform the market. We foresee solid demand from all key product categories in North America, including professional audio equipment, commercial solid-state lighting, communications and industrial products. Over the years we have built a solid base of top tier customers in their industries. As their markets continue to expand, sustainable growth is expected for CMS. In addition, our customer focused approach, which ensures flexible and high quality service, has raised our profile. This has allowed us to sign up new accounts on a regular basis, adding to growth.

Since the beginning of the financial year 2012, CMS has started manufacturing FDA (Food and Drug Administration) approved products for customers in the US. This underscores our ability in producing sophisticated products in the medical equipment area.

Europe

The strong momentum behind our TEL products in Europe will continue in the financial year 2012, as we expect to gain more orders from existing customers while acquiring new ones.

Again, our R&D capability will give us an edge in both our existing and new product lines. We have developed proprietary technologies that allow digital video transmission up to nine frames per second over the Digital Enhanced Cordless Telecommunications (DECT) platform. This will be initially applied to our baby monitors, offering compelling performance at a breakthrough price. The products will be shipped to our customers this Summer. We are also developing a full range of VoIP corded and cordless phones to address the market for terminals connected to PABX (public access branch exchange) systems. In addition, sales of integrated access devices (IADs) will increase as we continue to expand our customer base.

With the full launch of MobiGo and Storio™ (the product name for V.Reader in Europe) in all of our key European markets, platform products will make a higher contribution to our ELP revenue in Europe in the financial year 2012. The strong momentum behind standalone products will continue, as we launch a new generation of Kidizoom® Cameras, a product line that has sold very well in Europe. Our Kidi line of products will be augmented by the introduction of the KidiMiniz series and other new items. Furthermore, Eastern Europe has been a strong contributor to growth, and the trend is expected to continue.

The prospects for our CMS in Europe look promising. We will continue to see sales increases across the board. Solar power inverters, a category we entered last year, are expected to see rapid growth in the financial year 2012. The revenue contribution from home appliances will also be significant. With the proliferation of Unified Communications, we expect further growth from wireless headsets.

Asia Pacific and Other Regions

In Asia Pacific and Other Regions, our TEL products are expected to build on the strong performance in Australia and Japan. We are also expanding into other Asian countries such as Korea, to which products will be shipped in the middle of this calendar year. The strong momentum in other regions is expected to continue, as the businesses in the Latin America and the Middle East is growing.

In ELPs, our main focus of attention will be China. Development of new electronic learning and infant care channels, together with the re-structuring of our traditional toy channel, should increase our business in this market. A stream of new standalone products and a new generation of ELPs tailored for the China market will be launched during the financial year 2012. Elsewhere, we are planning for a good year-on-year growth for English language products shipped into Asia Pacific, led by Australia, as well as the Middle East.

For CMS, growth in these regions will be mainly generated from Japan. We will see sales increase for medical equipment, as our customer has started to gain market share following a new product launch. Since the beginning of the financial year 2012, the demand for handheld radiation detectors has risen sharply. This is a new product series being designed and produced by CMS for a Japanese customer. The volume of LED light bulbs will continue to increase, but price erosion will limit growth.

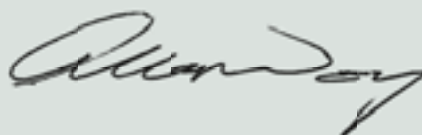
Looking further ahead, the development of the Chinese economy will create new growth opportunities for CMS. Firstly, we have received increasing requests from customers for direct delivery of products from our factory in China, to meet their rising domestic sales. We are now planning to set up a dedicated operation to cater for this additional business. Secondly, many domestic Chinese companies have already reached the size and sophistication to outsource, giving rise to new business opportunities.

To cater for business growth, CMS has added a new factory building to its Liaobu facilities in Dongguan. It will start operations in the third quarter of the financial year 2012 and will increase our manufacturing capacity by more than 40%.

Conclusion

I would like to express my thanks to our customers, suppliers, investors and business partners for their continued support. My gratitude also goes to our employees and my fellow directors for their hard work and dedication, which are the bedrock of VTech's success.

VTech is benefitting from its position as a leader in TEL products and ELPs, and its increasing presence in the EMS market. Our strategy of continuous innovation in product design, increasing market share, expanding geographically and maintaining excellence in operations is achieving results. We will seize every opportunity to grow our revenue in the current financial year while stepping up our effort to manage costs, thereby enhancing return to our shareholders.



Allan WONG Chi Yun
Chairman

Hong Kong, 31 May 2011

Fast Facts

VTech started bringing innovative, high quality consumer electronics products to people in 1976. We have kept on building our brand, growing our global presence and strengthening our market leadership over the decades.

1,712.8

MILLION US DOLLARS OF GROUP SALES IN FY2011

No. 1

CORDLESS PHONE AND ELP MANUFACTURER WORLDWIDE

2

VTECH PRODUCTS SOLD EVERY SECOND

75

COUNTRIES AND REGIONS SELLING VTECH PRODUCTS

34,000

EMPLOYEES GLOBALLY

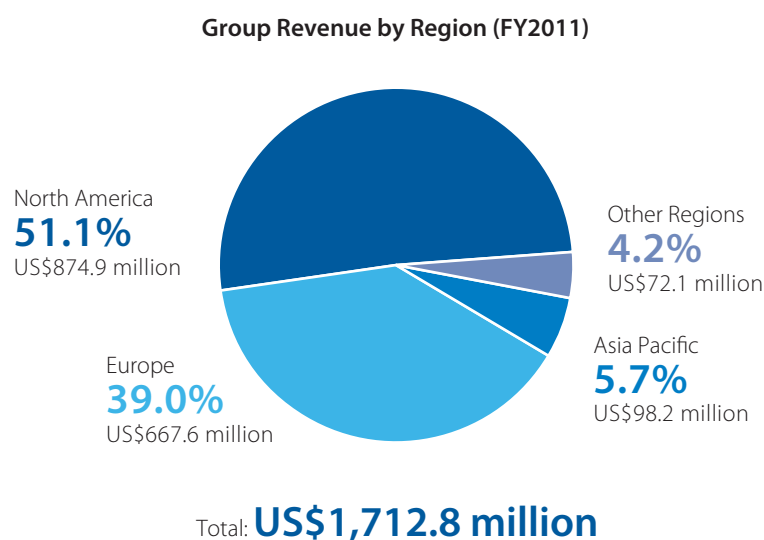
Management Discussion and Analysis

Revenue

Group revenue for the year ended 31 March 2011 rose by 11.8% over the previous financial year to US\$1,712.8 million, achieving sales growth in all regions. Sales to North America increased slightly by 0.3% over the previous financial year to US\$874.9 million, representing 51.1% of Group revenue. In Europe, revenue rose by 26.2% to US\$667.6 million, accounting for 39.0% of Group revenue. Revenue from the Asia Pacific market increased by 20.5% to US\$98.2 million, representing 5.7% of Group revenue. Sales to other regions grew by 46.2% to US\$72.1 million, accounting for 4.2% of Group revenue.

The increase in revenue in North America was mainly due to higher sales of ELPs and CMS, which offset a decrease in the revenue of TEL products. Revenue from TEL products in North America was US\$421.1 million, a decrease of 18.3% over the previous financial year. This partly reflects comparison with a very strong performance in the previous financial year, when one of our major competitors exited the market and another suffered a delivery problem. The natural decline in the US cordless phone market also contributed to the decrease in sales. For ELPs, revenue grew by 22.2% to US\$287.1 million, mainly coming from the two new platform products, MobiGo and V.Reader, which hit the shelves in June 2010. The increased sales of standalone products during the financial year was also driving the growth. Revenue from CMS rose by 36.2% to US\$166.7 million. The increase resulted mainly from the higher sales in the area of professional audio equipment, wireless products and commercial solid state lighting.

The European market achieved sales growth in all three product lines. For TEL products, which we sell in Europe largely on an original design



manufacturing (ODM) basis, revenue grew by 26.9% to US\$217.5 million over the previous financial year. The increase primarily resulted from the increasing sales to existing customers. Revenue from ELPs rose by 13.4% to US\$274.0 million. Growth was driven by the increased sales of standalone products especially the infant products and the Kidi line of products. Sales of CMS products to Europe also achieved significant growth, with revenue reaching US\$176.1 million, an increase of 52.1% from US\$115.8 million. We benefited from the rising demands from the existing customers for our key product categories particularly switching mode power supplies, professional audio equipment and wireless products.

For the Asia Pacific market, the increase in revenue mainly came from the higher sales of TEL and CMS products. Revenue from TEL products rose by 54.6% to US\$35.4 million. Sales growth was robust in Japan as a result of the ramp up in demand from our first customer. The good sales performance in Australia, where we are the direct supplier of Telstra-branded fixed line telephones, also contributed to the growth in this region. Sales of ELPs to Asia Pacific increased by 0.6% to US\$15.9 million during the financial year mainly due

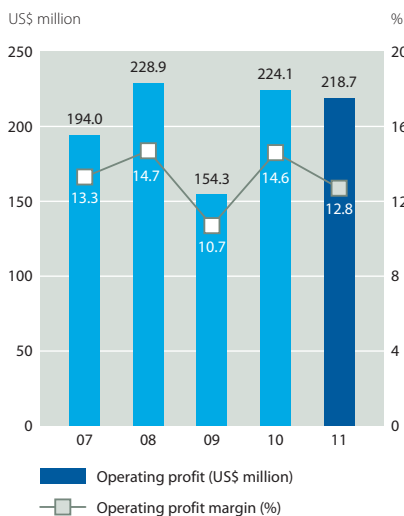
to an increase in sales of standalone products. For CMS products, revenue from Asia Pacific increased by 9.6% to US\$46.9 million over the previous financial year, as a result of growth in sales of medical equipment.

Revenue growth in other regions was primarily driven by the significant growth in sales of TEL products especially in Latin America, Middle East and Africa. Sales of TEL products to other regions were US\$53.5 million, an increase of 63.1% over the previous financial year. Revenue of ELPs from other regions increased by 10.5% to US\$17.9 million in the financial year 2011, as a result of an increase in sales of standalone products. Revenue from CMS was US\$0.7 million as compared to US\$0.3 million recorded in the previous financial year.

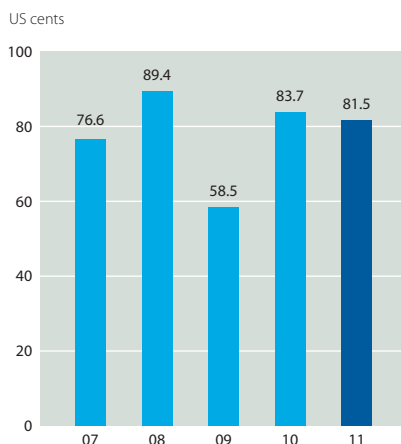
Gross Profit/Margin

The gross profit for the financial year 2011 was US\$566.9 million, an increase of US\$7.5 million or 1.3% compared to the US\$559.4 million recorded in the previous financial year. However, gross profit margin for the year fell from 36.5% to 33.1%. This was mainly attributable to higher cost of materials, rising labour costs, Renminbi appreciation and a change in product mix.

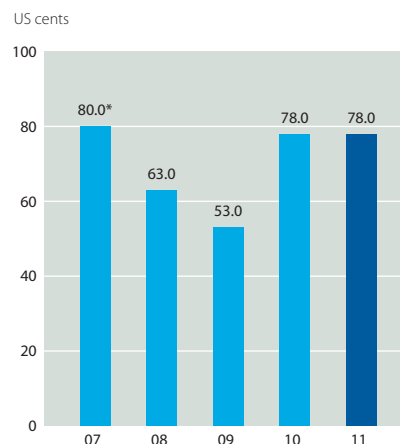
Operating Profit and Operating Profit Margin in Last 5 Years



Earnings per Share in Last 5 Years



Dividend per Share in Last 5 Years



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

Operating Profit/Margin

The operating profit for the year ended 31 March 2011 was US\$218.7 million, a decrease of US\$5.4 million or 2.4% over the previous financial year. The operating profit margin also dropped from 14.6% in the previous financial year to 12.8% during the financial year. The ratio of EBITDA to revenue in the financial year 2011 was 14.7% against 17.0% recorded in the previous financial year. The decrease partly reflected the decrease in gross profit margin and higher selling and distribution costs.

Selling and distribution costs rose by 16.5% from US\$207.3 million in the previous financial year to US\$241.6 million in the financial year 2011. The increase was mainly attributable to increased spending on advertising and promotional activities by the Group and higher royalty payments to licensors for the use of popular cartoon characters for certain ELPs during the financial year. As a percentage of Group revenue, selling and distribution costs increased from 13.5% in the previous financial year to 14.1% in the financial year 2011.

Administrative and other operating expenses fell from US\$71.2 million

in the previous financial year to US\$49.8 million in the financial year 2011. This was mainly attributable to lower legal and professional costs during the financial year. With better foreign exchange risk management, the net exchange gain arising from the Group's global operations in the ordinary course of business was US\$1.8 million in the financial year 2011. This contrasted with the minimal exchange loss recorded in previous financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 4.6% in the previous financial year to 2.9% during the financial year.

During the financial year 2011, the research and development expense was US\$56.8 million, the same as the previous financial year. Research and development expense as a percentage of Group revenue decreased from 3.7% in the previous financial year to 3.3% in the financial year 2011.

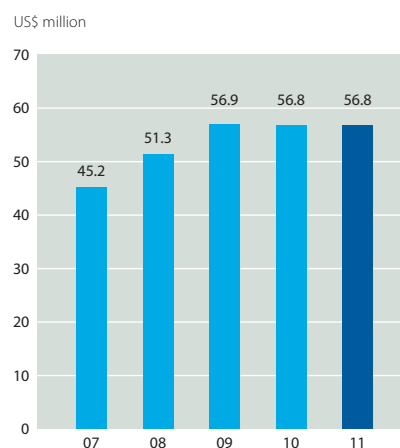
Profit attributable to shareholders and Dividends

The profit attributable to shareholders of the Company for the year ended 31 March 2011 was

US\$202.0 million, a decrease of US\$4.5 million as compared to the previous financial year.

Basic earnings per share for the year ended 31 March 2011 were US81.5 cents as compared to US83.7 cents in the previous financial year. During the financial year, the Group declared and paid an interim dividend of US16.0 cents per share, which aggregated to US\$39.7 million. The Directors have proposed a final dividend of US62.0 cents per share, which will aggregate to US\$153.9 million.

Group R&D Expenditure in Last 5 Years



Liquidity and Financial Resources

Shareholders' funds as at 31 March 2011 were US\$543.9 million, a 5.5% increase from US\$515.7 million reported for the financial year 2010. Shareholders' funds per share increased by 4.8% from US\$2.09 to US\$2.19.

The Group had no borrowings as at 31 March 2010 and 31 March 2011.

| As at 31 March 2011 and 2010 | 2011 US\$ million | 2010 US\$ million |
|------------------------------|----------------------|----------------------|
| Deposits and cash | 333.1 | 382.6 |

As at 31 March 2011, deposits and cash had decreased to US\$333.1 million, falling by 12.9% from US\$382.6 million at the previous year-end. The decrease was mainly attributable to the increase in working capital and higher amount of dividend payments paid out during the financial year.

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 foreign exchange 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 31 March 2011 and 2010

All figures are in US\$ million unless stated otherwise

| | 2011 | 2010 |
|--|----------------|---------|
| Stocks | 229.8 | 159.3 |
| Average stocks as a percentage of Group revenue | 11.4% | 9.4% |
| Turnover days | 85 days | 75 days |
| Trade debtors | 198.8 | 185.7 |
| Average trade debtors as a percentage of Group revenue | 11.2% | 11.1% |
| Turnover days | 63 days | 61 days |

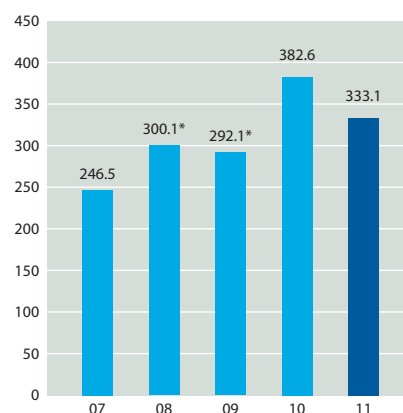
Stocks as at 31 March 2011 increased by 44.3% over the balance at 31 March 2010 to US\$229.8 million. The turnover days increased from 75 days to 85 days. The increase in stock level was primarily to cater for increased demand for the Group's products in the first quarter of the financial year 2012. Furthermore, we had arranged advance purchase of materials to mitigate the risks of materials shortages and rising costs, as well as early production of the Group's products in order to better utilise the Group's production capacities.

Trade debtors as at 31 March 2011 were US\$198.8 million as compared to US\$185.7 million in the previous financial year. The turnover days increased from 61 days to 63 days. The increase in the trade debtor balance as at 31 March 2011 was mainly due to an increase in revenue in the fourth quarter of the financial year 2011 when compared with the corresponding period of the previous financial year.

Deposits and Cash in Last 5 Years

(As at 31 March)

US\$ million



* Include currency-linked deposits

Capital Expenditure

For the year ended 31 March 2011, the Group invested US\$25.9 million in the 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 2012, the Group will incur capital expenditure of US\$44.7 million for ongoing business operations. In addition, we are planning to invest US\$17.7 million to build the manufacturing facilities in Qingyuan, northern Guangdong province in the financial year 2012.

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

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

Products and Services Overview

Telecommunication (TEL) Products

VTech is the world's largest manufacturer of cordless telephones.

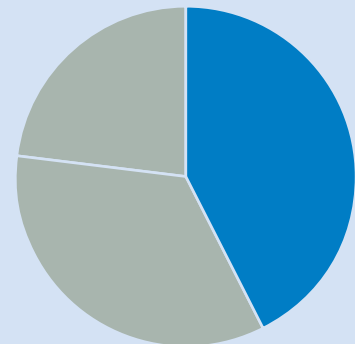
In North America, we are the largest player in the market, selling both AT&T and VTech branded products in major retail stores.

Outside North America, we mainly supply products to major fixed line telephone operators, well-known brand names and distributors on an ODM basis.

We are currently the exclusive supplier to Deutsche Telekom for all its corded and cordless telephones in Germany.

In Australia, we are also the direct supplier to Telstra for all its fixed line telephones.

% of Group Revenue (FY2011)



42.5%

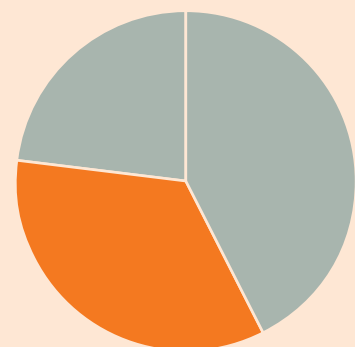
Electronic Learning Products (ELPs)

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 to platform products:

- Standalone products
 - Infant toys
 - Pre-school toys
 - Electronic learning aids
 - Bath toys
 - Smart vehicles
- Platform products
 - InnoTab
 - V.Reader (Storio in Europe) Interactive e-Reading System
 - MobiGo Touch Learning System

% of Group Revenue (FY2011)



34.7%

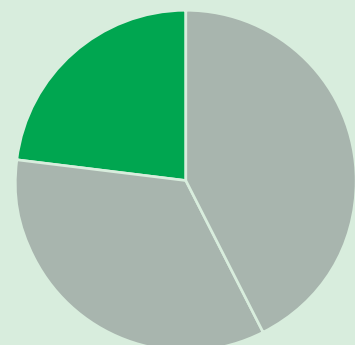
Contract Manufacturing Services (CMS)

VTech provides one-stop shop electronic manufacturing services to medium sized companies who are leaders in:

- Professional audio equipment
- Switching mode power supplies
- Solid-state lighting
- Communications and industrial products

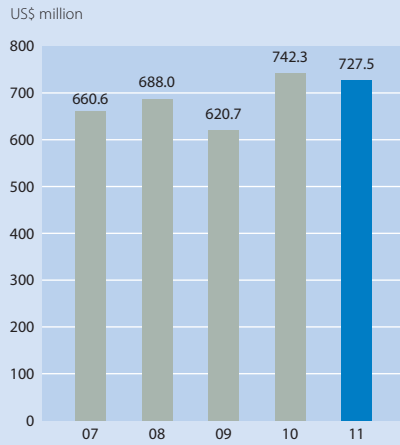
For more than two decades, we have grown with our customers and built long-term partnerships with them. Our superior performance as a supplier has earned us industry and supplier awards year after year, and – the greatest testament of all – we continue to gain new customers through word of mouth recommendation, and win additional business from existing customers.

% of Group Revenue (FY2011)

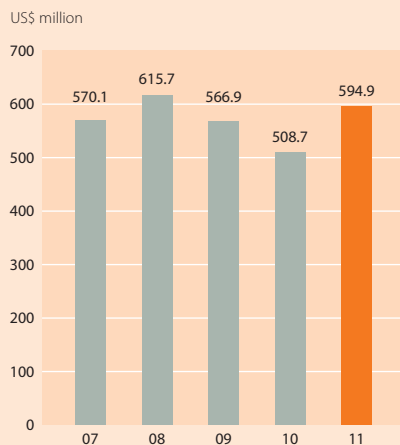


22.8%

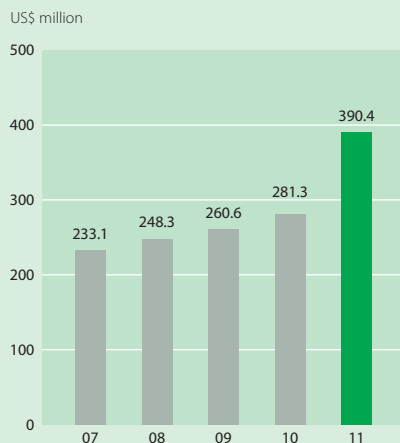
Revenue in Last 5 Years



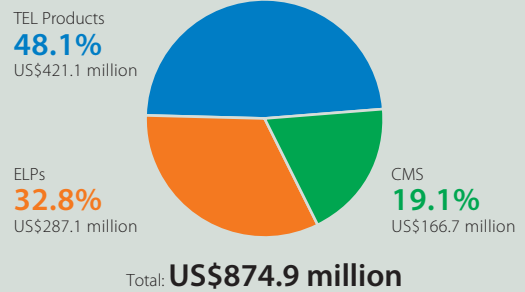
Revenue in Last 5 Years



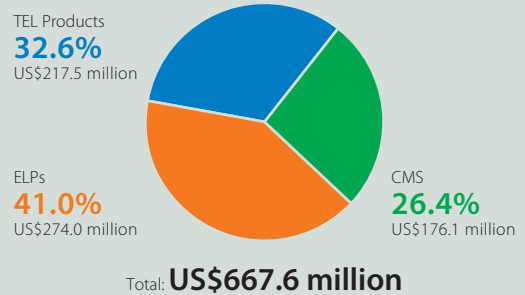
Revenue in Last 5 Years



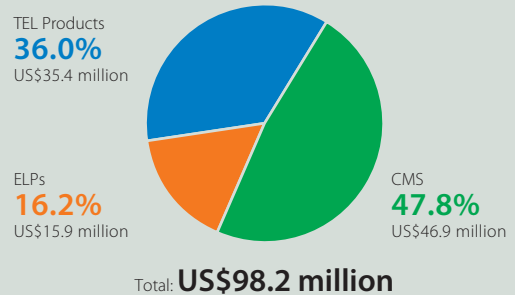
Revenue in North America by Product Line for the year ended 31 March 2011



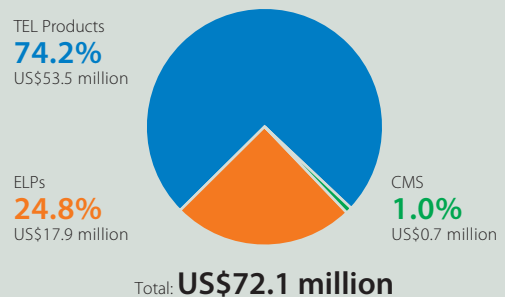
Revenue in Europe by Product Line for the year ended 31 March 2011



Revenue in Asia Pacific by Product Line for the year ended 31 March 2011



Revenue in Other Regions by Product Line for the year ended 31 March 2011



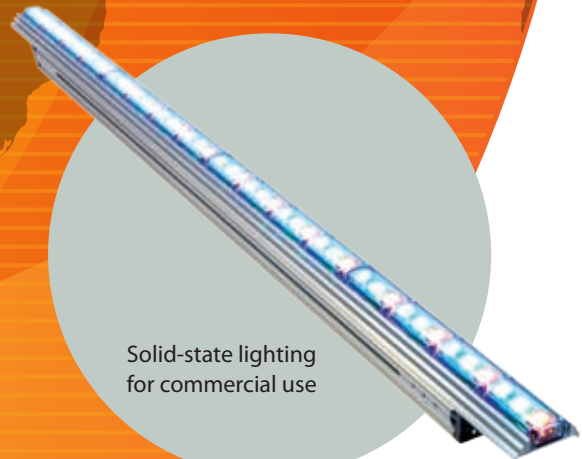
Review of Operations



Synapse™
SMB
telephony
system



MobiGo® Touch Learning System



Solid-state lighting
for commercial use

North America

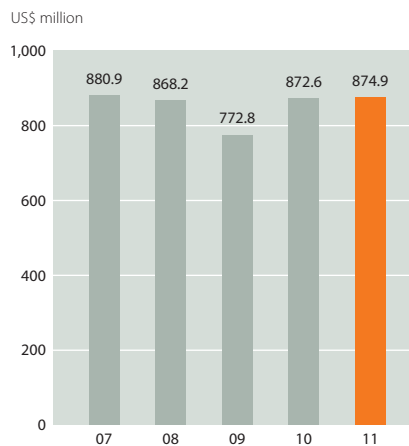
Revenue in North America rose by 0.3% to US\$874.9 million in the financial year 2011, as higher sales of ELPs and CMS offset lower revenue from TEL products. North America continued to be the largest market for the Group, accounting for 51.1% of Group revenue.

Sales of TEL products during the financial year declined by 18.3% to US\$421.1 million. As noted at the interim, this decrease partly reflects comparison with a very strong performance in the previous financial year, when one of our major competitors exited the market and another suffered a delivery problem. The natural decline in the US cordless phone market also contributed to the decrease in sales. Nonetheless, the Group was able to maintain its market share and its number one position in the US corded and cordless phone market, with an estimated share of almost 50%*.

Sales of the SMB telephony systems remained small, as this product category has been in the market for less than two years. We have made good inroads into this sizeable market through our expanding distribution network of office superstores and value added resellers. In the second half of the financial year, the Synapse T1/PRI Gateway was launched. This new product supports 100 extensions and up to 39 lines with Direct Inward Dialling when paired with the SB67010 PSTN Gateway, offering an effective solution for businesses that require additional outside lines.

ELP sales in North America grew by 22.2% to US\$287.1 million. The growth was led by two new platform products, MobiGo and V.Reader, which reached US retailer shelves in June 2010. Despite competition from two other new platform products in the holiday season, both MobiGo and V.Reader delivered strong sales.

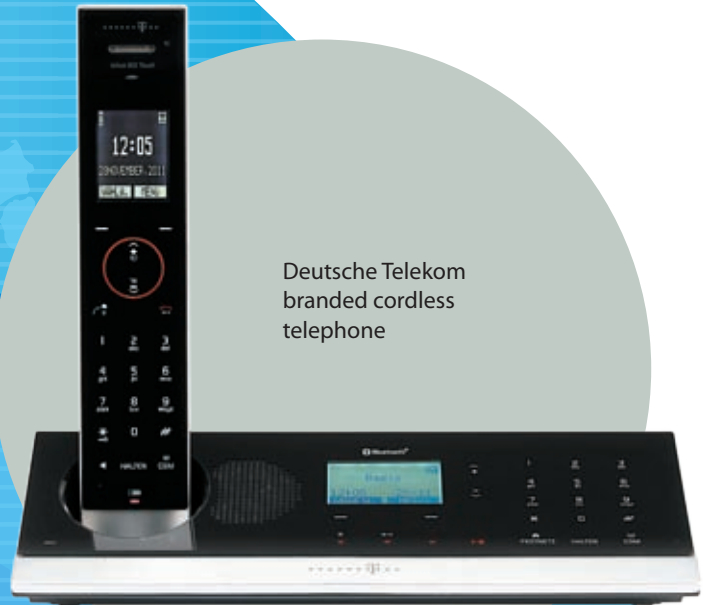
Revenue in North America in Last 5 Years



Standalone products also achieved good growth in the financial year 2011. Infant products continued to be the best selling category, and our new range of bath toys did well. Year-on-year growth in the pre-school category was also strong, fuelled mainly by new generic and licensed products.

CMS posted the strongest growth in North America, with sales rising by 36.2% to US\$166.7 million. The growth was broadly distributed across all product segments. Economic recovery and additional business from existing customers were the key drivers of growth, as the Group continued to win business from its competitors due to our superior performance as a supplier. Professional audio equipment remained the leading contributor to CMS revenue in North America, while commercial solid-state lighting showed the strongest growth.

* NPD, combined market share of VTech and AT&T, as of Q1 2011



Deutsche Telekom
branded cordless
telephone



Kidizoom Plus
Camera



Switching mode
power supply

Europe

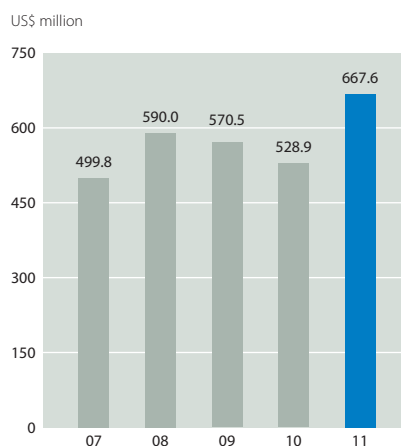
Revenue in Europe increased by 26.2% over the previous financial year to US\$667.6 million, as all three product lines recorded growth in sales. Europe accounted for 39.0% of Group revenue.

Sales of TEL products in Europe rose by 26.9% to US\$217.5 million, primarily driven by higher sales to existing customers. We continue to sell largely on an ODM basis in the region. Despite the economic uncertainties in some European countries, we registered growth in most of our European markets during the financial year. Strong momentum was seen in Germany, where our agreement with Deutsche Telekom is bearing fruit. France also recorded a decent increase in sales, as we benefited from new product launches and the growth of our customers. In February 2011, we introduced the world's first CAT-iq 2.0 certified handset, which reaffirmed our technology leadership position.

Revenue from ELPs in Europe increased by 13.4% to US\$274.0 million. The growth was mainly driven by standalone products, especially the infant and Kidi lines. MobiGo and Storio (the product name for V.Reader in Europe) were not launched in all our European markets during financial year 2011. As a result, their contribution to our overall European business was less than that in the US.

The UK and France achieved the best performance in Europe. Being the only European country that launched both MobiGo and Storio during the financial year, the UK benefited from their contribution. Higher sales in the UK were also due to the continued strength of the Kidizoom line, with the Kidizoom Plus Camera the top selling toy for the second year in a row in the calendar

Revenue in Europe in Last 5 Years



year 2010[#]. Despite a somewhat slow first half, France delivered solid growth for the full year. We made good gains in market share, especially in the infant category, in which we attained the number one market position[#].

CMS sales in Europe were up by 52.1% over the previous financial year to US\$176.1 million. Growth was seen across our key product categories, as existing customers gave us more orders because of market growth and our customer focused service. Switching mode power supplies remained the top category in the region, followed by professional audio equipment and wireless headset products. During the financial year, we also gained new customers in the area of home appliances.

[#] NPD EPOS Retail Tracking Service 2010



Telstra
branded
cordless
telephone



Reading
Pen – An ELP
tailored for the
China market



LED light bulbs

Asia Pacific

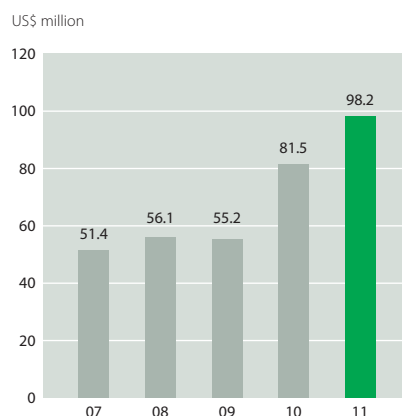
Revenue in Asia Pacific increased 20.5% over the financial year 2010 to US\$98.2 million. This region accounted for 5.7% of Group revenue.

Sales of TEL products rose by 54.6% to US\$35.4 million. Sales growth was robust in Japan, as we ramped up orders following the acquisition of our first customer there. We also had a good sales performance in Australia, where we are the direct supplier of Telstra branded fixed line telephones.

Sales of ELPs in Asia Pacific rose slightly, by 0.6% to US\$15.9 million. In China, our first ELP tailored for the market, a curriculum based pen-reading system, was launched in the first half of the financial year 2011. It is gradually establishing itself in our existing conventional toy channel, while we started work on building up additional electronic learning distribution channels.

CMS saw a pick-up in growth in Asia Pacific, with revenue increasing by 9.6% to US\$46.9 million for the full year. Japan remains the dominant market in the region and growth in revenue was driven mainly by medical equipment. LED light bulbs achieved a volume increase in the financial year 2011, but price erosion limited the growth in revenue.

Revenue in Asia Pacific in Last 5 Years

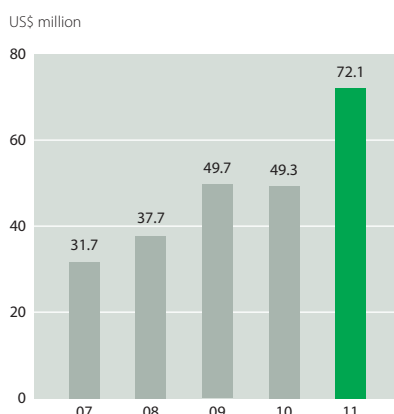


Other Regions

Revenue from other regions in the financial year 2011 rose by 46.2% to US\$72.1 million, accounting for 4.2% of Group revenue.

The increase was mainly attributable to higher sales of TEL products and ELPs, as we sold more to Latin America, the Middle East and Africa. Our range of IADs, which we began shipping to the Middle East in February 2010, has seen a gradual increase in demand.

Revenue in Other Regions in Last 5 Years



Corporate Social Responsibility

VTech's Corporate Social Responsibility (CSR) effort focuses on four core areas: environment, community, shareholders and employees.

Environment

VTech's goal is to bring high quality, innovative products to consumers around the world, to enhance their lives. But we recognise that we need to do this in a way that respects the environment, and we take steps throughout the product lifecycle to reduce environmental impacts.



▶ Product Planning

In developing and designing a new product, or upgrading an existing one, VTech thinks not only about its look and function, but how it may impact the environment.



Our engineers and product designers put a lot of effort into making our products more environmentally friendly. Through innovative design, we have been able to reduce the number of components and use more efficient materials. This makes each new generation of VTech products more cost and energy efficient.



Our products comply with the strictest international safety and environmental regulations. Our ELP operation has a stringent policy on product safety that meets international standards and regulations including CPSIA (Consumer Product Safety Improvement Act), EN71 and ISO8124. All VTech ELPs are RoHS and REACH compliant and this also applies to our TEL products sold in Europe.

We also strive to achieve environmental standards that go beyond statutory regulation. All VTech 2011 DECT cordless phones delivered to the US have the Energy Star® certification, meaning they use less energy than conventional units when charging. In Europe and some markets in Asia Pacific, an increasing number of VTech's cordless phones include an "Eco Mode" function, which reduces power consumption.

▶ Manufacturing

Responsible manufacturing is the second stage in our product lifecycle environmental management.



In sourcing materials and components, VTech takes care to use only responsible suppliers and we work with them to reduce environmental impacts in their operations. All raw materials we use are RoHS compliant.

We adopt environmentally appropriate best practices and meet international standards in manufacturing.



The manufacturing facilities of both VTech's TEL and CMS operations are ISO14001 certified, while the ELP operation abides by the International Council of Toy Industries (ICTI) CARE (Caring, Awareness, Responsible, Ethical) Process. Our ELP manufacturing facilities have recently joined the Low Carbon Manufacturing Programme (LCMP) developed by WWF-Hong Kong, which aims to improve energy efficiency and reduce greenhouse gas emissions. Our CMS manufacturing facilities are SA8000 certified.

Stringent internationally benchmarked procedures are in place to handle hazardous materials.



We are also investing in reducing the environmental impact of our manufacturing facilities. Equipment and processes have been introduced to save energy, reduce carbon emissions, minimise waste and maintain natural surroundings. We have adopted a number of measures to reduce electricity consumption. Energy saving or LED lights are replacing traditional ones. Our TEL operation has replaced diesel water heaters in dormitories with more efficient pumped water heaters. Our CMS operation has improved the management of the air conditioning systems. Variable-frequency drives have been installed in the plastic injection machines in our ELP factory, also reducing electricity consumption.

▶ Distribution

To reduce the environmental impact of product distribution, we are constantly thinking of better ways to get our products from the factory to the retailer.



We have been steadily improving loading efficiency and shipment arrangements in order to achieve this. The majority of our product shipments are now exported through Yantian port in Shenzhen, which is closer to our manufacturing plants, rather than through Hong Kong. This helps to reduce carbon emissions and the consumption of resources. Packaging sizes have also been reduced to save on transportation and reduce waste.

▶ Recycling

Packaging, promotion and recycling are the final areas in the product lifecycle we address from an environmental point of view.



To minimise environmental impacts further, our products are designed to avoid unnecessary packaging. Increasingly, we have adopted environmentally friendly printing processes. The packaging for our TEL products and ELPs is 100% recyclable. Packaging for our ELPs in Europe is compliant with the directive on waste electrical and electronic equipment (WEEE).

In our marketing, we are responding to consumers and helping to save paper through the increased use of electronic and digital promotions and catalogues, replacing traditional printed versions.

Community



As a responsible and caring corporate citizen, VTech supports the communities in which it operates in a variety of ways, under the broad headings of sponsoring innovation, helping children and general corporate philanthropy.

Service and Support

Each year, VTech sponsors the Hong Kong Business of Design Week and Hong Kong Awards for Industry, events which encourage innovation in our home market.

In the US, VTech and First Book have partnered to donate 10,000 new books to children in low-income communities. Also in the US, VTech has a programme to partner with influencers to donate VTech toys to the Ronald McDonald House Charities during the holiday season. VTech UK staff joined the BTHA Triathlon organised by the British Toy and Hobby Association, a charity event to raise money for children's charities across the country.

In Hong Kong, VTech donated toys to Make-A-Wish® Hong Kong, bringing joy to children suffering from serious illness. We also donated toys to underprivileged students in Qingyuan, China.



VTech is well known for its contribution to charities and youth organisations also. We are recognised as a "Caring Company" by the Hong Kong Council of Social Service for our work for the community.

During the year, VTech volunteers visited the elderly and brought them blankets in winter to support HKSAGE's senior citizen's day. VTech staff also worked with Hong Kong Children and Youth Services to organise activities for underprivileged children and youngsters.

Each year, VTech supports the blood donation campaign organised by the Hong Kong Red Cross, helping to save lives.

Shareholders



In addition to the creation of shareholder value and management of risk, VTech seeks to enhance relations with shareholders and investors through active engagement.

Shareholder Value

We aim to enhance shareholder value over the long term in a number of ways, including:

- Strengthening the competitiveness of the Group's operations
- Continuous efforts to achieve sustainable growth in shareholder returns and returns on investment
- Ensuring timely, accurate, comprehensive and non-selective disclosure of the Group's financial information and operating performance

Share Performance and Dividend

In the financial year 2011, the highest closing share price was HK\$94.90 (on 13 January 2011) and lowest closing price was HK\$69.05 (on 25 May 2010).

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. The payout ratio in the financial year 2011 amounted to 95.8% of the profit attributable to shareholders of the Company, against 93.7% in the previous financial year.

Corporate Governance

VTech is committed to good corporate governance, which we recognise as crucial in helping us to deliver our strategy, generate shareholder value and safeguard our shareholders' long-term interests.

To ensure sound corporate oversight, the majority of Directors on the Board are independent non-executive directors. The Board has established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Risk Management Committee with defined terms of reference.



The Company has a Code of Conduct which employees are required to abide by and a Whistleblower Policy to facilitate the raising of concerns by employees.

Investor Communications

VTech's investor relations programme keeps investors abreast of the Group's latest developments and we welcome suggestions.

During the financial year, we held meetings with investors, organised site visits to our facilities in mainland China and participated in investor conferences. We also held roadshows in Singapore, Japan and the UK.

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

Employees



VTech cares for its employees and recognises that harmonious staff relations and a committed workforce are vital to the success of the Group.

Employee Numbers and Costs

The average number of employees for the financial year 2011 was 32,300, an increase of 19.2% from 27,100 in the previous financial year.

Staff related costs for the year ended 31 March 2011 were approximately US\$210 million, as compared to approximately US\$172 million in the financial year 2010.

Workplace

VTech strives to create a supportive, enjoyable workplace and treats employees with respect. We put emphasis on people-oriented management to ensure harmonious staff relations across the Group, especially in our manufacturing facilities in China.

Equal Opportunities

We provide equal employment opportunities to all employees, allowing them to make the most of their capabilities.

We have a strict policy of no discrimination on the grounds of age, sex, marital status, disability or any other non-job related factor. Remuneration is determined with reference to performance, qualifications and experience.

Communications

We value internal communications and encourage employees to voice their opinions. We maintain open communication with employees at all levels, through channels such as the website, internal newsletter, meetings and informal gatherings to communicate plans and policies.

Personal Development

We value our employees and believe it is crucial to enable them to utilise their potential at work fully. We encourage personal growth by providing training programmes tailored to different needs. Sponsorship is made available for external training programmes.

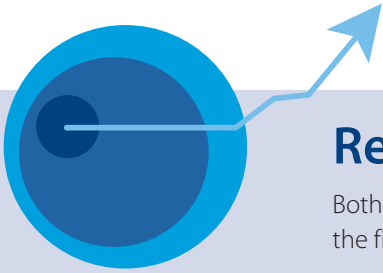
Employee Relations

We organise recreational events to foster a better team spirit and promote life balance. In Hong Kong, we support staff in sport and recreational events such as the Standard Chartered Hong Kong Marathon, where we have participated for the past nine years, and the annual dragon boat competition.

We also organise different recreational activities for staff every year at all our operations, such as parties for Christmas and Thanksgiving, picnics, barbecues, classes on swimming and photography, as well as sightseeing trips including two-day tours to mainland China for our Hong Kong staff.



Highlights of the Year



Record Revenue

Both the Group and its contract manufacturing services achieved record revenue in the financial year 2011.



Over 45 Million Handsets Shipped

VTech shipped over 45 million handsets in the financial year 2011. The Group is now selling corded and cordless phones to more than 60 countries and regions worldwide.



Supporting the Hong Kong Marathon

VTech continued its strong support of the Standard Chartered Hong Kong Marathon, Hong Kong's spectacular annual sports event. For the sixth year in a row, we won the "Most Supportive Group Award", and ranked 4th among the largest 10 groups with a record participation of almost 900 people.



World's Top 50 EMS Provider

VTech CMS was ranked 29th, up from 37th last year, among the "Top 50 EMS providers in 2010" in the March issue of the *Manufacturing Market Insider* magazine.



Over 35 Million Units of ELPs Shipped

VTech shipped over 35 million units of ELPs in the financial year 2011. The Group sells ELPs to over 45 countries and regions in 20 languages.



Best After-Sales Service

In Belgium, VTech Electronics Europe B.V. was given the "Best After-Sales Service" award by *Toys and Games* magazine. The award is voted by professionals from the local toy industry.



Supplier of the Year

VTech CMS was given "Supplier of the Year" awards by customers in the fields of wireless headset products and professional audio equipment, in recognition of our high quality products and excellent customer services.



LS6425 – “Best Buy” Cordless Phone

With its excellence in features, design and overall quality, VTech’s LS6425 DECT cordless phone was named a “Best Buy” model by the editors of *Consumers Digest* magazine in the United States.



V.Reader – The World’s First Interactive e-Reading System for Children

VTech introduced V.Reader, the world’s first interactive e-reading system for children, in North America and the UK (under the product name Storio). It has been a great success, winning more than 15 awards worldwide, including the highly recognised ToyAward 2011 (pre-school category) at the International Toy Fair in Nuremberg, Germany.



Award Winning ELPs

VTech’s ELPs are popular with consumers and recognised by the industry globally. In France, Kidizoom VideoCam, Musical Bubbles Octopus and 3-in-1 Learning Zebra Scooter were presented the “Toy of the Year 2010” awards in the category of multimedia toy, bath toy and carriers respectively.



In the US, MobiGo won nine awards in total, including the National Parenting Publications Awards (NAPPA) 2010 Gold Award.

Text and Chat Walkie Talkie was named the “2011 CTTC/Energizer Battery-operated Toy of the Year” by the Canadian Toy Testing Council.



In Belgium, Kidi Pop & Rock and Baby’s Talking Family Album were presented the “Toy of the Year Award” in the categories of educational and scientific games, and stimulating activities respectively.

3-in-1 Learning Zebra Scooter was awarded the “Children’s Choice Award 2011” by the Canadian Toy Testing Council.



Avant 5000 – The World’s First CAT-iq 2.0 Certified Handset

VTech introduced the world’s first CAT-iq 2.0 certified handset, Avant 5000, in February 2011. CAT-iq 2.0 is a certification programme introduced by the DECT Forum in December 2010. The programme tests devices on protocol, radio frequency level and especially on audio quality, one of the key drivers of CAT-iq.

Corporate Governance Report

Corporate Governance Practices

VTech Holdings Limited is incorporated in Bermuda and has its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The corporate governance rules applicable to the Company are the 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 (the "Listing Rules"). Throughout the year ended 31 March 2011, 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, with five out of eight of our directors being independent non-executive directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The key corporate governance principles and practices of the Company are set out below.

Board of Directors

The Board currently comprises three executive directors and five independent non-executive directors. Their names and brief biographies are set out on page 27 of this Annual 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 the five 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 during the year shall hold office until the next following annual general meeting and thereafter the same director, if re-elected, will be subject to retirement by rotation. There exists no relationship among Board members, including financial, operational, family or other relevant material relations.

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, but are not restricted to, deliberation of business plans, risk management, internal controls, preliminary announcements of interim and final results, dividend policy, the annual budgets, major corporate activities such as material acquisitions and disposals, and connected transactions.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

Four Board meetings at approximately quarterly intervals are scheduled for 2011/12 with other meetings held as required. All directors have access to the advice and services of the Company Secretary and independent professional advice may be sought by the directors if required.

The attendance of individual members of the Board and other Board Committees during the financial year ended 31 March 2011 is set out below:

| | Meetings attended/Eligible to attend | | | | Risk |
|---|--------------------------------------|-----------------|------------------------|----------------------|----------------------|
| | Board | Audit Committee | Remuneration Committee | Nomination Committee | Management Committee |
| Executive Directors | | | | | |
| Allan WONG Chi Yun | 4/4 | - | - | 1/1 | 2/2 |
| PANG King Fai | 4/4 | - | - | - | 2/2 |
| Andy LEUNG Hon Kwong | 4/4 | - | - | - | 2/2 |
| Independent Non-executive Directors | | | | | |
| William FUNG Kwok Lun | 4/4 | 2/2 | 1/1 | 1/1 | - |
| Denis Morgie HO Pak Cho | 3/4 | 1/2 | 1/1 | 1/1 | - |
| David SUN Tak Kei (appointed on 25 January 2011) | 1/1 | - | 1/1 | - | - |
| Michael TIEN Puk Sun | 3/4 | 2/2 | 1/1 | 1/1 | - |
| Patrick WANG Shui Chung | 4/4 | 1/1 * | - | 1/1 | - |

* ceased to be a member of the Audit Committee on 25 January 2011

Board Committees

The Board has established a Remuneration Committee, a Nomination Committee, an Audit Committee and a Risk Management Committee with defined terms of reference which are no less exacting than those set out in the Code.

Dr. David SUN Tak Kei was appointed as an independent non-executive director, member of the Audit Committee, the Remuneration Committee, and the Nomination Committee of the Company, while Dr. Patrick WANG Shui Chung ceased to be a member of the Audit Committee of the Company both with effect from 25 January 2011. Dr. David SUN Tak Kei was also appointed as a member of the Risk Management Committee on 30 March 2011.

Board Committees (Continued)

Remuneration Committee

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

The emoluments of directors are based on skills, knowledge and performance, together with reference to the profitability of the Company, and prevailing market conditions. The Company has established a share option scheme (the "2001 Scheme") to provide long term incentive for the executive directors and senior management, and a share purchase scheme to motivate employees and attract suitable personnel for continuous development of the Group.

The Remuneration Committee met once during the year. The Remuneration Committee discussed and reviewed the remuneration packages for all executive directors and senior management. The Remuneration Committee also reviewed and approved the establishment of the share purchase scheme.

Nomination Committee

The Nomination Committee is chaired by Dr. William FUNG Kwok Lun with Mr. Denis Morgie HO Pak Cho, Dr. David SUN Tak Kei, 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 relevant blend of skills, knowledge and experience. Candidates for appointment as directors may be sourced internally or externally through various channels such as using the services of specialist executive search firms. The aim is to appoint individuals of the highest calibre in their area of expertise and experience.

The Nomination Committee met once during the year and considered the appointment of an independent non-executive director, and the nomination was accepted by the Board.

Audit Committee

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Dr. David SUN Tak Kei (appointed on 25 January 2011), Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung (ceased to be a member on 25 January 2011) as members. All of the members are independent non-executive directors. 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 HO, as Chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings

during the year and were attended by the Chief Compliance Officer, the Chief Financial Officer and the external auditor. In addition, the Chairman of Audit Committee held periodic independent meetings with the Chief Financial Officer, the Chief Compliance Officer and the external auditor. Work performed by the Audit Committee during the year included, but not limited to, reviewing the following:

- unaudited Group financial statements for the six months ended 30 September 2010;
- report from the external auditor based on limited agreed upon procedures on the unaudited Group financial statements for the six months ended 30 September 2010;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- appointment of the external auditor and their remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions; and
- respective audit plans of the internal and external auditors.

During the year, the Audit Committee has organised a training session on accounting, taxation and Listing Rules to directors and relevant staff.

On 31 May 2011 (the date of this Annual Report), the Audit Committee met to review the audited Group financial statements and reports for the year ended 31 March 2011 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The Group's annual results announcement for the year ended 31 March 2011 has been agreed by the Group's external auditor.

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the year. The Audit Committee reviews the process by which the Group evaluates its control environment and risk assessment procedures, and the way in which business and control risks are managed. Based on the information received from the management, external auditor and Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls for the Group continue to be effective and adequate.

External Auditor

The Audit Committee reviews and monitors the external auditor's independence and objectivity. It also meets with the auditor to consider the nature, scope and results of their audit with senior management.

During the year, the fees in respect of audit and non-audit services provided by KPMG, the external auditor, is shown in note 2 to the financial statements.

Board Committees *(Continued)*

Risk Management Committee

The Risk Management Committee, chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong held two meetings during the year to review the Group's risk management and internal control systems and their effectiveness. The Risk Management Committee has put in place policies and procedures for the identification and management of risks.

The Risk Management Committee has developed a framework for the management and control of risk in the Group. Risks are being more formally identified and recorded in the Risk Register for key operations. This Register is updated regularly and the major risks are being reviewed by the Risk Management Committee.

The Risk Management Committee also ensures that any new and emerging risks are promptly identified, evaluated and appropriate actions are taken by the management. This requires the active and frequent participation by the process owner of each function in identifying risks affecting its business and implementing measures to reduce such risks, as well as the active monitoring on the progress of the improvement in internal control procedures.

The Risk Management Committee reports to the Board in conjunction with the Audit Committee.

On 30 March 2011, the Board resolved to appoint Dr. David SUN Tak Kei, an independent non-executive director as a member of the Risk Management Committee with immediate effect.

Responsibilities in Respect of Financial Statements

The directors are responsible for overseeing the preparation of the consolidated financial statements for the year ended 31 March 2011, to give a true and fair view of the state of affairs of the Group as at that date and of its profit and cash flows for the year then ended. In doing so the directors have adopted the appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgements and estimates that are prudent and reasonable in preparing the consolidated financial statements on the going concern basis.

The directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The statement by the external auditor of the Company regarding their responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 32 of this Annual Report.

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 Board, through the Audit Committee, reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance issues, risk management process, information

systems security and effectiveness of financial reporting and compliance with Listing Rules, and is satisfied that such systems are effective and adequate. The Board also considered that the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate.

Internal Audit Department

The Internal Audit Department reviews the effectiveness of the internal control system. The Internal Audit Department carries out annual risk assessment on each identified audit area and devises an annual audit plan according to the nature of business and risk exposures, and the scope of work includes financial and operational reviews. The audit plan is reviewed and agreed 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 Audit Department periodically while the results of internal audit reviews and responses to the recommended corrective actions are also reported to the executive directors. The Internal Audit Department is also responsible for following up on the corrective actions to ensure that satisfactory controls are maintained.

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

Other control and management

Code of Conduct

The Company's policy on code of conduct is also an important part of the Group's internal control process. Employees are required to strictly follow the code of conduct to ensure the Group operates to the highest standards of business behaviour and ethics in our dealings with customers, business partners, shareholders, employees, and the business community. The policy is reinforced and monitored by an annual confirmation of compliance in writing.

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 suspected internal malpractices directly to the Chief Compliance Officer, who will review the complaints and determine the appropriate mode of investigation and subsequent corrective action. Recommendations on improvements are communicated to the respective department's senior management for implementation. The Chief Compliance Officer reports the results of his review of the complaints received to the Audit Committee, where applicable, twice a year.

Model Code of Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding securities transactions by directors and senior management. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2011.

Directors and Senior Management

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 60, 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 board member of the Airport Authority Hong Kong. He is the deputy chairman and an independent non-executive director of The Bank of East Asia, Limited, and an independent non-executive director of China-Hongkong Photo Products Holdings Limited and Li & Fung Limited.

PANG King Fai, aged 55, 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 52, Executive Director and Chief Executive Officer of Contract Manufacturing Services, 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. 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 Chief Executive Officer of Contract Manufacturing Services 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 62, appointed as Independent Non-executive Director in 2001. Dr. FUNG is the Executive Deputy Chairman of Li & Fung Limited and a non-executive deputy chairman of The Hongkong and Shanghai Banking Corporation Limited. He is a non-executive director of Convenience Retail Asia Limited, Trinity Limited and the formerly listed Integrated Distribution Services Group Limited (which was privatized on 29 October 2010) from August 2004 to April 2011, an independent non-executive director of Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited (appointed on 3 January 2011), and an independent director of Singapore Airlines 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 Honorary Doctorate degree of Business Administration by the Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University.

Denis Morgie HO Pak Cho, aged 68, appointed as Independent Non-executive Director in 2008. Mr. HO holds a Bachelor of Commerce degree from the University of Melbourne. He is a Chartered Accountant (Australia), a Certified Public Accountant (Hong Kong) and a Financial Consultant. Mr. HO has over 45 years of professional accounting experience.

David SUN Tak Kei, BBS, JP, aged 57, appointed as Independent Non-executive Director on 25 January 2011. Dr. SUN holds a Bachelor of Science degree in Business Administration from Kansas State University and a Master of Accounting Science degree from the University of Illinois. He also received an Honorary Doctorate of Business Administration from the Open University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Dr. SUN is a former Chairman and Managing Partner of Ernst & Young Far East Area. Dr. SUN was the President of the Hong Kong Institute of Certified Public Accountants in 2003. Dr. SUN is currently the Chairman of the Mandatory Provident Fund Schemes Advisory Committee, a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, a council member of the Hong Kong University of Science and Technology, a member of the Process Review Panel for the Securities and Futures Commission, a member of the Investment Committee for West Kowloon Cultural District Authority and a member of the Hong Kong Housing Authority.

Michael TIEN Puk Sun, BBS, JP, aged 60, 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, he is the past Chairman of the Standing Committee on Language Education and Research and a former member of the Education Commission. Mr. TIEN is a member of National People's Congress Hong Kong Deputy.

Patrick WANG Shui Chung, JP, aged 60, appointed as Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor and Master of Science degrees in Electrical Engineering and received an Honorary 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 Steering Committee on the Promotion of Electric Vehicles and a member of the Greater Pearl River Delta Business Council. 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.

Biographical Details of Senior Management

Group

TONG Chi Hoi, aged 46, President of Telecommunication Products, is responsible for overseeing the Branded business and ODM 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 The Institution of Engineering and Technology.

CHU Chorng Yeong, aged 51, Group Chief Technology Officer, is responsible for overseeing product development of the Electronic Learning Products as well as contributing to the Group in establishing technology strategies and product development directions. 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 specialising in integrated circuit and software developments for the Consumer Electronics Industry.

Shereen TONG Ka Hung, aged 42, 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, Master of Science degree in Information Systems from Hong Kong Polytechnic University and 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.

CHANG Yu Wai, aged 51, 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.

North America

Nicholas P. DELANY, aged 59, President of VTech Communications, Inc., is responsible for the Telecommunication Products in US specifically business development, sales, customer support, business intelligence processes, supply chain, logistics management, 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 & Damelin College.

William TO, aged 55, 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 in the United States of America, Puerto Rico and Mexico. He holds a Master degree in Business Administration from the University of Chicago.

Gordon CHOW, aged 55, President of VTech Technologies Canada Ltd, is responsible for both the Telecommunication Products and Electronic Learning Products 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.

Rolf D. SEICHTER, aged 68, President of VTech Telecom, L.L.C., is responsible for the overseas development and marketing of Contract Manufacturing Services. 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.

Europe

Gilles SAUTIER, aged 55, European Chief Executive Officer, joined the Group in 2000 and is responsible for Electronic Learning Products in UK, France, Belgium, Holland, Luxembourg, Spain and Germany and some export markets such as Italy and Portugal. He is also responsible for the support centre in Holland which takes care of finance, logistics management 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 treasurer of the French Toy Federation.

Report of the Directors

The directors have pleasure to present their report and the audited financial statements of the Group for the year ended 31 March 2011.

Principal Activity

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

Group Results and Dividends

The results of the Group for the year ended 31 March 2011 are set out in the consolidated income statement on page 33.

An interim dividend of US16.0 cents (2010: US16.0 cents) per ordinary share was paid to shareholders on 23 December 2010. The Board has recommended the payment of a final dividend of US62.0 cents (2010: US62.0 cents) per ordinary share in respect of the year ended 31 March 2011, payable on 25 July 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 22 July 2011 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 13 July 2011.

Commentary on Performance

A commentary on the performance of the Group is included in the review of operations set out on pages 12 to 17.

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 62.

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 17 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and in note 18 to the financial statements, respectively.

Donations

During the year, the Group made charitable and other donations in aggregate of US\$322,000.

Directors

The directors who held office during the year and up to 31 May 2011 (the date of this report) were:

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
David SUN Tak Kei (appointed on 25 January 2011)
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Mr. Andy LEUNG Hon Kwong and Dr. Patrick WANG Shui Chung shall retire by rotation in accordance with Bye-law 112 of the Company's Bye-laws while Dr. David SUN Tak Kei shall retire from the Board as the new director appointed by the Board in accordance with Bye-law 94 of the Company's Bye-laws. 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 27 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 in Contracts

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.

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 this share option scheme include executive directors and employees of the Company and its subsidiaries. On 10 August 2001, the Company adopted 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.

Share Option Scheme (Continued)

Details of the 2001 Scheme are set out in note 17 to the financial statements.

The Board proposed to replace the existing 2001 Scheme of the Company, which will expire on 9 August 2011, by the 2011 share option scheme (the "2011 Scheme"), subject to the relevant conditions. A proposal will be made at the forthcoming annual general meeting to seek shareholders' approval of the adoption of the 2011 Scheme and the cancellation of the existing 2001 Scheme.

Share Purchase Scheme

On 30 March 2011 ("Adoption Date"), the Company adopted a share purchase scheme (the "Share Purchase Scheme"), which is a share incentive award scheme for the purpose of incentivising employees and attracting suitable personnel for the continuous development of the Group. Eligible participants of the Share Purchase Scheme include directors, officers and employees of any member of the Group as the remuneration committee may determine or approve. The Share Purchase Scheme shall be valid and effective for a term of 20 years from the Adoption Date.

Details of the Share Purchase Scheme are set out in note 17 to the financial statements.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2011, the interests and short positions of the directors and chief executives 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 otherwise notified to the Company and the Stock Exchange pursuant to 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 | 8,646,393 | 3,968,683 | 74,101,153 (Note 1) | 1,008,000 | 87,724,229 | 35.3% |
| PANG King Fai | 98,000 | – | – | 752,000 | 850,000 | 0.3% |
| Andy LEUNG Hon Kwong | 248,500 | – | – | 252,000 | 500,500 | 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% |
| Patrick WANG Shui Chung | 162,000 | – | – | – | 162,000 | 0.1% |

Notes:

- The shares were beneficially owned as to 1,416,325 by Honorex Limited ("Honorex"), as to 65,496,225 by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 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.
- The shares were held by Golden Step Limited which was beneficially owned by Dr. William FUNG Kwok Lun.
- The shares were held by Romsley International Limited which was jointly owned by Mr. Michael TIEN Puk Sun and his spouse.
- All the interests stated above represented long positions.

(2) Share Options of the Company

| Name of director | Date of grant | Exercise price | Exercisable period | Number of share options held | |
|----------------------|---------------|----------------|--------------------------------|------------------------------|------------------------|
| | | | | as at 1 April 2010 | as at 31 March 2011 |
| Allan WONG Chi Yun | 17 April 2008 | HK\$41.07 | 24 April 2010 to 23 April 2012 | 496,000 | – |
| | 17 April 2008 | HK\$41.07 | 24 April 2011 to 23 April 2013 | 496,000 | 496,000 |
| | 9 April 2010 | HK\$85.35 | 12 April 2012 to 12 April 2014 | – | 512,000 (Note 2) |
| PANG King Fai | 17 April 2008 | HK\$41.07 | 23 April 2009 to 22 April 2011 | 248,000 | – |
| | 17 April 2008 | HK\$41.07 | 23 April 2010 to 22 April 2012 | 248,000 | 248,000 |
| | 17 April 2008 | HK\$41.07 | 23 April 2011 to 22 April 2013 | 248,000 | 248,000 |
| | 9 April 2010 | HK\$85.35 | 13 April 2012 to 13 April 2014 | – | 256,000 (Note 2) |
| Andy LEUNG Hon Kwong | 17 April 2008 | HK\$41.07 | 25 April 2010 to 24 April 2012 | 124,000 | – |
| | 17 April 2008 | HK\$41.07 | 25 April 2011 to 24 April 2013 | 124,000 | 124,000 |
| | 9 April 2010 | HK\$85.35 | 13 April 2012 to 13 April 2014 | – | 128,000 (Note 2) |

Notes:

- The weighted average closing price per share immediately before the date on which options were exercised was HK\$84.75.
- The closing price per share immediately before the date on which the options were granted was HK\$86.90.
- The weighted average closing price per share immediately before the date on which options were exercised was HK\$86.98.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

Save as disclosed above, as at 31 March 2011, none of the directors and chief executives of the Company had any interest or short positions 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 otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholdings

As at 31 March 2011, other than the interests of the directors and chief executives 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 fell 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 | 29.8% |
| Newcorp Limited | Interest of controlled corporation (Note 1) | 74,101,153 | 29.8% |
| Honorex Limited | Interest of controlled corporation (Note 1) | 65,496,225 | 26.9% |
| | Beneficial owner (Note 1) | 1,416,325 | |
| Conquer Rex Limited | Beneficial owner (Note 1) | 65,496,225 | 26.4% |
| Templeton Asset Management Limited | Investment manager | 39,721,900 | 16.0% |
| Capital Research and Management Company | Investment manager | 17,973,100 | 7.2% |

Notes:

- (1) The shares were beneficially owned as to 1,416,325 by Honorex, as to 65,496,225 by Conquer Rex and as to 7,188,603 by 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. Dr. Allan WONG Chi Yun founder interests in the 74,101,153 shares of the Company have also been disclosed under the section headed "Directors' Interests and Short positions in Shares, Underlying Shares and Debentures" in this Annual Report. Trustcorp Limited was wholly owned by Newcorp Limited which was deemed to be interested in such shares by virtue of the SFO.
- (2) All the interests stated above represented long positions.

Save as disclosed above, as at 31 March 2011, the Company had not been notified by any person (other than the directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which fell 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 31 March 2011 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 31 March 2011.

Securities Purchase Arrangements

At the annual general meeting held on 30 July 2010, 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 31 March 2011, 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 13.9% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 34.1% 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.

Auditor

The financial statements have been audited by KPMG, who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

By Order of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 31 May 2011

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") and its subsidiaries (together the "Group") set out on pages 33 to 61, which comprise the consolidated and Company balance sheets as at 31 March 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 issued 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 about 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 consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 state of affairs of the Company and of the Group as at 31 March 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

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

31 May 2011

Consolidated Financial Statements

Consolidated Income Statement

For the year ended 31 March 2011

| Note | 2011 US\$ million | 2010 US\$ million |
|-------------------------|----------------------|----------------------|
| | 1,712.8 | 1,532.3 |
| 1 | (1,145.9) | (972.9) |
| | 566.9 | 559.4 |
| | (241.6) | (207.3) |
| | (49.8) | (71.2) |
| | (56.8) | (56.8) |
| 1 & 2 | 218.7 | 224.1 |
| | 1.6 | 1.4 |
| | 220.3 | 225.5 |
| 4 | (19.1) | (20.2) |
| | 201.2 | 205.3 |
| Attributable to: | | |
| | 202.0 | 206.5 |
| | (0.8) | (1.2) |
| | 201.2 | 205.3 |
| 6 | 81.5 | 83.7 |
| | 81.2 | 83.4 |

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

| Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| | 201.2 | 205.3 |
| Other comprehensive income (after tax and reclassification adjustments) for the year | | |
| | – | 0.3 |
| | 0.3 | – |
| | 7.2 | 2.9 |
| 4(d) | 1.3 | – |
| | 8.8 | 3.2 |
| | 210.0 | 208.5 |
| Attributable to: | | |
| | 210.8 | 209.6 |
| | (0.8) | (1.1) |
| | 210.0 | 208.5 |

Consolidated Balance Sheet

As at 31 March 2011

| Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| Non-current assets | | |
| 7 | 78.4 | 81.4 |
| 8 | 5.0 | 4.9 |
| 9 | 0.2 | 0.2 |
| 10(b) | 5.4 | 5.6 |
| | 89.0 | 92.1 |
| Current assets | | |
| 11 | 229.8 | 159.3 |
| | 225.0 | 211.4 |
| 10(a) | 0.3 | 0.7 |
| 13 | 333.1 | 382.6 |
| | 788.2 | 754.0 |
| Current liabilities | | |
| 14 | (284.9) | (272.9) |
| 15 | (39.4) | (42.4) |
| 10(a) | (5.1) | (9.6) |
| | (329.4) | (324.9) |
| | 458.8 | 429.1 |
| | 547.8 | 521.2 |
| Non-current liabilities | | |
| 10(b) | (3.9) | (3.7) |
| | 543.9 | 517.5 |
| Capital and reserves | | |
| 17(a) | 12.4 | 12.4 |
| | 531.5 | 503.3 |
| Shareholders' funds attributable to the Company's shareholders | | |
| | 543.9 | 515.7 |
| | – | 1.8 |
| | 543.9 | 517.5 |

Approved and authorised for issue by the Board of Directors on 31 May 2011.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 36 to 61 form part of these financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 5.

Balance Sheet of the Company

As at 31 March 2011

| Note | 2011 US\$ million | 2010 US\$ million |
|-------------------------------|----------------------|----------------------|
| Non-current assets | | |
| Investments in subsidiaries | 227.5 | 227.5 |
| Current assets | | |
| Amounts due from subsidiaries | 295.8 | 356.9 |
| Deposits and cash | 0.3 | 0.3 |
| | 296.1 | 357.2 |
| Current liabilities | | |
| Amounts due to subsidiaries | (188.0) | (206.2) |
| Creditors and accruals | (0.5) | (1.8) |
| | (188.5) | (208.0) |
| Net current assets | 107.6 | 149.2 |
| Net assets | 335.1 | 376.7 |
| Capital and reserves | | |
| Share capital | 12.4 | 12.4 |
| Reserves | 322.7 | 364.3 |
| Total equity | 335.1 | 376.7 |

Approved and authorised for issue by the Board of Directors on 31 May 2011.

Allan WONG Chi Yun
Director

PANG King Fai
Director

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

| Note | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| Operating activities | | |
| Operating profit | 218.7 | 224.1 |
| Depreciation of tangible assets | 33.1 | 36.6 |
| Amortisation of leasehold land payments | 0.1 | 0.1 |
| Impairment loss on construction in progress | – | 6.9 |
| Increase in stocks | (70.5) | (31.3) |
| Increase in debtors, deposits and prepayments | (13.6) | (21.2) |
| Increase in creditors and accruals | 12.0 | 40.0 |
| (Decrease)/increase in provisions | (3.0) | 0.6 |
| Cash generated from operations | 176.8 | 255.8 |
| Interest received | 1.6 | 1.4 |
| Taxes paid | (23.1) | (12.4) |
| Net cash generated from operating activities | 155.3 | 244.8 |
| Investing activities | | |
| Purchase of tangible assets | (25.9) | (20.3) |
| Proceeds from disposal of tangible assets | 0.1 | 0.3 |
| Capital injection to a subsidiary | – | (3.0) |
| Proceeds received upon maturity of financial assets | – | 5.0 |
| Proceeds received from/ (placement of) bank deposits with maturity greater than three months | 95.7 | (140.7) |
| Net cash generated from/ (used in) investing activities | 69.9 | (158.7) |
| Financing activities | | |
| Proceeds from shares issued upon exercise of share options | 6.8 | 5.8 |
| Dividends paid | (193.6) | (140.7) |
| Net cash used in financing activities | (186.8) | (134.9) |
| Effect of exchange rate changes | 7.8 | 3.5 |
| Increase/(decrease) in cash and cash equivalents | 46.2 | (45.3) |
| Cash and cash equivalents at beginning of the year | 196.9 | 242.2 |
| Cash and cash equivalents at end of the year | 243.1 | 196.9 |

The notes and principal accounting policies on pages 36 to 61 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

| Note | Attributable to shareholders of the Company | | | | | | | | Non-controlling interests | Total equity |
|--|---|---------------------------|------------------|-----------------|-----------------|-----------------|-----------------|--------------|---------------------------|--------------|
| | Properties | | | | | | | Total | | |
| | Share capital | Share revaluation premium | Exchange reserve | Capital reserve | Hedging reserve | Revenue reserve | Revenue reserve | | | |
| US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | |
| At 1 April 2009 | 12.3 | 106.9 | 10.9 | 2.1 | 1.7 | (0.3) | 306.6 | 440.2 | – | 440.2 |
| Changes in equity for the year ended 31 March 2010 | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 206.5 | 206.5 | (1.2) | 205.3 |
| Other comprehensive income (after tax and reclassification adjustments) | | | | | | | | | | |
| Realisation of hedging reserve | – | – | – | – | – | 0.3 | – | 0.3 | – | 0.3 |
| Exchange translation differences | – | – | – | 2.8 | – | – | – | 2.8 | 0.1 | 2.9 |
| Other comprehensive income for the year | – | – | – | 2.8 | – | 0.3 | – | 3.1 | 0.1 | 3.2 |
| Total comprehensive income for the year | – | – | – | 2.8 | – | 0.3 | 206.5 | 209.6 | (1.1) | 208.5 |
| Final dividend in respect of the previous year | – | – | – | – | – | – | (101.2) | (101.2) | – | (101.2) |
| Interim dividend in respect of the current year | 5 | – | – | – | – | – | (39.5) | (39.5) | – | (39.5) |
| Shares issued under share option scheme | 17(a) & 18(b) | 0.1 | 5.7 | – | – | – | – | 5.8 | – | 5.8 |
| Equity-settled share based payments | | – | 0.7 | – | – | 0.1 | – | 0.8 | – | 0.8 |
| Capital injection | | – | – | – | – | – | – | – | 2.9 | 2.9 |
| At 31 March 2010 and 1 April 2010 | 12.4 | 113.3 | 10.9 | 4.9 | 1.8 | – | 372.4 | 515.7 | 1.8 | 517.5 |
| Changes in equity for the year ended 31 March 2011 | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 202.0 | 202.0 | (0.8) | 201.2 |
| Other comprehensive income (after tax and reclassification adjustments) | | | | | | | | | | |
| Fair value gains on hedging | – | – | – | – | – | 0.3 | – | 0.3 | – | 0.3 |
| Exchange translation differences | – | – | – | 7.2 | – | – | – | 7.2 | – | 7.2 |
| Surplus arising on revaluation of properties | – | – | 1.3 | – | – | – | – | 1.3 | – | 1.3 |
| Other comprehensive income for the year | – | – | 1.3 | 7.2 | – | 0.3 | – | 8.8 | – | 8.8 |
| Total comprehensive income for the year | – | – | 1.3 | 7.2 | – | 0.3 | 202.0 | 210.8 | (0.8) | 210.0 |
| Final dividend in respect of the previous year | 5 | – | – | – | – | – | (153.9) | (153.9) | – | (153.9) |
| Interim dividend in respect of the current year | 5 | – | – | – | – | – | (39.7) | (39.7) | – | (39.7) |
| Shares issued under share option scheme | 17(a) & 18(b) | – | 6.8 | – | – | – | – | 6.8 | – | 6.8 |
| Equity-settled share based payments | | – | 1.0 | – | – | 1.3 | – | 2.3 | – | 2.3 |
| Capital injection | 22(c) | – | – | – | – | – | – | – | 0.9 | 0.9 |
| Acquisition of non-controlling interests | 22(c) | – | – | – | – | – | 1.9 | 1.9 | (1.9) | – |
| At 31 March 2011 | 12.4 | 121.1 | 12.2 | 12.1 | 3.1 | 0.3 | 382.7 | 543.9 | – | 543.9 |

The notes and principal accounting policies on pages 36 to 61 form part of these financial statements.

Notes to the Financial Statements

Principal Accounting Policies

A Principal Activities and Organisation

The Group's principal activities and operating 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

These 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 new and revised IFRS, amendments and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

| | |
|--------------------|--|
| IFRSs (Amendments) | Improvements to IFRSs 2009 |
| IFRS 3 (Revised) | Business combination |
| IAS 27 (Revised) | Consolidated and separate financial statements |
| IAS 39 (Amendment) | Eligible hedged items |

The improvements to IFRSs 2009 consist of further amendments to existing standards, including amendments to IAS 17 Leases. The amendment to IAS 17 requires the land element of long term leases to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of these leases. Leasehold land that qualifies for finance lease classification has been reclassified from leasehold land payments to tangible assets – land and buildings and has been measured using the revaluation model on a retrospective basis. The adoption of revised IAS 17 has led to a reclassification of prepaid leases of US\$1.6 million to tangible assets – land and buildings and has had no significant financial impact to the Group's consolidated income statements for the current and prior periods.

The other developments resulted in changes in accounting policies but none of these changes in policy have a material impact on the current or previous periods, as described below:

- As a result of the adoption of revised IAS 27 which is applied as from 1 April 2010, the Group accounts for any changes in a parent company's interest in subsidiaries that do not result in changes of control as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill is recognised or remeasured as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals,

respectively. A gain or loss on disposal is recognised in the consolidated income statement only if the disposal results in a loss of control of a subsidiary.

- The impact of the revised IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and the revised IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment to IAS 39 ("IAS 39 (amended)") provides additional guidance on when a financial item can be designated as a hedged item and on assessing hedge effectiveness. The adoption of IAS 39 (amended) had no significant impact on the financial statements of the Group.

The Group has not applied any new standard or Interpretation that is not yet effective for the current accounting period (note 25).

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 and derivative financial instruments stated at their fair value as explained in the accounting policies set out below.

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, liabilities, income and expenses. 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.

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 made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 26.

D Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and controlled special purpose entities and the Group's interests in associates. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

Subsidiaries and controlled special purpose entities are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Principal Accounting Policies (Continued)

D Basis of Consolidation (Continued)

Investments in subsidiaries and a controlled special purpose entity are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. The assets and liabilities of the controlled special purpose entity, VTech Share Purchase Scheme Trust, are included in the Group's balance sheet and the shares held by the VTech Share Purchase Scheme Trust are presented as a deduction in equity as Shares held for Share Purchase Scheme.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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 is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) Revenue from the sale of goods is recognised 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.
- (ii) Revenue from the provision of services is recognised when the services are rendered.
- (iii) Interest income is recognised as it accrues using the effective interest method.
- (iv) 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 Translation of Foreign Currencies

Foreign currency transactions during the year 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 foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into United States dollars at the closing foreign exchange rates at the balance sheet date.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Principal Accounting Policies (Continued)

H Tangible Assets and Depreciation (Continued)

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- When a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- When a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

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:

| | |
|---|--|
| Leasehold land classified as finance lease | Over the unexpired term of lease |
| Medium-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 profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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 (see note (H)).

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 consolidated income statement in proportion of the capital balances outstanding.

Leases of assets under which substantially 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 consolidated 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 debtors 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.

Impairment losses for debtors 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 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 profit or loss.

(ii) Impairment of other assets

The carrying amounts of the Group's assets including property, plant and equipment, construction in progress, interest in subsidiaries, interest in associates and other investments, 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.

Principal Accounting Policies (Continued)

K Impairment of Assets (Continued)

(ii) Impairment of other assets (Continued)

- Recoverable amount

The recoverable amount is the greater of the asset's fair value less costs to sell 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.

- Recognition of impairment losses

An impairment loss is recognised as an expense in the consolidated income statement whenever the carrying amount exceeds the recoverable amount.

- Reversal of impairment losses

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.

- Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

L Other Investments

Other investments are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. Subsequently, other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note (K)).

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 incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimates of costs of completion and selling expenses.

When stocks are sold, the carrying amount of those stocks is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of stocks to net realisable value and all losses of stocks are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of stocks is recognised as a reduction in the amount of stocks as an expense in the period in which the reversal occurs.

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 doubtful debts (see note (K)).

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 statement of cash flows.

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

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other creditors. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Principal Accounting Policies (Continued)

Q Provisions and Contingent Liabilities (Continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount 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.

R Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

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 consolidated 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 consolidated 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 consolidated income statement 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.

Principal Accounting Policies (Continued)

S Employee Benefits (Continued)

(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 retained profits).

For shares of the Company granted under the Share Purchase Scheme ("Awarded Shares"), the estimated fair value of the options granted and the cost of Awarded Shares are recognised as employee share-based compensation expense and credited to capital reserve under equity over the vesting periods.

At each balance sheet date, the Group revises its estimates of the number Awarded Shares that are expected to ultimately vest. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to consolidated income statement in the current year, with a corresponding adjustment to capital reserve.

T Share held for Share Purchase Scheme

Where the VTech Share Purchase Scheme Trust purchases shares of the Company from the market, the consideration paid, including any directly attributable incremental costs, is presented as Shares held for Share Purchase Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares recognised are credited to Shares held for Share Purchase Scheme, with a corresponding decrease in capital reserve for shares purchased with contributions paid to the VTech Share Purchase Scheme Trust, and decrease in retained profits for shares purchased through reinvesting dividends received on the vested Awarded Shares.

U Derivative Financial Instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

V Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Principal Accounting Policies (Continued)

W Dividends

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

X Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and performance assessment.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regularity environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Y 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 intermediaries, 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

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

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

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

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

All of these products and services are manufactured and performed in the Group's manufacturing facilities located primarily in the People's Republic of China ("PRC") under the Asia Pacific segment.

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

(a) Segment revenues and results

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

The measure used for reporting segment profit is operating profit.

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

(b) Segment assets and liabilities

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

Segment liabilities include trade creditors, bills payable, accruals, and provisions for electronic product warranties attributable to the manufacturing and sales activities of the individual reportable segments with the exception of deferred tax liabilities and taxation payable.

1 Segment Information (Continued)

| Year ended 31 March 2011 | North America US\$ million | Europe US\$ million | Asia Pacific US\$ million | Others US\$ million | Total US\$ million |
|--------------------------------|-------------------------------|------------------------|------------------------------|------------------------|-----------------------|
| Reportable segment revenue | 874.9 | 667.6 | 98.2 | 72.1 | 1,712.8 |
| Reportable segment profit | 97.2 | 97.9 | 13.8 | 9.8 | 218.7 |
| Depreciation and amortisation | 1.0 | 1.8 | 30.4 | – | 33.2 |
| Reportable segment assets | 140.3 | 93.4 | 636.9 | 0.7 | 871.3 |
| Reportable segment liabilities | (43.5) | (26.0) | (253.5) | (1.3) | (324.3) |

| Year ended 31 March 2010 | North America US\$ million | Europe US\$ million | Asia Pacific US\$ million | Others US\$ million | Total US\$ million |
|---|-------------------------------|------------------------|------------------------------|------------------------|-----------------------|
| Reportable segment revenue | 872.6 | 528.9 | 81.5 | 49.3 | 1,532.3 |
| Reportable segment profit | 116.0 | 89.7 | 9.0 | 9.4 | 224.1 |
| Depreciation and amortisation | 1.0 | 1.8 | 33.9 | – | 36.7 |
| Impairment loss on construction in progress | – | – | 6.9 | – | 6.9 |
| Reportable segment assets | 121.1 | 75.5 | 642.3 | 0.7 | 839.6 |
| Reportable segment liabilities | (47.5) | (19.9) | (247.7) | (0.2) | (315.3) |

(c) Reconciliations of reportable segment assets and liabilities

| | Note | 2011 US\$ million | 2010 US\$ million |
|--------------------------------|-------|----------------------|----------------------|
| Assets | | | |
| Reportable segment assets | | 871.3 | 839.6 |
| Investments | 9 | 0.2 | 0.2 |
| Taxation recoverable | 10(a) | 0.3 | 0.7 |
| Deferred tax assets | 10(b) | 5.4 | 5.6 |
| Consolidated total assets | | 877.2 | 846.1 |
| Liabilities | | | |
| Reportable segment liabilities | | (324.3) | (315.3) |
| Taxation payable | 10(a) | (5.1) | (9.6) |
| Deferred tax liabilities | 10(b) | (3.9) | (3.7) |
| Consolidated total liabilities | | (333.3) | (328.6) |

For the year ended 31 March 2011, approximately 14% (2010: 17%) of the Group's revenue is derived from a single external customer. This revenue is attributable to the North America segment.

Details of concentrations of credit risk of the Group are set out in note 19(a).

2 Operating Profit

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

| Note | 2011 US\$ million | 2010 US\$ million | Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|--|----------------------|----------------------|
| Staff related costs | | | Operating leases charges: | | |
| – salaries and wages | 202.0 | 164.5 | – minimum lease payments | | |
| – pension costs: defined contribution schemes | 16 | 6.6 | – land and buildings | 12.4 | 11.2 |
| – pension costs: defined benefit scheme | 16 | 1.0 | – others | 2.2 | 2.0 |
| – severance payments | | 0.5 | Impairment loss of trade debtors | 12(b) | 0.2 |
| – equity-settled share-based payment expenses | | 2.3 | Reversal of impairment loss of trade debtors | 12(b) | (0.9) |
| | 212.4 | 173.7 | Royalties | | 23.1 |
| Cost of inventories | 1,145.9 | 972.9 | Provision for defective goods returns | 15 | 26.7 |
| Depreciation of tangible assets | 7 | 33.1 | Net foreign exchange gain | | (1.7) |
| Amortisation of leasehold land payments | 8 | 0.1 | Net (gain)/loss on forward foreign exchange contracts | | |
| Impairment loss on construction in progress | 7 | – | – Net loss on cash flow hedging instruments reclassified from equity | | – |
| Auditors' remuneration | | | – Net gain on the forward foreign exchange contracts | | 0.3 |
| – audit services | | 0.8 | | | |
| – audit related services | | 0.1 | | | |
| – tax and other services | | 0.5 | | | |
| | | | | (0.1) | (0.3) |

3 Directors' Emoluments and Individuals with Highest 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 (v) US\$ million | 2011 Total US\$ million |
|---|----------------------|--|--|--|---|-------------------------------|
| Executive Directors (i) | | | | | | |
| Allan WONG Chi Yun (iii) | - | 0.8 | 2.0 | 0.1 | 0.8 | 3.7 |
| PANG King Fai | - | 0.4 | 0.6 | - | 0.4 | 1.4 |
| Andy LEUNG Hon Kwong | - | 0.4 | 1.1 | - | 0.2 | 1.7 |
| Independent Non-executive Directors (ii) | | | | | | |
| William FUNG Kwok Lun | - | - | - | - | - | - |
| Denis Morgie HO Pak Cho | - | - | - | - | - | - |
| David SUN Tak Kei (iv) | - | - | - | - | - | - |
| Michael TIEN Puk Sun | - | - | - | - | - | - |
| Patrick WANG Shui Chung | - | - | - | - | - | - |
| | - | 1.6 | 3.7 | 0.1 | 1.4 | 6.8 |

| | 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 (v) US\$ million | 2010 Total US\$ million |
|---|----------------------|--|--|--|---|-------------------------------|
| Executive Directors (i) | | | | | | |
| Allan WONG Chi Yun (iii) | - | 0.8 | 2.7 | 0.1 | 0.3 | 3.9 |
| PANG King Fai | - | 0.4 | 0.8 | - | 0.2 | 1.4 |
| Andy LEUNG Hon Kwong | - | 0.4 | 0.7 | - | 0.1 | 1.2 |
| Independent Non-executive Directors (ii) | | | | | | |
| William FUNG Kwok Lun | - | - | - | - | - | - |
| Denis Morgie HO Pak Cho | - | - | - | - | - | - |
| Michael TIEN Puk Sun | - | - | - | - | - | - |
| Patrick WANG Shui Chung | - | - | - | - | - | - |
| | - | 1.6 | 4.2 | 0.1 | 0.6 | 6.5 |

Notes:

- (i) The directors' fee paid to each executive director of the Company was US\$30,000 (2010: US\$20,000) per annum.
- (ii) The emoluments paid to each independent non-executive director of the Company was US\$30,000 (2010: US\$20,000) per annum, pro-rata to the length of service.
- (iii) Included in the emoluments paid to Dr. Allan WONG Chi Yun was housing benefit of HK\$3,000,000 for the year ended 31 March 2011 (2010: HK\$3,000,000), which was based on the lease agreement entered by the Company with Aldenham Company Limited ("Aldenham"). Aldenham is an indirect wholly owned subsidiary of a trust in which the family members of Dr. Allan WONG Chi Yun are beneficiaries.
- (iv) Dr. David SUN Tak Kei was appointed as independent non-executive director on 25 January 2011.
- (v) Share-based payments represent the fair value of share options granted to the directors which were charged to the consolidated 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 (2010: three) are directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2010: two) individuals are as follows:

| | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| Salaries, allowances and benefits in kind | 0.9 | 0.8 |
| Discretionary bonuses | 1.0 | 1.2 |
| Contribution to retirement benefit schemes | - | - |
| Share-based payments | 0.4 | 0.1 |
| | 2.3 | 2.1 |

The emoluments fell within the following bands:

| | 2011 Individuals | 2010 Individuals |
|-----------------------|---------------------|---------------------|
| US\$ | | |
| 513,001 – 577,000 | - | - |
| 641,001 – 705,000 | - | 1 |
| 833,001 – 897,000 | 1 | - |
| 1,397,001 – 1,461,000 | 1 | 1 |
| | 2 | 2 |

During the years ended 31 March 2010 and 31 March 2011, there were no amounts paid to directors and individuals for compensation for loss of office and inducement for joining the Group.

4 Taxation

| Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| Current tax | | |
| – Hong Kong | 16.2 | 17.3 |
| – Overseas | 4.7 | 4.2 |
| Over-provision in respect of prior years | | |
| – Hong Kong | (1.2) | (0.3) |
| – Overseas | (0.7) | – |
| Deferred tax | | |
| – Origination and reversal of temporary differences 10(b) | 0.1 | (1.0) |
| | 19.1 | 20.2 |

- (a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.
- (b) Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.
- (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 31 March 2011 was 8.7% (2010: 9.0%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

| | 2011 % | 2010 % |
|---|--------------|-----------|
| Statutory domestic income tax rate | 16.5 | 16.5 |
| Difference in overseas income tax rates | 0.7 | 0.8 |
| Non-temporary differences | (7.0) | (6.8) |
| Tax losses not recognised | 0.1 | – |
| Others | (1.6) | (1.5) |
| Effective income tax rate | 8.7 | 9.0 |

- (d) Included in the consolidated statement of comprehensive income for the year ended 31 March 2011 was US\$1.3 million related to surplus on revaluation of properties which was derived at after the related tax expense of US\$0.3 million.

5 Dividends

| Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| Interim dividend of US16.0 cents (2010: US16.0 cents) per share declared and paid | 39.7 | 39.5 |
| Final dividend of US62.0 cents (2010: US62.0 cents) per share proposed after the balance sheet date | 153.9 | 153.1 |

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 14 June 2010, the directors proposed a final dividend of US62.0 cents per ordinary share for the year ended 31 March 2010, which was estimated to be US\$153.1 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2010. The final dividend was approved by shareholders at the annual general meeting on 30 July 2010. As a result of shares issuance upon exercise of share options during the period between 1 April 2010 and 30 July 2010, the final dividend paid in respect of the year ended 31 March 2010 totaled US\$153.9 million.

6 Earnings Per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US\$202.0 million (2010: US\$206.5 million).

The basic earnings per share is based on the weighted average of 247.9 million (2010: 246.6 million) ordinary shares in issue during the year. The diluted earnings per share is based on 248.9 million (2010: 247.7 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.

| | 2011 million | 2010 million |
|--|-----------------|-----------------|
| Weighted average number of ordinary shares at 31 March | 247.9 | 246.6 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | 1.0 | 1.1 |
| Weighted average number of ordinary shares (diluted) at 31 March | 248.9 | 247.7 |

During the year ended 31 March 2011, no share was purchased, granted and awarded under the Share Purchase Scheme. Accordingly, no adjustment to the diluted earnings per share is made in respect of the Share Purchase Scheme (Note 17(c)).

7 Tangible Assets

| | Land and buildings US\$ million | Leasehold improvements US\$ million | Moulds, machinery and equipment US\$ million | Computers, motor vehicles, furniture and fixtures US\$ million | Construction in progress US\$ million | Total US\$ million |
|--|------------------------------------|--|---|---|--|-----------------------|
| Cost or valuation | | | | | | |
| At 1 April 2009 | 60.8 | 11.6 | 239.7 | 96.2 | 9.5 | 417.8 |
| Additions | – | – | 14.4 | 11.7 | 0.2 | 26.3 |
| Disposals | – | (0.4) | (5.4) | (2.1) | – | (7.9) |
| Transfer to leasehold land payments | – | – | – | – | (2.8) | (2.8) |
| Effect of changes in exchange rates | 0.2 | 0.3 | 1.4 | 0.3 | – | 2.2 |
| At 31 March 2010 and 1 April 2010 | 61.0 | 11.5 | 250.1 | 106.1 | 6.9 | 435.6 |
| Additions | – | 0.2 | 19.8 | 5.9 | – | 25.9 |
| Disposals | – | – | (8.1) | (3.3) | – | (11.4) |
| Revaluation | 1.1 | – | – | – | – | 1.1 |
| Effect of changes in exchange rates | 1.6 | 0.5 | 1.2 | 2.5 | – | 5.8 |
| At 31 March 2011 | 63.7 | 12.2 | 263.0 | 111.2 | 6.9 | 457.0 |
| Accumulated depreciation | | | | | | |
| At 1 April 2009 | 22.8 | 5.1 | 211.1 | 77.3 | – | 316.3 |
| Charge for the year | 3.1 | 0.8 | 21.4 | 11.3 | – | 36.6 |
| Impairment loss (<i>note (i)</i>) | – | – | – | – | 6.9 | 6.9 |
| Written back on disposals | – | (0.4) | (5.2) | (2.0) | – | (7.6) |
| Effect of changes in exchange rates | – | 0.1 | 1.7 | 0.2 | – | 2.0 |
| At 31 March 2010 and 1 April 2010 | 25.9 | 5.6 | 229.0 | 86.8 | 6.9 | 354.2 |
| Charge for the year | 3.1 | 0.9 | 18.9 | 10.2 | – | 33.1 |
| Written back on disposals | – | – | (8.0) | (3.3) | – | (11.3) |
| Revaluation | (0.5) | – | – | – | – | (0.5) |
| Effect of changes in exchange rates | 0.2 | 0.2 | 0.9 | 1.8 | – | 3.1 |
| At 31 March 2011 | 28.7 | 6.7 | 240.8 | 95.5 | 6.9 | 378.6 |
| Net book value at 31 March 2011 | 35.0 | 5.5 | 22.2 | 15.7 | – | 78.4 |
| Net book value at 31 March 2010 | 35.1 | 5.9 | 21.1 | 19.3 | – | 81.4 |
| Cost or valuation of tangible assets is analysed as follows: | | | | | | |
| At cost | 42.0 | 12.2 | 263.0 | 111.2 | 6.9 | 435.3 |
| At professional valuation (<i>note (iii)</i>) | 21.7 | – | – | – | – | 21.7 |
| | 63.7 | 12.2 | 263.0 | 111.2 | 6.9 | 457.0 |

7 Tangible Assets (Continued)

Land and buildings comprise:

| | Freehold land and buildings and medium-term leasehold land and buildings US\$ million | Short-term leasehold buildings US\$ million | Total US\$ million |
|---|--|--|-----------------------|
| Cost or valuation | | | |
| At 1 April 2009 | 19.9 | 40.9 | 60.8 |
| Effect of changes in exchange rates | 0.1 | 0.1 | 0.2 |
| At 31 March 2010 and 1 April 2010 | 20.0 | 41.0 | 61.0 |
| Revaluation | 1.1 | – | 1.1 |
| Effect of changes in exchange rates | 0.6 | 1.0 | 1.6 |
| At 31 March 2011 | 21.7 | 42.0 | 63.7 |
| Accumulated depreciation | | | |
| At 1 April 2009 | 0.6 | 22.2 | 22.8 |
| Charge for the year | 1.6 | 1.5 | 3.1 |
| At 31 March 2010 and 1 April 2010 | 2.2 | 23.7 | 25.9 |
| Charge for the year | 1.7 | 1.4 | 3.1 |
| Revaluation | (0.5) | – | (0.5) |
| Effect of changes in exchange rates | – | 0.2 | 0.2 |
| At 31 March 2011 | 3.4 | 25.3 | 28.7 |
| Net book value at 31 March 2011 | 18.3 | 16.7 | 35.0 |
| Net book value at 31 March 2010 | 17.8 | 17.3 | 35.1 |
| Cost or valuation of tangible assets is analysed as follows: | | | |
| At cost | – | 42.0 | 42.0 |
| At professional valuation (note (iii)) | 21.7 | – | 21.7 |
| | 21.7 | 42.0 | 63.7 |
| Net book value of land and buildings comprises: | | | |
| Hong Kong | | | |
| Medium-term leasehold land and buildings (less than 50 years but not less than 10 years) | 5.4 | – | 5.4 |
| Overseas | | | |
| Freehold land and buildings | 12.9 | – | 12.9 |
| Short-term leasehold buildings | – | 16.7 | 16.7 |
| | 12.9 | 16.7 | 29.6 |
| Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation | 6.5 | – | 6.5 |

Notes:

- (i) At 31 March 2011, the Group assessed the recoverable amount of the construction in progress in accordance with the accounting policy set out in note (K) and no impairment provision was considered necessary. At 31 March 2010, the Group made an impairment provision of US\$6.9 million to the carrying amount.
- (ii) Property revaluation—The amount included valuation of land and buildings which were revalued by independent valuers on a market value basis in accordance with accounting policy set out in note (H).

8 Leasehold Land Payments

| | Note | 2011 US\$ million | 2010 US\$ million |
|--|------|----------------------|----------------------|
| Net book value at 1 April | | 4.9 | 2.2 |
| Transfer from tangible assets | | – | 2.8 |
| Amortisation | 2 | (0.1) | (0.1) |
| Effect of changes in exchange rates | | 0.2 | – |
| Net book value at 31 March (note (i)) | | 5.0 | 4.9 |
| Leasehold land payments in respect of: Owner-occupied properties | | 5.0 | 4.9 |

Note:

- (i) Included in leasehold land payments are deposits of US\$2.9 million (2010: US\$2.8 million) are paid for the acquisition of certain sites in the PRC.

9 Investments

| | 2011 US\$ million | 2010 US\$ million |
|-------------------------------|----------------------|----------------------|
| (i) Associates | | |
| Share of net assets | 0.1 | 0.1 |
| (ii) Other investments | | |
| Unlisted investments, at cost | 0.1 | 0.1 |
| | 0.2 | 0.2 |

10 Income Tax in the Consolidated Balance Sheet

(a) Current taxation in the consolidated balance sheet represents:

| | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| Provision for Profits Tax for the year | (20.9) | (21.5) |
| Provisional Profits Tax paid | 16.1 | 13.4 |
| | (4.8) | (8.1) |
| Balance of Profits Tax provision relating to prior years | – | (0.8) |
| | (4.8) | (8.9) |

| | 2011 US\$ million | 2010 US\$ million |
|-----------------|----------------------|----------------------|
| Tax recoverable | 0.3 | 0.7 |
| Tax payable | (5.1) | (9.6) |
| | (4.8) | (8.9) |

(b) The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31 March 2010 and 31 March 2011 are attributable to the following items:

| | Credited/ (charged) to consolidated 1 April 2009 US\$ million | Credited/ (charged) to income statement US\$ million | 31 March 2010 and 1 April 2010 US\$ million | Credited/ (charged) to consolidated income statement US\$ million | Charged to reserve US\$ million | 31 March 2011 US\$ million |
|--|--|--|---|--|---------------------------------------|----------------------------------|
| Deferred tax assets | | | | | | |
| Tax losses carried forward | 2.4 | 1.1 | 3.5 | (0.1) | – | 3.4 |
| Other deductible temporary differences | 2.8 | (0.7) | 2.1 | (0.1) | – | 2.0 |
| | 5.2 | 0.4 | 5.6 | (0.2) | – | 5.4 |
| Deferred tax liabilities | | | | | | |
| Accelerated tax depreciation | (0.9) | 0.5 | (0.4) | 0.2 | – | (0.2) |
| Revaluation of properties | (2.9) | – | (2.9) | – | (0.3) | (3.2) |
| Others | (0.5) | 0.1 | (0.4) | (0.1) | – | (0.5) |
| | (4.3) | 0.6 | (3.7) | 0.1 | (0.3) | (3.9) |
| Net deferred tax assets | 0.9 | 1.0 | 1.9 | (0.1) | (0.3) | 1.5 |

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:

| | 2011 US\$ million | 2010 US\$ million |
|--------------------------|----------------------|----------------------|
| Deferred tax assets | 5.4 | 5.6 |
| Deferred tax liabilities | (3.9) | (3.7) |
| | 1.5 | 1.9 |

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\$13.4 million (2010: US\$15.6 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US\$56.3 million (2010: US\$62.9 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 31 March 2011.

The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the United States operations expire up to 20 years after the relevant accounting year end date, depending on the relevant jurisdiction.

11 Stocks

(a) Inventories in the consolidated balance sheet comprise:

| | 2011 US\$ million | 2010 US\$ million |
|------------------|----------------------|----------------------|
| Raw materials | 73.5 | 67.5 |
| Work in progress | 29.5 | 19.6 |
| Finished goods | 126.8 | 72.2 |
| | 229.8 | 159.3 |

Stocks carried at net realisable value at 31 March 2011 amounted to US\$7.8 million (2010: US\$16.8 million).

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated income statement is as follows:

| | 2011 US\$ million | 2010 US\$ million |
|---------------------------------------|----------------------|----------------------|
| Carrying amount of inventories sold | 1,145.3 | 972.9 |
| Write-down of inventories | 4.1 | 7.2 |
| Reversal of write-down of inventories | (3.5) | (7.2) |
| | 1,145.9 | 972.9 |

The reversal of write-down of inventories made in prior years arose due to an increase in estimated net realisable value of certain products as a result of change in consumer preferences.

12 Debtors, Deposits and Prepayments

| Note | 2011 US\$ million | 2010 US\$ million |
|--|--------------------------|----------------------|
| Trade debtors (Net of allowance for doubtful debts of US\$7.9 million (2010: US\$8.8 million)) | 12(a) & (b) 198.8 | 185.7 |
| Other debtors, deposits and prepayments | 23.7 | 23.7 |
| Forward foreign exchange contracts | | |
| – held as cash flow hedging instruments | 19(b) & (d) 0.3 | – |
| – held as fair value through profit or loss | 19(b) & (d) 0.2 | 0.3 |
| Pension assets | 16 2.0 | 1.7 |
| | 225.0 | 211.4 |

Other debtors, deposits and prepayments are expected to be recovered within one year except for US\$2.5 million (2010: US\$2.2 million) to be settled after one year.

(a) Ageing Analysis

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

| | 2011 US\$ million | 2010 US\$ million |
|------------|----------------------|----------------------|
| 0-30 days | 110.0 | 101.4 |
| 31-60 days | 60.2 | 53.8 |
| 61-90 days | 22.6 | 28.4 |
| >90 days | 6.0 | 2.1 |
| Total | 198.8 | 185.7 |

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.

(b) 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.

At 31 March 2011, the Group's trade debtors of US\$7.9 million (2010: US\$8.8 million) were individually determined to be impaired as management considered that these receivables cannot be recovered. Consequently, full provisions for these doubtful debts were recognised.

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

| Note | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| At 1 April | 8.8 | 7.7 |
| Impairment loss recognised | 2 0.2 | 4.1 |
| Reversal of impairment loss of trade debtors | 2 (0.9) | (0.5) |
| Uncollectible amounts written off | (0.3) | (2.8) |
| Effect of changes in exchange rates | 0.1 | 0.3 |
| At 31 March | 7.9 | 8.8 |

(c) Trade debtors that are not impaired

As at 31 March 2011, 96% (2010: 95%) of the Group's trade debtors were not impaired, of which 99% (2010: 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 balances are considered to be fully recoverable. The Group does not hold any collateral over these balances.

13 Deposits and Cash

| | The Group | | The Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2011 US\$ million | 2010 US\$ million | 2011 US\$ million | 2010 US\$ million |
| Short term bank deposits | 210.3 | 269.6 | – | – |
| Cash at bank and in hand | 122.8 | 113.0 | 0.3 | 0.3 |
| Deposits and cash | 333.1 | 382.6 | 0.3 | 0.3 |
| Less: bank deposits with maturity greater than three months | (90.0) | (185.7) | – | – |
| Cash and cash equivalents in the consolidated statement of cash flows | 243.1 | 196.9 | 0.3 | 0.3 |

Deposits and cash as at 31 March 2011 include US\$26.6 million equivalent (2010: US\$23.9 million) placed with banks in the PRC, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

14 Creditors and Accruals

| | Note | The Group | | The Company | |
|--|-------------|----------------------|----------------------|----------------------|----------------------|
| | | 2011 US\$ million | 2010 US\$ million | 2011 US\$ million | 2010 US\$ million |
| Trade creditors | 14(a) | 142.6 | 136.0 | – | – |
| Other creditors and accruals | 14(b) | 142.2 | 136.9 | 0.5 | 1.8 |
| Forward foreign exchange contracts held as fair value through profit or loss | 19(b) & (d) | 0.1 | – | – | – |
| | | 284.9 | 272.9 | 0.5 | 1.8 |

(a) Ageing Analysis

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

| | 2011 US\$ million | 2010 US\$ million |
|------------|----------------------|----------------------|
| 0-30 days | 80.1 | 70.1 |
| 31-60 days | 33.0 | 35.8 |
| 61-90 days | 19.6 | 20.9 |
| >90 days | 9.9 | 9.2 |
| Total | 142.6 | 136.0 |

(b) Other creditors and accruals

Other creditors and accruals comprised largely of accruals in staff costs, advertising and promotion expenses, rebates and allowances to customers, and miscellaneous operating expenses.

Other creditors and accruals are expected to be settled within one year or are repayable on demand.

15 Provisions

At 31 March 2011, provisions of US\$39.4 million (2010: US\$42.4 million) include provisions for defective goods returns of US\$34.5 million (2010: US\$37.7 million).

| | Note | Defective goods returns US\$ million |
|--|------|---|
| At 1 April 2010 | | 37.7 |
| Effect of changes in exchange rates | | 0.1 |
| Additional provisions | | 26.8 |
| Unused amounts reversed | | (0.1) |
| Charged to the consolidated income statement | 2 | 26.7 |
| Utilised during the year | | (30.0) |
| At 31 March 2011 | | 34.5 |

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.

16 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\$6.1 million (2010: US\$4.9 million) and US\$0.5 million (2010: US\$0.5 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, a Towers Watson company ("Towers Watson"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Towers Watson as at 31 March 2011 using the projected unit credit method.

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

| Note | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| Fair value of Scheme assets | 22.7 | 20.0 |
| Present value of funded defined benefit obligations | (23.8) | (22.4) |
| Unrecognised actuarial losses | 3.1 | 4.1 |
| Assets recognised in the consolidated balance sheet | 2.0 | 1.7 |
| The amounts recognised in the consolidated income statement are as follows: | | |
| Current service cost | 1.6 | 1.9 |
| Interest cost | 0.7 | 0.5 |
| Expected return on plan assets | (1.4) | (1.0) |
| Net actuarial losses recognised in the year | 0.1 | 0.7 |
| Expenses recognised in the consolidated income statement | 1.0 | 2.1 |
| The actual return on plan assets was as follows: | | |
| Expected return on plan assets | 1.4 | 1.0 |
| Actuarial gains on plan assets | 0.7 | 4.4 |
| Actual return on plan assets | 2.1 | 5.4 |
| Movement in the assets recognised in the consolidated balance sheet: | | |
| At 1 April | 1.7 | 2.5 |
| Expenses recognised in the consolidated income statement | (1.0) | (2.1) |
| Contributions paid | 1.3 | 1.2 |
| Insurance proceeds | - | 0.1 |
| At 31 March | 2.0 | 1.7 |

| | 2011 US\$ million | 2010 US\$ million |
|---|----------------------|----------------------|
| Movement in fair value of Scheme assets: | | |
| At 1 April | 20.0 | 13.7 |
| Expected return on plan assets | 1.4 | 1.0 |
| Actual Group's contributions | 1.3 | 1.2 |
| Actual benefit paid | (0.7) | (0.4) |
| Actuarial gains on plan assets | 0.7 | 4.4 |
| Insurance proceeds | - | 0.1 |
| At 31 March | 22.7 | 20.0 |
| Movement in present value of funded defined benefit obligations: | | |
| At 1 April | 22.4 | 24.2 |
| Interest cost | 0.7 | 0.5 |
| Current service cost | 1.6 | 1.9 |
| Actual benefits paid | (0.7) | (0.4) |
| Actuarial gains | (0.2) | (3.8) |
| At 31 March | 23.8 | 22.4 |

| | 2011 US\$ million | 2010 US\$ million | 2009 US\$ million | 2008 US\$ million | 2007 US\$ million |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Historical information | | | | | |
| Present value of funded defined benefit obligations | 23.8 | 22.4 | 24.2 | 21.3 | 16.3 |
| Fair value of Scheme assets | (22.7) | (20.0) | (13.7) | (18.7) | (17.2) |
| Deficit/(surplus) in the plan | 1.1 | 2.4 | 10.5 | 2.6 | (0.9) |
| Experience gains on Scheme liabilities | (0.1) | (1.0) | (0.6) | (0.1) | - |
| Experience (gains)/losses on Scheme assets | (0.7) | (4.4) | 6.4 | 0.2 | (1.4) |

| | 2011 | 2010 |
|--|--------|--------|
| Scheme assets consist of the following: | | |
| Equities | 70.8% | 65.4% |
| Bonds | 23.4% | 21.6% |
| Cash and others | 5.8% | 13.0% |
| | 100.0% | 100.0% |
| The principal actuarial assumptions used as at 31 March 2011 (expressed as weighted average) are as follows: | | |
| Discount rate | 3.0% | 3.0% |
| Expected rate of return on plan assets | 7.0% | 7.0% |
| Future salary increases | 5.0% | 5.0% |

17 Share Capital and Share Options

(a) Share Capital

| | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| <i>Authorised</i> | | |
| Ordinary shares: 400,000,000 (2010: 400,000,000) of US\$0.05 each | 20.0 | 20.0 |

| | 2011 No. of shares | 2011 US\$ million | 2010 No. of shares | 2010 US\$ million |
|--|-----------------------|----------------------|-----------------------|----------------------|
| <i>Issued and fully paid</i> | | | | |
| Ordinary shares of US\$0.05 each: | | | | |
| At 1 April | 246,990,133 | 12.4 | 245,852,133 | 12.3 |
| Shares issued upon exercise of share options | 1,306,000 | – | 1,138,000 | 0.1 |
| At 31 March | 248,296,133 | 12.4 | 246,990,133 | 12.4 |

Note: Subsequent to the balance sheet date and up to 31 May 2011, the issued and fully paid share capital of the Company was increased to 248,336,133 ordinary shares upon the exercise of 40,000 share options.

(b) Share Options

Pursuant to the 2001 Scheme adopted on 10 August 2001, 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/her 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. The basis of determination of the exercise price shall be the higher of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for five business days immediately preceding the date of grant.

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 by the grantee. The 2001 Scheme has a life of 10 years and will expire on 9 August 2011. On 31 May 2011, the Board resolved to adopt a new share option scheme subject to approval by the shareholders at the forthcoming annual general meeting.

17 Share Capital and Share Options (Continued)

(b) Share Options (Continued)

As at 31 March 2011, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 2,936,000, which represented approximately 1.2% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the financial year were as follows:

| Date of grant | Exercise price | Exercisable period (Note 1) | Number of share options | | | Balance in issue at 31 March 2011 |
|---------------|----------------|--------------------------------|----------------------------------|-------------------------|---------------------------|-----------------------------------|
| | | | Balance in issue at 1 April 2010 | Granted during the year | Exercised during the year | |
| 17 April 2008 | HK\$41.07 | 23 April 2009 to 29 April 2011 | 248,000 | – | (248,000) | – |
| 17 April 2008 | HK\$41.07 | 23 April 2010 to 29 April 2012 | 1,306,000 | – | (1,058,000) | 248,000 |
| 17 April 2008 | HK\$41.07 | 23 April 2011 to 29 April 2013 | 1,306,000 | – | – | 1,306,000 |
| 9 April 2010 | HK\$85.35 | 12 April 2012 to 4 May 2014 | – | 1,382,000 | – | 1,382,000 |
| | | | 2,860,000 | 1,382,000 | (1,306,000) | 2,936,000 |

Notes:

- (1) 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) An aggregate of 248,000 share options were exercised at the exercise price of HK\$41.07 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\$86.98 per share and HK\$84.68 per share respectively.
- (3) An aggregate of 1,058,000 share options were exercised at the exercise price of HK\$41.07 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\$84.88 per share and HK\$81.09 per share respectively.
- (4) On 9 April 2010, the Company granted 1,382,000 options to certain employees of the Company and its subsidiaries pursuant to the 2001 Scheme. The closing price per share immediately before the date on which options were granted was HK\$86.90.
- (5) No options were lapsed or cancelled during the financial year.

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

| | Date of grant | | | |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------------------|
| | 17 April 2008 (Note 1) | 17 April 2008 (Note 1) | 17 April 2008 (Note 1) | 9 April 2010 (Note 2) |
| Fair value of each share option as of the date of grant | HK\$5.18 | HK\$5.76 | HK\$5.95 | HK\$22.12 |
| Closing price at the date of grant | HK\$40.1 | HK\$40.1 | HK\$40.1 | HK\$85.1 |
| Exercise price | HK\$41.07 | HK\$41.07 | HK\$41.07 | HK\$85.35 |
| Expected volatility | 43.33% | 43.33% | 43.33% | 54.24% |
| Annual risk-free interest rate | 1.22% | 1.56% | 1.88% | 0.99% |
| Expected average life of options | 1.5 years | 2.5 years | 3.5 years | 2.5 years |
| Expected dividend yield (Note 3) | 10.3% | 10.3% | 10.3% | 5.22% |
| Exercisable period | 23 April 2009 to 29 April 2011 | 23 April 2010 to 29 April 2012 | 23 April 2011 to 29 April 2013 | 12 April 2012 to 4 May 2014 |

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 two years 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 three years immediately preceding the grant date.
- (3) Expected dividend yield is based on historical dividends over one year prior to the grant date.
- (4) Changes in the subjective input assumptions could significantly affect the fair value estimate.

(c) Share Purchase Scheme

On 30 March 2011 (the "Adoption Date"), the Company adopted a Share Purchase Scheme. The shares to be awarded (to eligible employees of the Group) pursuant to the Share Purchase Scheme will be existing shares, which will be purchased on the Stock Exchange by the independent trustee with funds provided by the Company, and will be awarded in such manner as the remuneration committee may determine or approve. The maximum number of shares that can be held by the trustee under the Share Purchase Scheme is limited to three per cent of the issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting). The Share Purchase Scheme has a term of 20 years from the Adoption Date.

During the financial year since the Adoption Date, there were no shares purchased, granted and awarded.

17 Share Capital and Share Options (Continued)

(d) 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 31 March 2011 (2010: US\$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 31 March 2011 and 31 March 2010 is as follows:

| | The Group | | The Company | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 US\$ million | 2010 US\$ million | 2011 US\$ million | 2010 US\$ million |
| Total equity | 543.9 | 517.5 | 335.1 | 376.7 |
| Less: Proposed dividends | (153.9) | (153.1) | (153.9) | (153.1) |
| | 390.0 | 364.4 | 181.2 | 223.6 |

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

18 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2011 and 31 March 2010 are set out in the consolidated statement of changes in equity.

(b) The Company

| | Note | Share capital | Share premium | Exchange reserve | Capital reserve | Revenue reserve | Total equity |
|---|------|---------------|---------------|------------------|-----------------|-----------------|--------------|
| | | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| At 1 April 2009 | | 12.3 | 106.9 | (1.2) | 1.7 | 266.5 | 386.2 |
| Changes in equity for the year ended 31 March 2010 | | | | | | | |
| Comprehensive income | | | | | | | |
| Profit for the year | | – | – | – | – | 124.6 | 124.6 |
| Total comprehensive income for the year | | – | – | – | – | 124.6 | 124.6 |
| Final dividend in respect of the previous year | | – | – | – | – | (101.2) | (101.2) |
| Interim dividend in respect of the current year | 5 | – | – | – | – | (39.5) | (39.5) |
| Shares issued under share option scheme | | 0.1 | 5.7 | – | – | – | 5.8 |
| Equity-settled share based payments | | – | 0.7 | – | 0.1 | – | 0.8 |
| At 31 March 2010 and 1 April 2010 | | 12.4 | 113.3 | (1.2) | 1.8 | 250.4 | 376.7 |
| Changes in equity for the year ended 31 March 2011 | | | | | | | |
| Comprehensive income | | | | | | | |
| Profit for the year | | – | – | – | – | 142.9 | 142.9 |
| Total comprehensive income for the year | | – | – | – | – | 142.9 | 142.9 |
| Final dividend in respect of the previous year | 5 | – | – | – | – | (153.9) | (153.9) |
| Interim dividend in respect of the current year | 5 | – | – | – | – | (39.7) | (39.7) |
| Shares issued under share option scheme | | – | 6.8 | – | – | – | 6.8 |
| Equity-settled share based payments | | – | 1.0 | – | 1.3 | – | 2.3 |
| At 31 March 2011 | | 12.4 | 121.1 | (1.2) | 3.1 | 199.7 | 335.1 |

18 Reserves (Continued)

(b) The Company (Continued)

The consolidated profit attributable to shareholders includes a profit of US\$142.9 million (2010: US\$124.6 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\$199.7 million (2010: US\$250.4 million).

(c) Nature and purpose of reserves

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 values of the actual or estimated number of share options and Awarded Shares granted to employees of the company recognised in accordance with the accounting policy adopted for share-based payments in note (S).

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 flows.

19 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(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 with sound credit ratings. 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. The Group's five largest customers, in aggregate accounted for approximately 34.1% of the Group's revenue during the year.

The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty. In addition, credit risk is mitigated by the use of credit insurance plans.

(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"), Japanese Yen ("JPY"), Australian dollars ("AUD") and Renminbi ("RMB").

(i) Exposure to currency risk

The Group enters into forward foreign exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on recognised assets and liabilities. As at 31 March 2011, the notional principal amounts of these outstanding forward foreign exchange contracts were US\$18.7 million (2010: US\$11.3 million) with net negative fair value of US\$0.1 million (2010: positive US\$0.3 million) recognised as derivative financial instruments.

In addition, the Group uses forward foreign exchange contracts to hedge the exchange rates fluctuation for the purchase of RMB in respect of highly probable forecast transactions for the Group's PRC operations. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2011, the notional principal amounts of the outstanding forward foreign exchange contracts hedging highly probable forecast transactions were US\$145.6 million with net positive fair value of US\$0.5 million (2010: US\$nil) recognised as derivative financial instruments.

All of the forward foreign exchange contracts have maturities of less than one year after the balance sheet date.

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.

19 Financial Risk Management and Fair Values (Continued)

(b) Foreign exchange risk (Continued)

(ii) Sensitivity analysis

A sensitivity analysis was performed at 31 March 2011 to measure the instantaneous change in the Group's profit after tax and total equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

- A 5% (2010: 5%) increase/decrease in the exchange rate of EUR against USD will increase/decrease the Group's profit after tax and total equity by approximately US\$0.4 million (2010: US\$nil).
- 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 performed represents an aggregation of the instantaneous effects on each of the Group entities' profit after tax and total equity measured in the respective functional currencies, translated into USD at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those recognised assets or liabilities held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2010.

(c) Interest rate risk

At 31 March 2010 and 31 March 2011, the Group had no bank borrowings.

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

| | 2011 | | 2010 | |
|----------|-------------------------|------------------------------|-------------------------|------------------------------|
| | Effective interest rate | Within one year US\$ million | Effective interest rate | Within one year US\$ million |
| Floating | 0.21% | 108.7 | 0.18% | 113.0 |
| Fixed | 0.76% | 224.4 | 0.67% | 269.6 |

Interest rate sensitivity

At the respective balance sheet dates, if interest rates had been increased by 25 basis points and all other variables were held constant, the Group's profit after tax and total equity would increase by approximately US\$0.8 million and US\$1.0 million for the years ended 31 March 2011 and 2010, respectively. This is mainly attributable to the Group's exposure to interest rate changes on its variable rate income-earning financial assets including floating and fixed deposits and cash.

(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.

19 Financial Risk Management and Fair Values (Continued)

(d) Liquidity risk (Continued)

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 flows | | | | | |
|--|-------------------------------------|-----------------------|--|---|--|--------------------------------------|
| | 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 |
| The Group | | | | | | |
| At 31 March 2011 | | | | | | |
| Creditors and accruals | 284.9 | 284.9 | 284.9 | - | - | - |
| Derivatives settled gross: | | | | | | |
| Forward foreign exchange contracts – at fair value through profit or loss | | | | | | |
| – outflow | | 90.8 | 90.8 | - | - | - |
| – inflow | | (90.9) | (90.9) | - | - | - |
| Derivatives settled gross: | | | | | | |
| Forward foreign exchange contracts – cash flow hedge | | | | | | |
| – outflow | | 73.1 | 73.1 | - | - | - |
| – inflow | | (73.4) | (73.4) | - | - | - |
| The Company | | | | | | |
| At 31 March 2011 | | | | | | |
| Creditors and accruals | 0.5 | 0.5 | 0.5 | - | - | - |

| | Contractual undiscounted cash flows | | | | | |
|--|-------------------------------------|-----------------------|--|---|--|--------------------------------------|
| | 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 |
| The Group | | | | | | |
| At 31 March 2010 | | | | | | |
| Creditors and accruals | 272.9 | 272.9 | 272.9 | - | - | - |
| Derivatives settled gross: | | | | | | |
| Forward foreign exchange contracts – at fair value through profit or loss | | | | | | |
| – outflow | | 11.0 | 11.0 | - | - | - |
| – inflow | | (11.3) | (11.3) | - | - | - |
| The Company | | | | | | |
| At 31 March 2010 | | | | | | |
| Creditors and accruals | 1.8 | 1.8 | 1.8 | - | - | - |

Derivative financial instruments

Forward foreign exchange contracts were recognised initially at fair value. At each balance sheet date the fair value is remeasured. The positive fair values of derivative financial instruments designated as fair value through profit or loss and cash flow hedges at 31 March 2011 were US\$0.1 million (2010: US\$0.3 million) and US\$0.3 million (2010: US\$nil) respectively.

19 Financial Risk Management and Fair Values (Continued)

(e) Fair values

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

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

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2011 and 31 March 2010. Given these terms it is not meaningful to disclose the fair values.

Financial instruments carried at fair value

IFRS 7, Financial Instruments: Disclosures, requires the carrying value of financial instruments measured at fair value at balance sheet date across the three levels of the fair value hierarchy as defined in IFRS 7, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 March 2011, the fair value measurements of all forward foreign exchange contracts are categorised as level 2.

20 Commitments

| | 2011 US\$ million | 2010 US\$ million |
|--|----------------------|----------------------|
| (i) Capital commitments for property, plant and equipment | | |
| Authorised but not contracted for | 55.9 | 42.4 |
| Contracted but not provided for | 6.5 | 2.8 |
| | 62.4 | 45.2 |
| (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 | 14.6 | 10.9 |
| Between one and two years | 12.9 | 8.8 |
| Between two and five years | 32.1 | 6.7 |
| In more than five years | 36.7 | 1.6 |
| | 96.3 | 28.0 |

In November 2010, 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 2012, 2016, 2022, 2030 and 2031 respectively. The lease expiring in 2016 is not cancellable. The leases expiring in 2030 and 2031 have a non-cancellable period of ten years which expires in 2020 and 2021 respectively. The lease expiring in 2022 can be cancelled on six months' notice without penalty. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

In November 2010, 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 twenty year lease agreement, the Group rented the first and second phases of the facility for non-cancellable periods of ten years. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

Under a Brand License Agreement expiring on 31 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 31 March 2011, the Group has a remaining royalty prepayment of US\$4.1 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 31 March 2011 amount to US\$2.6 million (2010: US\$7.6 million), of which US\$2.4 million and US\$0.2 million are payable in the financial years ended 31 March 2012 and 2013 respectively.

21 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 31 March 2011, 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\$244.5 million (2010: US\$233.9 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.

22 Investment in Subsidiaries and Amounts due from/(to) Subsidiaries

- (a) The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.
- (b) Details of the Company's interest in those subsidiaries which materially affect the results or assets of the Group as at 31 March 2011 are set out below:

| Name of subsidiary | Fully paid issued share capital | Percentage of interest held by the Group | Principal activity |
|---|--|--|--|
| <i>Incorporated/established and operating in Hong Kong:</i> | | | |
| VTech Communications Limited | Ordinary HK\$1,000 Deferred HK\$5,000,000 | *100 | Design, manufacture and sale of electronic products |
| 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 |
| <i>Incorporated/established and operating in Australia:</i> | | | |
| VTech Telecommunications (Australia) Pty Limited | AUD1 | *100 | Sale of telecommunication products |
| <i>Incorporated/established and operating in Canada:</i> | | | |
| VTech Technologies Canada Ltd. | Class A CAD5,000 Class B CAD195,000 | *100 *100 | Sale of telecommunication and electronic products |
| <i>Incorporated/established and operating in France:</i> | | | |
| VTech Electronics Europe S.A.S. | EUR450,000 | *100 | Sale of electronic products |
| <i>Incorporated/established and operating in Germany:</i> | | | |
| VTech Electronics Europe GmbH | EUR500,000 | *100 | Sale of electronic products |
| VTech IAD GmbH | EUR25,000 | *100 | Development of broadband connectivity software |

22 Investment in Subsidiaries and Amounts due from/(to) Subsidiaries (Continued)

| Name of subsidiary | Fully paid issued share capital | Percentage of interest held by the Group | Principal activity |
|--|---------------------------------|--|---|
| <i>Incorporated/established and operating in the Netherlands:</i> | | | |
| VTech Electronics Europe B.V. | EUR18,100 | *100 | Sale of electronic products |
| <i>Incorporated/established and operating in the People's Republic of China:</i> | | | |
| Dongguan VTech Satellite Equipment Co. Ltd.** | HK\$28,500,000 | *100 | Manufacturing of telecommunication products |
| VTech (Dongguan) Electronics Limited** | HK\$45,697,729 | *100 | Manufacturing of electronic products |
| VTech (Dongguan) Communications Limited** | HK\$35,186,165 | *100 | Manufacturing of electronic products |
| VTech (Dongguan) Plastic Products Co., Ltd.** | HK\$20,000,000 | *100 | Manufacturing of plastics products |
| VTech (Qingyuan) Plastic & Electronics Co., Ltd.** | HK\$293,000,000 | *100 | Manufacturing of plastics products |
| VTech Electronics Industrial (Shenzhen) Co., Ltd.** | HK\$7,000,000 | *100 | Sales of electronic products |
| <i>Incorporated/established and operating in Spain:</i> | | | |
| VTech Electronics Europe, S.L. | EUR500,000 | *100 | Sale of electronic products |
| <i>Incorporated/established and operating in the United Kingdom:</i> | | | |
| VTech Electronics Europe Plc | GBP500,000 | *100 | Sale of electronic products |
| <i>Incorporated/established and operating in the United States:</i> | | | |
| 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

(c) Acquisition of non-controlling interests

In December 2010, the Group acquired an additional 49% equity interests in VTech Funkwerk IAD GmbH for a consideration of EUR1 in cash, increasing its ownership from 51% to 100% and the non-controlling interest waived its rights to recover an intercompany balance of US\$0.9 million. The acquisition has been dealt with in the equity which resulted in the increase in the Company's shareholder equity by US\$1.9 million.

(d) Controlled special purpose entity

The Company controls a special purpose entity which operates in Hong Kong, particulars of which are as follows:

| Special purpose entity | Principal activity |
|-----------------------------------|---|
| VTech Share Purchase Scheme Trust | Purchase, administering and holding shares of the Company for the Share Purchase Scheme for the benefit of eligible employees of the Group (note 17(c)) |

As the VTech Share Purchase Scheme Trust is set up solely for the purpose of purchasing, administering and holding shares of the Company for the Share Purchase Scheme (note 17(c)), the Company has the power to govern the financial and operating policies of the VTech Share Purchase Scheme Trust and it can derive benefits from the services of the employees who have been awarded shares of the Company under the Share Purchase Scheme through their continued employment with the Group. During the financial year since the Adoption Date, there were no shares purchased, granted and awarded.

23 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.

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.

24 Comparative Figures

As a result of the application of improvements to IFRSs 2009, certain comparative figures including the tangible assets and leasehold land payments have been reclassified to conform to current year's presentation. Further details of these developments are disclosed in note (B).

25 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 March 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and new interpretations which are not yet effective for the accounting period ended 31 March 2011 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

| | Effective for accounting periods beginning on or after |
|---|---|
| Improvements to IFRSs 2010 | 1 July 2010 or 1 January 2011 |
| IAS 24 (revised), Related Party Disclosures | 1 January 2011 |
| IFRS 9, Financial Instruments | 1 January 2013 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new Interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

26 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 16, 17 and 19 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:

Provision for defective goods returns

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.

Estimated useful lives of tangible assets

The Group estimates the useful lives of tangible assets based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of tangible assets would increase depreciation charges and decrease non-current assets.

Impairment of assets

The Group reviews internal and external sources of information at each balance sheet date to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. The Group estimates the asset's recoverable amount when any such indication exists. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and these risks specific to the assets. The preparation of projected future cash flows involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Group. Changes in the estimates would result in additional impairment provisions or reversal of impairment in future years.

Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at each balance sheet date and consider the amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

VTech in the Last Five Years

| | Consolidated balance sheet as at 31 March | | | | |
|---|---|----------------------|----------------------|----------------------|----------------------|
| | 2007 US\$ million | 2008 US\$ million | 2009 US\$ million | 2010 US\$ million | 2011 US\$ million |
| Non-current assets | | | | | |
| Tangible assets | 80.1 | 103.0 | 101.5 | 81.4 | 78.4 |
| Leasehold land payments | 2.0 | 2.1 | 2.2 | 4.9 | 5.0 |
| Other non-current assets | 5.7 | 7.1 | 5.4 | 5.8 | 5.6 |
| | 87.8 | 112.2 | 109.1 | 92.1 | 89.0 |
| Current assets | | | | | |
| Stocks | 124.1 | 132.4 | 128.0 | 159.3 | 229.8 |
| Debtors, deposits and prepayments | 203.4 | 229.2 | 190.2 | 211.4 | 225.0 |
| Financial assets at fair value through profit and loss | – | 14.7 | 4.9 | – | – |
| Deposits and cash | 246.5 | 285.4 | 287.2 | 382.6 | 333.1 |
| Other current assets | 1.6 | 0.7 | 3.1 | 0.7 | 0.3 |
| | 575.6 | 662.4 | 613.4 | 754.0 | 788.2 |
| Current liabilities | (315.9) | (317.8) | (278.0) | (324.9) | (329.4) |
| Net current assets | 259.7 | 344.6 | 335.4 | 429.1 | 458.8 |
| Total assets less current liabilities | 347.5 | 456.8 | 444.5 | 521.2 | 547.8 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | (4.2) | (4.5) | (4.3) | (3.7) | (3.9) |
| | (4.2) | (4.5) | (4.3) | (3.7) | (3.9) |
| Net assets/total equity | 343.3 | 452.3 | 440.2 | 517.5 | 543.9 |

| | Consolidated income statement for the years ended 31 March | | | | |
|--|--|----------------------|----------------------|----------------------|----------------------|
| | 2007 US\$ million | 2008 US\$ million | 2009 US\$ million | 2010 US\$ million | 2011 US\$ million |
| Revenue | 1,463.8 | 1,552.0 | 1,448.2 | 1,532.3 | 1,712.8 |
| Profit before taxation | 201.5 | 237.6 | 159.0 | 225.5 | 220.3 |
| Taxation | (18.6) | (21.9) | (15.8) | (20.2) | (19.1) |
| Profit for the year | 182.9 | 215.7 | 143.2 | 205.3 | 201.2 |
| Attributable to: | | | | | |
| Shareholders of the Company | 182.9 | 215.7 | 143.2 | 206.5 | 202.0 |
| Non-controlling interests | – | – | – | (1.2) | (0.8) |
| Profit for the year | 182.9 | 215.7 | 143.2 | 205.3 | 201.2 |
| Basic earnings per share (US cents) | 76.6 | 89.4 | 58.5 | 83.7 | 81.5 |

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
David SUN Tak Kei
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Audit Committee

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

Nomination Committee

William FUNG Kwok Lun *(Chairman)*
Denis Morgie HO Pak Cho
David SUN Tak Kei
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
David SUN Tak Kei

Risk Management Committee

Allan WONG Chi Yun *(Chairman)*
PANG King Fai
Andy LEUNG Hon Kwong
David SUN Tak Kei

Company Secretary

CHANG Yu Wai

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Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

Auditor

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. The Company has terminated the American Depositary Receipts facility through the Bank of New York Mellon with effect from 21 January 2011.

Stock Code

The Stock Exchange of Hong Kong Limited 303

Financial Calendar

Closure of Register of Members
15 July 2011 – 22 July 2011 (both dates inclusive)

2011 Annual General Meeting
22 July 2011

Payment of Final Dividend
25 July 2011

2011/2012 Interim Results Announcement
November 2011

Share Information

Board Lot 100 shares *
Issued Shares as at 31 March 2011 248,296,133 shares

* *The board lot size for trading VTech Holdings Limited shares on The Stock Exchange of Hong Kong Limited was changed from 1,000 shares to 100 shares with effect from 27 August 2010.*

Dividend

Dividend per ordinary share for the financial year ended
31 March 2011

– Interim dividend US16.0 cents per share
– Final dividend US62.0 cents per share

Share Registrars

Principal

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Bermuda

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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, Wan Chai, Hong Kong. If there are 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，請向位於香港灣仔皇后大道東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。

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