VTech Holdings Ltd

HKSE : 303

vtech

ANNUAL REPORT 2012

Contents

Corporate Profile

VTech is the world's largest manufacturer of cordless telephones and 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 a presence in 11 countries and regions and over 33,000 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.

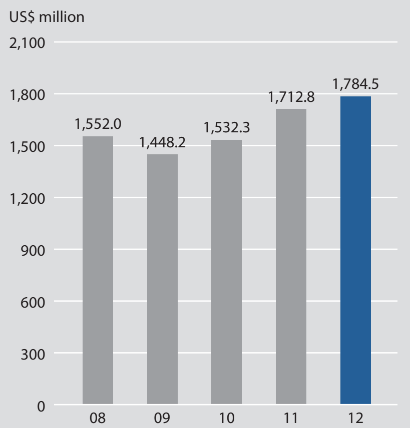
The Group invests significantly in R&D and launches numerous new products each year. VTech sells its products via a strong brand platform supported by an extensive distribution network of leading retailers in North America, Europe and Asia Pacific. Apart from the well-known VTech brand, the Group is 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).

Financial Highlights

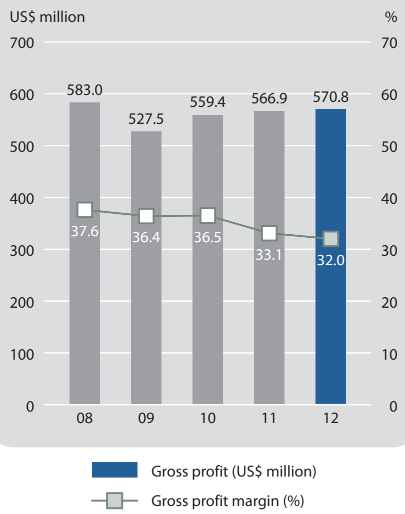
For the year ended 31 March	2012	2011	Change
Operating results (US$ million)			
Revenue	**1,784.5**	1,712.8	4.2%
Gross profit	**570.8**	566.9	0.7%
Operating profit	**209.5**	218.7	-4.2%
Profit before taxation	**211.6**	220.3	-3.9%
Profit attributable to shareholders of the Company	**191.9**	202.0	-5.0%
Financial position (US$ million)			
Cash generated from operations	**230.4**	176.8	30.3%
Deposits and cash	**326.5**	333.1	-2.0%
Shareholders' funds	**556.2**	543.9	2.3%
Per share data (US cents)			
Earnings per share – basic	**77.0**	81.5	-5.5%
Earnings per share – diluted	**76.9**	81.2	-5.3%
Dividend per share – interim and final	**76.0**	78.0	-2.6%
Other data (US$ million)			
Capital expenditure	**29.7**	25.9	14.7%
R&D expenditure	**57.2**	56.8	0.7%
Key ratios (%)			
Gross profit margin	**32.0**	33.1	-1.1% pts
Operating profit margin	**11.7**	12.8	-1.1% pts
Net profit margin*	**10.8**	11.8	-1.0% pts
EBITDA/Revenue	**13.3**	14.7	-1.4% pts
Return on shareholders' funds	**34.5**	37.1	-2.6% pts

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

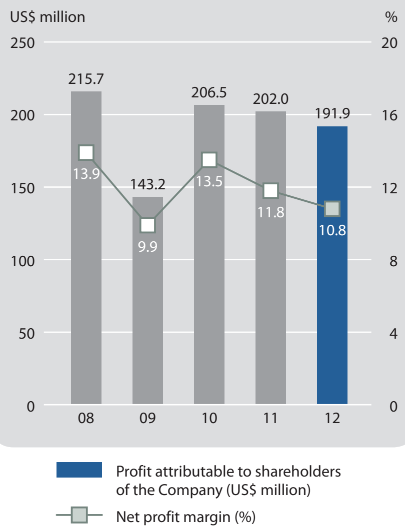
Group Revenue in Last 5 Years



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



Letter to Shareholders

Dear Shareholders,

I am pleased to report that in our 35th anniversary year, VTech delivered record revenue for the second straight year amid macro-economic uncertainties.

Results and Dividend

Group revenue for the year ended 31 March 2012 increased by 4.2% over the previous financial year to US$1,784.5 million. This was mainly due to higher revenue in North America and Europe, as both Electronic Learning Products (ELPs) and Contract Manufacturing Services (CMS) recorded growth in these two regions. Profit attributable to shareholders of the Company declined by 5.0% to US$191.9 million. The decrease in profit was mainly attributable to higher input costs as well as lower revenue from Telecommunication (TEL) products. Basic earnings per share consequently decreased by 5.5% to US77.0 cents, compared to US81.5 cents in the financial year 2011.

The Board has proposed a final dividend of US60.0 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 US76.0 cents per ordinary share. It represents a decrease of 2.6% over the previous financial year.

Operations

In the financial year 2012, rising input costs posed the biggest challenge to the Group. Raw material prices increased substantially, compounded by rising labour costs and Renminbi appreciation in China. To cope with this, we have raised prices, stepped up cost reduction and improved efficiency through increased automation and product optimisation. Although we were unable to offset the entire cost pressure during the year, we managed to mitigate it to a great extent. This will improve the Group's ability to achieve future growth.

Segment Results

North America remains the largest market of the Group. In the financial year 2012, we achieved higher sales in ELPs and CMS in this region, offsetting slightly lower revenue from TEL products. Sales of small to medium sized business (SMB) phones increased and compensated for part of the sales decline in residential phones. Hotel phones began to contribute to the top line following the first shipment in the second half of the financial year.

ELP revenue in North America was higher and sales via online retailers showed strong growth. Higher sales were attributable to the successful launch of the new platform product, InnoTab®, while sales of standalone products were essentially flat. CMS revenue saw good growth in North America, driven by higher sales of professional audio equipment and internet phones for office use.

In Europe, revenue from TEL products was lower, as customers delayed orders in the second half. However, this was more than compensated by higher sales of ELPs and CMS. Both platform and standalone products delivered solid results for ELPs. In the platform area, InnoTab was launched in the UK, while Storio® and MobiGo® were rolled out in the other European markets. CMS saw higher sales, led by wireless headsets and professional audio equipment.

Revenue in Asia Pacific and other regions declined overall, mainly due to lower sales of TEL products. Our ELP sales in China grew strongly, albeit from a low base. CMS revenue in Asia Pacific was broadly flat, as higher sales of medical and wireless products were offset by significantly lower orders for LED light bulbs, as our Japanese customer faced very keen competition.

Outlook

Although the macro-economic environment remains challenging, we are seeing a slow but continuous recovery in the US. In Europe, consumer demand is affected by austerity measures and the economic uncertainty.

Despite all these challenges, we are planning for overall top line growth in the financial year 2013. Sales of our TEL products will rebound, driven by additional placement in retail channels in the US, increasing sales of SMB and hotel phones and restocking in Europe. ELPs are expected to grow, led by the launch of new platform and standalone products. CMS will continue to outperform the global electronic manufacturing services (EMS) industry and expand further.

With the anticipated growth in our top line, we are cautiously optimistic that profitability will improve. Lower prices of raw materials are beginning to feed into margin. Profitability will also be supported by the efficiency enhancement measures that we pushed hard in the last financial year, including higher automation and product design optimisation. However, we expect the labour cost in China will continue to rise. As always, we will continue to manage our expenses very tightly.

We foresee a rebound for our TEL products in the financial year 2013. As the world's number one manufacturer of cordless phones[1], our strong design capabilities, economies of scale and brand reputation will further strengthen our leadership position.

In North America, we expect the good momentum of SMB and hotel phones to continue. In the first half of the financial year 2013, we plan to launch a new micro business phone system that will add further impetus. Sales of our residential phones are expected to recover, as we gain market share via new product line ups. These include a new Connect to Cell™ system with high definition voice quality, user-friendly cell phone registration as well as smartphone

[1] *The Global Telecommunications Market Report 2011 Edition published by MZA Ltd*

apps to better manage the transfer of phonebooks to our cordless system. They have been well-received by our customers.

In Europe, the prospect for TEL products is positive as customers will restock in the first half. Gains in market share are also expected as we plan to market our products in Germany more aggressively, in conjunction with our exclusive partner Deutsche Telekom.

In Asia Pacific and other regions, we expect to return to a growth path in TEL products, as we make more inroads in Australia, and build on the encouraging progress we have made in Latin America.

Although the retail environment in Europe remains challenging, healthy growth for our ELPs is expected for the financial year 2013.

In North America, platform products will lead the way. InnoTab has strong momentum and it is going to be refreshed with new versions, offering new and innovative features. We will also expand the range of content in both cartridge and downloadable formats. In addition, a new generation of MobiGo with new functionalities will lend further impetus to platform products. We will start to roll out a new line of standalone products, Switch & Go Dinos™, in North America in May 2012, branching out beyond the learning aisle and adding a new avenue of growth for our standalone products.

In Europe, we expect a continuation of the good performances from Storio and MobiGo. This will be augmented by the introduction of Storio 2, a multi-function educational tablet for children. As in the US, InnoTab in UK will also be updated with a new version. For standalone products, the Toot-Toot Drivers range should again perform well and there will be a full year contribution from Switch & Go Dinos, which has been on retail shelves in Europe since February 2012. The momentum we have seen for our standalone products in Asia Pacific and the rest of the world is expected to continue.

Globally, we expect further expansion of ELP sales via online retailers, as we increase our focus on these channels.

The global EMS market is forecast to grow modestly in 2012 and our CMS will continue to outperform the industry. The new factory building we opened at our existing site in November 2011 has increased capacity by 40%. The enhanced manufacturing facility is enabling us to support customers who target domestic sales in China. The new set-up will also allow us to manufacture sophisticated products with stringent safety and quality requirements, including those requiring FDA (the US Food and Drug Administration) approval. This will further expand our portfolio of products in the medical and health care areas.

We expect to continue to add customers in the professional audio segment as our reputation grows. We will also benefit from further consolidation of the supplier base by our wireless headset customer. Business in switching mode power supplies should stabilise, though the market for solar power inverters may remain under pressure.

Marine radios, a new product category we added in the financial year 2012, will see rapid growth over the next two years as our customer transfers more production to us. Growth in commercial solid-state lighting will offset an anticipated further decline in consumer LED light bulbs.

Conclusion

I wish to thank all my staff and senior management for their dedication and effort, which is crucial to our success. My thanks are also extended to our fellow directors, shareholders, customers and suppliers for their continued support.

We have proven strengths in product development, a strong balance sheet, market leadership position and efficient operations. This should enable us to achieve further growth in revenue and hence deliver sustainable returns to shareholders.

Allan WONG Chi Yun
Chairman

Hong Kong, 23 May 2012

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.

1,784.5
million US dollars of Group sales in FY2012

No.1
cordless phone and ELP manufacturer worldwide

3
VTech products sold every second

33,000
employees globally

More than
90
markets selling VTech products

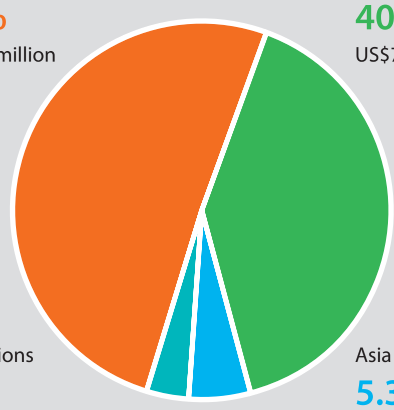
Revenue

Group revenue for the year ended 31 March 2012 rose by 4.2% over the previous financial year to US$1,784.5 million. The increase in revenue was largely driven by higher sales in North America and Europe, which contrasted with a decrease in revenue in Asia Pacific and other regions. Sales to North America increased by 3.3% over the previous financial year to US$903.5 million, accounting for 50.6% of Group revenue. In Europe, revenue rose by 7.7% to US$719.3 million, representing 40.3% of Group revenue. Sales to the Asia Pacific market declined by 4.2% to US$94.1 million, accounting for 5.3% of Group revenue. Revenue from other regions fell by 6.2% to US$67.6 million, representing 3.8% 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 revenue of TEL products. Revenue from TEL products in North America was US$415.3 million, a decrease of 1.4% over the previous financial year. Sales of branded corded and cordless phones were lower, as the residential phone market in the US is mature. For ELPs, revenue grew by 7.5% to US$308.5 million. The growth was led by strong sales of platform products following the full launch of InnoTab, an educational tablet for children in October 2011. Revenue from CMS rose by 7.8% to US$179.7 million. Professional audio equipment and internet phones for office use were major growth drivers. Higher sales of commercial solid-state lighting also supported growth.

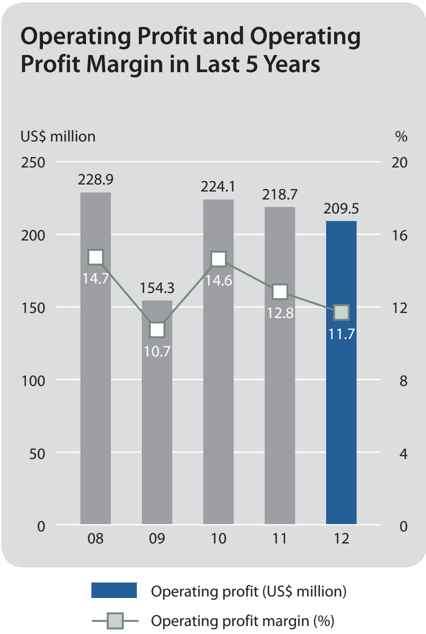
Sales growth in the European market was largely driven by higher sales in ELPs and CMS, which offset a decrease in revenue of TEL products. For TEL products, which we sell in Europe largely on an Original Design Manufacturing (ODM) basis, revenue declined by 1.0% to US$215.4 million as customers delayed orders in the second half of the financial year. Revenue from ELPs rose by 13.2% to US$310.3 million as both platform and standalone products delivered solid results. The strong sales of InnoTab in UK, full launch of Storio and MobiGo across our main European markets, as well as the good performance of infant products and Kidi-series during the financial year were key contributors to the growth. Sales of CMS to Europe also achieved growth, with revenue reaching US$193.6 million, an increase of 9.9% from US$176.1 million. The wireless headset category was the best performer, as we benefited from the process of supplier consolidation. Professional audio equipment also recorded higher sales.

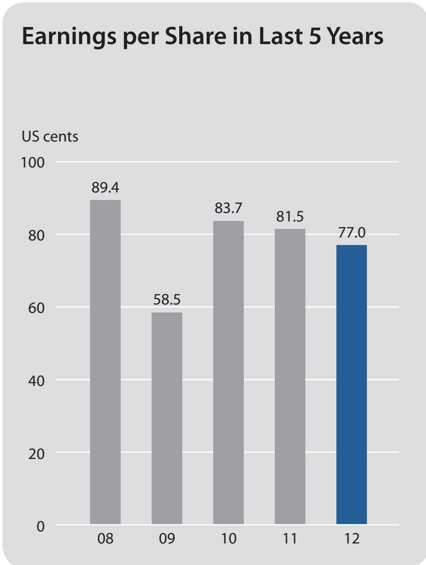
Group Revenue by Region (FY2012)

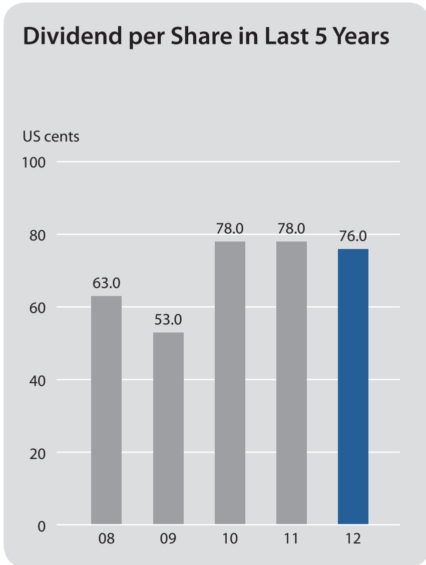


For the Asia Pacific market, the decline in revenue was mainly attributable to the decrease in revenue of TEL products, which offset the higher sales of ELPs. Revenue from TEL products fell by 16.4% to US$29.6 million. The decline was partly due to the weakness in the Japanese market following the earthquake in March 2011. Sales of ELPs to Asia Pacific increased by 10.1% to US$17.5 million during the financial year. Sales in China grew strongly, albeit from a low base. This growth is driven primarily by standalone products. For CMS, revenue from Asia Pacific increased by 0.2% to US$47.0 million over the previous financial year. We achieved higher sales of medical and wireless products. This was, however, offset by significantly lower orders for LED light bulbs, as our Japanese customer faced very keen competition.

Other regions include Latin America, the Middle East and Africa. The revenue decrease in other regions was mainly due to the decline in sales of TEL products, which offset the higher sales of ELPs compared with the last financial year. Sales of TEL products to other regions were US$46.0 million, a decrease of 14.0% over the previous financial year as customers delayed orders. Revenue of ELPs from other regions increased by 16.2% to US$20.8 million, as a result of an increase in sales of standalone products. Revenue from CMS was US$0.8 million as compared to US$0.7 million recorded in previous financial year.







Gross Profit/Margin

The gross profit for the financial year 2012 was US$570.8 million, an increase of US$3.9 million or 0.7% compared to the US$566.9 million recorded in the previous financial year. However, gross profit margin for the year fell from 33.1% to 32.0%. This was mainly attributable to higher cost of materials, further increases in labour costs and the continuing appreciation of the Renminbi.

Operating Profit/Margin

The operating profit for the year ended 31 March 2012 was US$209.5 million, a decrease of US$9.2 million or 4.2% over the previous financial year. This was mainly due to the drop in gross profit margin and higher selling and distribution costs. Correspondingly, operating profit margin dropped from 12.8% to 11.7%. The ratio of EBITDA to revenue in the financial year 2012 also decreased from 14.7% to 13.3%.

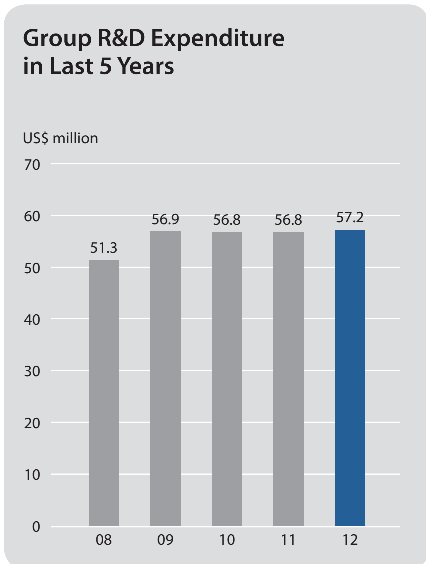
Selling and distribution costs rose by 5.5% from US$241.6 million in the previous financial year to US$255.0 million in the financial year 2012. The increase was mainly attributable to the increased spending on advertising and promotional activities by the Group during the financial year. As a percentage of Group revenue, selling and distribution costs increased slightly from 14.1% to 14.3%.

Administrative and other operating expenses decreased slightly from US$49.8 million in the previous financial year to US$49.1 million in the financial year 2012. This includes a net exchange gain of US$1.6 million arising from the Group's global operations in the ordinary course of business, compared with a net exchange gain of US$1.8 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 2.9% to 2.8%.

During the financial year 2012, the research and development expense was US$57.2 million, an increase of 0.7% over the previous financial year. Research and development expense as a percentage of Group revenue decreased from 3.3% to 3.2%.

Profit Attributable to Shareholders and Dividends

The profit attributable to shareholders of the Company for the year ended 31 March 2012 was US$191.9 million, a decrease of US$10.1 million as compared to the last financial year.



Basic earnings per share for the year ended 31 March 2012 were US77.0 cents as compared to US81.5 cents in the previous financial year. During the financial year 2012, the Group declared and paid an interim dividend of US16.0 cents per share, which aggregated to US$39.9 million. The Directors have proposed a final dividend of US60.0 cents per share, which is estimated to be US$149.7 million.

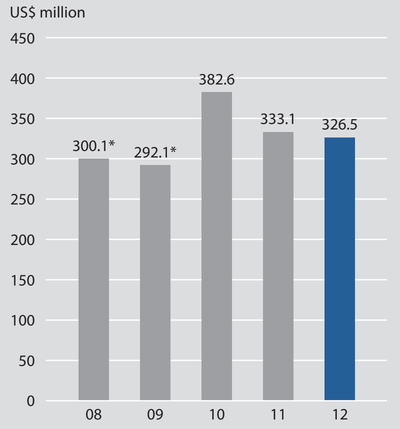
Liquidity and Financial Resources

Shareholders' funds as at 31 March 2012 were US$556.2 million, an increase of 2.3% from US$543.9 million in the last financial year. Shareholders' funds per share increased by 1.8% from US$2.19 to US$2.23.

The Group had no borrowings as at 31 March 2011 and 31 March 2012.

As at 31 March 2012 and 2011	**2012 US$ million**	2011 US$ million
Deposits and cash	**326.5**	333.1

Deposits and Cash in Last 5 Years
(As at 31 March)



* *Include currency-linked deposits*

As at 31 March 2012, deposits and cash reduced from US$333.1 million to US$326.5 million, a decrease of 2.0% compared with the last financial year-end-date.

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 principally uses 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 2012 and 2011 All figures are in US$ million unless stated otherwise	**2012**	2011
Stocks	**239.2**	229.8
Average stocks as a percentage of Group revenue	**13.1%**	11.4%
Turnover days	**82 days**	85 days
Trade debtors	**210.6**	198.8
Average trade debtors as a percentage of Group revenue	**11.5%**	11.2%
Turnover days	**56 days**	63 days

Stocks as of 31 March 2012 were US$239.2 million, as compared to US$229.8 million on 31 March 2011. The turnover days decreased from 85 days to 82 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 2013. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

Trade debtors as of 31 March 2012 were US$210.6 million as compared to US$198.8 million on 31 March 2011. Debtor turnover days decreased from 63 days to 56 days. The increase in the trade debtor balance as at 31 March 2012 was mainly due to an increase in revenue in the fourth quarter of the financial year 2012 when compared with the corresponding period of the previous financial year.

Capital Expenditure

For the year ended 31 March 2012, the Group invested US$29.7 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 2013, the Group will incur capital expenditure of US$32.9 million for ongoing business operations.

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

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

Telecommunication Products

Residential Cordless Phones

SynJ Small Business Phone System

The World's No.1

With a 31% market share globally*, we are the world's largest cordless phone manufacturer. In FY2012, we shipped 45 million handsets to 65 different markets.

4 Renowned Brands

Our TEL products now sell under four of the world's most renowned brands:

VTech – global house brand
AT&T – licensed brand in North America and China
Telstra – licensed brand in Australia
"T" brand – licensed brand from Deutsche Telekom in Germany

Staying Ahead with Innovation

We have a reputation of being the first mover in our industry, through introducing break-through products such as the world's first 900MHz and 5.8GHz cordless phones.

Year after year we bring the world great new technology applications that enhance people's lives, including our most recent innovations Connect to Cell, video on Digital Enhanced Cordless Telecommunications (DECT) platform and high definition voice quality.

* *The Global Telecommunications Market Report 2011 Edition published by MZA Ltd*

Hotel Phones

Baby Monitor

Electronic Learning Products

The World's No.1

We are the world's largest manufacturer of ELPs. In FY2012, we shipped over 38 million ELPs to more than 90 different markets, covering 25 languages.

A Pioneer of the ELP Industry

We don't just make ELPs, we invented the category, introducing the world's first ELP in 1980. Since then, we have used the best appropriate technologies to develop innovative and educational toys, helping kids develop all the way through fun and smart play.

30 Years of Innovation

The VTech brand is known and trusted by parents worldwide. Over the last 30 years, we have pushed the boundaries of learning and entertainment with innovations in both standalone and platform products. The introduction of V.Smile and V.Reader, the first educational TV game and interactive e-book systems for kids, once again opened up new learning vistas for children and parents.

Cogsley, an educational robot toy for pre-schoolers

Switch & Go Dinos, a line of toys that transform between dinosaurs and vehicles

MobiGo 2, a touch learning system with motion play

Alphabet Activity Cube, a versatile, interactive cube for infants

Contract Manufacturing Services

Switching Mode Power Supply

A Top 30 EMS Company

From modest beginnings, we have grown to rank 27th among the world's top 50 EMS providers, according to *Manufacturing Market Insider*.

Strong Reputation

Professional audio, switching mode power supplies, wireless products and solid-state lighting are our major product categories. Our excellent know-how and strong reputation in these areas enable us to gain new customers every year.

Outperformance

Our CMS sales have more than quadrupled in the last 10 years, outperforming the global EMS market.

Flexibility and Quality

Flexibility in services and quality products are the key to our success. This excellence is recognised in the numerous supplier awards we earn.

Wireless Headset

Commercial Solid-State Lighting

Products and Services Overview

Telecommunication Products

% of Group Revenue (FY2012)

39.6%

VTech is the world's largest supplier of cordless phones.

In North America, we are the leader 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 its corded and cordless telephones in Germany. In Australia, we are the direct supplier to Telstra for its fixed line telephones.

Since 2009, we have launched new products in the commercial phone area, targeting SMBs. In the second half of the financial year 2012, we expanded our product portfolio further with the introduction of hotel phones.

As a result, we now have a broad portfolio of products that leverage the core competence of the Group in cordless communications:

- Residential phones
  - Corded and cordless phones
- Commercial phones
  - SMB phones
  - Cordless headsets and accessories
  - Hotel phones
- Others
  - Integrated access devices
  - Baby monitors

Electronic Learning Products

% of Group Revenue (FY2012)

36.8%

VTech is the world's largest manufacturer of ELPs. Since 1980, the Group has been developing high quality, innovative educational products that enrich children's development through fun and smart play.

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

- Standalone products
  - Infant learning
  - Pre-school learning
  - Grade school learning
- Platform products
  - InnoTab Learning App Tablet
  - V.Reader Interactive e-Reading System
  - MobiGo Touch Learning System
  - Games & e-book cartridges
  - Download apps

Contract Manufacturing Services

% of Group Revenue (FY2012)

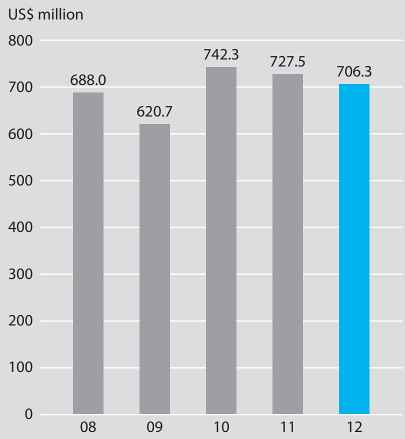
23.6%

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

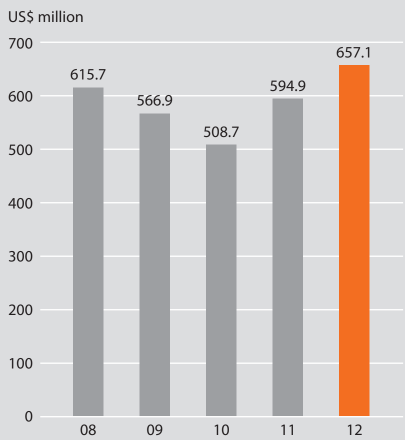
- Professional audio equipment
- Switching mode power supplies
- Wireless products
- Solid-state lighting

For more than two decades, we have grown with our customers and built long-term partnerships with them. Our flexibility in service and the quality of our products have earned us industry and supplier awards year after year. We continue to expand in the professional audio area and enter into new product categories, due to our know-how and strong reputation in the industry.

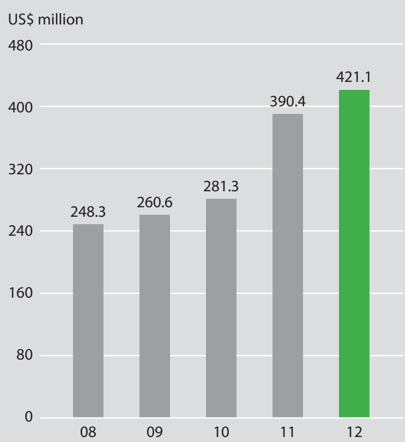
Revenue in Last 5 Years



Revenue in Last 5 Years

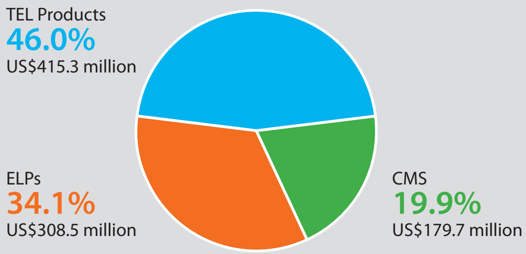


Revenue in Last 5 Years



Revenue in North America by Product Line

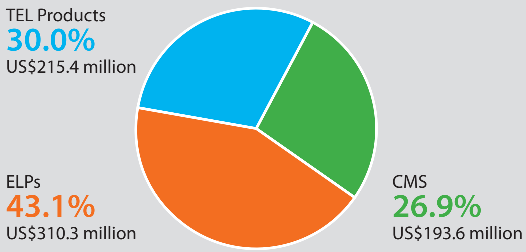
for the year ended 31 March 2012



Total: **US$903.5 million**

Revenue in Europe by Product Line

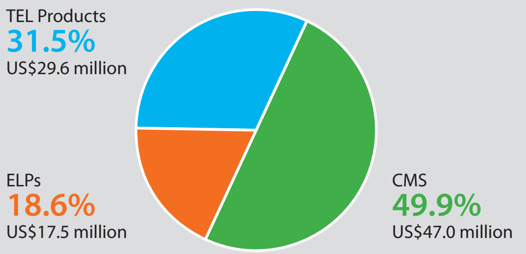
for the year ended 31 March 2012



Total: **US$719.3 million**

Revenue in Asia Pacific by Product Line

for the year ended 31 March 2012



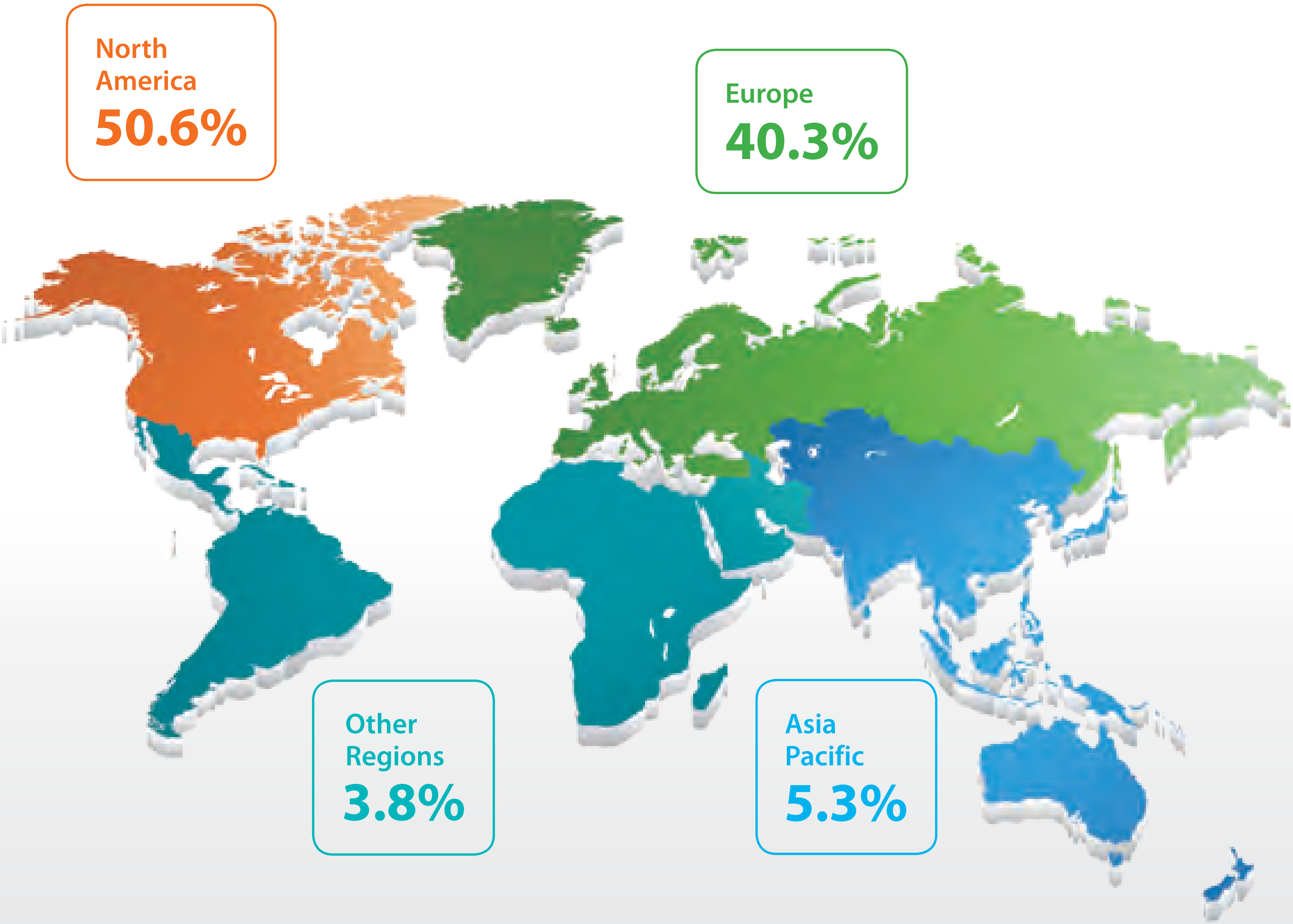
Total: **US$94.1 million**

Revenue in Other Regions by Product Line

for the year ended 31 March 2012

Total: **US$67.6 million**

Group Revenue By Region



For the year ended 31 March

US$ million	2012	2011	Change
North America	903.5	874.9	3.3%
Europe	719.3	667.6	7.7%
Asia Pacific	94.1	98.2	-4.2%
Other Regions	67.6	72.1	-6.2%
Total	**1,784.5**	**1,712.8**	**4.2%**

Shipped 45 million handsets and over 38 million ELPs worldwide

North America

The Group's revenue in North America rose by 3.3% to US$903.5 million in the financial year 2012, as higher revenue from CMS and ELPs offset a slight decrease in revenue from TEL products. North America remains the largest market for the Group, accounting for 50.6% of Group revenue.

Revenue from TEL products declined 1.4% to US$415.3 million. Sales of branded corded and cordless phones were lower, as the residential phone market in the US is mature. During the financial year 2012, VTech continued to maintain its number one position in the US corded and cordless phone market[2].

In view of the maturity of the residential phone market, we have introduced products in the commercial phone area, entering the SMB phone segment in 2009. These products are gaining increasing traction in the market. Particularly well-received has been our small business phone system, SynJ®, which offers a unique solution for operations such as warehouses, restaurants and retail shops. This system is being successfully marketed via office super stores, an expanding network of online retailers and value added resellers.

Following our success in opening up the SMB phone market, we have expanded to the hospitality industry. We started shipping our first hotel phones to customers in the second half of the financial year 2012. In March 2012, we completed installation of SIP (Session Initiation Protocol) phones in the Octavius Tower™ at Caesars Palace® in Las Vegas. This marked an important milestone in our expansion into this new segment.

In February 2012, we launched two new baby monitors, the Safe & Sound™ Full-Colour Video and Audio Monitor and the Safe & Sound™ Digital Audio Monitor. Both products offer robust features at affordable price points and the new product area adds another growth avenue in TEL products.

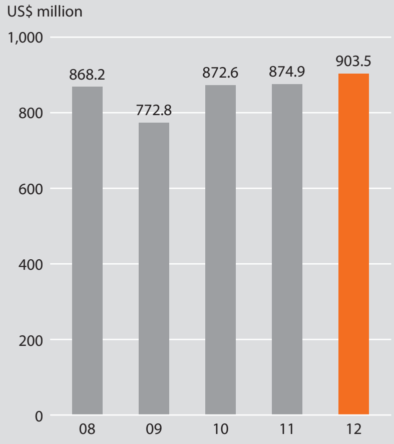
Revenue from our ELPs in North America rose by 7.5% to US$308.5 million in the financial year 2012, driven by growth in platform products. Sales via online retailers were especially strong.

The full launch of InnoTab, an educational tablet for children in October 2011, provided a major boost to our platform sales. Despite having the highest retail price among our three platform consoles, InnoTab has sold well, more than compensating for the lower sales of MobiGo and V.Reader® during the financial year.

Sales of standalone products during the financial year 2012 were essentially flat. Higher sales of pre-school products were offset by lower sales of infant products.

Revenue from CMS in North America grew by 7.8% during the financial year 2012 to US$179.7 million. Professional audio equipment and internet phones for office use were major growth drivers. Higher sales of commercial solid-state lighting also supported growth.

Revenue in North America in Last 5 Years



Hotel Phones

In addition to Caesars Palace, the Group is shipping hotel phones to major hotel chains such as Hilton, Hyatt and Mandarin Oriental.

[2] *MarketWise Consumer Insights, LLC*

Europe

The economic situation in Europe deteriorated noticeably in the second half of the financial year 2012, affecting orders for TEL products. Despite this, Group revenue in the region rose by 7.7% to US$719.3 million during the financial year, as ELPs and CMS achieved growth. Europe accounted for 40.3% of Group revenue.

Revenue from TEL products declined 1.0% to US$215.4 million in the financial year 2012, due to weak second half sales as customers delayed orders. We sell to customers in Europe on an ODM basis, including via an exclusive supplier agreement with Deutsche Telekom. As we continued to expand our relationships with telephone operators, major brand names and distributors in the region, we achieved further gains in market share. During the financial year 2012, VTech became the number one manufacturer of cordless phones in Western Europe, with a 29% market share[3]. We also began supplying hotel phones in some European markets.

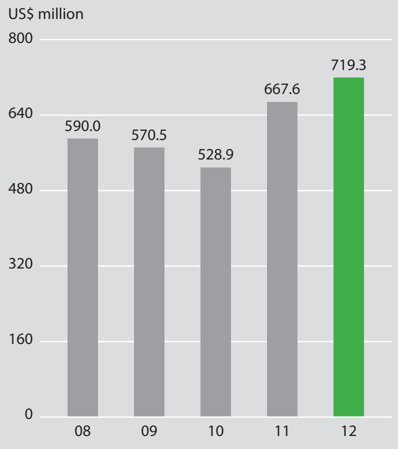
Revenue from ELPs in Europe was US$310.3 million in the financial year 2012, a 13.2% increase. As in the US, sales from online retailers in the UK showed strong growth. Our ELPs continued to win top industry awards across Europe, including the prestigious *Grand Prix du Jouet* in five categories in France, a first for a company in a single year.

Both platform and standalone products delivered solid results. For platform products, the full launch of Storio and MobiGo across our main European markets in the middle of the calendar year 2011 was a major factor. Sales were especially strong in France, Germany and the Netherlands. In the UK, platform sales were boosted by the launch of InnoTab in October 2011.

Sales of standalone products were also higher due to growth in infant products and the Kidi-series. Toot-Toot Drivers, a line of infant smart vehicles and accessories launched during the financial year in several of our main European markets, performed especially well. Carried over inventory, however, led to a decline in sales of the Kidizoom range.

CMS revenue in Europe increased by 9.9% to US$193.6 million. The wireless headset category was the best performer, as we benefited from the process of supplier consolidation. Professional audio equipment also recorded higher sales, as we saw more orders from both existing and new customers. The demand for switching mode power supplies for telecommunication equipment remained stable, while the demand for solar power inverters was affected by oversupply and strong price competition.

Revenue in Europe in Last 5 Years



Storio

Our Storio garnered a number of top industry awards across Europe, including the "Grand Prix du Jouet 2011" in the educational toy category from the French toy industry magazine La Revue du Jouet, "Top 10 Toys 2011" from the German Toy Retailers Association, "Toy of the Year 2011" in the 4-6 years category from the Netherlands' Toy Association and "Toy of the Year Award 2011" in the educational and scientific games category by the Belgian Toy Federation.

[3] *The Global Telecommunications Market Report 2011 Edition published by MZA Ltd*

Asia Pacific

Revenue in Asia Pacific declined 4.2% as compared with the financial year 2011 to US$94.1 million. This market accounted for 5.3% of Group revenue.

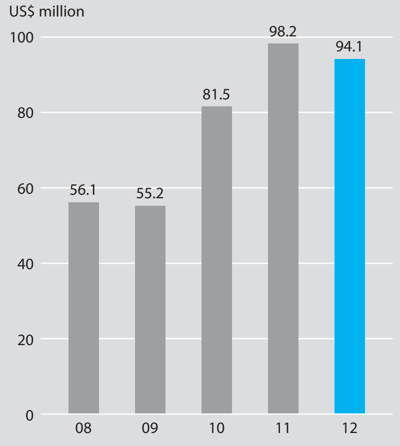
Revenue from TEL products decreased by 16.4% to US$29.6 million. The decline was partly due to the weakness in the Japanese market following the earthquake in March 2011. In Australia, we gained market share despite lower sales, as the country's residential phone market is mature. There were areas of growth, however. In the fourth quarter of the financial year 2012, we began selling AT&T branded 2.4GHz cordless phones in China, through a number of local distributors. We have also started shipping hotel branded phones to major hotel chains in Asia since the second half of the financial year 2012.

Revenue from ELPs in Asia Pacific grew by 10.1% to US$17.5 million in the financial year 2012. Sales in China grew strongly, albeit from a low base. This growth was driven primarily by standalone products. Shipment to Australia, our biggest market in this region, declined moderately. Nevertheless, we did witness a partial recovery in the second half, following a re-alignment of our retail channels that had affected sales in the first half.

CMS revenue in Asia Pacific increased by 0.2% to US$47.0 million. We achieved higher sales of medical and wireless products. This was, however, offset by significantly lower orders for LED light bulbs, as our Japanese customer faced very keen competition.

During the financial year, we gained a new Japanese customer in marine radio, who was attracted by VTech's reputation in telecommunication products. The customer has been manufacturing these products in-house, but will transfer most of the production to our plant in phases.

Revenue in Asia Pacific in Last 5 Years



Handheld Radiation Detector

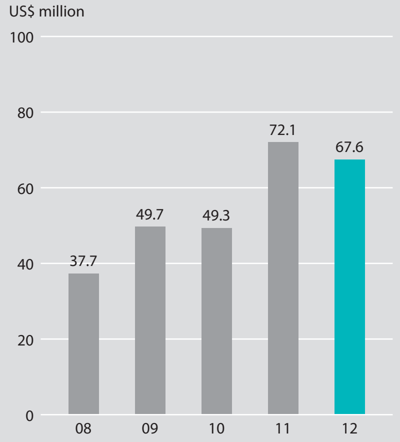
A pocket sized dosimeter designed and produced by CMS for a medical and health customer in Japan.

Other Regions

Other regions include Latin America, the Middle East and Africa. Revenue in the financial year 2012 was US$67.6 million, down by 6.2% compared with the last financial year. These regions accounted for 3.8% of Group revenue.

The decrease in revenue was mainly due to the sales decline in TEL products, as customers delayed orders. Revenue from TEL products fell by 14.0% to US$46.0 million, while revenue from ELPs and CMS rose by 16.2% and 14.3% to US$20.8 million and US$0.8 million respectively.

Revenue in Other Regions in Last 5 Years



Corporate

Record Revenue

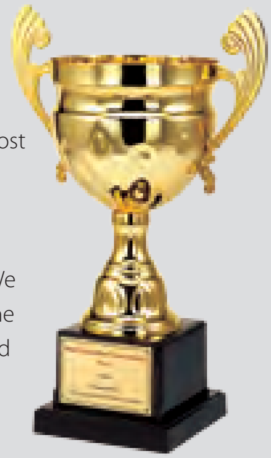
The Group achieved record revenue in the financial year 2012.

35th Anniversary

VTech celebrated its 35th anniversary.

Hong Kong Marathon

VTech was awarded the "Most Supportive Group Award" for the Standard Chartered Hong Kong Marathon for the seventh straight year. We were ranked fifth among the top 10 groups, with a record participation of over 900 people.



TEL Products

The World's No.1

VTech maintained its number one position in the global consumer cordless telephony market, with manufacturer share rising to 31%[4] in the calendar year 2010. In Western Europe, we also became the number one player, with 29% market share[5].

New DECT Baby Monitors

In February 2012, the Group launched a new line of highly functional and affordable baby monitors. The video model uses the Group's proprietary technologies, which allow digital video transmission up to nine frames per second over the DECT platform.

Product Excellence

VTech Telecommunications Ltd was given the "Gold Award" by British Telecom, demonstrating our excellence in supplying high quality products.

Partner Program Winner

VTech's Partner Program for SMB phones earned CRN's respected 5-Star Partner Rating. This rating recognises the elite subset of Partner Guide vendors who give solution providers the best partnering elements in their channel programmes.

Expansion into Hospitality Industry

In March 2012, the Group completed installation of SIP phones in the Octavius Tower at Caesars Palace in Las Vegas, marking a major milestone in its expansion into the hospitality industry.

4&5 The Global Telecommunications Market Report 2011 published by MZA Ltd

ELPs

InnoTab

In North America, our InnoTab was named "Editor's Choice" by Children's Technology Review. It was also named one of the "10 Cool Toys" for Christmas by the Toy Retailers Association in the UK.

Toot-Toot Drivers Garage

Toot-Toot Drivers Garage won a number of top industry awards in Europe, including "Pre-school Toy of the Year 2011" from the UK Toy Retailers Association, "*Grand Prix du Jouet 2011*" in the pre-school category from the French toy industry magazine *La Revue du Jouet*, "Toy of the Year Award 2011" in the 0-4 years category from the Netherlands' Toy Association and "Toy of the Year Award 2011" in the category of boys' world and vehicles from the Belgian Toy Federation.

Storio

Storio was highly successful in Europe and garnered a number of prestigious awards in the financial year 2012, including:

- "*Grand Prix du Jouet 2011*" in the educational toy category by the French toy industry magazine *La Revue du Jouet*;
- "Top 10 Toys 2011" by the German Toy Retailers Association;
- "Toy of the Year 2011" in the 4-6 years category by the Netherlands' Toy Association;
- "Toy of the Year Award 2011" in the educational and scientific games category by the Belgian Toy Federation.

30th Anniversary in US

The US office celebrated its 30th anniversary in 2011. A commemorative lunch was held, complete with a product museum showing some of the most popular and fun toys throughout the years.

Vendor of the Year

VTech Electronics North America, L.L.C. and VTech Electronics Europe GmbH were named respectively "Vendor of the Year" by Toys "R" Us in the US and Spiele Max in Germany.

CMS

World's Top 30 EMS Provider

VTech Communications Limited was ranked 27th among the "Top 50 EMS Providers in 2011" by *Manufacturing Market Insider* magazine.

Excellent Services

Our CMS was named "Most Valuable Production Partner" and given the "Supplier of the Year Award" by its professional audio customers, in recognition of our high quality products and outstanding customer services.

New Factory Building

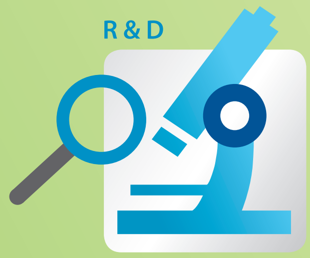
CMS added a new factory building to its existing facilities in Liaobu, Dongguan, which started operation in November 2011.

Corporate Social Responsibility

VTech's Corporate Social Responsibility (CSR) effort focuses on the four core areas of 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. We aim to do this in a way that respects the environment, and hence take steps throughout our product life cycles to reduce environmental impacts from our operations.



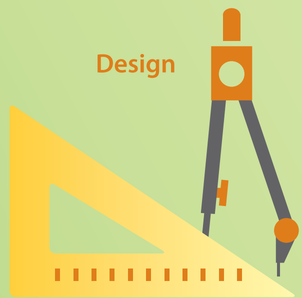
Product Planning

Environmental management of the product life cycle begins with design and planning. When developing and designing a new product, or upgrading an existing one, we think not only about its commercial potential, but its environmental profile.

Our engineers and product designers are therefore tasked with making our products more environmentally friendly. Through innovative design, we strive to reduce the number of components and use more efficient materials, making each new generation of VTech products more energy efficient while lowering costs.

Our products comply with the strictest international safety and environmental regulations. For example, all TEL products and ELPs sold in the US and Europe are RoHS (Restrictions on the use of Hazardous Substances) compliant, while all TEL products and ELPs sold in Europe comply with REACH (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals).

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 the cycle and at each step of the process at our plants in Dongguan and Qingyuan in China's Guangdong Province, we take care to manage our operations from an environmental point of view.

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 suppliers to our TEL and ELP operations are required to sign a supplier CSR agreement, specifying CSR related

conditions they must abide by. The CMS operation also uses supplier agreements, or in some cases requires suppliers to sign codes of conduct. The Group carries out annual audits of key suppliers.

We adopt environmentally appropriate best practices and meet international standards in the manufacture of our TEL products and ELPs. We also work with our CMS customers to reduce product size, eliminate toxic materials and increase recyclability. Stringent internationally benchmarked procedures are in place to handle hazardous materials.

The manufacturing facilities of our TEL products are ISO14001 certified, and have been awarded "Hong Kong – Guangdong Cleaner Production Partners" status, under the scheme jointly launched by the HKSAR Government and the Guangdong Provincial Government. This is in addition to recognition as a "Cleaner Production Enterprise in Guangdong Province" from the Guangdong Provincial Government, "Cleaner Production Enterprise in Dongguan City" from the Dongguan

Municipal Government and having passed fit for the "12th Five Year Energy Plan" of the Dongguan Municipal Government.

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.

The CMS operation is ISO14001 and SA8000 certified.

We are also investing across our manufacturing operations to reduce environmental impacts. 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.

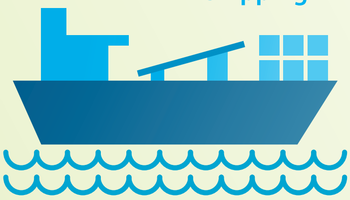
Processes

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 and variable-frequency drives in air-conditioning systems. Variable-frequency drives have been installed in the plastic injection machines in our ELP factory, also reducing electricity consumption. Our CMS operation has improved the management of the air conditioning systems, fitted energy efficient light bulbs and reduced daily electric power consumption.

Distribution

Product distribution also involves environmental impacts, and we are constantly thinking of more efficient ways to move around the world.

Shipping



In our TEL operation, we take care to partner with carriers that use low carbon and low sulphur fuel in their sea-going vessels. Majority of the Group's 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. We take care to schedule incoming raw materials and outgoing product on the same transport, to reduce waste, and work with customers to consolidate orders. Our CMS operation uses recyclable aluminum pallets for transfers between Hong Kong and Dongguan, as well as recyclable cartons.

Recycling

Packaging, promotion and recycling are the final sections of the product lifecycle.

To minimise environmental impacts in this area, our products are designed to avoid unnecessary packaging. Each year, we review the packaging of key products and try to reduce their size. Increasingly, we have adopted environmentally friendly printing processes.

All TEL packaging is 100% recyclable, while packaging for our TEL products sold in North America features FDA-approved aqueous coating.

Packaging for our TEL products and ELPs in Europe is compliant with the Waste Electrical and Electronic Equipment (WEEE) Directive. We also actively encourage consumers to recycle. Cardboard packaging for ELPs is 100% recyclable, and furthermore, the cardboard used is manufactured from a minimum 80% post-consumer recycled material. During the financial year 2012, the ELP operation managed to reduce the use of plastic packaging materials by 49%. Beginning in the calendar year 2012, we have begun gradually to replace PVC (polyvinyl chloride) packaging with PET (polyethylene terephthalate) packaging for our ELPs.

Packaging

Our CMS operation has also reduced packaging size, increased the use of recyclable materials and avoided the use of plastics in packaging.

In our marketing, we continue to save paper through the increased use of electronic and digital promotions and catalogues, rather than printed versions.

Community

As a responsible corporate citizen, VTech supports the communities in which it operates in a variety of ways, focusing on innovation, helping children and general corporate philanthropy.

Service and Support

As in previous years, in 2011 VTech sponsored the Hong Kong Business of Design Week and Hong Kong Awards for Industry, to encourage innovation in our home region.

In the US, VTech and its staff made donations to the Children's Cancer Association. VTech also sponsored Medical Teams International and Dougy Center for grieving children, as well as American Cancer Association.

VTech volunteers made active contributions to charities and youth organisations in Hong Kong. These included working with Hong Kong Children and Youth Services, to take underprivileged youngsters on outings, joining with The Hong Kong Federation of Youth Groups' birthday cum graduation party for senior citizens, and participating in similar events organised by The Hong Kong Society for the Aged.

These and other efforts earned the Group recognition as a "Caring Company" by the Hong Kong Council of Social Service.

During the financial year, VTech also continued its support of the blood donation campaign organised by the Hong Kong Red Cross, helping to save lives.

Shareholders

VTech seeks to enhance relations with shareholders and investors through active engagement, to ensure a full understanding of our efforts to enhance shareholder value and manage risk.

Shareholder Value

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

- 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 2012, the highest closing share price was HK$99.55 (on 30 March 2012) while the lowest closing price was HK$63.75 (on 4 October 2011).

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. The dividend payout ratio in the financial year 2012 amounted to 98.8% of the profit attributable to shareholders of the Company, against 96.2% 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 the Board is independent non-executive directors. The Board has established an Audit Committee, a Nomination Committee, a Remuneration 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, Hong Kong 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 understands that good staff relations and a motivated workforce play a vital role in the Group's success.

Employee Numbers and Costs

The average number of employees for the financial year 2012 was 31,600, compared to 32,300 in the previous financial year.

Staff related costs for the year ended 31 March 2012 were approximately US$238 million, as compared to approximately US$210 million in the financial year 2011.

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 factors. 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 and meetings 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 professional education programmes.

Employee Relations

Recreational events organised during the financial year helped to foster team spirit and promote life balance.

In Hong Kong, these included our 10th anniversary participation in the Standard Chartered Hong Kong Marathon, in the annual dragon boat competition, the staff Christmas party, the company's 35th anniversary celebration at Ocean Park, tours to Shaoguan, Macau and Zhongshan and a variety of sport activities. These major events were supplemented throughout the year by courses on a variety of interests, ranging from cake baking to running. Overseas, our ELP operation in the US held an annual picnic on a festive 1980s theme and a party to celebrate 30 years in the US market.

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 Corporate Governance Code (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 2012, 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 non-executive directors form the majority of the Board, with five out of eight of the directors of the Company (the "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 32 of this Annual Report. The non-executive Directors are executives of high calibre 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 2012/13 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 Directors at Board Meetings (BM), Audit Committee Meetings (ACM), Nomination Committee Meeting (NCM), Remuneration Committee Meetings (RCM), Risk Management Committee Meetings (RMCM) and Annual General Meeting (AGM) during the financial year ended 31 March 2012 is set out below:

	Meetings attended/Eligible to attend					
	BM	ACM	NCM	RCM	RMCM	AGM
Executive Directors						
Allan WONG Chi Yun	4/4	–	1/1	–	2/2	1/1
PANG King Fai	4/4	–	–	–	2/2	1/1
Andy LEUNG Hon Kwong	4/4	–	–	–	2/2	1/1
Independent Non-executive Directors						
William FUNG Kwok Lun	4/4	2/2	1/1	2/2	–	1/1
Denis Morgie HO Pak Cho	3/4	2/2	0/1	1/2	–	1/1
David SUN Tak Kei	4/4	2/2	1/1	2/2	2/2	1/1
Michael TIEN Puk Sun	3/4	2/2	1/1	2/2	–	0/1
Patrick WANG Shui Chung	4/4	–	1/1	–	–	1/1

The Company renewed the directors and officers' liability insurance for members of the Board in April 2011 to provide protection against claims arising from the lawful discharge of duties by the Directors.

Board Committees

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

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 and Mr. Michael TIEN Puk Sun as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

The Audit Committee Charter was revised with effect from 28 March 2012 to include the responsibilities of developing and reviewing the corporate governance functions of the Group delegated by the Board.

Mr. Denis Morgie HO Pak Cho, 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. The meetings were attended by the Chairman, 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 Compliance Officer, the Chief Financial Officer and the external auditor. Work performed by the Audit Committee during the year included, but not limited to, reviewing the following:

– unaudited Group Interim Financial Report for the six months ended 30 September 2011 in the 2011/2012 Interim Report of the Company;

Board Committees (Continued)

Audit Committee (Continued)

– report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2011 in the 2011/2012 Interim Report of the Company;
– 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;
– respective audit plans of the internal and external auditors; and
– revised Audit Committee Charter.

During the year, the Audit Committee has organised a one-day training session conducted by qualified professionals on accounting, taxation and Listing Rules to Directors and relevant staff.

On 23 May 2012 (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 2012 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results for the year ended 31 March 2012 have been reviewed with no disagreement by the Audit Committee. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 March 2012 have been agreed with the Company's external auditor to the amounts set out in the Group's consolidated financial statements for the year.

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, the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls for the Group continue to be effective and adequate.

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

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 reviewed the structure, size and composition of the Board and the revised Nomination Committee Charter.

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 to the Board.

The emoluments of Directors are based on skills, knowledge and performance, together with reference to the profitability of the Company, and prevailing market conditions. In addition, the Company has established a share option scheme to provide incentives and rewards to eligible participants, and a share purchase scheme to motivate employees and attract suitable personnel for continuous development of the Group.

The Remuneration Committee held two meetings during the year. The Remuneration Committee discussed and reviewed a new 2011 share option scheme, granting of share options to the executive Directors and senior management and the revised Remuneration Committee Charter. The Remuneration Committee also reviewed the remuneration packages for all executive Directors and senior management and the shares to be awarded under the share purchase scheme.

Risk Management Committee

The Risk Management Committee is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong and Dr. David SUN Tak Kei as members. The Risk management committee 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 risks in the Group. Risks are being more formally identified and recorded in the Risk Register for key operations. This Risk Register is updated regularly and the major risks are being reviewed from time to time 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.

External Auditor

The Audit Committee reviews and monitors the external auditor's independence and objectivity. It also meets with the external 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.

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 2012, 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 37 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 the 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.

The Group has put in place an organisational structure with formal and 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 monitoring the Group's businesses and their performance.

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.

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 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 confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2012.

Shareholders' Rights

Under the Company's Bye-laws, in addition to regular Board meetings, the Board, on the requisition of shareholders of the Company holding not less than one-tenth of the paid-up capital of the Company, may convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the registered office of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionist(s).

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders or not less than 100 shareholders may propose any resolution at the next annual general meeting and circulate to other shareholders written statement with respect to the matter to be dealt with at the annual general meeting.

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

Shareholders Communication Policy

The Company has established a Shareholders Communication Policy to set out the Company's procedures in providing the shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

Directors and Senior Management

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 61, 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 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 56, 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 53, 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 63, appointed as Independent Non-executive Director in 2001. Dr. FUNG holds a Bachelor of Science degree in Engineering from Princeton University and an MBA degree from the Harvard Graduate School of Business. He has been awarded an Honourary Doctorate degree of Business Administration by the Hong Kong University of Science and Technology and by the Hong Kong Polytechnic University. Dr. FUNG is the Chairman of Li & Fung Limited. He is a non-executive director of Convenience Retail Asia Limited and Trinity Limited, an independent non-executive director of Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited, and an independent director of Singapore Airlines Limited. He is a director of the Fung Global Institute, an independent and non-profit think-tank that generates and disseminates innovative thinking and business relevant research on global issues from Asian perspectives. 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.

Denis Morgie HO Pak Cho, aged 69, 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 58, 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, the Council Chairman of the City University of Hong Kong, a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority, 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 61, 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 61, 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. Dr. WANG is 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 47, 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 52, 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 43, 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 52, 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 60, President of VTech Communications, Inc., is responsible for the Telecommunication Products in the United States 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 & Damlein College.

William TO, aged 56, 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, Puerto Rico and Mexico. He holds an MBA degree from the University of Chicago.

Gordon CHOW, aged 56, 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. 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, a director of the Canadian Toy Association and a member of the Board of Governors of Crofton House School in Vancouver.

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 56, 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.

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 2012.

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 2012 are set out in the consolidated income statement on page 38.

An interim dividend of US16.0 cents (2011: US16.0 cents) per ordinary share was paid to shareholders on 22 December 2011. The Board has recommended the payment of a final dividend of US60.0 cents (2011: US62.0 cents) per ordinary share in respect of the year ended 31 March 2012, payable on 30 July 2012 to shareholders whose names appear on the register of members of the Company as at the close of business on 19 July 2012 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 17 July 2012.

Commentary on Performance

A commentary on the performance of the Group is included in the Review of Operations set out on pages 16 to 19.

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 66.

Tangible Assets

Details of the movements in tangible assets of the Group during the financial year 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 financial year are set out in note 17 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the financial year are set out in the consolidated statement of changes in equity on page 40 and in note 18 to the financial statements, respectively.

Donations

During the financial year, the Group made charitable and other donations in an aggregate of US$95,000.

Directors

The Directors who held office during the financial year and up to 23 May 2012 (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
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Dr. Allan WONG Chi Yun, Dr. William FUNG Kwok Lun and Mr. Denis Morgie HO Pak Cho shall retire by rotation in accordance with Bye-law 112 of the Company's Bye-laws. All of the above Directors being eligible, shall offer themselves for re-election as Directors at the forthcoming annual general meeting. Mr. Denis Morgie HO Pak Cho has informed the Board of his intention to stand for re-election for a term of one year instead of a specific term of three years.

Brief biographical details of Directors and senior management are set out on pages 32 to 33 of this Annual Report.

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 had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the financial 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 these share option schemes include employees and officers of any member of the Group. At the annual general meeting of the Company held on 22 July 2011, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the "2011 Scheme") and the cancellation of the share option scheme adopted by the Company on 10 August 2001 (the "2001 Scheme") which originally would have expired on 9 August 2011, upon which no further options will be offered but in all other respects the provisions of the 2001 Scheme shall remain in force and the options granted prior to the cancellation of the 2001 Scheme shall continue to be valid and exercisable in accordance with the 2001 Scheme.

Share Option Scheme (Continued)

As at the date of adoption of the 2011 Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the 2011 Scheme or any other share option schemes adopted by the Company is 24,938,913 shares. Further details of the 2011 Scheme are set out in the circular of the Company dated 20 June 2011. Under the 2011 Scheme, the Directors may, at their discretion, at any time during 10 years from the date of adoption of the 2011 Scheme, invite employees and officers of any member of the Group to subscribe for shares of the Company in accordance with the terms of the 2011 Scheme.

Details of the 2001 Scheme and the 2011 Scheme are set out in note 17 to the financial statements.

Share Purchase Scheme

On 30 March 2011 (the "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 2012, 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: Personal interest	Family interest	Other interest	Equity derivatives (share options)	Total	Approximate percentage of shareholding
Allan WONG Chi Yun	9,142,393	3,968,683	74,101,153 *(Note 1)*	512,000	87,724,229	35.2%
PANG King Fai	–	–	–	617,000	617,000	0.3%
Andy LEUNG Hon Kwong	143,800	–	–	128,000	271,800	0.1%
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:

(1) *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 wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets Limited ("Surplus Assets"). Surplus Assets was wholly owned by Credit Suisse Trust Limited as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was the founder. Surplus Assets 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. Surplus Assets was wholly owned by Credit Suisse Trust Limited which was deemed to be interested in such shares by virtue of the SFO.*

(2) *The shares were held by Golden Step Limited which was beneficially owned by Dr. William FUNG Kwok Lun.*

(3) *The shares were held by Romsley International Limited which was jointly owned by Mr. Michael TIEN Puk Sun and his spouse.*

(4) *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 2011	as at 31 March 2012
Allan WONG Chi Yun	17 April 2008	HK$41.07	24 April 2011 to 23 April 2013	496,000	– *(Note)*
	9 April 2010	HK$85.35	12 April 2012 to 11 April 2014	512,000	512,000
PANG King Fai	17 April 2008	HK$41.07	23 April 2010 to 22 April 2012	248,000	113,000 *(Note)*
	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 12 April 2014	256,000	256,000
Andy LEUNG Hon Kwong	17 April 2008	HK$41.07	25 April 2011 to 24 April 2013	124,000	– *(Note)*
	9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	128,000	128,000

Note: The weighted average closing price per share immediately before the date on which options were exercised was HK$89.70.

Save as disclosed above, as at 31 March 2012, none of the Directors and chief executives of the Company had any interest or short positions in the 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 2012, 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
Credit Suisse Trust Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.7%
Surplus Assets Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.7%
Honorex Limited	Interest of controlled corporation *(Note 1)*	65,496,225	26.3%
	Beneficial owner *(Note 1)*	1,416,325	0.6%
Conquer Rex Limited	Beneficial owner *(Note 1)*	65,496,225	26.3%
Templeton Asset Management Limited	Investment manager	39,888,200	16.0%
Capital Research and Management Company	Investment manager	12,508,200	5.0%

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 wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets. Surplus Assets was wholly owned by Credit Suisse Trust Limited as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was the founder. Surplus Assets 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. Surplus Assets was wholly owned by Credit Suisse Trust Limited which was deemed to be interested in such shares by virtue of the SFO. Dr. Allan WONG Chi Yun's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.

(2) All the interests stated above represented long positions.

Save as disclosed above, as at 31 March 2012, 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 2012 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 2012.

Securities Purchase Arrangements

At the annual general meeting held on 22 July 2011, shareholders renewed the approval of a general mandate authorising 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 financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial year, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 244,000 Company's shares at a consideration of US$2.7 million.

Major Customers and Suppliers

For the year ended 31 March 2012, 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 12.6% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 33.7% of the Group's revenue during the financial 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, 23 May 2012

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 38 to 65, which comprise the consolidated and Company balance sheets as at 31 March 2012, 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 Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 2012 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

23 May 2012

Consolidated Financial Statements

Consolidated Income Statement

For the year ended 31 March 2012

	Note	2012 US$ million	2011 US$ million
Revenue	1	**1,784.5**	1,712.8
Cost of sales		**(1,213.7)**	(1,145.9)
Gross profit		**570.8**	566.9
Selling and distribution costs		**(255.0)**	(241.6)
Administrative and other operating expenses		**(49.1)**	(49.8)
Research and development expenses		**(57.2)**	(56.8)
Operating profit	1&2	**209.5**	218.7
Net finance income		**2.1**	1.6
Profit before taxation		**211.6**	220.3
Taxation	4	**(19.7)**	(19.1)
Profit for the year		**191.9**	201.2
Attributable to:			
Shareholders of the Company		**191.9**	202.0
Non-controlling interests		**–**	(0.8)
Profit for the year		**191.9**	201.2
Earnings per share (US cents)	6		
– Basic		**77.0**	81.5
– Diluted		**76.9**	81.2

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Note	2012 US$ million	2011 US$ million
Profit for the year		**191.9**	201.2
Other comprehensive income (after tax and reclassification adjustments) for the year			
Fair value gains on hedging		**1.4**	0.3
Realisation of hedging reserve		**(0.3)**	–
Exchange translation differences		**(2.7)**	7.2
Surplus arising on revaluation of properties, net of deferred tax	4(d)	**9.1**	1.3
Other comprehensive income for the year		**7.5**	8.8
Total comprehensive income for the year		**199.4**	210.0
Attributable to:			
Shareholders of the Company		**199.4**	210.8
Non-controlling interests		**–**	(0.8)
Total comprehensive income for the year		**199.4**	210.0

Consolidated Balance Sheet

As at 31 March 2012

	Note	2012 US$ million	2011 US$ million
Non-current assets			
Tangible assets	7	**91.0**	78.4
Leasehold land payments	8	**5.1**	5.0
Investments	9	**0.2**	0.2
Deferred tax assets	10(b)	**5.9**	5.4
		102.2	89.0
Current assets			
Stocks	11	**239.2**	229.8
Debtors, deposits and prepayments	12	**244.2**	225.0
Taxation recoverable	10(a)	**0.8**	0.3
Deposits and cash	13	**326.5**	333.1
		810.7	788.2
Current liabilities			
Creditors and accruals	14	**(314.9)**	(284.9)
Provisions	15	**(31.5)**	(39.4)
Taxation payable	10(a)	**(4.5)**	(5.1)
		(350.9)	(329.4)
Net current assets		**459.8**	458.8
Total assets less current liabilities		**562.0**	547.8
Non-current liabilities			
Deferred tax liabilities	10(b)	**(5.8)**	(3.9)
Net assets		**556.2**	543.9
Capital and reserves			
Share capital	17(a)	**12.5**	12.4
Reserves		**543.7**	531.5
Total equity		**556.2**	543.9

Approved and authorised for issue by the Board of Directors on 23 May 2012.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 41 to 65 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 2012

	Note	2012 US$ million	2011 US$ million
Non-current assets			
Investments in subsidiaries	22	**227.5**	227.5
Current assets			
Amounts due from subsidiaries	22(b)	**267.1**	295.8
Deposits and cash	13	**0.6**	0.3
		267.7	296.1
Current liabilities			
Amounts due to subsidiaries	22(b)	**(119.6)**	(188.0)
Creditors and accruals	14	**(0.4)**	(0.5)
		(120.0)	(188.5)
Net current assets		**147.7**	107.6
Net assets		**375.2**	335.1
Capital and reserves			
Share capital	17(a)	**12.5**	12.4
Reserves	18(b)	**362.7**	322.7
Total equity		**375.2**	335.1

Approved and authorised for issue by the Board of Directors on 23 May 2012.

Allan WONG Chi Yun
Director

PANG King Fai
Director

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Note	2012 US$ million	2011 US$ million
Operating activities			
Operating profit		**209.5**	218.7
Depreciation of tangible assets	2	**27.4**	33.1
Amortisation of leasehold land payments	2	**0.1**	0.1
Gain on disposal of tangible assets	2	**(0.1)**	–
Increase in stocks		**(9.4)**	(70.5)
Increase in debtors, deposits and prepayments		**(19.2)**	(13.6)
Increase in creditors and accruals		**30.0**	12.0
Decrease in provisions		**(7.9)**	(3.0)
Cash generated from operations		**230.4**	176.8
Interest received		**2.1**	1.6
Taxes paid		**(21.3)**	(23.1)
Net cash generated from operating activities		**211.2**	155.3
Investing activities			
Purchase of tangible assets	7	**(29.7)**	(25.9)
Proceeds from disposal of tangible assets		**0.3**	0.1
(Placement of)/proceeds received from bank deposits with maturity greater than three months	13	**(60.0)**	95.7
Net cash (used in)/ generated from investing activities		**(89.4)**	69.9
Financing activities			
Proceeds from shares issued upon exercise of share options	17(a) &18	**6.3**	6.8
Payment for shares acquired for Share Purchase Scheme	17(c)	**(2.7)**	–
Dividends paid	5	**(194.5)**	(193.6)
Net cash used in financing activities		**(190.9)**	(186.8)
Effect of exchange rate changes		**2.5**	7.8
(Decrease)/increase in cash and cash equivalents		**(66.6)**	46.2
Cash and cash equivalents at 1 April		**243.1**	196.9
Cash and cash equivalents at 31 March	13	**176.5**	243.1

The notes and principal accounting policies on pages 41 to 65 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Note	Attributable to shareholders of the Company										
		Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Properties revaluation reserve US$ million	Exchange reserve US$ million	Capital reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total US$ million	Non-controlling interests US$ million	Total equity US$ million
At 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, net of deferred tax		–	–	–	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		–	–	–	–	–	–	–	(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 and 1 April 2011		12.4	121.1	–	12.2	12.1	3.1	0.3	382.7	543.9	–	543.9
Changes in equity for the year ended 31 March 2012												
Comprehensive income												
Profit for the year		–	–	–	–	–	–	–	191.9	191.9	–	191.9
Other comprehensive income (after tax and reclassification adjustments)												
Fair value gains on hedging		–	–	–	–	–	–	1.4	–	1.4	–	1.4
Realisation of hedging reserve		–	–	–	–	–	–	(0.3)	–	(0.3)	–	(0.3)
Exchange translation differences		–	–	–	–	(2.7)	–	–	–	(2.7)	–	(2.7)
Surplus arising on revaluation of properties, net of deferred tax		–	–	–	9.1	–	–	–	–	9.1	–	9.1
Other comprehensive income for the year		–	–	–	9.1	(2.7)	–	1.1	–	7.5	–	7.5
Total comprehensive income for the year		–	–	–	9.1	(2.7)	–	1.1	191.9	199.4	–	199.4
Final dividend in respect of the previous year	5	–	–	–	–	–	–	–	(154.6)	(154.6)	–	(154.6)
Interim dividend in respect of the current year	5	–	–	–	–	–	–	–	(39.9)	(39.9)	–	(39.9)
Shares issued under share option scheme	17(a) &18(b)	0.1	6.2	–	–	–	–	–	–	6.3	–	6.3
Equity-settled share based payments		–	0.9	–	–	–	1.1	–	–	2.0	–	2.0
Shares purchased for Share Purchase Scheme	17(c) &18(b)	–	–	(2.7)	–	–	–	–	–	(2.7)	–	(2.7)
Vesting of shares of Share Purchase Scheme	17(c) &18(b)	–	–	1.8	–	–	–	–	–	1.8	–	1.8
At 31 March 2012		**12.5**	**128.2**	**(0.9)**	**21.3**	**9.4**	**4.2**	**1.4**	**380.1**	**556.2**	**–**	**556.2**

The notes and principal accounting policies on pages 41 to 65 form part of these 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 certain new and revised IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

The impact of these developments which are relevant to the Group for the current period is set out as follows:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact of the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.
- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 19 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 24).

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 25.

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.

Investments in a subsidiary 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.

Principal Accounting Policies (Continued)

D Basis of Consolidation (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

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, returns, rebates 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

The following properties held for own use are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

– freehold land and buildings; and

– medium-term leasehold land and buildings.

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)

The following items of tangible assets are stated at cost less accumulated depreciation and impairment losses (see note (K)):

– short-term leasehold buildings held for own use which are situated on leasehold land classified as held under operating leases; and

– other items of tangible assets.

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.

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
Freehold buildings, medium-term and short-term leasehold buildings and leasehold improvements	10 to 50 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

With effect from 1 April 2011, the Group has revised the estimated useful lives of certain freehold and medium term leasehold buildings from 10 to 30 years to 10 to 50 years respectively. The effect of the change in the estimated useful lives has been recognised prospectively. The change in estimate has no significant financial impact to the Group's consolidated financial statements for the current and future periods.

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 recognised in profit or loss 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 recognised in profit or loss 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 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.

Principal Accounting Policies (Continued)

K Impairment of Assets (Continued)

(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.

– Calculation of 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 discount 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 profit or loss 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. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

– Interim financial reporting and impairment

Under the Listing rules, 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 profit or loss 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 the 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 each 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 schemes

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 profit or loss as incurred.

(ii) Defined benefit schemes

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 profit or loss 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 profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

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).

At the end of balance sheet date, the Group revises its estimates of the number of shares of the Company granted under the Share Purchase Scheme ("Awarded Shares") that are expected to ultimately vest. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to capital reserve.

T Shares 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 as employee share-based compensation expenses 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.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Purchase Scheme, and the related fair value of the shares regranted are debited to capital reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the cost or debited against retained earnings if the fair value is less than the cost.

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

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions apply:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

  (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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 2012	North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
Reportable segment revenue	**903.5**	**719.3**	**94.1**	**67.6**	**1,784.5**
Reportable segment profit	**94.6**	**93.1**	**13.6**	**8.2**	**209.5**
Depreciation and amortisation	**0.8**	**1.9**	**24.8**	**–**	**27.5**
Reportable segment assets	**140.2**	**104.3**	**660.9**	**0.6**	**906.0**
Reportable segment liabilities	**(41.7)**	**(28.4)**	**(275.9)**	**(0.4)**	**(346.4)**

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)

(c) Reconciliations of reportable segment assets and liabilities

	Note	2012 US$ million	2011 US$ million
Assets			
Reportable segment assets		**906.0**	871.3
Investments	9	**0.2**	0.2
Taxation recoverable	10(a)	**0.8**	0.3
Deferred tax assets	10(b)	**5.9**	5.4
Consolidated total assets		**912.9**	877.2
Liabilities			
Reportable segment liabilities		**(346.4)**	(324.3)
Taxation payable	10(a)	**(4.5)**	(5.1)
Deferred tax liabilities	10(b)	**(5.8)**	(3.9)
Consolidated total liabilities		**(356.7)**	(333.3)

For the year ended 31 March 2012, approximately 13% (2011: 14%) 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	2012 US$ million	2011 US$ million
Staff related costs			
– salaries and wages		**228.2**	202.0
– pension costs: defined contribution schemes	16	**8.3**	6.6
– pension costs: defined benefit scheme	16	**0.9**	1.0
– severance payments		**0.8**	0.5
– share-based payment expenses		**3.8**	2.3
		242.0	212.4
Cost of inventories	11(b)	**1,213.7**	1,145.9
Depreciation of tangible assets	7	**27.4**	33.1
Amortisation of leasehold land payments	8	**0.1**	0.1
Gain on disposal of tangible assets		**(0.1)**	–
Auditors' remuneration			
– audit services		**0.8**	0.8
– audit related services		**0.1**	0.1
– tax and other services		**0.5**	0.5

	Note	2012 US$ million	2011 US$ million
Operating leases charges: minimum lease payments			
– land and buildings		**14.8**	12.4
– others		**2.2**	2.2
Impairment loss of trade debtors	12(b)	**1.5**	0.2
Impairment loss of trade debtors written back	12(b)	**(1.7)**	(0.9)
Royalties		**23.0**	23.1
Provision for defective goods returns	15	**18.0**	26.7
Net foreign exchange gain		**(1.3)**	(1.7)
Net gain on forward foreign exchange contracts			
– Net gain on cash flow hedging instruments reclassified from equity		**(0.3)**	–
– Net gain on the forward foreign exchange contracts		**–**	(0.1)

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	2012 Total US$ million
Executive Directors *(i)*						
Allan WONG Chi Yun *(iii)*	**–**	**0.8**	**1.9**	**0.1**	**0.7**	**3.5**
PANG King Fai	**–**	**0.5**	**0.6**	**–**	**0.4**	**1.5**
Andy LEUNG Hon Kwong	**–**	**0.5**	**0.8**	**–**	**0.2**	**1.5**
Independent Non-executive Directors *(ii)*						
William FUNG Kwok Lun	**–**	**–**	**–**	**–**	**–**	**–**
Denis Morgie HO Pak Cho	**–**	**–**	**–**	**–**	**–**	**–**
David SUN Tak Kei	**–**	**–**	**–**	**–**	**–**	**–**
Michael TIEN Puk Sun	**–**	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung	**–**	**–**	**–**	**–**	**–**	**–**
	–	**1.8**	**3.3**	**0.1**	**1.3**	**6.5**

	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

Notes:

(i) The directors' fee paid to each executive director of the Company was US$30,000 (2011: US$30,000) per annum.

(ii) The emoluments paid to each independent non-executive director of the Company was US$30,000 (2011: US$30,000) 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 2012 (2011: 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 discretionary trust of which Dr. Allan Wong Chi Yun, a Director, was the founder.

(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 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 (2011: three) are directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2011: two) individuals are as follows:

	2012 US$ million	2011 US$ million
Salaries, allowances and benefits in kind	**0.9**	0.9
Discretionary bonuses	**1.1**	1.0
Contribution to retirement benefit schemes	**–**	–
Share-based payments	**0.3**	0.4
	2.3	2.3

The emoluments fell within the following bands:

	2012 Individuals	2011 Individuals
US$		
833,001 – 897,000	**–**	1
897,001 – 961,000	**1**	–
1,269,001 – 1,333,000	**1**	–
1,397,001 – 1,461,000	**–**	1
	2	2

During the years ended 31 March 2011 and 31 March 2012, there were no amounts paid to directors and individuals for compensation for loss of office and inducement for joining the Group.

4 Taxation

	Note	2012 US$ million	2011 US$ million
Current tax			
– Hong Kong		**14.6**	16.2
– Overseas		**5.6**	4.7
Over-provision in respect of prior years			
– Hong Kong		**–**	(1.2)
– Overseas		**–**	(0.7)
Deferred tax			
– Origination and reversal of temporary differences	10(b)	**(0.5)**	0.1
		19.7	19.1

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2011: 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 2012 was 9.3% (2011: 8.7%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2012 %	2011 %
Statutory domestic income tax rate	**16.5**	16.5
Difference in overseas income tax rates	**1.1**	0.7
Tax effect of non-temporary differences	**(6.5)**	(7.0)
Tax losses not recognised	**0.1**	0.1
Others	**(1.9)**	(1.6)
Effective income tax rate	**9.3**	8.7

(d) Included in the consolidated statement of comprehensive income for the year ended 31 March 2012 was US$9.1 million (2011: US$1.3 million) related to the surplus on revaluation of properties which was derived at after the related tax expense of US$1.9 million (2011: US$0.3 million).

5 Dividends

	Note	2012 US$ million	2011 US$ million
Interim dividend of US16.0 cents (2011: US16.0 cents) per share declared and paid	18	**39.9**	39.7
Final dividend of US60.0 cents (2011: US62.0 cents) per share proposed after the balance sheet date	18	**149.7**	153.9

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 31 May 2011, the directors proposed a final dividend of US62.0 cents per ordinary share for the year ended 31 March 2011, which was estimated to be US$153.9 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2011. The final dividend was approved by shareholders at the annual general meeting on 22 July 2011. As a result of shares issuance upon exercise of share options during the period between 1 April 2011 and 22 July 2011, the final dividend paid in respect of the year ended 31 March 2011 totaled US$154.6 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$191.9 million (2011: US$202.0 million).

The calculation of basic earnings per share is based on the weighted average of 249.1 million (2011: 247.9 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share is based on 249.4 million (2011: 248.9 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for share held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme.

	2012	2011
Profit attributable to shareholders (US$ million)	**191.9**	202.0
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**249.1**	247.9
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.4**	1.0
Effect of shares held for Share Purchase Scheme (in million)	**(0.1)**	–
Weighted average number of ordinary shares (diluted) (in million)	**249.4**	248.9
Diluted earnings per share (US cents)	**76.9**	81.2

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 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 *(note (i))*	1.1	–	–	–	–	1.1
Effect of changes in exchange rates	1.6	0.5	1.2	2.5	–	5.8
At 31 March 2011 and 1 April 2011	63.7	12.2	263.0	111.2	6.9	457.0
Additions	–	0.5	19.2	10.0	–	29.7
Disposals	–	–	(4.6)	(2.3)	–	(6.9)
Revaluation *(note (i))*	7.2	–	–	–	–	7.2
Effect of changes in exchange rates	(0.3)	0.3	0.4	0.5	–	0.9
At 31 March 2012	**70.6**	**13.0**	**278.0**	**119.4**	**6.9**	**487.9**
Accumulated depreciation						
At 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 *(note (i))*	(0.5)	–	–	–	–	(0.5)
Effect of changes in exchange rates	0.2	0.2	0.9	1.8	–	3.1
At 31 March 2011 and 1 April 2011	28.7	6.7	240.8	95.5	6.9	378.6
Charge for the year	1.8	0.9	16.0	8.7	–	27.4
Written back on disposals	–	–	(4.6)	(2.1)	–	(6.7)
Revaluation *(note (i))*	(3.8)	–	–	–	–	(3.8)
Effect of changes in exchange rates	0.1	0.2	0.4	0.7	–	1.4
At 31 March 2012	**26.8**	**7.8**	**252.6**	**102.8**	**6.9**	**396.9**
Net book value at 31 March 2012	**43.8**	**5.2**	**25.4**	**16.6**	**–**	**91.0**
Net book value at 31 March 2011	35.0	5.5	22.2	15.7	–	78.4
Cost or valuation of tangible assets is analysed as follows:						
At cost	42.5	13.0	278.0	119.4	6.9	459.8
At professional valuation *(note (i))*	28.1	–	–	–	–	28.1
	70.6	**13.0**	**278.0**	**119.4**	**6.9**	**487.9**

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 2010	20.0	41.0	61.0
Revaluation *(note (i))*	1.1	–	1.1
Effect of changes in exchange rates	0.6	1.0	1.6
At 31 March 2011 and 1 April 2011	21.7	42.0	63.7
Revaluation *(note (i))*	7.2	–	7.2
Effect of changes in exchange rates	(0.8)	0.5	(0.3)
At 31 March 2012	**28.1**	**42.5**	**70.6**
Accumulated depreciation			
At 1 April 2010	2.2	23.7	25.9
Charge for the year	1.7	1.4	3.1
Revaluation *(note(i))*	(0.5)	–	(0.5)
Effect of changes in exchange rates	–	0.2	0.2
At 31 March 2011 and 1 April 2011	3.4	25.3	28.7
Charge for the year	0.4	1.4	1.8
Revaluation *(note (i))*	(3.8)	–	(3.8)
Effect of changes in exchange rates	–	0.1	0.1
At 31 March 2012	**–**	**26.8**	**26.8**
Net book value at 31 March 2012	**28.1**	**15.7**	**43.8**
Net book value at 31 March 2011	18.3	16.7	35.0
Cost or valuation of tangible assets is analysed as follows:			
At cost	–	42.5	42.5
At professional valuation *(note (i))*	28.1	–	28.1
	28.1	**42.5**	**70.6**
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)	15.4	–	15.4
Overseas			
Freehold land and buildings	12.7	–	12.7
Short-term leasehold buildings	–	15.7	15.7
	12.7	15.7	28.4
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	6.0	–	6.0

Note:

(i) Revaluation of properties

The following properties held by the Group for own use were revalued as at 31 March 2012 on a market value basis by reference to recent market transactions in comparable properties. The valuations were carried out by independent qualified firms of surveyors, Vigers Appraisal & Consulting Limited who is an associate member of the Hong Kong Institute of Surveyors and Habets & Straten Makelaars/Taxateurs o.g. with recent experience in the location and category of property being valued:

	2012 US$ million	2011 US$ million
Medium-term leasehold land and buildings	**15.4**	8.4
Freehold land and buildings	**12.7**	13.3
	28.1	21.7

The revaluation surpluses of US$11.0 million (2011: US$1.6 million) have been recognised in other comprehensive income for the year ended 31 March 2012 and accumulated in the property revaluation reserve of the Group (note 18(c)), net of deferred tax (note 10(b)).

8 Leasehold Land Payments

	Note	2012 US$ million	2011 US$ million
Net book value at 1 April		**5.0**	4.9
Amortisation	2	**(0.1)**	(0.1)
Effect of changes in exchange rates		**0.2**	0.2
Net book value at 31 March *(note (i))*		**5.1**	5.0
Leasehold land payments in respect of: Owner-occupied properties		**5.1**	5.0

Note:

(i) Included in leasehold land payments are deposits of US$3.0 million (2011: US$2.9 million) which are paid for the acquisition of certain sites in the PRC.

9 Investments

	2012 US$ million	2011 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:

	2012 US$ million	2011 US$ million
Provision for Profits Tax for the year	**(20.2)**	(20.9)
Provisional Profits Tax paid	**16.7**	16.1
	(3.5)	(4.8)
Balance of Profits Tax provision relating to prior years	**(0.2)**	–
	(3.7)	(4.8)

	2012 US$ million	2011 US$ million
Taxation recoverable	**0.8**	0.3
Taxation payable	**(4.5)**	(5.1)
	(3.7)	(4.8)

(b) The deferred tax assets and liabilities and the deferred tax account movements for the years ended 31 March 2011 and 31 March 2012 are attributable to the following items:

	1 April 2010 US$ million	Credited/ (charged) to consolidated income statement US$ million	Charged to reserve US$ million	31 March 2011 and 1 April 2011 US$ million	Credited/ (charged) to consolidated income statement US$ million	Charged to reserve US$ million	31 March 2012 US$ million
Deferred tax assets							
Tax losses carried forward	3.5	(0.1)	–	3.4	0.9	–	**4.3**
Other deductible temporary differences	2.1	(0.1)	–	2.0	(0.4)	–	**1.6**
	5.6	(0.2)	–	5.4	0.5	–	**5.9**
Deferred tax liabilities							
Accelerated tax depreciation	(0.4)	0.2	–	(0.2)	0.1	–	**(0.1)**
Revaluation of properties	(2.9)	–	(0.3)	(3.2)	–	(1.9)	**(5.1)**
Others	(0.4)	(0.1)	–	(0.5)	(0.1)	–	**(0.6)**
	(3.7)	0.1	(0.3)	(3.9)	–	(1.9)	**(5.8)**
Net deferred tax assets/(liabilities)	1.9	(0.1)	(0.3)	1.5	0.5	(1.9)	**0.1**

10 Income Tax in the Consolidated Balance Sheet (Continued)

(b) (Continued)

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:

	2012 US$ million	2011 US$ million
Deferred tax assets	**5.9**	5.4
Deferred tax liabilities	**(5.8)**	(3.9)
	0.1	1.5

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$10.7 million (2011: US$13.4 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$47.6 million (2011: US$56.3 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 2012.

The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in the PRC expire 5 years after the relevant accounting year end date. 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:

	2012 US$ million	2011 US$ million
Raw materials	**82.1**	73.5
Work in progress	**35.1**	29.5
Finished goods	**122.0**	126.8
	239.2	229.8

Stocks carried at net realisable value at 31 March 2012 amounted to US$6.7 million (2011: US$7.8 million).

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

	2012 US$ million	2011 US$ million
Carrying amount of inventories sold	**1,214.3**	1,145.3
Write-down of inventories	**2.3**	4.1
Reversal of write-down of inventories	**(2.9)**	(3.5)
	1,213.7	1,145.9

The reversal of write-down of inventories 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	2012 US$ million	2011 US$ million
Trade debtors (Net of allowance for doubtful debts of US$6.9 million (2011: US$7.9 million))	12(a)&(b)	**210.6**	198.8
Other debtors, deposits and prepayments		**29.8**	23.7
Forward foreign exchange contracts			
– held as cash flow hedging instruments	19(b)&(d)	**1.4**	0.3
– held as fair value through profit or loss	19(b)&(d)	**–**	0.2
Pension assets	16	**2.4**	2.0
		244.2	225.0

All of other debtors, deposits and prepayments apart from the amounts of US$8.7 million (comprised largely of royalty prepayments) (2011: US$2.5 million) are expected to be recovered or recognized as an expense within one year.

(a) Ageing Analysis

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

	2012 US$ million	2011 US$ million
0-30 days	**114.8**	110.0
31-60 days	**73.7**	60.2
61-90 days	**18.1**	22.6
>90 days	**4.0**	6.0
Total	**210.6**	198.8

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 2012, the Group's trade debtors of US$6.9 million (2011: US$7.9 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.

12 Debtors, Deposits and Prepayments (Continued)

(b) Impairment of trade debtors (Continued)

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

	Note	2012 US$ million	2011 US$ million
At 1 April		**7.9**	8.8
Impairment loss recognised	2	**1.5**	0.2
Impairment loss written back	2	**(1.7)**	(0.9)
Uncollectible amounts written off		**(0.8)**	(0.3)
Effect of changes in exchange rates		**–**	0.1
At 31 March		**6.9**	7.9

(c) Trade debtors that are not impaired

As at 31 March 2012, 97% (2011: 96%) of the Group's trade debtors were not impaired, of which 99% (2011: 99%) 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	
	2012 US$ million	2011 US$ million	2012 US$ million	2011 US$ million
Short term bank deposits	**150.0**	210.3	**–**	–
Cash at bank and in hand	**176.5**	122.8	**0.6**	0.3
Deposits and cash	**326.5**	333.1	**0.6**	0.3
Less: bank deposits with maturity greater than three months	**(150.0)**	(90.0)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**176.5**	243.1	**0.6**	0.3

Deposits and cash as at 31 March 2012 include US$22.5 million equivalent (2011: US$26.6 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

		The Group		The Company	
	Note	2012 US$ million	2011 US$ million	2012 US$ million	2011 US$ million
Trade creditors	14(a)	**173.8**	142.6	**–**	–
Other creditors and accruals	14(b)	**141.1**	142.2	**0.4**	0.5
Forward foreign exchange contracts held as fair value through profit or loss	19(b)&(d)	**–**	0.1	**–**	–
		314.9	284.9	**0.4**	0.5

(a) Ageing Analysis

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

	2012 US$ million	2011 US$ million
0-30 days	**75.3**	80.1
31-60 days	**55.4**	33.0
61-90 days	**21.6**	19.6
>90 days	**21.5**	9.9
Total	**173.8**	142.6

(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 or recognised as income within one year or are repayable on demand.

15 Provisions

At 31 March 2012, provisions of US$31.5 million (2011: US$39.4 million) include provisions for defective goods returns of US$26.4 million (2011: US$34.5 million).

		Defective goods returns	
	Note	2012 US$ million	2011 US$ million
At 1 April		**34.5**	37.7
Effect of changes in exchange rates		**(0.1)**	0.1
Additional provisions		**23.2**	26.8
Unused amounts reversed		**(5.2)**	(0.1)
Charged to the consolidated income statement	2	**18.0**	26.7
Utilised during the year		**(26.0)**	(30.0)
At 31 March		**26.4**	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 defined contribution schemes in Hong Kong and overseas. 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$7.7 million (2011: US$6.1 million) and US$0.6 million (2011: 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 2012 using the projected unit credit method.

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

	Note	**2012 US$ million**	2011 US$ million
Fair value of Scheme assets		**22.9**	22.7
Present value of funded defined benefit obligations		**(31.1)**	(23.8)
Unrecognised actuarial losses		**10.6**	3.1
Assets recognised in the consolidated balance sheet	12	**2.4**	2.0
The amounts recognised in the consolidated income statement are as follows:			
Current service cost		**1.6**	1.6
Interest cost		**0.7**	0.7
Expected return on plan assets		**(1.5)**	(1.4)
Net actuarial losses recognised in the year		**0.1**	0.1
Expenses recognised in the consolidated income statement	2	**0.9**	1.0
The actual return on plan assets was as follows:			
Expected return on plan assets		**1.5**	1.4
Actuarial (losses)/gains on plan assets		**(2.3)**	0.7
Actual return on plan assets		**(0.8)**	2.1
Movement in the assets recognised in the consolidated balance sheet:			
At 1 April		**2.0**	1.7
Expenses recognised in the consolidated income statement		**(0.9)**	(1.0)
Contributions paid		**1.3**	1.3
At 31 March		**2.4**	2.0

	2012 US$ million	2011 US$ million
Movement in fair value of Scheme assets:		
At 1 April	**22.7**	20.0
Expected return on plan assets	**1.5**	1.4
Actual Group's contributions	**1.3**	1.3
Actual benefit paid	**(0.3)**	(0.7)
Actuarial (losses)/gains on plan assets	**(2.3)**	0.7
At 31 March	**22.9**	22.7
Movement in present value of funded defined benefit obligations:		
At 1 April	**23.8**	22.4
Interest cost	**0.7**	0.7
Current service cost	**1.6**	1.6
Actual benefits paid	**(0.3)**	(0.7)
Actuarial losses/(gains)	**5.3**	(0.2)
At 31 March	**31.1**	23.8

	2012 US$ million	2011 US$ million	2010 US$ million	2009 US$ million	2008 US$ million
Historical information					
Present value of funded defined benefit obligations	**31.1**	23.8	22.4	24.2	21.3
Fair value of Scheme assets	**(22.9)**	(22.7)	(20.0)	(13.7)	(18.7)
Deficit in the plan	**8.2**	1.1	2.4	10.5	2.6
Experience gains on Scheme liabilities	**(0.1)**	(0.1)	(1.0)	(0.6)	(0.1)
Experience losses/(gains) on Scheme assets	**2.3**	(0.7)	(4.4)	6.4	0.2

	2012	2011
Scheme assets consist of the following:		
Equities	**69.4%**	70.8%
Bonds	**26.7%**	23.4%
Cash and others	**3.9%**	5.8%
	100.0%	100.0%
The principal actuarial assumptions used as at 31 March 2012 (expressed as weighted average) are as follows:		
Discount rate	**1.3%**	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

	2012 US$ million	2011 US$ million
Authorised		
Ordinary shares: 400,000,000 (2011: 400,000,000) of US$0.05 each	**20.0**	20.0

	2012 No. of shares	**2012 US$ million**	2011 No. of shares	2011 US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At 1 April	**248,296,133**	**12.4**	246,990,133	12.4
Shares issued upon exercise of share options	**1,193,000**	**0.1**	1,306,000	–
At 31 March	**249,489,133**	**12.5**	248,296,133	12.4

Note: Subsequent to the balance sheet date and up to 23 May 2012, the issued and fully paid share capital of the Company was increased to 249,602,133 ordinary shares upon the exercise of 113,000 share options.

The Company's issued and fully paid shares as at 31 March 2012 included 99,300 shares (2011: Nil) held in trust by the trustee under the Share Purchase Scheme, details of which are set out in note 17(c).

(b) Share Options

At the annual general meeting of the Company held on 22 July 2011, the shareholders of the Company approved the adoption of the 2011 Scheme and the cancellation of the 2001 Scheme which originally would have expired on 9 August 2011, upon which no further options will be offered but in all other respects the provisions of the 2001 Scheme shall remain in force and the options granted prior to the cancellation of the 2001 Scheme shall continue to be valid and exercisable in accordance with the 2001 Scheme.

Pursuant to the 2011 Scheme adopted on 22 July 2011, the Directors are authorised, at any time during the 10 years from the date of adoption of the 2011 Scheme, to grant options to employees and officers of any member of the Group to subscribe for shares of 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 2011 scheme and any other schemes does not in aggregate exceed 10% of the relevant class of shares in issue as at the date of adoption of the 2011 Scheme. 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 total number of shares issued and to be issued upon exercise of options granted and to be granted any one eligible employee in any 12-month period must 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 2011 Scheme has a life of 10 years and will expire on 21 July 2021. During the financial year and since the adoption of the 2011 Scheme, there were no options granted, exercised, lapsed or cancelled.

As at 31 March 2012, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 1,743,000 shares, which represented approximately 0.7% 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:

			Number of share options		
Date of grant	**Exercise price**	**Exercisable period** *(Note 1)*	**Balance in issue at 1 April 2011**	**Exercised during the year**	**Balance in issue at 31 March 2012**
17 April 2008	HK$41.07	23 April 2010 to 29 April 2012	248,000	(135,000) *(Note 2)*	**113,000**
17 April 2008	HK$41.07	23 April 2011 to 29 April 2013	1,306,000	(1,058,000) *(Note 3)*	**248,000**
9 April 2010	HK$85.35	12 April 2012 to 4 May 2014	1,382,000	–	**1,382,000**
			2,936,000	(1,193,000)	**1,743,000**

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 135,000 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 date on which the options were exercised and at the dates of exercise were HK$89.70 per share and HK$88.40 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$88.47 per share and HK$87.26 per share respectively.

(4) No options were granted, lapsed or cancelled during the financial year.

(5) Subsequent to the financial year and up to the date of this Annual Report, an aggregate of 113,000 share options were exercised at the exercise price of HK$41.07 per share.

17 Share Capital and Share Options (Continued)

(b) Share Options (Continued)

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)*	9 April 2010 *(Note 2)*
Fair value of each share option as of the date of grant	HK$5.76	HK$5.95	HK$22.12
Closing price at the date of grant	HK$40.1	HK$40.1	HK$85.1
Exercise price	HK$41.07	HK$41.07	HK$85.35
Expected volatility	43.33%	43.33%	54.24%
Annual risk-free interest rate	1.56%	1.88%	0.99%
Expected average life of options	2.5 years	3.5 years	2.5 years
Expected dividend yield *(Note 3)*	10.3%	10.3%	5.22%
Exercisable period	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 the Adoption Date, the Company adopted 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 shares to be awarded pursuant to the Share Purchase Scheme (the "Awarded Shares") 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 3% 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 shall be valid and effective for a term of 20 years from the Adoption Date.

During the year ended 31 March 2012, 244,000 shares (31 March 2011: Nil shares) were acquired on the Stock Exchange pursuant to the Share Purchase Scheme. The total amount paid to acquire the shares during the financial year was US$2.7 million (31 March 2011: $Nil).

Details of the Awarded Shares which have vested during the year ended 31 March 2012 are as follows:

Date of award *(Note 1)*	Average purchase cost per share HK$	Number of Awarded Shares vested	Cost of related Awarded Shares US$ million	Vesting Period
27 June 2011	95.42	144,700	1.8	27 June 2011 to 26 July 2011

Notes:

(1) The date of award refers to the date on which the Company issued the letter of award to the eligible participants for the entitlement of the Awarded Shares.

(2) No Awarded Shares were granted to executive Directors or non-executive Directors during the financial year.

(3) No Awarded Shares were lapsed or cancelled during the financial year.

As at 31 March 2012, a total of 99,300 shares were held in trust by the trustee under the Share Purchase Scheme. Dividends derived from the shares held under the trust will be reinvested to acquire further shares.

During the year ended 31 March 2012, share-based payment expenses of US$1.8 million in respect of Awarded Shares was charged to the consolidated income statement (2011: US$Nil).

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 2012 (2011: $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 2012 is as follows:

	The Group		The Company	
	2012 US$ million	2011 US$ million	**2012 US$ million**	2011 US$ million
Total equity	**556.2**	543.9	**375.2**	335.1
Less: Proposed dividends	**(149.7)**	(153.9)	**(149.7)**	(153.9)
	406.5	390.0	**225.5**	181.2

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 2012 are set out in the consolidated statement of changes in equity.

(b) The Company

	Note	Share capital US$ million	Share premium US$ million	Shares held for Share purchase Scheme US$ million	Exchange reserve US$ million	Capital reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 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		–	–	–	–	–	(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 and 1 April 2011		12.4	121.1	–	(1.2)	3.1	199.7	335.1
Changes in equity for the year ended 31 March 2012								
Comprehensive income								
Profit for the year		–	–	–	–	–	227.2	227.2
Total comprehensive income for the year		–	–	–	–	–	227.2	227.2
Final dividend in respect of the previous year	5	–	–	–	–	–	(154.6)	(154.6)
Interim dividend in respect of the current year	5	–	–	–	–	–	(39.9)	(39.9)
Shares issued under share option scheme		0.1	6.2	–	–	–	–	6.3
Equity-settled share based payments		–	0.9	–	–	1.1	–	2.0
Share purchased for Share Purchase Scheme	17(c)	–	–	(2.7)	–	–	–	(2.7)
Vesting of shares of Share Purchase Scheme	17(c)	–	–	1.8	–	–	–	1.8
At 31 March 2012		**12.5**	**128.2**	**(0.9)**	**(1.2)**	**4.2**	**232.4**	**375.2**

The consolidated profit attributable to shareholders includes a profit of US$227.2 million (2011: US$142.9 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$232.4 million (2011: US$199.7 million).

18 Reserves (Continued)

(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 value of the actual or estimated number of unexercised share options granted to employees of the company recognised in accordance with the accounting policy adopted for share-based payments 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 33.7% 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 2012, the notional principal amounts of these outstanding forward foreign exchange contracts were US$13.9 million (2011: US$18.7 million) with fair value of US$Nil (2011: negative US$0.1 million) recognised as derivative financial instruments.

In addition, the Group uses forward foreign exchange contracts to hedge the exchange rate 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 2012, the notional principal amounts of the outstanding forward foreign exchange contracts hedging highly probable forecast transactions were US$152.0 million (2011: US$145.6 million) with net positive fair value of US$1.4 million (2011: positive US$0.5 million) 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.

(ii) Sensitivity analysis

A sensitivity analysis was performed at 31 March 2012 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.

Management estimated that a 5% appreciation/depreciation of EUR, GBP and CAD against USD would not have a material effect on the Group's profit after taxation and equity attributable to shareholders for the years ended 31 March 2011 and 31 March 2012.

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 2011.

19 Financial Risk Management and Fair Values

(Continued)

(c) Interest rate risk

At 31 March 2011 and 31 March 2012, 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

	2012		2011	
	Effective Interest Rate	**Within one year US$ million**	Effective Interest Rate	Within one year US$ million
Floating	**0.46%**	**176.5**	0.21%	108.7
Fixed	**1.57%**	**150.0**	0.76%	224.4

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$0.8 million for the years ended 31 March 2011 and 31 March 2012, 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.

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 2012						
Creditors and accruals	**314.9**	**314.9**	**314.9**	**–**	**–**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts – at fair value through profit or loss						
– outflow		**13.9**	**13.9**	**–**	**–**	**–**
– inflow		**(13.9)**	**(13.9)**	**–**	**–**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts – cash flow hedge						
– outflow		**150.6**	**150.6**	**–**	**–**	**–**
– inflow		**(152.0)**	**(152.0)**	**–**	**–**	**–**
The Company						
At 31 March 2012						
Creditors and accruals	**0.4**	**0.4**	**0.4**	**–**	**–**	**–**

		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	–	–	–

19 Financial Risk Management and Fair Values

(Continued)

(d) Liquidity risk (Continued)

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 value of derivative financial instruments designated as fair value through profit or loss and cash flow hedges at 31 March 2012 were US$Nil (2011: US$0.1 million) and US$1.4 million (2011: US$0.3 million) respectively.

(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 value of forward foreign exchange contracts is 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 2012. 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 and 31 March 2012, the fair values of all forward foreign exchange contracts are categorised as level 2.

20 Commitments

		2012 US$ million	2011 US$ million
(i)	Capital commitments for property, plant and equipment		
	Authorised but not contracted for	**24.5**	55.9
	Contracted but not provided for	**8.4**	6.5
		32.9	62.4
(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	**14.9**	14.6
	Between one and two years	**13.9**	12.9
	Between two and five years	**31.2**	32.1
	In more than five years	**36.5**	36.7
		96.5	96.3

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 2016, 2022, 2030 and 2031 respectively. The lease expiring in 2016 is not cancellable. The lease expiring in 2022 can be cancelled on six months' notice without penalty. The lease expiring in 2030 and 2031 have a non-cancellable period of first ten years. 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. There are a number of leases which expire in 2030 and 2031 respectively. The lease expiring in 2030 has a non-cancellable period of first ten years. The lease expiring in 2031 is not cancellable. 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, 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.

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 2012 amount to US$4.0 million (2011: US$2.6 million), of which US$2.9 million and US$1.1 million are payable in the financial years ended 31 March 2013 and 2014 respectively.

21 Contingent Liabilities

The directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. In the opinion of the legal 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 2012, 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 (2011: US$244.5 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at 31 March 2012, 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) Details of the Company's interest in those subsidiaries which materially affect the results or assets of the Group as at 31 March 2012 are set out below:

Name of subsidiary	Fully paid issued share capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in Hong Kong:			
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
Incorporated/established and operating in Australia:			
VTech Telecommunications (Australia) Pty Limited	AUD1	*100	Sale of telecommunication products
Incorporated/established and operating in Canada:			
VTech Technologies Canada Ltd.	Class A CAD5,000 Class B CAD195,000	*100 *100	Sale of telecommunication and electronic products
Incorporated/established and operating in France:			
VTech Electronics Europe S.A.S.	EUR450,000	*100	Sale of electronic products
Incorporated/established and operating in Germany:			
VTech Electronics Europe GmbH	EUR500,000	*100	Sale of electronic products
VTech IAD GmbH	EUR25,000	*100	Development of broadband connectivity software
Incorporated/established and operating in the Netherlands:			
VTech Electronics Europe B.V.	EUR18,100	*100	Sale of electronic products

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
Incorporated/established and operating in the People's Republic of China:			
VTech (Dongguan) Telecommunications Limited**	HK$52,500,000	*100	Manufacturing of telecommunication products
VTech (Dongguan) Electronics Limited**	HK$64,800,000	*100	Manufacturing of electronic products
VTech (Dongguan) Communications Limited**	HK$49,186,165	*100	Manufacturing of electronic products
VTech (Dongguan) Plastic Products Co., Ltd.**	HK$20,000,000	*100	Manufacturing of plastics products
VTech (Dongguan) Electronics Industrial Co., Ltd.**	HK$15,713,561	*100	Manufacturing and sale of electronic products
VTech (Qingyuan) Plastics & Electronics Co., Ltd.**	HK$293,000,000	*100	Manufacturing of plastics products
VTech Electronics Industrial (Shenzhen) Co., Ltd.**	HK$10,000,000	*100	Sale of electronic products
Incorporated/established and operating in Spain:			
VTech Electronics Europe, S.L.	EUR500,000	*100	Sale of electronic products
Incorporated/established and operating in the United Kingdom:			
VTech Electronics Europe Plc	GBP500,000	*100	Sale of electronic products
Incorporated/established and operating in the United States:			
VTech Electronics North America, L.L.C.	US$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US$300,000	*100	Sale of telecommunication products

* *Indirectly held by subsidiary companies*
** *Wholly-owned foreign enterprise*

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

(c) Acquisition of non-controlling interests

In December 2010, the Group acquired an additional 49% equity interests in VTech IAD GmbH for 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 equity by US$1.9 million.

(d) Controlled special purpose entity

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

Special purpose entity	Principal activities
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, administrating 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 share of the Company under the Shares Purchase Scheme through their continued employment with the Group.

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.

Transactions between the Company and its subsidiaries have been eliminated on consolidation. 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 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 March 2012

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 2012 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
Amendments to IFRS 7 Financial instruments Disclosures – Transfer of financial assets	1 July 2011
Amendments to IAS 1 Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
Amendments to IAS 12 Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
IFRS 10 Consolidated financial statements	1 January 2013
IFRS 13 Fair value measurement	1 January 2013
IAS 27 Separate financial statements (2011)	1 January 2013
IAS 28 Investments in associates and joint venture (2011)	1 January 2013
IAS 19 (Revised) Employee benefits	1 January 2013
IFRS 9 Financial instruments	1 January 2015

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.

25 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				
	2008 US$ million	2009 US$ million	2010 US$ million	2011 US$ million	**2012 US$ million**
Non-current assets					
Tangible assets	103.0	101.5	81.4	78.4	**91.0**
Leasehold land payments	2.1	2.2	4.9	5.0	**5.1**
Other non-current assets	7.1	5.4	5.8	5.6	**6.1**
	112.2	109.1	92.1	89.0	**102.2**
Current assets					
Stocks	132.4	128.0	159.3	229.8	**239.2**
Debtors, deposits and prepayments	229.2	190.2	211.4	225.0	**244.2**
Financial assets at fair value through profit and loss	14.7	4.9	–	–	**–**
Deposits and cash	285.4	287.2	382.6	333.1	**326.5**
Other current assets	0.7	3.1	0.7	0.3	**0.8**
	662.4	613.4	754.0	788.2	**810.7**
Current liabilities	(317.8)	(278.0)	(324.9)	(329.4)	**(350.9)**
Net current assets	344.6	335.4	429.1	458.8	**459.8**
Total assets less current liabilities	456.8	444.5	521.2	547.8	**562.0**
Non-current liabilities					
Deferred tax liabilities	(4.5)	(4.3)	(3.7)	(3.9)	**(5.8)**
	(4.5)	(4.3)	(3.7)	(3.9)	**(5.8)**
Net assets/Total equity	452.3	440.2	517.5	543.9	**556.2**

	Consolidated income statement for the years ended 31 March				
	2008 US$ million	2009 US$ million	2010 US$ million	2011 US$ million	**2012 US$ million**
Revenue	1,552.0	1,448.2	1,532.3	1,712.8	**1,784.5**
Profit before taxation	237.6	159.0	225.5	220.3	**211.6**
Taxation	(21.9)	(15.8)	(20.2)	(19.1)	**(19.7)**
Profit for the year	215.7	143.2	205.3	201.2	**191.9**
Attributable to:					
Shareholders of the Company	215.7	143.2	206.5	202.0	**191.9**
Non-controlling interests	–	–	(1.2)	(0.8)	**–**
Profit for the year	215.7	143.2	205.3	201.2	**191.9**
Basic earnings per share (US cents)	89.4	58.5	83.7	81.5	**77.0**

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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Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po, New Territories
Hong Kong

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.

Stock Code

The Stock Exchange of Hong Kong Limited	303

Financial Calendar

Closure of Register of Members – Annual General Meeting
10 July – 13 July 2012 (both days inclusive)

2012 Annual General Meeting
13 July 2012

Closure of Register of Members – Payment of Final Dividend
19 July 2012

Payment of Final Dividend
30 July 2012

2012/2013 Interim Results Announcement
November 2012

FY2013 Annual Results Announcement
May 2013

Share Information

Board lot	100 shares
Issued shares as at 31 March 2012	249,489,133 shares

Dividend

Dividend per ordinary share for the financial year ended 31 March 2012

– Interim dividend	US16.0 cents per share
– Final dividend	US60.0 cents per share

Share Registrars

Principal

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
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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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