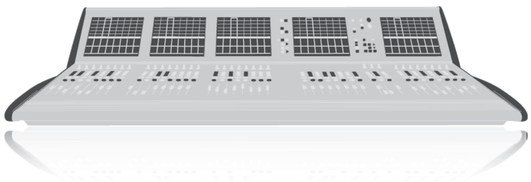
vtech



VTech Holdings Ltd HKSE : 303

2012/2013

INTERIM REPORT 中期報告書

for the six months ended 30 September 2012
截至二零一二年九月三十日止六個月

I am pleased to report that the Group managed to grow its top line in the first half of the financial year 2013, despite weak economic conditions in our major markets. Profit was modestly higher as margin stabilised.

RESULTS AND DIVIDEND

Group revenue for the six months ended 30 September 2012 increased by 2.1% over the same period of the previous financial year to US$876.1 million. This was primarily due to higher revenue in North America and Europe, where electronic learning products (ELPs) and contract manufacturing services (CMS) recorded growth. Higher revenue from telecommunication (TEL) products and ELPs in Asia Pacific also contributed to the increase in Group revenue.

Profit attributable to shareholders of the Company increased by 3.1% to US$91.2 million. The increase in profit was mainly attributable to higher revenue and a modest improvement in operating profit margin. Basic earnings per share consequently increased by 2.5% to US36.5 cents, compared to US35.6 cents in the corresponding period last year.

The Board of Directors (the Board) has declared an interim dividend of US16.0 cents per ordinary share, which is the same as the dividend paid in the corresponding period last year.

OPERATIONS

In the last financial year, rising input costs posed a challenge to the Group. During the first half of the current financial year, raw material prices declined somewhat, as global economies weakened. The impact of Renminbi appreciation has also eased off. However, labour cost and manufacturing overhead in China have continued to rise, as recruitment and retention of workers have become more challenging. In response, we have raised workers' compensation, as well as stepped up our investment in factory improvements to address these issues. Driven by these cost increases, gross margin for the period stayed flat from the same period of the last financial year.

SEGMENT RESULTS

North America

Group revenue in North America increased by 1.8% to US$439.0 million in the first half of the financial year 2013. The increase was mainly due to higher revenue from ELPs and CMS, which offset lower revenue from TEL products. North America remains the largest market for the Group, accounting for 50.1% of Group revenue.

During the period, revenue from TEL products declined by 10.4% to US$197.4 million. This was due to lower sales of residential cordless telephones, as the market is mature, compounded by uncertain economic growth and weaker than expected demand.

Nonetheless, we maintained our number one position in the US. Our new Connect to Cell™ system has sold well, proving that connectivity with mobile phones is a feature valued by consumers. Our strength in product development and design was also demonstrated by the Retro Phone, which featured in *People* magazine as one of the most innovative new consumer electronics products.

Sales of our commercial phones, including the small to medium sized business (SMB) phones and hotel phones, increased. The growth was primarily driven by a full six-month contribution from the hotel phones and increased sales of our SynJ® and Synapse® business phone systems. SynJ features optional repeaters that can extend the range of cordless handsets, making it a unique solution for operations such as warehouses, restaurants and retail shops. Synapse can accommodate up to 100 extensions, and is an easy to use and affordable system for SMBs.

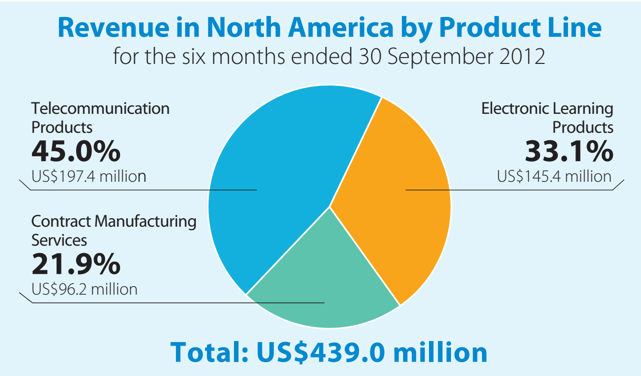
In September this year, we shipped our new four-line Small Business System to office super stores in the US. It is a user-friendly, easy-to-install 16-station system that does not require professional maintenance, saving companies time and money. This highly competitive product has been well-received by all of our retail customers.

ELP revenue in North America during the first six months rose by 26.0% to US$145.4 million, with growth attributable to both platform and standalone products. The revenue growth was driven primarily by InnoTab® and InnoTab® 2, our first and second generation educational tablets. This contrasts with the last financial year, when the majority of InnoTab revenue was not recognised in the first half.

InnoTab 2 hit the US market in August 2012. Offering increased storage capacity, a new rotatable camera and a built-in microphone, it has been well-received and has garnered a number of accolades, including being named one of Walmart's "Top 20 Toys for Christmas". MobiGo®, our educational handheld game console, was also updated to MobiGo® 2. Sales of MobiGo 2 also made a good contribution to growth.

Standalone products also performed well in North America. Switch & Go Dinos®, a new line of toys that transform between dinosaurs and vehicles, made the strongest contribution to growth in the first half. This new line was launched in May 2012, gaining us additional shelf space beyond the learning aisle. Other notable successes in new standalone products in the region included the Alphabet Activity Cube™ and the Stencil and Learn Studio™.

Revenue from CMS in North America increased by 0.6% to US$96.2 million. Although good growth was seen in industrial products and commercial solid state lighting, this was offset by a decline in sales to a professional audio customer, which entered the period with high inventory. Business with other professional audio customers, however, remained stable. Sales of internet phones for office use were lower, as our customer changed its inventory management strategy.



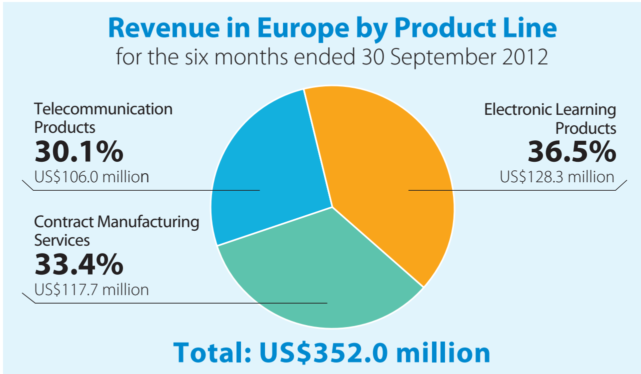
Europe

Group revenue in Europe rose by 4.6% to US$352.0 million in the first half of the financial year 2013. As in North America, the increase was mainly due to higher revenue from ELPs and CMS, which offset lower revenue from TEL products. Europe is the second largest market for the Group, accounting for 40.2% of Group revenue.

Revenue from TEL products decreased by 8.1% to US$106.0 million. The decline in revenue was primarily due to lower sales of cordless telephones, as the region's weak economies have caused customers to reduce lead times and inventory. However, our integrated access devices (IADs) and baby monitors posted good growth during the period. VTech maintained its position as the leading manufacturer of cordless telephones in Western Europe.

Revenue from ELPs in Europe was up by 3.0% over the first half of the last financial year to US$128.3 million. Growth in the region was somewhat hampered by a weaker Euro-US Dollar exchange rate as compared with the same period last year. Educational tablets and the Switch & Go Dinos range were again the main growth drivers. Toot-Toot Drivers™, a line of infant smart vehicles and accessories, also made a strong contribution. During the period, InnoTab was updated with InnoTab 2 in the UK, while Storio® 2 was shipped to our major markets in continental Europe. Among the many awards won by our educational tablets in Europe, InnoTab 2 has been included in the "Top Toys for Christmas" list by the Toy Retailers Association in the UK. Geographically, the UK and France turned in the best results. Sales were lower in Germany, Spain and the Benelux countries.

CMS revenue in Europe rose by 22.0% during the first half of the financial year 2013 to US$117.7 million. It was driven by strong growth in medical and health products, as we increased sales to existing and new customers. Wireless headsets saw robust growth, as we benefited from new product launches by our customer and its consolidation of suppliers. Switching mode power supplies also contributed to higher revenue, buoyed by solar power inverters. Sales of professional audio equipment, however, saw a slight decline during the period.



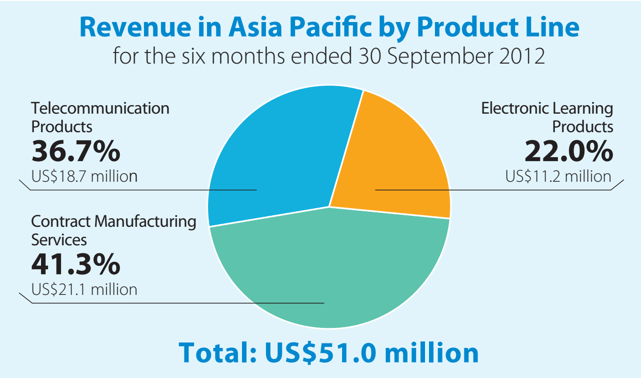
Asia Pacific

Group revenue in Asia Pacific increased by 6.9% to US$51.0 million in the first half of the financial year 2013. The region accounted for 5.8% of Group revenue.

Revenue from TEL products was up by 31.7% to US$18.7 million, as our Japanese customer increased orders after recovering from the earthquake in March 2011. We also expanded further in Taiwan, and entered into new markets such as Indonesia. In Australia, our sales declined moderately as new products have been scheduled for introduction in the second half of the financial year.

Revenue from ELPs in Asia Pacific was US$11.2 million, a 6.7% increase over the same period last year. Sales were higher in China, Korea and Japan, as we made further inroads into those markets. Shipment to Australia, our biggest market in Asia Pacific, held steady.

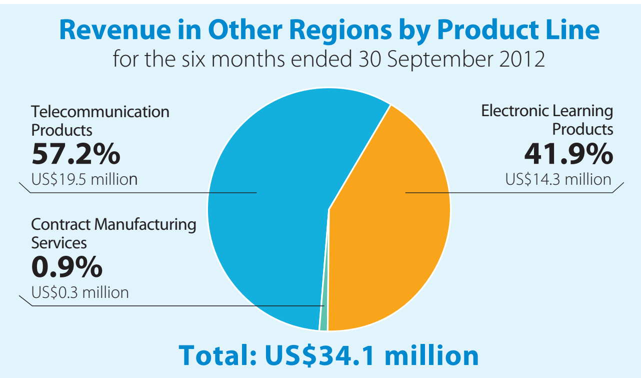
CMS revenue in Asia Pacific declined by 8.3% as compared with the first half of the previous financial year to US$21.1 million. In Japan, revenue was lower as sales in marine radio were unable to offset lower sales of consumer LED light bulbs and medical and health products. The handheld radiation detector business returned to normal, as the effect of the earthquake last year receded. However, CMS did achieve strong growth in China and Korea. In China, our enhanced manufacturing facility, which started operation in November 2011, has helped customers to distribute products in the domestic market more efficiently. In Korea, we managed to grow our business with an existing customer.



Other Regions

Other regions include Latin America, the Middle East and Africa. Revenue in the first half of the financial year 2013 was US$34.1 million, down 20.1% as compared with the same period last year. These regions accounted for 3.9% of Group revenue.

Africa and the Middle East recorded growth during the period, but this was more than offset by a decline in Latin America. All product lines saw sales decline in other regions overall. Revenue from TEL products fell by 27.8% to US$19.5 million while revenues from ELPs and CMS decreased by 6.5% and 25.0% to US$14.3 million and US$0.3 million respectively.



OUTLOOK

The global economic environment remains challenging. In the US, growth is uncertain, with a lingering high level of unemployment. In Europe, austerity measures are depressing consumer demand. Nevertheless, we remain cautiously optimistic of achieving overall top line growth in the financial year 2013. Labour cost and manufacturing overhead will increase further from the first half of the current financial year. Additionally, we will continue to invest in Corporate Social Responsibility (CSR) to achieve sustainable development with our people, the community and the environment. As a result, we do not expect gross margin to improve, while bottom line growth will be modest.

The operating environment for residential cordless telephones will continue to be difficult in the second half of the financial year. Consumer demand is expected to remain soft, while our customers have been delaying replenishment until the last minute. Despite these challenges, we will continue to build on our success in SMB and hotel phones, while bringing further innovation to the residential phone market.

In North America, we expect our sales of commercial phones to increase. With the introduction of the new four-line Small Business System, we have a strong line-up of well-priced, easy-to-install SMB phones. This will enable us to extend our market penetration into broader market segments. We also expect to ship more hotel phones as our reputation as a reliable supplier increases in this sector.

In the residential phone area, we expect to outperform the market. We will launch a new category of phone called CareLine™. Designed to meet the needs of an aging population, these new products offer innovation such as Voice Announce® Caller ID, Voice Command Recognition and a portable safety pendant with no monthly fee. Customer response has been very positive and the line has been started rolling out to the US market since October 2012.

Sales of TEL products via online retailers will also be higher, as we continue to increase our effort in expanding these channels.

Although sales of TEL products in Europe have been weak due to the sluggish economy, we have started to see some improvement in the order situation. We expect that sales in the second half will improve over the first half of the financial year.

In Asia Pacific, sales of TEL products will pick up in Australia as we roll out new products. The positive momentum we have achieved in Japan is expected to continue.

We expect the positive momentum for ELPs to continue despite the challenging global economic environment. Platform and standalone products are expected to maintain their solid contributions to growth for the full financial year.

In North America, platform products will lead the way in the second half of the financial year, as we benefit from the full impact of MobiGo 2 and InnoTab 2. They have been joined since late October by InnoTab® 2S, a further evolution of our line of educational tablets, featuring a secure Wi-Fi connection.

"VTech is a company with strong R&D, market leadership position, a strong balance sheet and a highly efficient operation. We will continue to focus on product innovation and geographical expansion to drive growth, while managing costs and risks to enhance profitability."

In addition to hardware, we are also expanding our cartridge and download offering. Our download library, accessible via the Learning Lodge®, already contains over 200 e-book, game, video and music titles. By Christmas this year, we will have over 300 titles available for download.

The Switch & Go Dinos line will continue as the growth driver for standalone products for the full financial year, augmented by our core infant and pre-school ranges.

In Europe, we expect a continuation of our good performance in the UK and France, led by InnoTab 2 and Storio 2 respectively. This will be reinforced by the Switch & Go Dinos and Toot-Toot Drivers lines, as well as our core standalone products. Germany and the Benelux countries are expected to return to growth for the full financial year. Sales in Spain are expected to remain slow due to its weak economy.

Globally, ELP sales via online retailers will continue to grow, as we maintain our increased focus on this fast expanding channel.

The global electronic manufacturing services market is forecast to remain subdued in the calendar year 2012 but our CMS will continue to outperform the industry. Business from existing customers is expected to be stable and hence growth will be driven by new customers.

Professional audio equipment will see solid growth in the second half. Sales in North America will return to normal, as our customer has now worked through inventory. In Europe, sales will rise as we have added several new customers in Germany in the first half and their orders will ramp up in the second half. We also expect to add more customers in Europe in the coming six months. As a result, sales of professional audio equipment will see growth for the full year.

Sales of switching mode power supplies, including solar power inverters, will be stable in the second half, following the good growth in the first half of the financial year. For the full year, solid growth is expected in this category.

Our other categories will achieve higher revenue also. Growth in commercial solid state lighting will more than compensate for a further sales decline in consumer LED light bulbs, while sales of wireless products will continue to increase, led by wireless headsets and marine radio.

The enhanced manufacturing facility of CMS, which started operations in November 2011, will help drive growth. It will support continued expansion in our China business, as it is helping our customer to distribute products more efficiently in the domestic market. It will also enable us to grow our medical and health products, as we are now able to manufacture sophisticated products with stringent safety and quality requirements, including those requiring FDA (the US Food and Drug Administration) approval.

CONCLUSION

Our ability to deliver growth in the face of difficult market conditions testifies to the strength of the Group. Although labour cost and manufacturing overhead in China have continued to rise, the Group's gross margin has stabilised as raw material price pressure has eased off. In addition, CSR measures we put in place will foster a stable workforce, which in turn will lead to an improvement in our efficiency in the longer term. VTech is a company with strong R&D, market leadership position, a strong balance sheet and a highly efficient operation. We will continue to focus on product innovation and geographical expansion to drive growth, while managing costs and risks to enhance profitability.

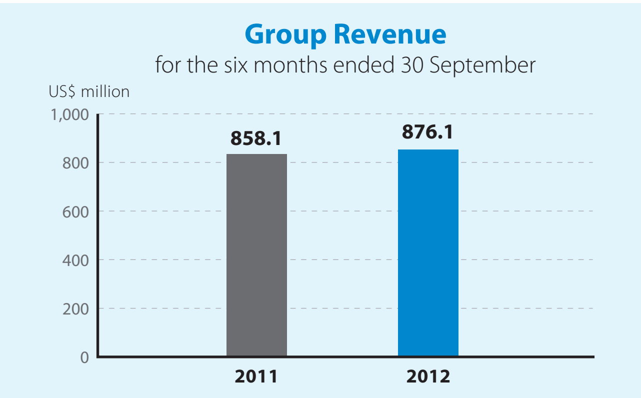
Allan WONG Chi Yun
Chairman

Hong Kong, 14 November 2012

REVENUE

Group revenue for the six months ended 30 September 2012 rose by 2.1% over the same period of the previous financial year to US$876.1 million. The increase in revenue was largely driven by higher sales in North America, Europe and Asia Pacific, which contrasted with a decrease in revenue in other regions. Sales in North America increased by 1.8% to US$439.0 million, accounting for 50.1% of Group revenue. In Europe, revenue rose by 4.6% to US$352.0 million, representing 40.2% of Group revenue. Sales to the Asia Pacific market grew by 6.9% to US$51.0 million, accounting for 5.8% of Group revenue. Revenue from other regions declined by 20.1% to US$34.1 million, representing 3.9% of Group revenue.

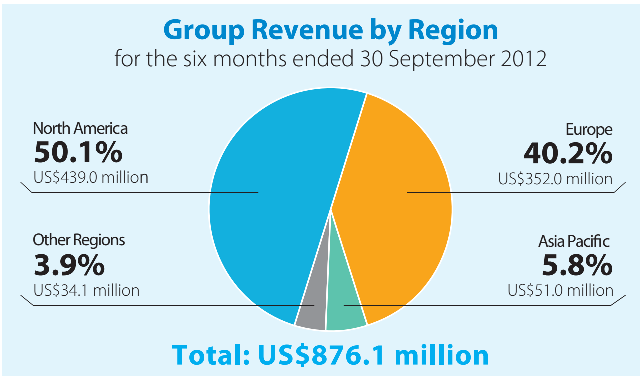
Increase in revenue to North America was mainly due to the higher sales of ELPs and CMS, which offset a decrease in revenue of TEL products. Revenue from TEL products in North America reduced by 10.4% to US$197.4 million over the same period last year. The decrease in revenue was mainly due to the lower sales of residential cordless telephones as the market is mature, compounded by uncertain economic growth and weaker than expected demand. For ELPs, revenue grew by 26.0% to US$145.4 million as both platform and standalone products achieved growth. Platform products revenue during this period was primarily driven by InnoTab, InnoTab 2 and MobiGo 2. For standalone products, the Switch & Go Dinos range also contributed to the growth. Revenue from CMS rose by 0.6% to US$96.2 million. The increase in sales mainly came from the growth of industrial products and commercial solid state lighting, which offset the decline in revenue of professional audio equipment and internet phones.



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 to customers largely on an original design manufacturing (ODM) basis, revenue reduced by 8.1% to US$106.0 million over the same period last year. The decline in revenue was primarily due to lower sales of cordless telephones, as the region's weak economies had caused customers to reduce lead times and inventory, which offset the solid growth of IADs and baby monitors during the period. Revenue from ELPs rose by 3.0% to US$128.3 million. Educational tablets and the Switch & Go Dinos range were again the main growth drivers. Toot-Toot Drivers, a line of infant smart vehicles and accessories, also made strong contribution. Sales of CMS products in Europe rose by 22.0% to US$117.7 million over the same period last year. It was driven by strong growth in medical and health products, as we increased sales to existing and new customers. Wireless headsets saw robust growth, as we benefited from new product launches by our customer and its consolidation of suppliers. Switching mode power supplies also contributed to higher revenue, buoyed by solar power inverters.

For the Asia Pacific market, the increase in revenue came from the higher sales of TEL products and ELPs. Revenue from TEL products rose by 31.7% to US$18.7 million compared with the same period last year. Increase in orders from our Japanese customer after recovering from the earthquake in March 2011 contributed to the growth. In Australia, our sales declined moderately as new products have been scheduled to introduce in the second half of the financial year. Sales of ELPs in Asia Pacific rose by 6.7% to US$11.2 million as we made further inroads in China, Korea and Japan. Shipment to Australia, our biggest market in Asia Pacific, held steady. For CMS products, revenue in the region reduced by 8.3% to US$21.1 million. This was mainly attributable to the decrease in sales of LED light bulbs and medical and health products, which offset the sales growth in marine radio and Bluetooth speaker phone.

Other regions include Latin America, the Middle East and Africa. All product lines had sales declines in other regions compared with the same period last year. Africa and the Middle East recorded growth during the period, but this was more than offset by the sales decline in Latin America. Sales of TEL products in other regions were US$19.5 million, a decrease of 27.8% compared with the same period of the previous financial year. Revenue from ELPs and CMS reduced by 6.5% and 25.0% to US$14.3 million and US$0.3 million respectively over the same period last year.



GROSS PROFIT/MARGIN

Gross profit for the six months ended 30 September 2012 was US$266.3 million, an increase of US$5.3 million or 2.0% compared with the same period last year. Gross profit margin for the period was 30.4%, same as the corresponding period of last year. The decline in raw material prices largely offset the higher labour cost and manufacturing overhead arising from the increase in wages and production capacity during the first half of the financial year 2013.

OPERATING PROFIT/MARGIN

Operating profit for the six months ended 30 September 2012 was US$99.3 million, an increase of US$3.0 million or 3.1% compared with the same period of the previous financial year. Operating profit margin also rose from 11.2% to 11.3%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and the lower selling and distribution costs.

Selling and distribution costs reduced from US$112.9 million to US$111.9 million, a decrease of 0.9% compared with the same period last year. It was mainly attributable to the decreased spending on advertising and promotional activities and the lower royalty payments during the first half of the financial year. As a percentage of Group revenue, selling and distribution costs fell from 13.2% to 12.8%.

Administrative and other operating expenses rose from US$23.5 million to US$26.6 million over the same period last year mainly due to the higher employee related costs. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.4 million in the first half of the financial year 2013. This compared with a net exchange gain of US$0.7 million in the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 2.7% to 3.0%.

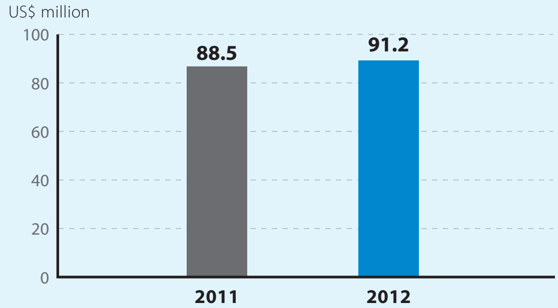
During the first half of the financial year 2013, the research and development expense was US$28.5 million, an increase of 0.7% over the same period last year. Research and development expense as a percentage of Group revenue was 3.3%, same as the corresponding period of last year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND DIVIDENDS

The profit attributable to shareholders of the Company for the six months ended 30 September 2012 was US$91.2 million, an increase of US$2.7 million as compared with the same period last year.

Basic earnings per share for the six months ended 30 September 2012 were US36.5 cents as compared to US35.6 cents in the first half of the previous financial year. Since the balance sheet date, the directors of the Company (the "Directors") have declared an interim dividend of US16.0 cents per share, which is estimated to be US$40.1 million.

Profit Attributable to Shareholders of the Company
for the six months ended 30 September



LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial resources remain strong. As of 30 September 2012, the Group had deposits and cash of US$108.9 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements.

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

Stocks as of 30 September 2012 were US$340.0 million, increased from US$239.2 million as of 31 March 2012. The higher stock level was primarily to cater for the increased demand of the Group's products in the second half of the financial year and the seasonality of most of the Group's businesses. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities. As compared to the corresponding period of last financial year, stocks increased by US$19.8 million or 6.2%, and turnover days increased from 108 days to 111 days.

Trade debtors as of 30 September 2012 were US$377.3 million, increased from US$210.6 million as of 31 March 2012. This was mainly due to the growth in revenue in the first half of the financial year and the seasonal nature of most of the Group's businesses. As compared to the corresponding period of last financial year, trade debtors increased by US$37.8 million or 11.1%, and turnover days increased from 58 days to 61 days.

CAPITAL EXPENDITURE AND CONTINGENCIES

For the six months ended 30 September 2012, the Group invested US$17.0 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.

As of 30 September 2012, the Group had no material contingencies.

CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million	(Audited) Year ended 31 March 2012 US$ million
Revenue	3	**876.1**	858.1	1,784.5
Cost of sales		**(609.8)**	(597.1)	(1,213.7)
Gross profit		**266.3**	261.0	570.8
Selling and distribution costs		**(111.9)**	(112.9)	(255.0)
Administrative and other operating expenses		**(26.6)**	(23.5)	(49.1)
Research and development expenses		**(28.5)**	(28.3)	(57.2)
Operating profit	3&4	**99.3**	96.3	209.5
Net finance income		**1.9**	1.6	2.1
Profit before taxation		**101.2**	97.9	211.6
Taxation	5	**(10.0)**	(9.4)	(19.7)
Profit for the period/year and attributable to shareholders of the Company		**91.2**	88.5	191.9
Earnings per share (US cents)	7			
– Basic		**36.5**	35.6	77.0
– Diluted		**36.5**	35.5	76.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million	(Audited) Year ended 31 March 2012 US$ million
Profit for the period/year	**91.2**	88.5	191.9
Other comprehensive income (after tax and reclassification adjustments) for the period/year			
Fair value gains on hedging	**0.1**	1.3	1.4
Realisation of hedging reserve	**(0.8)**	(0.2)	(0.3)
Exchange translation differences	**(1.9)**	(3.2)	(2.7)
Surplus arising on revaluation of properties, net of deferred tax	**–**	–	9.1
Other comprehensive income for the period/year	**(2.6)**	(2.1)	7.5
Total comprehensive income for the period/year	**88.6**	86.4	199.4

CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30 September 2012 US$ million	2011 US$ million	(Audited) 31 March 2012 US$ million
Non-current assets				
Tangible assets		**92.6**	78.3	91.0
Leasehold land payments		**5.1**	5.1	5.1
Investments		**0.2**	0.2	0.2
Deferred tax assets		**8.4**	7.9	5.9
		106.3	91.5	102.2
Current assets				
Stocks	8	**340.0**	320.2	239.2
Debtors, deposits and prepayments	9	**414.0**	369.9	244.2
Taxation recoverable		**0.2**	0.4	0.8
Deposits and cash		**108.9**	128.5	326.5
		863.1	819.0	810.7
Current liabilities				
Creditors and accruals	10	**(417.2)**	(376.4)	(314.9)
Provisions		**(31.5)**	(36.7)	(31.5)
Taxation payable		**(11.0)**	(11.6)	(4.5)
		(459.7)	(424.7)	(350.9)
Net current assets		**403.4**	394.3	459.8
Total assets less current liabilities		**509.7**	485.8	562.0
Non-current liabilities				
Deferred tax liabilities		**(5.7)**	(3.9)	(5.8)
Net assets		**504.0**	481.9	556.2
Capital and reserves				
Share capital	11	**12.5**	12.5	12.5
Reserves		**491.5**	469.4	543.7
Total equity		**504.0**	481.9	556.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million	(Audited) Year ended 31 March 2012 US$ million
Net cash (used in)/generated from operating activities	**(58.1)**	(39.6)	211.2
Investing activities			
Purchase of tangible assets	**(17.0)**	(14.5)	(29.7)
Proceeds from disposal of tangible assets	**0.5**	–	0.3
Proceeds received from/(placement of) bank deposits with maturity greater than three months	**150.0**	60.0	(60.0)
Net cash generated from/(used in) investing activities	**133.5**	45.5	(89.4)
Net cash used in financing activities	**(141.8)**	(151.2)	(190.9)
Effect of exchange rate changes	**(1.2)**	0.7	2.5
Decrease in cash and cash equivalents	**(67.6)**	(144.6)	(66.6)
Cash and cash equivalents at the beginning of period/year	**176.5**	243.1	243.1
Cash and cash equivalents at the end of period/year	**108.9**	98.5	176.5
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated balance sheet	**108.9**	128.5	326.5
Less: Bank deposits with maturity greater than three months	**–**	(30.0)	(150.0)
Cash and cash equivalents in the condensed consolidated cash flow statement	**108.9**	98.5	176.5

The notes on pages 9 to 14 form part of this Interim Financial Report. Details of dividends payable to shareholders of the Company attributable to the profit for the period are set out in note 6.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012 – unaudited

		Attributable to shareholders of the Company								
	Note	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 equity US$ million
At 1 April 2012		12.5	128.2	(0.9)	21.3	9.4	4.2	1.4	380.1	556.2
Changes in equity for the six months ended 30 September 2012										
Comprehensive income										
Profit for the period		–	–	–	–	–	–	–	91.2	91.2
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	0.1	–	0.1
Realisation of hedging reserve		–	–	–	–	–	–	(0.8)	–	(0.8)
Exchange translation differences		–	–	–	–	(1.9)	–	–	–	(1.9)
Other comprehensive income for the period		–	–	–	–	(1.9)	–	(0.7)	–	(2.6)
Total comprehensive income for the period		–	–	–	–	(1.9)	–	(0.7)	91.2	88.6
Dividends approved and paid during the period	6	–	–	–	–	–	–	–	(150.2)	(150.2)
Shares issued under share option scheme		–	8.4	–	–	–	–	–	–	8.4
Equity-settled share based payments		–	2.1	–	–	–	(2.0)	–	–	0.1
Vesting of shares of Share Purchase Scheme	11(c)	–	–	0.9	–	–	–	–	–	0.9
At 30 September 2012		**12.5**	**138.7**	**–**	**21.3**	**7.5**	**2.2**	**0.7**	**321.1**	**504.0**
At 1 April 2011		12.4	121.1	–	12.2	12.1	3.1	0.3	382.7	543.9
Changes in equity for the six months ended 30 September 2011										
Comprehensive income										
Profit for the period		–	–	–	–	–	–	–	88.5	88.5
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	1.3	–	1.3
Realisation of hedging reserve		–	–	–	–	–	–	(0.2)	–	(0.2)
Exchange translation differences		–	–	–	–	(3.2)	–	–	–	(3.2)
Other comprehensive income for the period		–	–	–	–	(3.2)	–	1.1	–	(2.1)
Total comprehensive income for the period		–	–	–	–	(3.2)	–	1.1	88.5	86.4
Dividends approved and paid during the period	6	–	–	–	–	–	–	–	(154.6)	(154.6)
Shares issued under share option scheme		0.1	5.7	–	–	–	–	–	–	5.8
Equity–settled share based payments		–	0.8	–	–	–	0.2	–	–	1.0
Shares purchased for Share Purchase Scheme		–	–	(2.4)	–	–	–	–	–	(2.4)
Vesting of shares of Share Purchase Scheme	11(c)	–	–	1.8	–	–	–	–	–	1.8
At 30 September 2011		12.5	127.6	(0.6)	12.2	8.9	3.3	1.4	316.6	481.9

The notes on pages 9 to 14 form part of this Interim Financial Report.

1 BASIS OF PREPARATION

The Directors are responsible for preparing the Interim Financial Report in accordance with applicable law and regulations. This unaudited Interim Financial Report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") including compliance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting adopted by the International Accounting Standards Board (the "IASB").

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the changes mentioned in note 2.

The preparation of an Interim Financial Report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The Interim Financial Report has not been audited or reviewed by the auditors pursuant to the International Auditing Practices Board guidance on International Standards on Review Engagements 2400 "Review of Interim Financial Statements".

The financial information relating to the financial year ended 31 March 2012 included in the Interim Financial Report does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 March 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 May 2012.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. These include the amendments to IFRS 7, "Financial instruments: Disclosures – Transfers of financial assets".

The amendments to IFRS 7 concerning transfers of financial assets require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred.

None of the other developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 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 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 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.

3 SEGMENT INFORMATION (CONTINUED)

(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 payables, 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.

Segment information regarding the Group's revenue, results, assets and liabilities by geographical market is presented below:

	Reportable segment revenue (Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
North America	**439.0**	431.2
Europe	**352.0**	336.5
Asia Pacific	**51.0**	47.7
Others	**34.1**	42.7
	876.1	858.1

	Reportable segment profit (Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
North America	**47.7**	42.1
Europe	**37.6**	39.9
Asia Pacific	**8.1**	7.2
Others	**5.9**	7.1
	99.3	96.3

	Reportable segment assets	
	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
North America	**210.0**	140.2
Europe	**183.9**	104.3
Asia Pacific	**565.9**	660.9
Others	**0.8**	0.6
	960.6	906.0

	Reportable segment liabilities	
	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
North America	**(55.1)**	(41.7)
Europe	**(40.3)**	(28.4)
Asia Pacific	**(352.6)**	(275.9)
Others	**(0.7)**	(0.4)
	(448.7)	(346.4)

(c) Reconciliation of reportable segment assets and liabilities

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
Assets		
Reportable segment assets	**960.6**	906.0
Investments	**0.2**	0.2
Taxation recoverable	**0.2**	0.8
Deferred tax assets	**8.4**	5.9
Consolidated total assets	**969.4**	912.9
Liabilities		
Reportable segment liabilities	**(448.7)**	(346.4)
Taxation payable	**(11.0)**	(4.5)
Deferred tax liabilities	**(5.7)**	(5.8)
Consolidated total liabilities	**(465.4)**	(356.7)

4 OPERATING PROFIT

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

	(Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
Cost of inventories	**609.8**	597.1
Depreciation of tangible assets	**14.4**	14.5
Loss on disposal of tangible assets	**0.1**	–
Write-down of inventories net of reversals	**2.3**	(1.2)
Impairment loss of trade debtors net of reversals	**1.8**	(0.5)
Interest income from bank deposits	**(1.9)**	(1.6)
Net foreign exchange gain	**(0.4)**	(0.7)

5 TAXATION

	(Unaudited) Six months ended 30 September	
	2012 US$ million	2011 US$ million
Current tax		
– Hong Kong	**10.5**	9.7
– Overseas	**2.1**	2.2
Deferred tax		
– Origination and reversal of temporary differences	**(2.6)**	(2.5)
	10.0	9.4
Current tax	**12.6**	11.9
Deferred tax	**(2.6)**	(2.5)
	10.0	9.4

Provision for Hong Kong Profits Tax and overseas taxation has been calculated at tax rates prevailing in the countries in which the Group operates.

6 DIVIDENDS

(a) Dividends attributable to the period:

	(Unaudited) Six months ended 30 September 2012 US$ million	2011 US$ million
Interim dividend of US16.0 cents (2011: US16.0 cents) per share declared	**40.1**	39.9

The interim dividend was proposed after the balance sheet date and has not been recognised as liabilities at the balance sheet date.

(b) At a meeting held on 23 May 2012, the Directors proposed a final dividend of US60.0 cents (2011: US62.0 cents) per ordinary share for the year ended 31 March 2012, which was estimated to be US$149.7 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2012. The final dividend was approved by shareholders at the annual general meeting on 13 July 2012. As a result of shares issuance upon exercise of share options during the period between 1 April 2012 and 13 July 2012, the final dividend paid in respect of the year ended 31 March 2012 totaled US$150.2 million (2011: US$154.6 million).

7 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$91.2 million (2011: US$88.5 million).

The calculation of basic earnings per share is based on the weighted average of 249.9 million (2011: 248.8 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share is based on 250.1 million (2011: 249.4 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme.

	(Unaudited) Six months ended 30 September 2012	2011
Profit attributable to shareholders (US$ million)	**91.2**	88.5
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**249.9**	248.8
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.2**	0.6
Weighted average number of ordinary shares (diluted) (in million)	**250.1**	249.4
Diluted earnings per share (US cents)	**36.5**	35.5

8 STOCKS

Stocks in the consolidated balance sheet at 30 September 2012 comprised mainly of finished goods of US$201.0 million (31 March 2012: US$122.0 million, 30 September 2011: US$219.6 million).

9 DEBTORS, DEPOSITS AND PREPAYMENTS

Debtors, deposits and prepayments of US$414.0 million (31 March 2012: US$244.2 million, 30 September 2011: US$369.9 million) include trade debtors of US$377.3 million (31 March 2012: US$210.6 million, 30 September 2011: US$339.5 million).

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

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
0-30 days	**211.8**	114.8
31-60 days	**117.4**	73.7
61-90 days	**42.4**	18.1
>90 days	**5.7**	4.0
Total	**377.3**	210.6

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.

10 CREDITORS AND ACCRUALS

Creditors and accruals of US$417.2 million (31 March 2012: US$314.9 million, 30 September 2011: US$376.4 million) include trade creditors of US$244.5 million (31 March 2012: US$173.8 million, 30 September 2011: US$214.6 million).

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
Trade creditors	**244.5**	173.8
Other creditors and accruals	**172.7**	141.1
Total	**417.2**	314.9

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

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
0-30 days	**86.3**	75.3
31-60 days	**87.7**	55.4
61-90 days	**54.2**	21.6
>90 days	**16.3**	21.5
Total	**244.5**	173.8

11 SHARE CAPITAL AND SHARE OPTIONS

(a) Share Capital

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
Authorised		
Ordinary shares: 400,000,000 (31 March 2012: 400,000,000) of US$0.05 each	**20.0**	20.0

	(Unaudited) 30 September 2012		(Audited) 31 March 2012	
	No. of shares	US$ million	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At the beginning of period/year	**249,489,133**	**12.5**	248,296,133	12.4
Shares issued upon exercise of share options	**889,000**	**–**	1,193,000	0.1
At the end of period/year	**250,378,133**	**12.5**	249,489,133	12.5

The Company's issued and fully paid shares as at 30 September 2012 included 4,800 shares (31 March 2012: 99,300 shares) held in trust by the trustee under a share purchase scheme (the "Share Purchase Scheme"), details of which are set out in note 11(c).

(b) Share Options

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.

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. During the financial period and since the adoption of the 2011 Scheme, no options were granted, exercised, lapsed or cancelled under the 2011 Scheme.

As at 30 September 2012, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 854,000 shares, which represented approximately 0.3% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the financial period were as follows:

			Number of share options		
Date of grant	Exercise price	Exercisable period (Note 1)	Balance in issue at 1 April 2012	Exercised during the period	Balance in issue at 30 September 2012
17 April 2008	HK$41.07	23 April 2010 to 29 April 2012	113,000	(113,000) (Note 2)	**–**
17 April 2008	HK$41.07	23 April 2011 to 29 April 2013	248,000	(120,000) (Note 3)	**128,000**
9 April 2010	HK$85.35	12 April 2012 to 4 May 2014	1,382,000	(656,000) (Note 4)	**726,000**
			1,743,000	(889,000)	**854,000**

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 113,000 share options were exercised at the exercise price of HK$41.07 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$94.90 per share and HK$92.30 per share respectively.

(3) An aggregate of 120,000 share options were exercised at the exercise price of HK$41.07 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$95.50 per share and HK$92.35 per share respectively.

(4) An aggregate of 656,000 share options were exercised at the exercise price of HK$85.35 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$92.96 per share and HK$91.65 per share respectively.

(5) No options were granted, lapsed or cancelled during the financial period.

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

(c) Share Purchase Scheme

On 30 March 2011 (the "Adoption Date"), the Company adopted 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 the 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 six months ended 30 September 2012, 1,400 shares (31 March 2012: 244,000 shares) were acquired on the Stock Exchange pursuant to the Share Purchase Scheme. The total amount paid to acquire the shares during the period was US$15,000 (31 March 2012: US$2.7 million).

Details of the Awarded Shares which have vested during the six months ended 30 September 2012 period 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
15 June 2012	74.16	95,900	0.9	15 June 2012 to 14 July 2012

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

As at 30 September 2012, a total of 4,800 shares (31 March 2012: 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 six months ended 30 September 2012, share-based payment expenses of US$0.9 million (30 September 2011: US$1.8 million) in respect of the Awarded Shares was charged to the consolidated income statement.

12 CAPITAL COMMITMENTS

	(Unaudited) 30 September 2012 US$ million	(Audited) 31 March 2012 US$ million
Capital commitments for property, plant and equipment:		
Authorised but not contracted for	**10.1**	24.5
Contracted but not provided for	**5.0**	8.4
	15.1	32.9

13 CONTINGENT LIABILITIES

The Directors have been advised that certain accusations of infringements of patents, trademarks and tradenames have been lodged against the Company and its subsidiaries. In the opinion of the legal counsel, it is too early to evaluate the outcome of these claims and provisions have been made only to the extent that the amounts can be reliably estimated. Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective business.

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 30 September 2012, there were contingent liabilities in respective of guarantees given by the Company on behalf of subsidiaries related to overdrafts, short term loans and credit facilities of up to US$339.9 million (31 March 2012: 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 the period end date, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

14 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 MARCH 2013

Up to the date of the interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 March 2013 and which have not been adopted in the interim financial report.

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

	Effective for accounting period beginning on or after
Amendments to IAS 1, Presentation of financial statements–Presentation of items of other comprehensive income	1 July 2012
IFRS 9, Financial instruments	1 January 2015
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	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 ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013

The Group is in the process of making an assessment of the expected impact of these amendments, new standards and new interpretations in the period of initial application. So far, it has concluded that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

15 APPROVAL OF INTERIM FINANCIAL REPORT

The Interim Financial Report was approved by the Board on 14 November 2012.

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

As at 30 September 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

(1) Interests in the Company

	Number of shares					
Name of director	Personal interest	Family interest	Other interest	Equity derivatives (share options)	Total	Approximate percentage of shareholding
Allan WONG Chi Yun	9,654,393	3,968,683	74,101,153 (Note 1)	–	87,724,229	35.0%
PANG King Fai	120,000	–	–	384,000	504,000	0.2%
Andy LEUNG Hon Kwong	–	–	–	128,000	128,000	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 shares by Honorex Limited ("Honorex"), as to 65,496,225 shares by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 shares 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

				Number of share options held	
Name of director	Date of grant	Exercise price	Exercisable period	as at 1 April 2012	as at 30 September 2012
Allan WONG Chi Yun	9 April 2010	HK$85.35	12 April 2012 to 11 April 2014	512,000	– (Note 1)
PANG King Fai	17 April 2008	HK$41.07	23 April 2010 to 22 April 2012	113,000	– (Note 2)
	17 April 2008	HK$41.07	23 April 2011 to 22 April 2013	248,000	128,000 (Note 3)
	9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	256,000	256,000
Andy LEUNG Hon Kwong	9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	128,000	128,000

Notes:
(1) The weighted average closing price per share of the Company immediately before the date on which the options were exercised was HK$92.35.
(2) The weighted average closing price per share of the Company immediately before the date on which the options were exercised was HK$94.90.
(3) The weighted average closing price per share of the Company immediately before the date on which the options were exercised was HK$95.50.

Save as disclosed above, as at 30 September 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 30 September 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
Long Positions			
Credit Suisse Trust Limited	Interest of controlled corporation (Note 1)	74,101,153	29.6%
Surplus Assets Limited	Interest of controlled corporation (Note 1)	74,101,153	29.6%
Honorex Limited	Interest of controlled corporation (Note 1)	65,496,225	26.2%
	Beneficial owner (Note 1)	1,416,325	0.6%
Conquer Rex Limited	Beneficial owner (Note 1)	65,496,225	26.2%
Templeton Asset Management Limited	Investment manager	39,888,200	15.9%
The Capital Group Companies, Inc.	Interest of controlled corporation (Note 2)	15,928,689	6.4%
JPMorgan Chase & Co.	Beneficial owner (Note 3)	1,544,174	0.6%
	Investment manager (Note 3)	675,000	0.3%
	Custodian corporation/approved lending agent (Note 3)	10,357,746	4.1%
Short Positions			
JPMorgan Chase & Co.	Beneficial owner (Note 3)	1,436,266	0.6%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent (Note 3)	10,357,746	4.1%

Notes:

(1) The shares were beneficially owned as to 1,416,325 shares by Honorex, as to 65,496,225 shares by Conquer Rex and as to 7,188,603 shares 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 Interim Report.

(2) The shares were beneficially owned as to 586,500 shares by Capital Guardian Trust Company, 1,586,000 shares by Capital International, Inc., 643,989 shares by Capital International Limited, 604,000 shares by Capital International Sarl and 12,508,200 shares by Capital Research and Management Company. Each of Capital Guardian Trust Company, Capital International, Inc., Capital International Limited, Capital International Sarl and Capital Research and Management Company was wholly owned by The Capital Group Companies, Inc.

(3) The capacities of JPMorgan Chase & Co. in holding the 12,576,920 shares (long position) and 1,436,266 shares (short position) were as to (i) 1,544,174 shares (long position) and 1,436,266 shares (short position) as beneficial owner, (ii) 675,000 shares (long position) as investment manager and (iii) 10,357,746 shares (long position) in the lending pool as custodian. The interest of JPMorgan & Co. was attributable on account through a number of entitles directly or indirectly controlled by JPMorgan Chase & Co.

Save as disclosed above, as at 30 September 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.

CORPORATE GOVERNANCE CODE

VTech Holdings Limited is incorporated in Bermuda and has its shares listed on 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 Listing Rules. Throughout the six months ended 30 September 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 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 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. Corporate governance practices adopted by the Company during the six months ended 30 September 2012 are in line and consistent with those practices set out in the Company's 2012 Annual Report and the Code which was effective from 1 April 2012.

MODEL CODE OF SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After specific enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2012.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun, Mr. WONG Kai Man (appointed on 19 September 2012) and Dr. David SUN Tak Kei (ceased to be a member on 30 June 2012) 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.

Mr. Denis 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 financial period to the date of this Interim Report. 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 financial period to the date of this Interim Report included, but not limited to, reviewing the following:

- audited Group financial statements and reports for the year ended 31 March 2012;
- report from the external auditor for the year ended 31 March 2012;
- unaudited Group Interim Financial Report for the six months ended 30 September 2012;
- 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 2012;
- the revised Group Whistle-blowing Policy;
- the monthly reports on Whistle-blowing cases reported;
- the Continuous Disclosure Policy;
- independent assessments on Corporate Governance compliance and Risk Control procedures;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- remuneration of the external auditor;
- significant findings by the Internal Audit Department and recommendations for corrective actions; and
- respective audit plans of the internal and external auditors.

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. 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 by the Internal Audit Department regarding this.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is chaired by Dr. Allan WONG Chu Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong, Mr. WONG Kai Man (appointed on 19 September 2012) and Dr. David SUN Tak Kei (ceased to be a member on 30 June 2012) as members. The Risk Management Committee held a meeting during the financial period 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.

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.

INTERIM DIVIDEND

The Board has declared an interim dividend ("Interim Dividend") of US16.0 cents per ordinary share in respect of the six months ended 30 September 2012, payable on 20 December 2012 to shareholders whose names appear on the register of members of the Company as at the close of business on 14 December 2012.

The Interim 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 10 December 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 December 2012 to 14 December 2012, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the Interim Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration no later than 4:30 p.m., the local time of the relevant share registrar, on Friday, 7 December 2012.

The principal registrar is Butterfield Fulcrum Group (Bermuda) Limited, 26 Burnaby Street, Hamilton HM11, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

REVIEW OF INTERIM REPORT

The Group's Interim Report for the six months ended 30 September 2012 has been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the six months ended 30 September 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial period, 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 1,400 Company's shares at a consideration of US$15,000.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes to information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules is set out below:

– Dr. Allan WONG Chi Yun ceased to be a member of the Commission on Strategic Development with effect from 1 July 2012.

– Mr. Michael TIEN Puk Sun was elected as a member of the fifth term of the Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China with effect from 1 October 2012.

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Allan WONG Chi Yun *(Chairman)*
PANG King Fai
Andy LEUNG Hon Kwong
WONG Kai Man

COMPANY SECRETARY

CHANG Yu Wai

REGISTERED OFFICE

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:
10-14 December 2012 (both dates inclusive)

Payment of Interim Dividend:
20 December 2012

FY2013 Annual Results Announcement:
May 2013

SHARE INFORMATION

Board Lot: 100 shares

Issued Shares as at 30 September 2012:
250,378,133 shares

DIVIDEND

Dividend per ordinary share for the six months ended 30 September 2012:
US16.0 cents per share

SHARE REGISTRARS

Principal
Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

Hong Kong Branch
Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong
Tel: (852) 2862 8628
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

INVESTOR RELATIONS CONTACT

Corporate Communications Department
23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po, New Territories
Hong Kong
Tel: (852) 2680 1000
Fax: (852) 2680 1788
Email: investor_relations@vtech.com

WEBSITE

www.vtech.com/investors/stock-info

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偉易達集團

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