VTech Holdings Ltd

HKSE : 303

vtech

Annual Report 2013

Contents

Corporate Profile

VTech is the world's largest manufacturer of cordless telephones, and the largest supplier of electronic learning products from infancy to preschool in the US and Western Europe. 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.

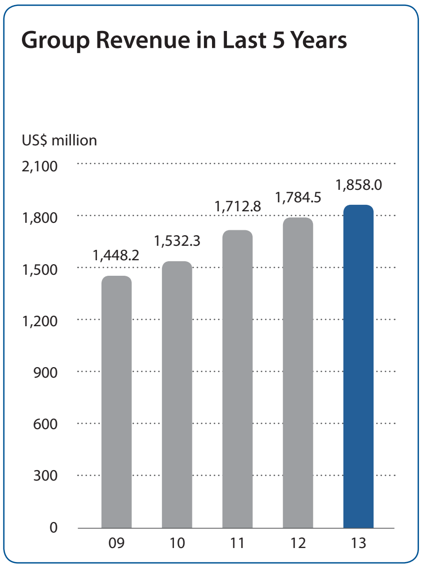
With headquarters in the Hong Kong Special Administrative Region and state-of-the-art manufacturing facilities in China, VTech currently has operations in 11 countries and regions and approximately 37,000 employees, including around 1,500 R&D professionals in R&D centres in Canada, Hong Kong and China. This network allows VTech to stay abreast of the latest technology and market trends throughout the world, while maintaining a highly competitive cost structure.

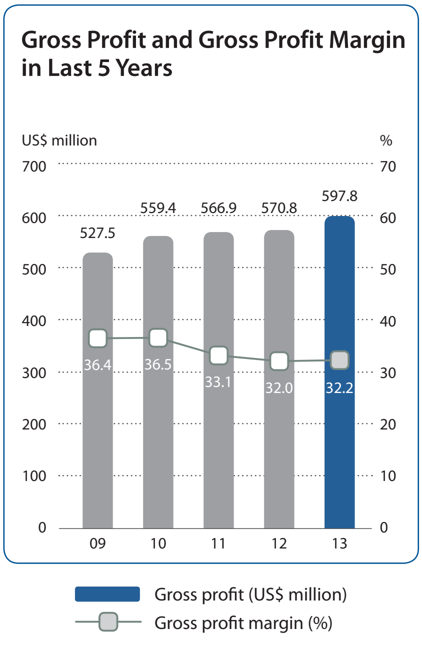
The Group invests significantly in R&D and launches numerous new products each year. VTech sells its products via a strong brand platform supported by an extensive distribution network of leading retailers in North America, Europe and Asia Pacific. Apart from the well-known VTech brand, the Group is licensed to design, manufacture and distribute AT&T branded wireline telephones and accessories in North America and China, 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).

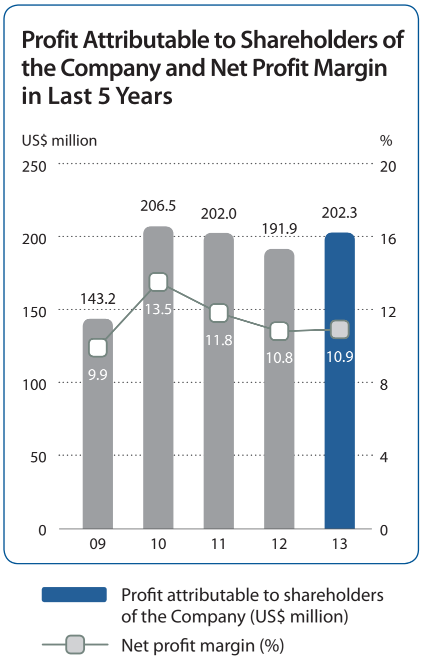
Financial Highlights

For the year ended 31 March	2013	2012	Change
Operating results (US$ million)			
Revenue	**1,858.0**	1,784.5	4.1%
Gross profit	**597.8**	570.8	4.7%
Operating profit	**224.7**	209.5	7.3%
Profit before taxation	**226.4**	211.6	7.0%
Profit attributable to shareholders of the Company	**202.3**	191.9	5.4%
Financial position (US$ million)			
Cash generated from operations	**214.3**	230.4	-7.0%
Deposits and cash	**308.6**	326.5	-5.5%
Shareholders' funds	**572.3**	556.2	2.9%
Per share data (US cents)			
Earnings per share – basic	**80.9**	77.0	5.1%
Earnings per share – diluted	**80.8**	76.9	5.1%
Dividend per share – interim and final	**80.0**	76.0	5.3%
Other data (US$ million)			
Capital expenditure	**29.9**	29.7	0.7%
R&D expenditure	**57.1**	57.2	-0.2%
Key ratios (%)			
Gross profit margin	**32.2**	32.0	0.2% pts
Operating profit margin	**12.1**	11.7	0.4% pts
Net profit margin*	**10.9**	10.8	0.1% pts
EBITDA/Revenue	**13.7**	13.3	0.4% pts
Return on shareholders' funds	**35.3**	34.5	0.8% pts

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







Dear Shareholders,

VTech delivered solid results in the financial year 2013, reporting record revenue and profit growth despite a challenging economic environment. This performance demonstrates the fundamental strength of the Group, which has the ability to grow sales and increase its market leadership despite a difficult market environment.

Results and Dividend

Group revenue for the year ended 31 March 2013 increased by 4.1% to US$1,858.0 million. The growth was driven by higher revenue in North America, Europe and Asia Pacific, which offset lower revenue in Other Regions.

Profit attributable to shareholders of the Company rose by 5.4% to US$202.3 million, with the Group's net profit margin largely consistent with that of the last financial year. Basic earnings per share increased by 5.1% to US80.9 cents, compared to US77.0 cents in the last financial year.

The Board of Directors (the Board) has proposed a final dividend of US64.0 cents per ordinary share. Together with the interim dividend of US16.0 cents per ordinary share, this will result in a full-year dividend of US80.0 cents per ordinary share, against US76.0 cents per ordinary share in the last financial year, an increase of 5.3%.

Costs and Operations

In the financial year 2013, the Group benefited from lower cost of materials due to sluggish global demand. However, this was offset by higher labour costs and manufacturing overheads in China, as recruitment and retention of workers became more challenging. During the financial year, we not only raised workers' compensation and benefits, but also increased our investment in improving their working and living environment.

Our Business

There were a number of key developments in our business during the financial year 2013 that demonstrate how we have been responding to market opportunities. These will have a positive impact on the Group's longer-term growth prospects.

The Group's product mix and sales mix have been evolving. In the financial year 2013, electronic learning products (ELPs) grew to become our largest product line, representing 39.3% of Group revenue. The Group's sales via e-tailers and our websites are expanding rapidly. Sales of the download content from our app store, Learning Lodge™, increased fivefold in the financial year 2013, albeit from a low base.

In telecommunication (TEL) products, sales of non-residential-phone products increased in the financial year 2013 despite lower sales of residential phones, rising to approximately 12% of total TEL products revenue, from approximately 8% in the financial year 2012. These products consist of baby monitors, integrated access devices (IADs), small to medium sized business (SMB) phones, connected home™ devices, cordless headsets and hotel phones.

Our ELPs performed well in the financial year 2013. Despite the decline of the toy market in the US and Europe, ELPs revenue grew by 11.3% as compared with the last financial year. In the calendar year 2012, we became the largest infant toy manufacturer in our main European markets[1]. Furthermore, Storio® 2 was the number one selling item by retail value in the top five European toy markets[2]. This demonstrates our excellence in product development, and our ability to build a strong brand presence.

The financial year 2013 marked the eleventh straight year of sales growth at our contract manufacturing services (CMS). It shows the soundness of our strategy to focus on medium-sized companies that are leaders in their industries. With its strong reputation and expertise in certain product categories, CMS once again outperformed the global EMS (electronic manufacturing services) market as we continued to add new customers and expand geographically. A notable success was achieving double-digit sales growth in Europe despite the economic difficulties on the continent.

[1] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the Infant Toys category, for the combined market of UK, France, Germany and Spain*

[2] *Source: NPD Group, Retail Tracking Service*

Our Strategies

VTech will build on its strong fundamentals, with a strategy centring on its four growth drivers of product innovation, gains in market share, geographic expansion and operational excellence, to drive sustainable growth.

Product Innovation

Innovative products will remain the key to expanding our sales in all regions and across product lines.

In TEL products, we launched the world's first home entrance monitoring system, combining a versatile cordless phone with a digital video door bell, in the US in April 2013. This innovation shows that VTech is once again pioneering market breakthroughs with its proprietary Video on DECT™ technology. In addition, we will expand the well-received CareLine™, our home safety telephone system for seniors. We are also developing our first wireless conferencing system featuring proprietary acoustic technology, which will be available by the end of the current financial year. In Europe, SIP (Session Initiation Protocol) phones for commercial use will be launched by September 2013. Other new products in the pipeline include a range of new applications based on the DECT ULE (ultra low energy) platform. Internationally, we are planning to launch enhanced versions of our video baby monitors and new hotel phones.

VTech's strategy for ELPs is to apply the latest proven technology to innovative educational toys that help kids learn and develop through fun and smart play. Our lineup of children's educational tablets will be upgraded to a new generation in 2013, offering advanced functionalities and rich learning experience to children between 1 and 9 years old. By the end of the calendar year 2013, our worldwide software library will comprise close to 70 cartridges and over 1,000 apps in five languages, offering a wide variety of age-appropriate content, from e-books and learning games to music, videos and creative activities. We will continue to introduce innovative products to our core infant and preschool lines. A new generation of Kidizoom®, our market leading line of children's digital cameras, will be launched. Beyond the learning aisle, our successful Switch & Go Dinos® and Go! Go! Smart Wheels™ lines will be expanded with more dinos, vehicles and play sets.

Products mean services at CMS and innovation in service is how we keep our customer base growing. With a stringent quality management system and experienced staff, CMS has

the expertise to produce, optimise and successfully launch products for different markets. In addition to its recognised strength in DFM (Design for Manufacturing) and flexibility in services, our CMS has the unique manufacturing know-how in certain product categories that has made it a market leader. Our dedicated manufacturing facility was an important investment that has helped customers to reduce logistics and customs clearance costs when distributing their products in China. The many customer service and product quality awards we received demonstrate how successful CMS is in meeting customers' expectations.

Gains in Market Share

Despite a challenging economic environment, VTech will continue to gain market share across product lines.

VTech is the world's number one manufacturer of cordless telephones, with leadership in both the US and Western Europe[3]. In the US, our TEL products are benefiting from a new round of consolidation in the cordless phone market. This is resulting in more shelf space that will support further market share gains in the financial year 2014. In Europe, gains will be driven by collaboration with our ODM partners as we bring them feature-rich products of superior design at competitive prices.

VTech is the largest supplier of ELPs from infancy to preschool in the US and Western Europe[4], a position we have achieved through our commitment to product innovation. Last year,

[3] *Source: MZA Ltd, 2013*

[4] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the toy categories of infant electronic learning and preschool electronic learning, for the combined market of US, UK, France, Germany and Spain*

VTech has an enviable track record in product development, a strong balance sheet, market leadership position and efficient operations. The solid, executable plans we have in place should enable us to seize growth opportunities and generate higher returns for shareholders.

we became the largest infant toy manufacturer in our main European markets[5]. The new products we plan to launch in the financial year 2014 will allow us to strengthen our market leadership in the core learning area and beyond.

CMS will continue to increase its market share globally. Our quality products, service excellence and strong reputation are enabling us to increase sales to existing customers and add new customers. According to *Manufacturing Market Insider*, VTech CMS ranked 27th among the world's top 50 EMS providers in the calendar year 2012, up from 29th in calendar year 2010 and 37th in calendar year 2009.

Geographic Expansion

Our strategy of growing outside our core North American and European markets, where we already enjoy leadership positions, is making inroads gradually. It offers tremendous growth potential, as Asia Pacific and Other Regions accounted for less than 10% of total Group revenue in the financial year 2013. In Asia Pacific, China will continue to be our focus. We are also increasing our presence in Australia, our largest market in the region, and Japan. Our efforts in Other Regions will centre on key markets in Latin America and the Middle East.

Operational Excellence

The ability to offer innovative, feature-rich products at affordable prices underpins VTech's success. Rising labour costs, together with higher manufacturing overheads, will pose continual challenges to the Group in the financial year 2014. VTech will continue to mitigate cost pressure through further automation, product optimisation and process improvement. As always, we will manage our operating cost diligently and maintain a lean company structure.

Outlook

The macro-economic environment will remain challenging in the financial year 2014. The US economic recovery is expected to continue, but it is likely to remain slow. In Europe, the picture is mixed and uncertain.

Despite these challenges, we are optimistic of achieving revenue growth across all product lines in the financial year 2014. Material costs are forecast to be steady, while labour costs and manufacturing overheads are expected to increase further. With efficiency gains through higher automation, product optimisation and process improvement, gross profit margin is expected to remain stable.

The growth in TEL products is expected to be driven by market consolidation in the US, and higher sales in Asia Pacific and Other Regions. The prospect for Europe, however, remains uncertain. Revenue growth in ELPs will be supported by a strong base of continued products, as well as new platform and standalone products to be launched worldwide. A special focus for this financial year is to drive a strong increase in sales of our software cartridges and download apps. The increase in CMS revenue will be driven by new customers, while business with existing customers will remain stable. CMS will continue to expand in Japan and Germany, while adding the new business area of testing and measurement equipment.

In closing, I wish to extend my appreciation to all our employees worldwide for their loyalty and hard work during the year, to our fellow directors for their sound contribution, and to our shareholders, customers and suppliers for their continued support.

VTech has an enviable track record in product development, a strong balance sheet, market leadership position and efficient operations. The solid, executable plans we have in place should enable us to seize growth opportunities and generate higher returns for shareholders.

Allan Wong Chi Yun
Chairman

Hong Kong, 15 May 2013

[5] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the Infant Toys category for the combined market of UK, France, Germany and Spain*

Financial Overview

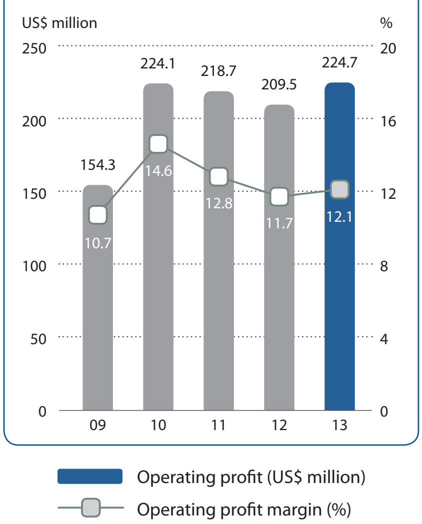
For the year ended 31 March 2013	2013 US$ million	2012 US$ million	Change US$ million
Revenue	**1,858.0**	1,784.5	73.5
Gross profit	**597.8**	570.8	27.0
Gross profit margin	**32.2%**	32.0%	
Total operating expenses	**(373.1)**	(361.3)	(11.8)
Total operating expenses as a percentage of revenue	**20.1%**	20.3%	
Operating profit	**224.7**	209.5	15.2
Operating profit margin	**12.1%**	11.7%	
Net finance income	**1.7**	2.1	(0.4)
Profit before taxation	**226.4**	211.6	14.8
Taxation	**(24.1)**	(19.7)	(4.4)
Effective tax rate	**10.6%**	9.3%	
Profit for the year and attributable to shareholders of the Company	**202.3**	191.9	10.4

Revenue

Group revenue for the year ended 31 March 2013 rose by 4.1% to US$1,858.0 million over the previous financial year. The increase in revenue was largely driven by higher sales in North America, Europe and Asia Pacific, which offset a decrease in revenue in other regions.

	2013		2012		Increase / (decrease)	
	US$ million	%	US$ million	%	US$ million	%
North America	**933.4**	**50.2%**	903.5	50.6%	29.9	3.3%
Europe	**769.9**	**41.4%**	719.3	40.3%	50.6	7.0%
Asia Pacific	**99.8**	**5.4%**	94.1	5.3%	5.7	6.1%
Other regions	**54.9**	**3.0%**	67.6	3.8%	(12.7)	-18.8%
	1,858.0	**100.0%**	1,784.5	100.0%	73.5	4.1%

Operation Profit and Operating Profit Margin in Last 5 Years



Total operating expenses were US$373.1 million, an increase of 3.3% over the last financial year. However, total operating expenses as a percentage of Group revenue fell from 20.3% to 20.1%.

Gross Profit/Margin

Gross profit for the financial year 2013 was US$597.8 million, an increase of US$27.0 million or 4.7% compared to the US$570.8 million recorded in the previous financial year. Gross profit margin for the year rose from 32.0% to 32.2%. The decline in material costs offset the higher labour costs and manufacturing overheads arising from the increase in wages and production capacity during the financial year 2013.

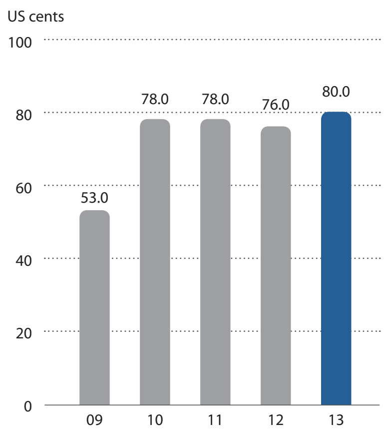
Operating Profit/Margin

Operating profit for the year ended 31 March 2013 was US$224.7 million, an increase of US$15.2 million or 7.3% over the previous financial year. Correspondingly, operating profit margin rose from 11.7% to 12.1%. The ratio of EBITDA to revenue also increased from 13.3% to 13.7%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit, the improvement in gross profit margin, as well as the decrease in total operating expenses as a percentage of Group revenue.

Selling and distribution costs rose by 2.0% from US$255.0 million in the previous financial year to US$260.0 million in the financial year 2013. 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 decreased from 14.3% to 14.0%.

Administrative and other operating expenses increased from US$49.1 million to US$56.0 million over the same period last year. It was mainly due to the higher employee related costs and the lower net exchange gain compared with the last financial year. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.4 million in the financial year 2013. This compared with a net exchange gain of US$1.6 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 2.8% to 3.0%.

Dividend per Share in Last 5 Years



During the financial year 2013, the research and development expense was US$57.1 million, a decrease of 0.2% over the previous financial year. Research and development expense as a percentage of Group revenue decreased from 3.2% to 3.1%.

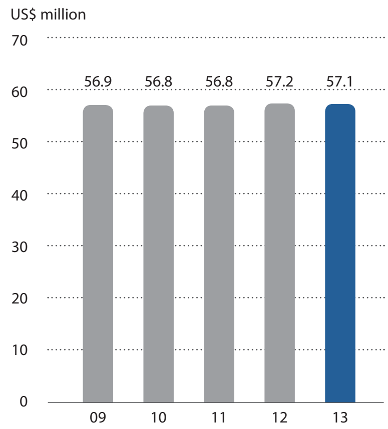
Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2013 was US$202.3 million, an increase of US$10.4 million as compared to the last financial year. Net profit margin also increased from 10.8% to 10.9%.

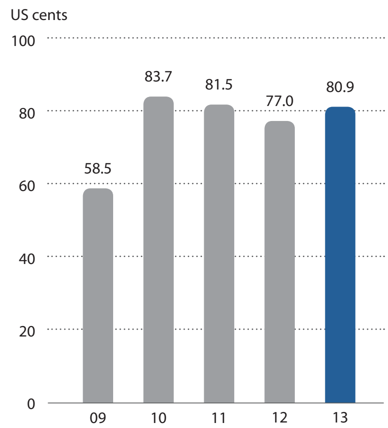
Taxation charges increased from US$19.7 million in the last financial year to US$24.1 million in the financial year 2013. The effective tax rate also rose from 9.3% to 10.6%. This was primarily due to increase in profit from overseas subsidiaries and utilisation of deferred tax asset in respect of tax losses previously recognised.

Basic earnings per share for the year ended 31 March 2013 were US80.9 cents as compared to US77.0 cents in the previous financial year.

Group R&D Expenditure in Last 5 Years



Basic Earnings per Share in Last 5 Years



Dividends

During the financial year 2013, the Group declared and paid an interim dividend of US16.0 cents per share, which aggregated to US$40.1 million. The directors have proposed a final dividend of US64.0 cents per share, which is estimated to be US$160.2 million.

	2013 US cents	2012 US cents
Dividend per share		
Interim	**16.0**	16.0
Final*	**64.0**	60.0
Total	**80.0**	76.0

* *Final dividend proposed after the balance sheet date*

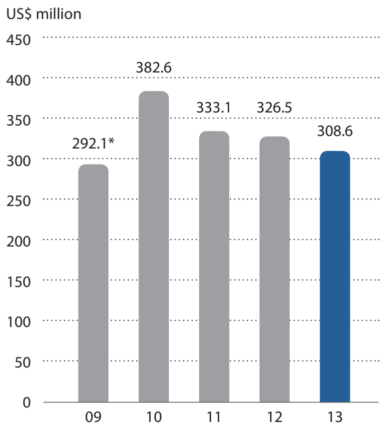
Liquidity and Financial Resources

Shareholders' funds as at 31 March 2013 were US$572.3 million, an increase of 2.9% from US$556.2 million in the last financial year. Shareholders' funds per share increased by 2.7% from US$2.23 to US$2.29.

The Group had no borrowings as at 31 March 2012 and 31 March 2013.

The Group's financial resources remain strong. As at 31 March 2013, deposits and cash reduced from US$326.5 million to US$308.6 million, a decrease of 5.5% compared with the last financial year-end-date. It was mainly due to the increase in working capital compared with the same period last year. The Group has adequate liquidity to meet its current and future working capital requirements.

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



* *Include currency-linked deposits*

Analysis of Cash Flow from Operations

	2013 US$ million	2012 US$ million	Change US$ million
Operating profit	**224.7**	209.5	15.2
Depreciation and amortisation	**29.3**	27.5	1.8
EBITDA	**254.0**	237.0	17.0
Gain on disposal of tangible assets	**(0.1)**	(0.1)	–
Working capital change	**(39.6)**	(6.5)	(33.1)
Cash generated from operations	**214.3**	230.4	(16.1)

The Group's cash generated from operations for the year ended 31 March 2013 was US$214.3 million, as compared to US$230.4 million in the same period last year. The change was mainly attributable to the increase in EBITDA, which offset the increase in working capital investment.

Working Capital Change

	Balance as at 31 March 2012 US$ million	Hedging US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2013 US$ million**
Stocks	239.2	–	37.7	**276.9**
Trade debtors	210.6	–	14.3	**224.9**
Other debtors, deposits and prepayment	33.6	1.0	–	**34.6**
Trade creditors	(173.8)	–	(2.4)	**(176.2)**
Other creditors and accruals	(141.1)	–	(13.3)	**(154.4)**
Provisions	(31.5)	–	3.3	**(28.2)**
Total working capital	137.0	1.0	39.6	**177.6**

Stocks as of 31 March 2013 were US$276.9 million, increased from US$239.2 million as of 31 March 2012. The turnover days rose from 82 days to 90 days. The higher stock level was primarily to cater for increased demand for the Group's products in the first quarter of the financial year 2014. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

As at 31 March 2013 and 2012 All figures are in US$ million unless stated otherwise	**2013**	2012
Stocks	**276.9**	239.2
Average stocks as a percentage of Group revenue	**13.9%**	13.1%
Turnover days	**90 days**	82 days

Trade debtors as of 31 March 2013 were US$224.9 million, increased from US$210.6 million as of 31 March 2012. Debtor turnover days rose from 56 days to 62 days. The increase in the trade debtor balance as at 31 March 2013 was mainly due to an increase in revenue in the fourth quarter of the financial year 2013 compared with the corresponding period of the previous financial year. The Group has tight management on credit exposure. The amounts with overdue balances greater than 30 days accounted for 1.8% of the gross trade debtors as of 31 March 2013.

As at 31 March 2013 and 2012 All figures are in US$ million unless stated otherwise	2013	2012
Trade debtors	**224.9**	210.6
Average trade debtors as a percentage of Group revenue	**11.7%**	11.5%
Turnover days	**62 days**	56 days

Other debtors, deposits and prepayment as of 31 March 2013 were US$34.6 million, compared to US$33.6 million as of 31 March 2012. The increase was mainly attributable to the increase in fair value gain on forward foreign exchange contracts in the financial year 2013.

Trade creditors as of 31 March 2013 were US$176.2 million, as compared to US$173.8 million as of 31 March 2012. Creditor turnover days increased from 82 days to 85 days.

As at 31 March 2013 and 2012 All figures are in US$ million unless stated otherwise	2013	2012
Trade creditors	**176.2**	173.8
Turnover days	**85 days**	82 days

Other creditors and accruals as of 31 March 2013 were US$154.4 million, increased from US$141.1 million as of 31 Mach 2012. The increase was largely attributable to the increase in accruals of staff costs, advertising expenses and other allowances to customers.

Provisions as of 31 March 2013 were US$28.2 million, as compared to US$31.5 million as of 31 March 2012. The decrease was primarily due to the improvement in defective goods returns of the Group's products.

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.

Capital Expenditure

For the year ended 31 March 2013, the Group invested US$29.9 million in the purchase of tangible assets including plant and machinery, equipment, computer systems, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

In the financial year 2014, the Group will incur capital expenditure of US$32.8 million for ongoing business operations.

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

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

NORTH AMERICA

Group revenue in North America increased by 3.3% to US$933.4 million in the financial year 2013, as higher revenue from ELPs and CMS offset lower revenue from TEL products. North America remained VTech's largest market, accounting for 50.2% of Group revenue.

Revenue from TEL products was down by 6.2% to US$389.4 million. The decline was mainly due to lower sales of residential phones. The US residential cordless phone market is mature, while demand in the first half of the financial year was affected by weak US economic growth. In the second half, consumer demand steadily improved due to the continuing recovery of the US housing market, resulting in a more modest year-on-year sales decline as compared with the first half of the financial year. During the year under review, VTech maintained its number one position in the US residential phone market[6].

Sales of non-residential-phone products, including SMB phones, baby monitors, hotel phones and cordless headsets, continued to rise. The growth was driven by baby monitors, a full-year sales contribution from hotel phones and higher sales of SynJ® and Synapse® SMB phone systems. The new four-line Small Business System, which was shipped in September 2012, was well-received by the market. CareLine, a home safety telephone system for seniors, has also received an encouraging response since its launch in October 2012.

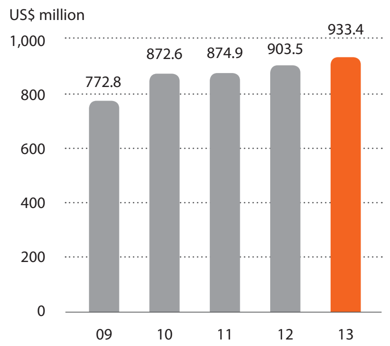
ELPs revenue in North America rose by 17.3% to US$361.9 million in the financial year 2013. Higher sales were achieved for both platform and standalone products. Among platform products, sales of InnoTab®, our educational tablet designed specifically for children, grew strongly. This robust performance was driven by a full-year sales contribution of the product line and the launch of three second generation consoles, InnoTab® 2, InnoTab® 2S and InnoTab® Baby. An expanded software library, with cartridges and download content comprising over 400 titles in English and French, also contributed to growth. Sales of MobiGo® 2 and V.Reader®, however, declined due to the popularity of tablets.

For standalone products, infant products and the new range Switch & Go Dinos were the key growth drivers. Switch & Go Dinos are interactive preschool toys that transform between dinosaurs and vehicles. They hit US retailer shelves in May 2012 and sold strongly through the holiday seasons. With less than a full year's sales, two Switch & Go Dinos items ranked among the five top selling products in NPD's Preschool Vehicles category in the US for calendar year 2012[7]. Among new infant products, the vehicle line Go! Go! Smart Wheels and Alphabet Activity Cube™ were the leading contributors.

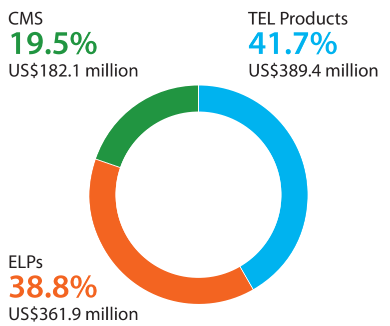
CMS revenue in North America increased by 1.3% to US$182.1 million. Sales of professional audio equipment, the largest product category in the region, grew slightly as the customer worked through inventory and orders picked up in the second half of the financial year.

Sales of industrial products, commercial solid-state lighting and home appliances were also higher, driven by more orders from existing customers. Sales of internet phones for office use, however, were down due to a change in the customer's inventory management policy.

Revenue in North America in Last 5 Years



Revenue in North America by Product Line
for the year ended 31 March 2013



Total: **US$933.4 million**

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[6] *Source: MarketWise Consumer Insights, LLC*
[7] *Source: NPD Group, Retail Tracking Service*

EUROPE

Group revenue in Europe increased by 7.0% to US$769.9 million. As in North America, the growth was attributable to higher revenue of ELPs and CMS in the region, offsetting lower revenue of TEL products. Europe was VTech's second largest market, accounting for 41.4% of Group revenue.

Revenue from TEL products declined by 5.5% to US$203.6 million. The decrease in revenue was primarily due to lower sales of residential phones, as customers reduced orders and inventory in view of the weak economies. This was especially true in the first half of the financial year, while improvement was seen in the second half due to restocking by some customers. In the calendar year 2012, VTech maintained its leadership position as the largest manufacturer of cordless phones in Western Europe[8].

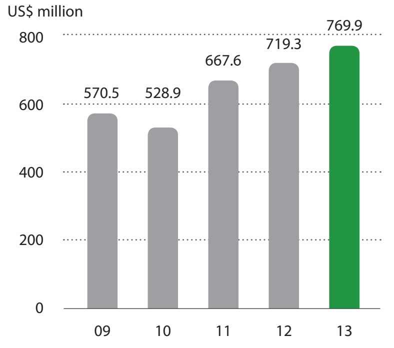
Despite lower sales of residential phones, sales of non-residential-phone products continued to rise. These included baby monitors, IADs, connected home devices and hotel phones.

ELPs revenue in Europe was US$331.3 million, up 6.8%, despite being negatively impacted by a lower average Euro-US Dollar exchange rate compared to the last financial year. As in North America, the children's educational tablet Storio 2, Switch & Go Dinos and infant products, including the new Toot-Toot Drivers® range, were the growth drivers. During the financial year 2013, Storio 2 was sold in all VTech's major markets in Europe. It was the number one selling item by retail revenue in the top five European toy markets in the calendar year 2012[9]. In the same calendar year, the Kidizoom digital camera also topped the best selling toy list in Germany[10].

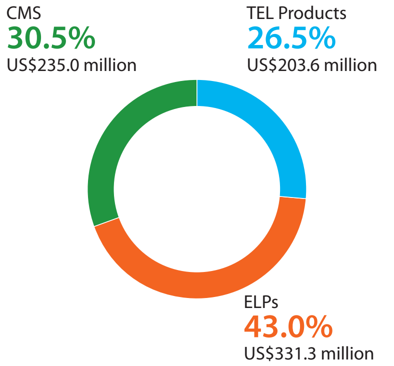
ELPs sales were higher in the UK, France and Germany while sales in Spain were lower. In the Benelux countries, sales grew in Euro terms but declined in US dollar terms owing to adverse changes in the exchange rate.

CMS revenue in Europe rose by 21.4% to US$235.0 million, driven by sales growth in almost all product categories. Medical and health products posted the strongest growth in the region, buoyed by increased sales to existing and new customers. Wireless headsets also delivered robust results, as VTech benefited from the customer's new product launches and consolidation of suppliers. Switching mode power supplies and professional audio equipment demonstrated solid growth, driven by more orders for solar power inverters and increased orders from new German customers respectively. Sales of industrial products, however, recorded a decline during the financial year 2013.

Revenue in Europe in Last 5 Years



Revenue in Europe by Product Line
for the year ended 31 March 2013



Total: **US$769.9 million**

[8] *Source: MZA Ltd, 2013 edition of The Global Telecommunications Market Report*
[9 & 10] *Source: NPD Group, Retail Tracking Service*

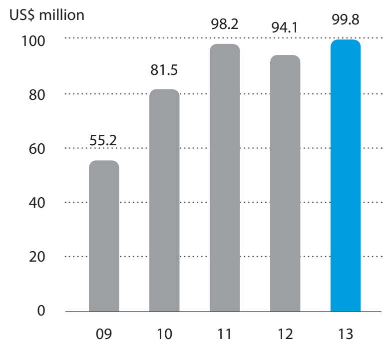
ASIA PACIFIC

Group revenue in Asia Pacific increased by 6.1% to US$99.8 million. The sales growth was attributable to higher sales of TEL products and ELPs, offsetting a sales decrease in CMS. The region accounted for 5.4% of Group revenue.

Revenue from TEL products was up by 27.7% to US$37.8 million. The increase in revenue was mainly due to the rise in orders from Japanese customers as they recovered from the earthquake in March 2011. Sales in Australia were also higher, as a new product line was launched in the second half of the financial year, resulting in a pick-up in sales.

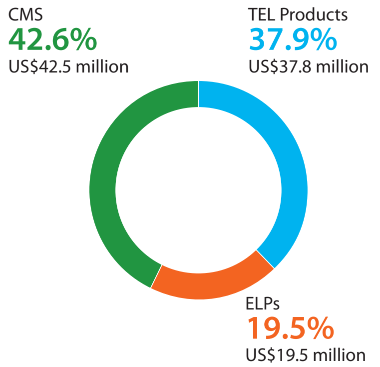
ELPs revenue in Asia Pacific increased by 11.4% to US$19.5 million. The growth was mainly driven by higher sales of standalone products in China, Japan and Korea, as VTech continued to make progress in those countries. Shipment to Australia, the Group's largest market for ELPs in Asia Pacific, was slightly down during the financial year 2013.

Revenue in Asia Pacific in Last 5 Years



CMS revenue in Asia Pacific decreased by 9.6% to US$42.5 million. Higher sales in China were more than offset by lower revenue in Japan and Korea. In China, the dedicated manufacturing facility enabled CMS to grow sales rapidly as it helps customers to distribute their commercial solid-state lighting in the domestic market more efficiently. In Japan, however, higher sales of marine radio were unable to compensate for lower revenue from LED light bulbs,

Revenue in Asia Pacific by Product Line
for the year ended 31 March 2013



Total: **US$99.8 million**

medical and health products and handheld radiation detectors. In Korea, orders for Bluetooth speaker phones slowed down in the second half due to market competition, which resulted in a sales decline for the full financial year.

OTHER REGIONS

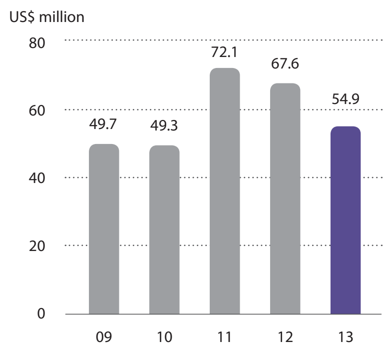
Other regions include Latin America, the Middle East and Africa. Group revenue in other regions fell by 18.8% to US$54.9 million. The decline was due to lower sales in all regions and product lines. Other regions represented 3.0% of Group revenue.

Revenue from TEL products decreased by 22.6% to US$35.6 million, as sales growth in the Middle East was more than offset by sales declines in Latin America and Africa.

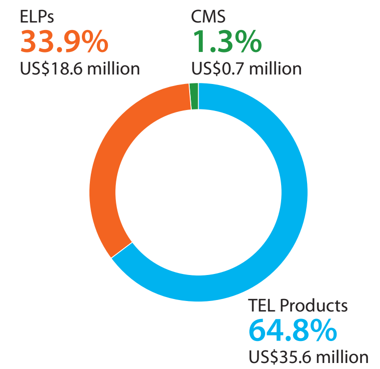
ELPs revenue in other regions was down by 10.6% to US$18.6 million. All regions recorded sales declines during the financial year 2013.

CMS revenue in other regions was US$0.7 million, down 12.5% as compared to the last financial year.

Revenue in Other Regions in Last 5 Years



Revenue in Other Regions by Product Line
for the year ended 31 March 2013



Total: **US$54.9 million**

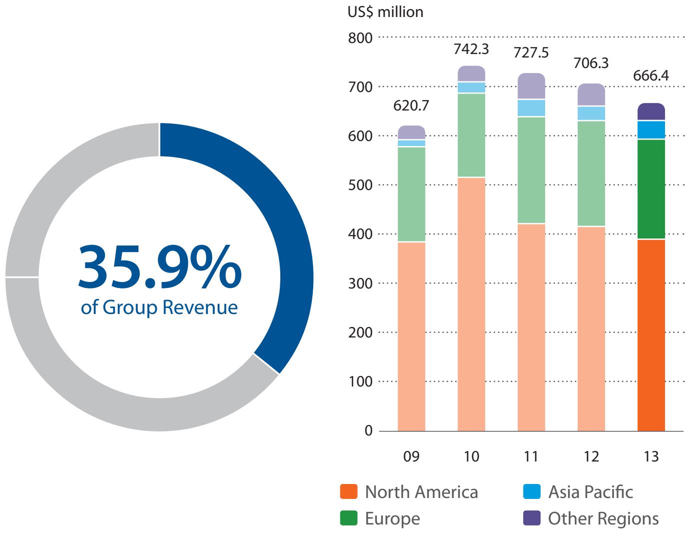
TELECOMMUNICATION PRODUCTS

OUR PRODUCT CATEGORIES

RESIDENTIAL PHONES

• Corded and Cordless Phones

TEL PRODUCTS REVENUE



NON-RESIDENTIAL-PHONE PRODUCTS

Commercial Phones

• SMB Phones

• Hotel Phones

• Cordless Headsets and Accessories

Others

• IADs

• Baby Monitors

• CareLine

• Connected Home Devices

OUR GEOGRAPHICAL PRESENCE

No.1 cordless phone manufacturer worldwide [11]

41 million handsets shipped to 82 markets

NORTH AMERICA

Sales: US$389.4 million

Year-on-Year Change: -6.2%

% of TEL Products Revenue: 58.4%

Branded Business

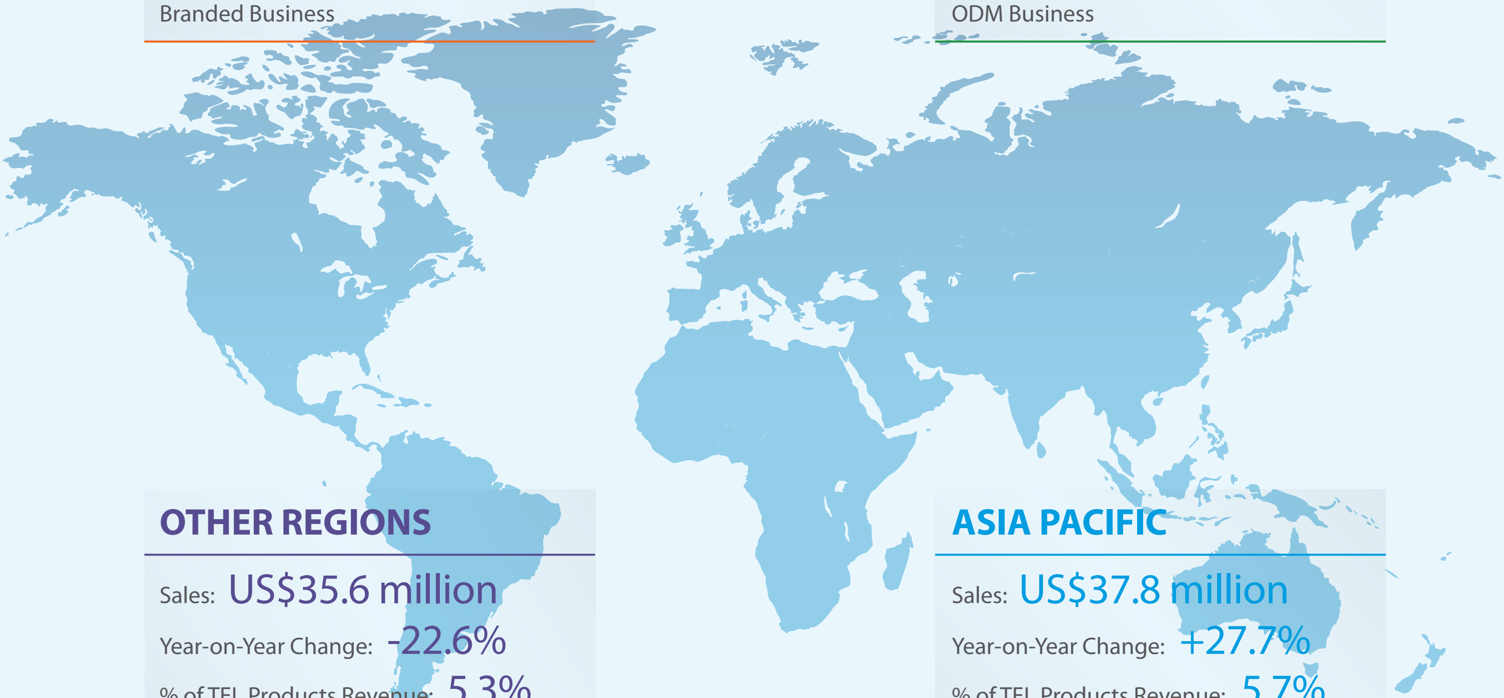
EUROPE

Sales: US$203.6 million

Year-on-Year Change: -5.5%

% of TEL Products Revenue: 30.6%

ODM Business



OTHER REGIONS

Sales: US$35.6 million

Year-on-Year Change: -22.6%

% of TEL Products Revenue: 5.3%

Branded and ODM Business

ASIA PACIFIC

Sales: US$37.8 million

Year-on-Year Change: +27.7%

% of TEL Products Revenue: 5.7%

Branded and ODM Business

OUR COMPETITIVE EDGE

- Market Leadership
- Product Innovation
- Technological Know-how
- 20+ Years of Experience

[11] *Source: MZA Ltd, 2013*

ELECTRONIC LEARNING PRODUCTS

OUR PRODUCT CATEGORIES

STANDALONE PRODUCTS

Core Learning

• Infant Learning

• Preschool Learning

• Grade School Learning

New Areas

• Switch & Go Dinos

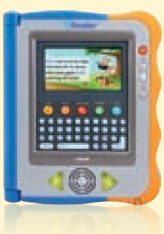
• Go! Go! Smart Wheels

PLATFORM PRODUCTS

Hardware

• InnoTab Family

• MobiGo 2



• V.Reader

Software

• Cartridges

• Apps

Accessories

• Adaptors, Car Chargers, Headphones…

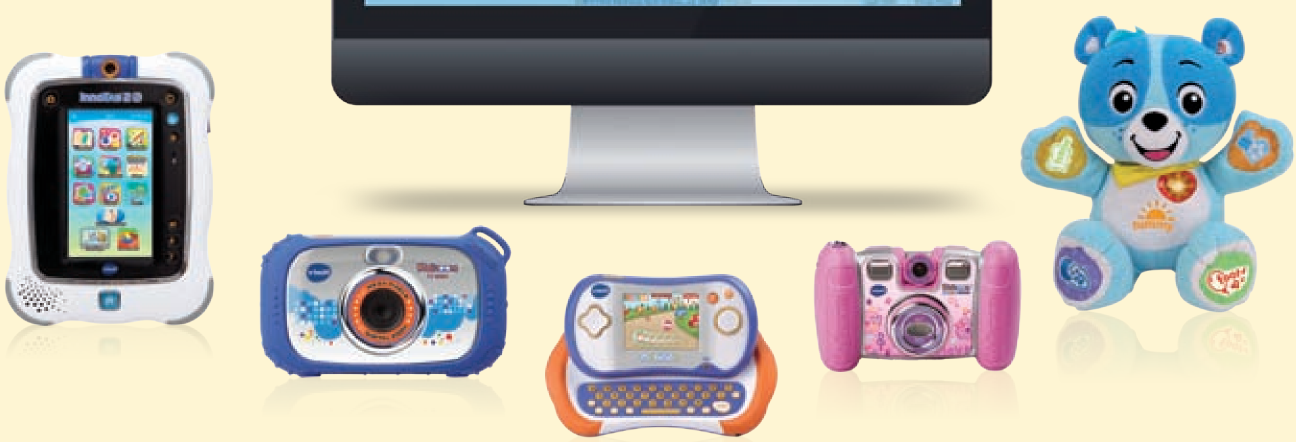
OUR ECOSYSTEM

THE LEARNING LODGE

Library of over 1,000 download titles in 5 languages, including e-books, learning games, music, videos and creative activities

Progress Log enables parents to follow their children's learning progress

Easy-to-use **download manager**



ELECTRONIC LEARNING PRODUCTS

OUR BRANDS

vtech®

PLATFORM PRODUCTS

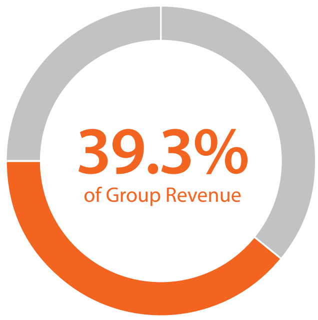
InnoTab® THE LEARNING APP TABLET

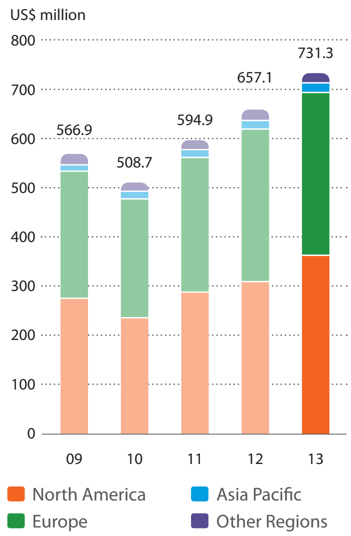
MobiGo® TOUCH LEARNING SYSTEM

Storio®

V.Reader® INTERACTIVE E-READING SYSTEM

ELPs REVENUE





STANDALONE PRODUCTS

vtech® Baby

Kidizoom®

Switch & Go Dinos®

Go! Go! Smart Wheels™

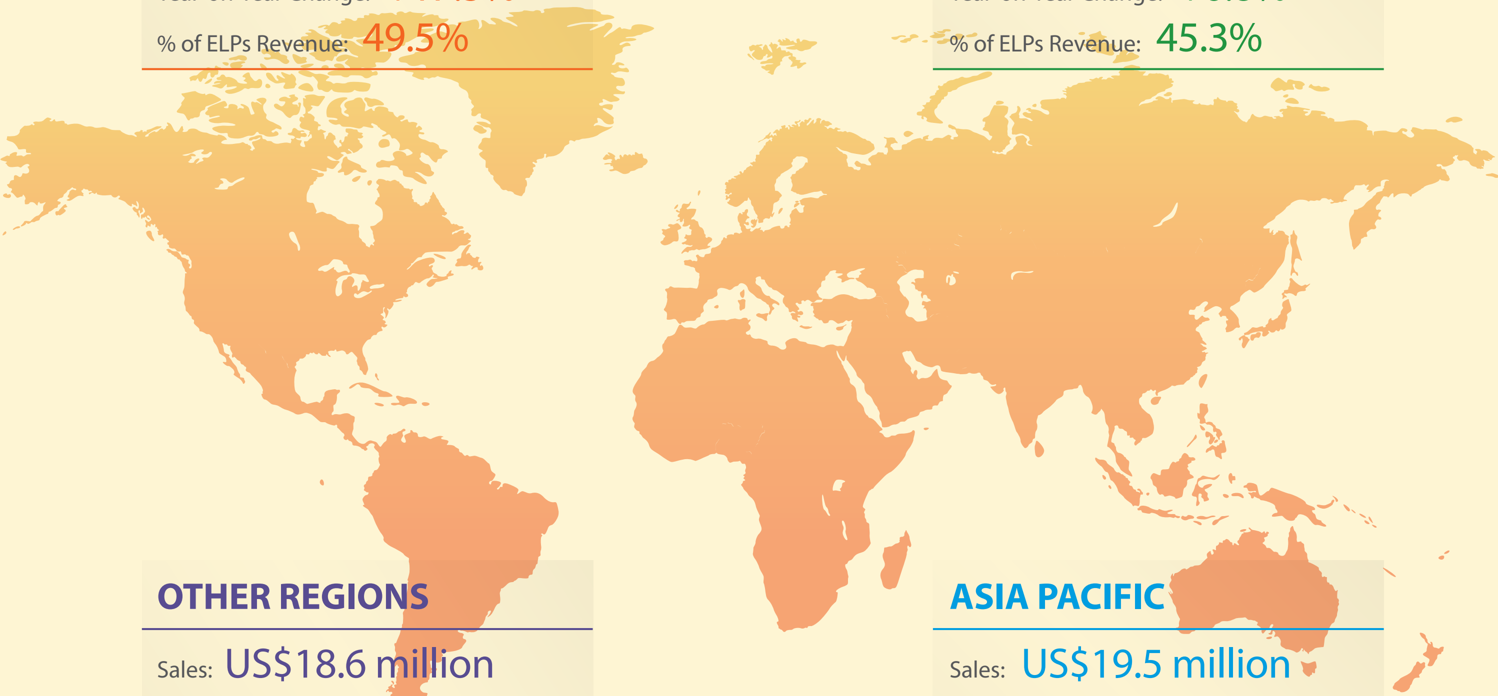
Toot-Toot Drivers®

OUR GEOGRAPHICAL PRESENCE

No.1 supplier of ELPs from infancy to preschool in the US and Western Europe[12]

43 million products* sold to 84 markets, covering 24 languages

* *Includes all platform and standalone products, software cartridges, accessories and download apps*



NORTH AMERICA

Sales: US$361.9 million

Year-on-Year Change: +17.3%

% of ELPs Revenue: 49.5%

EUROPE

Sales: US$331.3 million

Year-on-Year Change: +6.8%

% of ELPs Revenue: 45.3%

OTHER REGIONS

Sales: US$18.6 million

Year-on-Year Change: -10.6%

% of ELPs Revenue: 2.5%

ASIA PACIFIC

Sales: US$19.5 million

Year-on-Year Change: +11.4%

% of ELPs Revenue: 2.7%

OUR COMPETITIVE EDGE

- Product Innovation
- Global Market Leadership
- Integrated Design Manufacturer
- 30+ Years of Experience

[12] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the toy categories of infant electronic learning and preschool electronic learning, for the combined market of US, UK, France, Germany and Spain*

CONTRACT MANUFACTURING SERVICES

OUR MAIN PRODUCT CATEGORIES

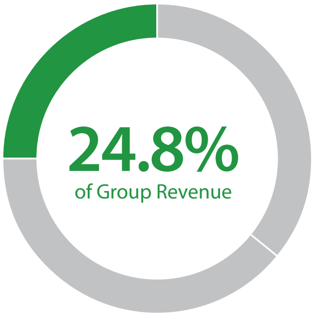
PROFESSIONAL AUDIO EQUIPMENT

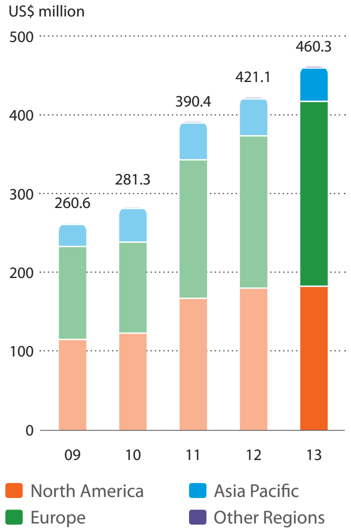
SWITCHING MODE POWER SUPPLIES

WIRELESS PRODUCTS

SOLID-STATE LIGHTING

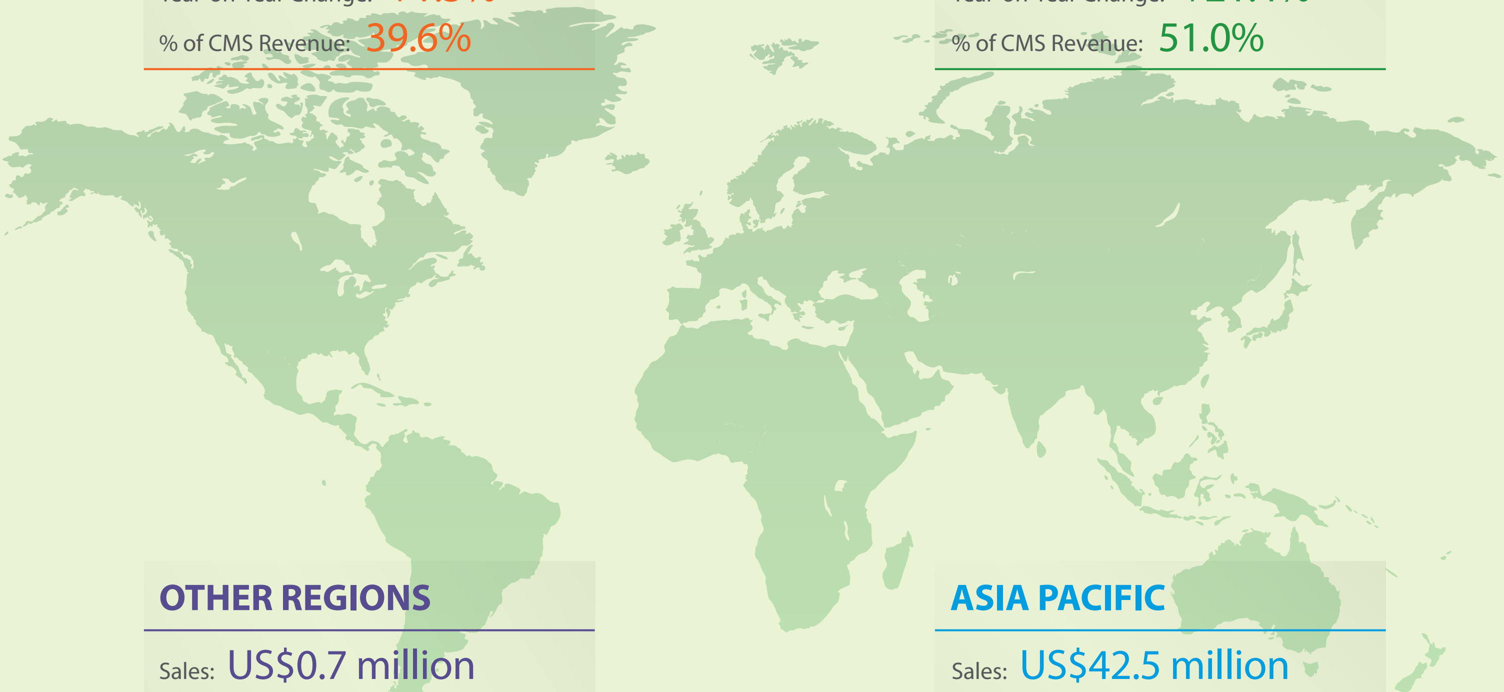
CMS REVENUE





OUR GEOGRAPHICAL PRESENCE

Ranked **27th** among the world's **Top 50** EMS providers[13]



NORTH AMERICA

Sales: US$182.1 million

Year-on-Year Change: +1.3%

% of CMS Revenue: 39.6%

EUROPE

Sales: US$235.0 million

Year-on-Year Change: +21.4%

% of CMS Revenue: 51.0%

OTHER REGIONS

Sales: US$0.7 million

Year-on-Year Change: -12.5%

% of CMS Revenue: 0.2%

ASIA PACIFIC

Sales: US$42.5 million

Year-on-Year Change: -9.6%

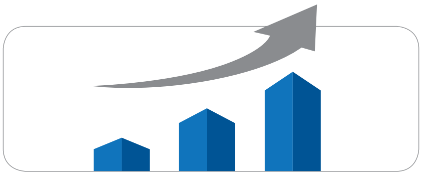
% of CMS Revenue: 9.2%

OUR COMPETITIVE EDGE

- Service Excellence
- Quality Products
- Strong Reputation
- Manufacturing Know-how in Specialty Areas

[13] *Source: Manufacturing Market Insider, March 2013*

CORPORATE



Record Revenue

- The Group achieved record revenue for the third consecutive year in the financial year 2013.

Hang Seng HK 35

- VTech Holdings Limited became a constituent stock of two new indexes of stocks listed on The Stock Exchange of Hong Kong Limited: the Hang Seng HK 35, which comprises the 35 largest companies which derive the majority of their sales revenue (or profits or assets if more relevant) from areas outside mainland China; and the Hang Seng High Dividend Yield Index, which comprises 50 stocks and/or real estate investment trusts with the highest net dividend/distribution yield.

Hong Kong Marathon

- For the eighth year in a row, VTech won the "Most Supportive Group Award" in the 2013 Standard Chartered Hong Kong Marathon, fielding over 950 participants.

"Caring Company" Recognition

商界展關懷 caringcompany® 2008-12
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

- VTech was named a "Caring Company" by The Hong Kong Council of Social Service for the fifth consecutive year, in recognition of its continuous contribution to the Hong Kong community.

TEL PRODUCTS

The World's No. 1

- VTech maintained its number one position as manufacturer in the global consumer cordless telephony market in the calendar year 2012[14].

Product Innovation

- The DECT360 Long Range Digital Cordless Combo System won the "Outstanding Innovation & Technology Products – Silver Award" in the category of consumer electronics, presented by The Hong Kong Electronic Industries Association.

Vendor of the Year

- VTech Technologies Canada Limited was named "Vendor of the Year – Best Service Levels" by Staples, Inc.

Green Hotel Phone

- VTech's cordless hotel phones with battery back-up won the "Editor's Choice Award" in the green technology category at the annual International Hotels, Motels and Restaurant Show (IHMRS) in the US.

CareLine

- In October 2012, VTech launched the CareLine home safety telephone system for seniors. It is an affordable, easy-to-use system that incorporates unique features such as large display, volume boost and wearable pendant, meeting the daily communication needs of seniors.

[14] Source: MZA Ltd, 2013

ELPs

No. 1 Infant Toy Manufacturer

- VTech became the largest infant toy manufacturer in its main European markets in the calendar year 2012[15].

Vendor of the Year

- VTech Electronics North America, L.L.C. was named "Vendor of the Year" by Toys "R" Us in the US for the second consecutive year.

Kidizoom Digital Camera – No.1 Selling Toy in Germany

- In the calendar year 2012, Kidizoom digital camera, by retail value, topped the best selling toy list in Germany[16]. It has been the best selling toy four times in the last five years.

InnoTab 2

- In North America, InnoTab 2 received the "Seal of Approval 2013" and the "Holiday Seal of Approval 2012" from the National Parenting Center in the US.

Storio 2 – No.1 Selling Toy in Europe

- Storio 2 was the number one selling item by retail value in the top five European toy markets in the calendar year 2012[17]. It also won a lot of top industry awards in Europe, including "Dream Toy for Christmas" in UK, "Toy Grand Prix 2012" award in the category of electronic products in France and "Toy of the Year 2012" in the category of multimedia tablets in Belgium.

CMS

The World's Top 50 EMS Provider

- VTech Communications Limited was ranked 27th among the world's top 50 EMS providers in the calendar year 2012 by *Manufacturing Market Insider* magazine.

Service Excellence

- VTech Communications Limited received the "Outstanding Customer Support" award from a customer in wireless products. It also received a "Certificate of Appreciation" from a customer in industrial products.

Quality Products

- VTech Communications Limited received a "Special Recognition of Product Development Services" award from a customer in industrial products, as well as a "Quality & Continuous Improvement" award from a medical and health product customer.

[15] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the Infant Toys category, for the combined market of UK, France, Germany and Spain
[16 & 17] Source: NPD Group, Retail Tracking Service

Sustainability

Since our establishment in 1976, VTech has grown into the world's largest manufacturer of cordless telephones, a leading supplier of electronic learning products, and a major electronic manufacturing services provider. As a global and sustainable company, we are committed to designing, manufacturing and supplying innovative and high quality products in a manner that minimises environmental impacts, while fulfilling our responsibility to, and providing value for our stakeholders and the community.

We recognise that our sustainability depends on our capability to establish and maintain the high standards of business and ethical practices, as well as engagement with our stakeholders including employees, customers, suppliers, business partners, shareholders and the wider communities in which we operate.

VTech's sustainability strategy focuses on the following five key areas:

1. Environmental Protection – our environmental efforts help us to design, manufacture and supply innovative and high quality products in a cost effective and environmentally friendly manner

2. Workplace Quality – our commitments to provide a supportive, pleasant and healthy workplace for our employees enable us to foster a stable and motivated workforce

3. Sustainable Operating Practices – our efforts to achieve highest levels of product quality and safety standards with good corporate governance practices in place enable VTech to provide high quality and safe products for our customers and create value for our business partners

4. Community Investment – to use our skills and resources to support the communities in which we operate

5. Shareholder Communications – to create value and sustain long-term interests of the company and its shareholders

During the financial year 2013, we have stepped up our efforts and investments in implementing our sustainability initiatives, introducing a number of new and enhanced programs within our operations. Performance against the established standards will be reviewed by the Group's Risk Management and Sustainability Committee on a semi-annual basis.

Through the successful implementation of our sustainability initiatives in the respective areas, we believe that our shareholder and business values could be enhanced, and with sustainable growth in shareholder returns on investment and our business performance.

ENVIRONMENTAL PROTECTION

VTech's vision is to bring high quality and innovative products to consumers around the world and enhance their lives. We aim to do this in a way that respects the environment, and continuously implement measures throughout our product life cycle to reduce environmental impacts from our operations.

Product Design – we design for the environment

Product Design, which is the beginning of our product life cycle, is the stage where greatest environmental gains can be achieved when we do it right. VTech's goal on design for the environment is to incorporate environmental solutions into our product design to improve energy efficiency, reduce carbon emissions and maintain high international safety and environmental standards, making each new generation of VTech products more energy efficient and environmentally friendly.

An example of this approach is to reduce the number of components in our products. This helps us to reduce material use and eliminate some of the manufacturing processes such as bonding and component insertion to save energy consumption and material cost.

We also aim to reduce energy consumption for the users of our products. For example, all VTech DECT cordless phones delivered to the US market are fully Energy Star® certified.

They meet the strict energy efficiency guidelines set by the US Environmental Protection Agency through the incorporation of improved energy performance features. We are also developing more DECT phones with "Eco Mode" function for the European and Asian markets to reduce the power transmission between the handset and base station. In the fourth quarter of the financial year 2013, we have also launched a new series of DECT cordless phones with the Blue Angel eco-label, certifying that those models meet the German standards of low-radiation and energy efficiency with benefits to the environment.

Bolstering our design for environment efforts, we have robust specifications on banned and restricted substances as well as stringent materials selection procedures in place to ensure that all our products are in compliance with the latest international safety and environmental regulations. For example, all our products sold in US and Europe are RoHS (Restrictions on the use of Hazardous Substances) compliant, while all TEL products and ELPs sold in Europe comply fully with REACH (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals). We also work proactively with our customers, certified laboratories and professional consultants to get the advance information on the latest standards in each specific country and prepare for the changeover of the related materials before the regulation is implemented.

Manufacturing – we produce products in a sustainable manner

The goals of increasing energy efficiency, reducing environmental impacts and ensuring a good working and living environment permeate throughout VTech's manufacturing facilities.

During the financial year 2013, we have implemented the following on-going sustainability initiatives in our manufacturing facilities with two major priorities: (i) increasing energy efficiency through machinery and equipment improvement; and (ii) reducing chemical use through embedding the 3Rs (Reduce, Reuse and Recycle) practice into our production chain and maximising the lifecycle of our production materials.

(i) Increasing energy efficiency through machinery and equipment improvement

- In order to improve the energy efficiency of our existing machinery and equipment, we install Variable-Frequency Drives (VFD) on our air compressors and plastic injection machines, which help to control the systems at variable-speed with less energy consumption than the fixed-speed operations. It also enables us to prolong the useful life of our existing machinery and reduce our investment in the new replacement.

- In one of our facilities, we centralised the air conditioning systems by linking the pipes of cooling systems between separate buildings. This enables the system administrator to reduce the number of chillers in operation for each building separately and achieve substantial energy saving especially during the low season.

- Plastic injection machines need to maintain resin at high temperature during the injection process. After installing the induction heating circuits in the machines, heating efficiency is improved and thereby reducing electricity consumption.

- We replace diesel water heaters in our dormitories with electric heat-pump hot water systems to reduce carbon emissions and energy consumption. In the working and living areas, we are also gradually replacing fluorescent lamps with LED light bulbs to achieve greater energy efficiency.

(ii) Reducing chemical use through the 3Rs practice

- Through reducing the number of components at the product design stage, we are able to eliminate some of the manufacturing processes, resulting in the reduction of chemical use, energy consumption and the associated carbon emissions in our manufacturing operation.

- To reduce the use of hazardous chemicals in our manufacturing operation, we continually work with our suppliers to source alternate materials with quality and performance standards of at least the same levels. Stringent internationally benchmarked procedures for storing, handling and disposal of hazardous substances are also adopted in our manufacturing facilities. For the collection and disposal of hazardous waste, we also have approval procedure in place to ensure that it is only carried out by the government-certified agencies to mitigate the risk of leakage during the process.
- In order to reduce the chemical use during the spray painting process, we have adopted new technology in the machinery which helps us to reduce the paint consumption.
- To reduce the solder consumption in the manufacturing operation, we have recycling machine and procedure in place to ensure that the practice of "reduce, reuse and recycle" is fully executed throughout the whole manufacturing process.

The manufacturing facilities of our TEL products and CMS meet the international standards on environmental management, social accountability, occupational health and safety, and quality management with the following certifications:

- Environmental management System: ISO14001
- Social Accountability: SA8000
- Occupational Health and Safety System: OHSAS 18001
- Quality Management System: ISO9001/TL9000 for TEL products and ISO9001 for CMS

Our ELP manufacturing operations also comply with the International Council of Toy Industries (ICTI) CARE (Caring, Awareness, Responsible, Ethical) Process with ICTI certification. Its quality management system is also qualified with ISO9001 certification.

These certifications help us to ensure that we are continuously improving our operations and environmental management practices, and we also have the capability to mitigate our environmental risks on an on-going basis.

In addition to following the international environmental standards, the factory of our TEL products also worked with different government bodies to make contributions to the environmental protection. For example:

- It was awarded with "Hong Kong – Guangdong Cleaner Production Partners" under the scheme jointly launched by the Hong Kong Productivity Council and the Guangdong Provincial Government in 2012.
- It was recognised as a "Cleaner Production Enterprise in Guangdong Province" from the Guangdong Provincial Government and "Cleaner Production Enterprise in Dongguan City" from the Dongguan Municipal Government.
- It participated in the "12th Five-Year Energy Saving Plan" of the Dongguan Municipal Government.

Distribution – we deliver our products in an energy-efficient manner

As our major markets are in Europe and North America, most of our products require long distance transportation. It is crucial for us to manage our shipping orders in an energy efficient manner in order to reduce transportation costs and minimise the associated environmental impacts.

We maximise the volume per container and for each shipment through optimising our incoming (raw materials) and outgoing (products) shipment schedules. We also work closely with our customers to consolidate and combine shipping orders, which helps reduce the frequency of shipments and the associated environmental impacts such as carbon emissions.

For our European operations, the logistic hub in Netherlands which is managed by our major logistic services provider, helps us to consolidate shipping volume and increase the filling rate of each truck for the goods delivery within Continental Europe. The increase in load efficiency and joint deliveries directly reduces the environmental impacts of our transportation.

Sea shipment is our primary mode of transport for long distance transportation. We also continually shift the goods delivery from truck to rail freight as it is more cost efficient and with lower environmental impacts.

In our evaluation process on shipping carriers, we also consider whether the service providers could demonstrate their efforts and achievements in reducing environmental impacts and with programs in place such as improving energy efficiency and using cleaner fuel for shipments.

Recycling – we aim to reduce the impact on the environment

In order to minimise the impact on the environment and save material cost, our products are designed to avoid unnecessary packaging. We continuously review the packaging design of our products and aim to reduce their size and use recycled materials wherever possible.

All packaging materials for our Group's products are 100% recyclable. For the packaging of our TEL products sold in the US market, we use FDA-approved aqueous coatings, which is a fast-drying, water-based and protective coating. Cardboard packaging for ELPs is 100% recyclable and the cardboard used is manufactured from a minimum of 80% post-consumer recycled materials. We have also largely replaced PVC (polyvinyl chloride) with PET (polyethylene terephthalate), which is a more environmentally friendly material for the packaging of the Group's products.

There are also programs in place with our suppliers to recycle the incoming packaging materials such as carton boxes to reduce waste in the environment. For the used packaging plastic bags, they are also recycled in our manufacturing facilities for internal use. In order to reduce the paper consumption, we also continually increase the use of electronic and digital promotions and catalogues in the Group's marketing activities.

All our TEL products and ELPs sold in Europe strictly comply with the WEEE (directive on waste electrical and electronic equipment), ensuring that the disposal of waste is within regulatory requirements.

WORKPLACE QUALITY

VTech cares for its employees and recognises that good staff relations and a motivated workforce play a vital role in the Group's sustainability and operational efficiency.

Employee Numbers and Costs

The average number of employees for the financial year 2013 was 34,800 compared to 31,600 in the previous financial year.

Staff related costs for the year ended 31 March 2013 were approximately US$282 million, as compared to approximately US$242 million in the financial year 2012.

Workplace

VTech strives to continuously provide a supportive, pleasant and healthy workplace for our people, and foster a "caring" community with respect and dignity in our working environment and the society.

The majority of our employees in our China manufacturing facilities are from different provinces of the country. We recognise that to make them feel at home, provide them with a sense of belonging and look after their developmental needs

are crucial to foster a stable workforce for our sustainable development and improvement in operational efficiency. During the financial year 2013, we have implemented a "Caring" program with continuous improvement measures across our manufacturing facilities, and provide our employees with a positive environment in which they can learn and advance in their careers.

All initiatives of the "Caring" program are driven by our employees' opinions and suggestions, as well as our benchmarking studies with industry peers. The key activities of this continuous improvement program are shared as follows:

- Continuously upgrade the dormitories, cafeterias and safety standards across our facilities in China to provide employees with a safe and home-feeling working and living environment.
- Enhance our "people-oriented management" program in different leadership levels of the company to build a positive working environment that fosters teamwork, facilitates learning and promotes open communications.
- Establish career enhancement programs to facilitate employee career progression in different levels within the company.
- Conduct regular employee communication sessions and channels to facilitate dialogues between leadership and employees.
- Hold regular recreational, social and community service activities to improve the health and well-being of our employees.
- Provide consultation and counselling services to assist individuals who may encounter work or personal issues and need professional support. The service is completely confidential and our service providers are qualified psychological counsellors in China.

After implementing the above measures, we conducted an employee engagement survey in the areas of living environment, cafeteria services and working conditions. The result is encouraging and our employees recognised the progress we have achieved under the "Caring" program. There has also been an improvement in the worker turnover rate and productivity in our factories compared with the previous year.

Human and Labour Rights

VTech is committed to respecting the Labour and Human Rights of all our employees through the following principles which are clearly stated in our human resources management policies:

- Freely Chosen Employment – We do not use forced or prison labour. We ensure that the terms of employment are voluntary. Our employees work at VTech of their own free will and are free to leave the company upon reasonable notice under the terms of their labour contracts. We do not require employees to lodge deposits or hand over passports or work permits as condition of employment, unless required by applicable law.
- No Child Labour – We comply with all appropriate local and international regulations in relation to the restriction on the employment of child labour.
- Benefits and Wages – We ensure that the compensation and benefits for our employees comply or exceed the minimum legal requirements of the country where employees are employed. We do not make deductions from wages as a disciplinary measure.
- Working Hours – Overtime is voluntary and employees are compensated for overtime work in accordance with local laws.
- Equal Opportunity and No Discrimination – We ensure our hiring, compensation, training, promotion, termination and retirement policies and practices do not discriminate on the grounds of age, sex, marital status, race, religion, disability or any other non-job related factors. Remuneration is determined with reference to performance, qualifications and experience.
- Harassment and Abuse – We do not tolerate any physical, sexual, psychological or verbal harassment or abuse towards our employees.

We also have procedures in place to ensure that our policies are properly executed throughout the company. These include conducting employee interviews and surveys, on-site visits and audits on a regular basis. Any issues or enquiries raised by our employees through different communication channels will also be handled and investigated by the company with care and in a confidential manner.

Health and Safety

VTech is committed to providing our employees with a healthy and safe workplace. Our goal is to instill robust safety measures at every level of the company, and to preserve everyone's physical integrity through the implementation of our "Health and Safety" program with the following initiatives:

- Evaluate workplace hazards and risks, and design appropriate administrative and engineering controls to eliminate them.
- Identify emergency situations that may occur due to natural/unnatural disasters and establish contingency plans that will minimise the impact on our employees and assets.
- Implement industrial hygiene programs that will minimise the impact on our employees and assets. This includes provision of personal protective equipment and the evaluation of alternative technologies and materials.
- Educate employees on health and safety topics, train employees on how to deal with hazards and risks that cannot be eliminated at the workplace, and steps to take when emergencies occur.
- Qualified doctors are available in our manufacturing facilities to provide instant medical treatments for our employees in case of illness or bodily injury.

We recognise that it is impossible to eliminate all potential health and safety risks at work. In order to minimise the risks, we not only rely on our safety officers to monitor the safety procedures in the workplace, but also implement a number of initiatives to raise the safety awareness for all our workers and educate them on how to protect themselves at work. All new and existing workers are also required to attend fundamental safety training courses as well as regular training workshops on the specific areas relevant to their roles. It is our aim that everyone in our manufacturing facilities is able to become a safety officer in the workplace.

Learning and Development

VTech recognise that a capable and motivated workforce is integral to our success. We actively promote continuous learning and provide different kinds of training programs for our employees, encouraging them to develop and advance their careers in our company. These include general training courses such as business skills and knowledge, effective communication skills, foreign language courses, etc. Outdoor team building activities and off-site management workshops are also arranged for the employees on specific topics. We also subsidise the external professional development training courses that are relevant to our business needs.

For our people in the manufacturing facilities, we also deliver relevant job knowledge across a variety of topics ranging from manufacturing operations to professional development, technical and computer skills, and lean manufacturing. We also have libraries in the factories that contain common reference journals and books, training materials and magazines for their easy access.

In addition to the specialised training opportunities, leadership programs are also provided for the leaders ranging from front-line foreman to management staff with the knowledge, tools, and opportunities to enhance their leadership skills for better managing their teams, and foster our "people-oriented management" philosophy at every level of the company.

Employee Communications

We encourage open communications at all levels of the company and encourage employees to voice their opinions through various communication channels. These include suggestion boxes, website, staff-caring hotline, internal newsletter and communication meetings. Employee engagement surveys are also conducted in our manufacturing facilities on a regular basis. All the information, opinions and suggestions gathered from the employees are handled by the company with care and followed up by the responsible departments.

Employee Relations

During the financial year 2013, we have organised a number of social, recreational and sport activities for our employees, with aims to encourage their work-life balance, foster team spirit and enhance their well-being.

In Hong Kong, these programs included our 11th anniversary participation in the Standard Chartered Hong Kong Marathon, the annual dragon boat competition, staff Christmas party, tours to Malaysia and Lianzhou, China. Various outings and sport activities as well as different types of interest classes were also arranged for our employees in both Hong Kong and China. Examples of the programs ranged from painting, calligraphy, social dance and singing contest, to yoga, martial art, running and sport competitions. Our people are free to join any activity organised by the company.

SUSTAINABLE OPERATING PRACTICES

In order to provide high quality and safe products for our customers and create value for our business partners, VTech is committed to achieving the highest levels of product quality and safety standards, and maintaining the highest standards of corporate governance practices in dealing with our business partners.

Product Quality Assurance

VTech is committed to bringing high quality and safe products to the consumers around the world. All our products comply with the highest levels of safety standards specified in the relevant countries. We have strict quality and safety assurance programs in place to warrant that all our products meet the required specification and are free from defects in both materials and workmanship at the time of delivery.

Regular product inspections by both internal and external professional bodies also constitute an important part of the overall safety program. In addition, our production level inspections help prevent any deviation from the original product design and specification. For those critical safety related components and materials, examination conducted at early stage of our manufacturing process also enables us to identify any non-compliance issues and drive for corrective actions in a very timely manner.

VTech seriously considers and follows up any quality and safety related issues raised by our consumers from different channels such as call centers, customer response and social network. All the reported cases will be reviewed, evaluated and investigated by our quality and safety assurance team to identify any potential areas of risk and take immediate corrective or preventive actions.

We have stringent policies and procedures in place to ensure that all the Group's products fully comply with the relevant country specified safety standards in which they are delivered.

We also work proactively with our customers, certified laboratories and professional consultants to get the advance information on the latest standards in each specific country and prepare for the changeover in the product design and materials use before the execution of the regulation.

Examples of the international safety standards are as follows:

- All our TEL products comply with the standards of UL60950 for US market and EN60950 for European countries. We also have certifications from CCC (China Compulsory Certification) and UL (Underwriters Laboratories).
- All our ELPs are compliant with the latest and the highest levels of US and European toy safety standards. They include ASTM F963-11 (Standard Consumer Safety Specification for Toy Safety), CPSIA (Consumer Products Safety Improvement Act), EN71 (European Standard – Safety for Toys), and ISO8124 (Safety of Toys).
- Our CMS comply with the international safety standards specified in the relevant country in the respective product areas. We have certifications from CCC (China Compulsory Certification), UL (Underwriters Laboratories), KTL (Korea Testing Laboratory), KETI (Korea Electronics Technology Institute) and CSA (Canadian Standards Association). Our CMS manufacturing operations and facilities for medical and automotive products are also certified with ISO/TS16949 & ISO13485 standards.

Supply Chain Management

VTech is committed to trading fairly and ensuring everyone in our supply chain is treated with honesty, fairness and respect. Ethical sourcing and responsible supply chain management is critical to our procurement decisions. We work closely with our approved suppliers, encouraging them to support our key Corporate Social Responsibility (CSR) initiatives through adoption and implementation of sustainable business practices.

Under our suppliers selection and evaluation process, in addition to the quality and safety standards that they need to achieve in accordance with our specifications, all major suppliers especially the outsourced vendors for the Group's manufacturing operations are required to sign a supplier CSR agreement with specified CSR related conditions with which they must comply. Annual quality and CSR audits are also carried out at the premises of our key suppliers. Following the due diligence process, if there are any high risk areas identified in the suppliers' factories, they are required to provide corrective actions with implementation schedule in order to eliminate the identified deficiencies. We also provide training to suppliers on continuous improvement processes to facilitate their implementation of the corrective actions.

Code of Conduct

Our Code of Conduct is an important part of the Group's operating practices and a key component of our corporate governance framework. It provides the guiding principles for our employees to do what is right and behave with integrity and honesty. Our Code of Conduct also requires our employees to have stringent obligations as to how they deal with the issues including ethics and business integrity, conflicts of interest, bribery and compliance with company policies, practices, accounting standards and internal controls.

With the business environment evolving constantly, we assess our Code of Conduct on a regular basis to ensure that it reflects global best practices and meets the expectations of all stakeholders. Management also has the responsibility to ensure that their employees have adequate anti-corruption awareness and controls in their responsible areas. Anti-corruption and internal control trainings are also provided for our employees on regular basis to reinforce their awareness and understanding of our Code of Conduct.

We also have Whistleblowing Policy in place to encourage and assist whistleblowers to disclose information relevant to the misconducts, malpractices or irregularities through a confidential reporting channel. All the reported cases will be handled by the company with care and the whistleblower's concerns will be investigated in a fair and proper manner. All reports under the Whistleblowing Policy are reviewed by the Group's Audit Committee semi-annually.

COMMUNITY INVESTMENT

As a responsible company, VTech uses its skills and resources to support the communities in which it operates in a variety of ways, focusing on innovation, helping children and the elderly, as well as general corporate philanthropy.

Innovation

As in previous years, VTech sponsored the Hong Kong Business of Design Week and Hong Kong Awards for Industry in 2012, to encourage innovation in our home region.

Helping Children and the Elderly

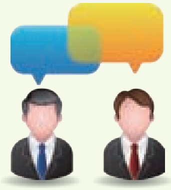
VTech volunteers made active contributions to charities and youth organisations in Hong Kong. These included working with Hong Kong Children and Youth Services to provide deprived youngsters a day camp on farming, joining The Hong Kong Federation of Youth Groups' story telling program for the underprivileged kindergarten kids, partnering with the Hong Kong Young Women's Christian Association to arrange social gatherings and individual home visits for the deprived senior citizens, and participating in the activities organised by The Hong Kong Society for the Aged (Sage) for the elderly people.

In US, VTech and its staff arranged our Thanksgiving "Turkey Shoot" and made donations for the Meals on Wheel Northern Illinois program. Our Holiday Giving Tree also collected funds and gifts for the Little Brothers – Friends of the Elderly, Ann & Robert H. Lurie Children's Hospital of Chicago and the Heartland Animal Shelter. We also contributed electronic learning toys to The Toy Bank at the close of Toy Fair 2013, which shared the donations with 21 different charities in their network. We also arranged a "Make-A-Wish" campaign to raise money for "Make-A-Wish", which has enriched the lives of children with life-threatening medical conditions through its wish-granting work, by donating US$2 from every phone, baby monitor and qualifying accessory purchase made on certain VTech's websites.

General Corporate Philanthropy

We continued to support the blood donation campaign and charity sales organised by the Hong Kong Red Cross. It is also the 5th year that VTech is recognised as a "Caring Company" by the Hong Kong Council of Social Service.

During the financial year 2013, the Group made charitable and other donations in an aggregate amount of US$169,000.



SHAREHOLDER COMMUNICATIONS

VTech is committed to enhancing our shareholder value and communicating with our investors in an effective and timely manner.

Shareholder Value

Through the successful implementation of our sustainability initiatives in the respective areas, we believe that our shareholder and business values could be enhanced, and with sustainable growth in shareholder returns on investment and our business performance.

Good corporate governance is also crucial for us to enhance our shareholder value in a sustainable manner, and safeguard the long-term interests of the company and our shareholder. The Group is committed to the high standard of corporate governance, and it has established governing committees including Audit Committee, Nomination Committee, Remuneration Committee, and Risk Management and Sustainability Committee with defined scope of responsibilities and terms of reference in the respective areas.

Investor Communications

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, VTech 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 a number of ways:

- Shareholder meetings – shareholders' communication at our Annual General Meeting is one of the examples
- Investor conferences and road shows – we joined investor conferences and arranged road shows on a regular basis. During the financial year 2013, we held meetings with investors in Hong Kong
- Shareholders' visits – we organised regular shareholders' visits to our manufacturing facilities in mainland China
- Public information – key financial announcements are webcast, accompanied by the detailed slide presentations and other important financial information. Latest information on the Group's developments, financial data and stock information can also be found at our corporate website www.vtech.com

VTech has striven to build long-term relationships with shareholders and investors through active engagement over the last 20 years. We maintain an open dialogue with institutional and retail investors to ensure a full understanding of our corporate strategies, business development and outlook.

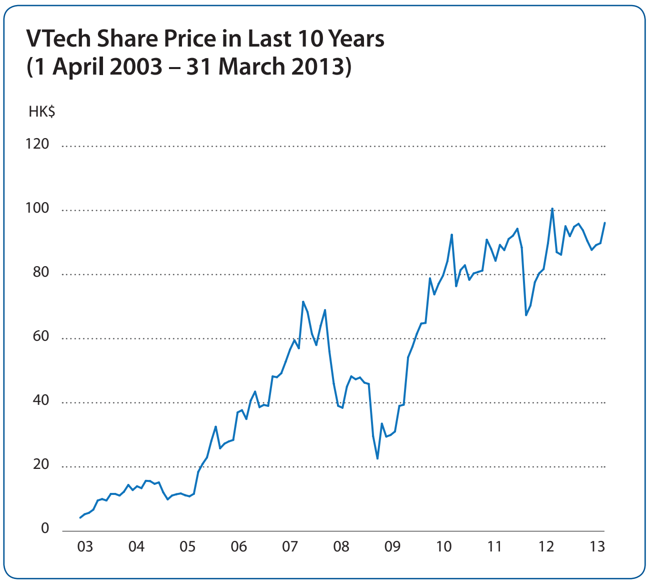
Shareholder Value

VTech has continued to enhance shareholder value through a combination of share price performance and dividend payments.

Share Price Performance

In the financial year 2013, the highest closing price of VTech's shares was HK$101.00 (3 April 2012) and the lowest closing price was HK$79.15 (24 May 2012).

VTech's share price has shown significant appreciation over the past decade. The rise has been consistent with the exception of 2008 – 2009, when the stock price fell sharply in line with the universal sell-off in equities that was precipitated by the global financial crisis.

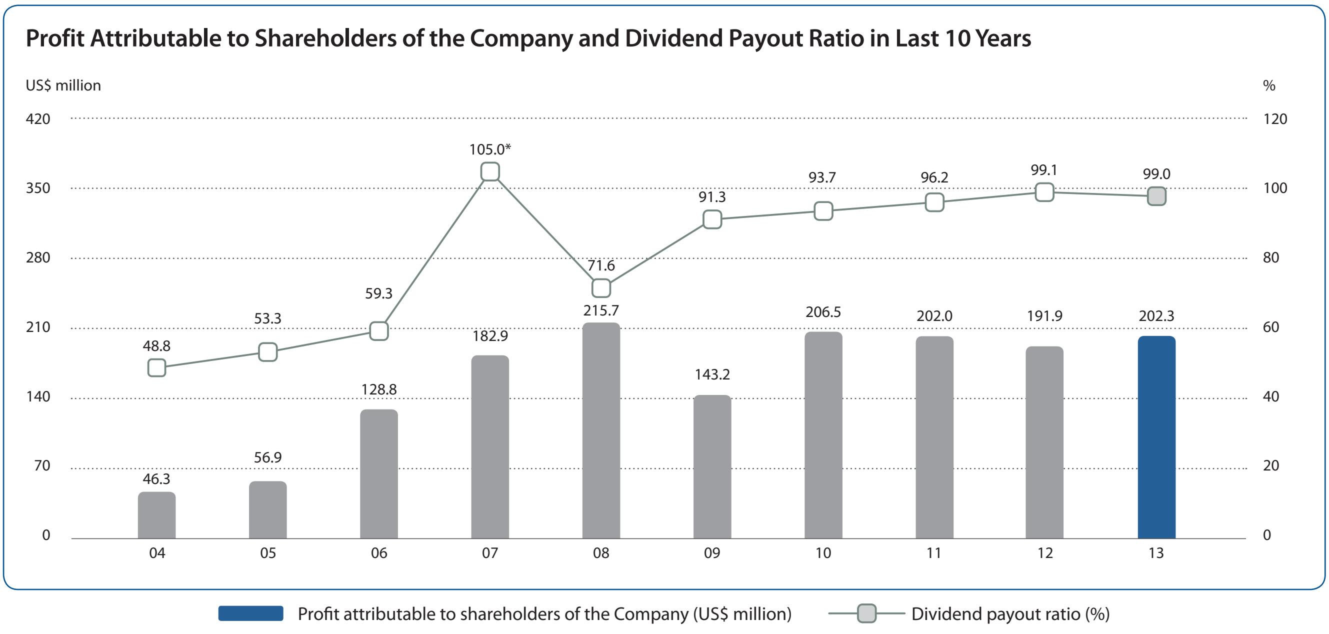


Source: Bloomberg

Dividend Payments

The Company'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 2013 amounted to 99.0% of the profit attributable to shareholders of the Company, against 99.1% in the previous financial year.

During the past ten years, VTech has provided a sustainable return to shareholders.



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

Index Recognition

The Company's position as a major component of the Hong Kong stock market has been recognised by the capital markets by the inclusion of our stock in new indexes.

In December 2012, the Company became a constituent stock of two new indexes of stocks listed on The Stock Exchange of Hong Kong Limited: the Hang Seng HK 35, which comprises the 35 largest companies which derive the majority of their sales revenue (or profits or assets if more relevant) from areas outside mainland China; and the Hang Seng High Dividend Yield Index, which comprises 50 stocks and/or real estate investment trusts with the highest net dividend/ distribution yield.

Corporate Governance

VTech is committed to good corporate governance, which helps 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 composed of independent non-executive directors. The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management and Sustainability Committee with defined terms of reference. The Company has a Code of Conduct which all directors, management and employees are required to abide by, as well as a Whistleblower Policy to facilitate the raising of concerns by employees.

VTech has established a Continuous Disclosure Policy to ensure full compliance with the new statutory price sensitive information disclosure requirement under the Securities and Futures Amendment Ordinance and the Listing Rules that came into effect on 1 January 2013.

Investor Communications

We make every effort to maintain open communication with shareholders and potential investors. Our aim is to keep investors abreast of the Group's latest developments and we welcome suggestions for improvement.

Since March 2012, all of our investor communications activities have been governed by a Shareholders Communication Policy, aiming to ensure that all shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

During the financial year 2013, we held meetings with investors, organised site visits to our facilities in China and participated in investor conferences.

Key financial announcements are webcast, accompanied by the detailed slide presentations and other important financial information. Latest 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.

Index Recognition

In December 2012, the Company became a constituent stock of two new indexes of stocks listed on The Stock Exchange of Hong Kong Limited: the Hang Seng HK 35 and the Hang Seng High Dividend Yield Index.

Key Shareholder Information

Financial Calendar

Closure of Register of Members – Annual General Meeting	9 July - 12 July 2013 (both days inclusive)
2013 Annual General Meeting	12 July 2013
Closure of Register of Members – Payment of Final Dividend	18 July 2013
Payment of Final Dividend	29 July 2013
2013/2014 Interim Results Announcement	November 2013
FY2014 Annual Results Announcement	May 2014

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

Share Information

Board lot: 100 shares

Issued shares as at 31 March 2013: 250,378,133 shares

Dividend

Dividend per ordinary share for the year ended
31 March 2013

– Interim dividend: US16.0 cents per share

– Final dividend: US64.0 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

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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

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 2013, 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 independent 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 37 of this Annual Report. The independent 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 independent 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 independent 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, shall be subject to retirement by rotation. There exists no relationship among Board members and senior management, 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, 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 2013/14 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 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	3/4	1/2	1/1	1/2	–	1/1
Denis Morgie HO Pak Cho	4/4	2/2	1/1	2/2	–	1/1
David SUN Tak Kei [1]	1/1	1/1	–	1/1	1/1	–
Michael TIEN Puk Sun	4/4	2/2	1/1	2/2	–	1/1
Patrick WANG Shui Chung	2/4	–	0/1	–	–	0/1
WONG Kai Man [2]	2/2	1/1	1/1	1/1	1/1	–

Notes:

(1) *Dr. David SUN Tak Kei resigned as Independent Non-executive Director, and a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee with effect from 30 June 2012.*

(2) *Mr. WONG Kai Man was appointed as Independent Non-executive Director, and a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee on 19 September 2012.*

In addition to the regular Board meetings, the Chairman had meetings with the independent non-executive Directors without the presence of the executive Directors during the financial year.

The Company has renewed the Directors and officers' liability insurance for members of the Board in April 2012 to provide protection against claims arising from the lawful discharge of duties by the Directors.

Directors' Training and Professional Development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment.

During the financial year, the Company has organised a one-day training session conducted by qualified professionals for the Directors and relevant staff. The training session covered areas such as accounting, taxation and Listing Rules requirements. In addition, the Directors also attended other external seminars or briefings and read relevant materials on regulatory updates.

All Directors have provided to the Company their records of training which they have received during the financial year.

Directors' Training and Professional Development (Continued)

A summary of their records of training during the financial year is as follows:

	Attending briefings, trainings, seminars, conference or giving speech	Reading articles, researches, journals and updates
Executive Directors		
Allan WONG Chi Yun	✓	✓
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 (appointed on 19 September 2012)	✓	✓

Note: Training areas include information related to the Company or electronic manufacturing industry, laws, rules and regulations, accounting standards and business management.

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 (resigned with effect from 30 June 2012), Mr. Michael TIEN Puk Sun and Mr. WONG Kai Man (appointed on 19 September 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, corporate governance functions and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. Denis Morgie HO Pak Cho, 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 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 financial year included, but not limited to, reviewing the following:

- unaudited Group Interim Financial Report for the six months ended 30 September 2012 in the 2012/2013 Interim Report of the Company;
- 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 in the 2012/2013 Interim Report of the Company;
- revised Whistleblowing Policy;
- reports made under Whistleblowing Policy;
- 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;
- appointment of the external auditor and their remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions; and
- respective audit plans of the internal and external auditors.

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

On 15 May 2013 (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 2013 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 2013 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 2013 have been agreed with the Company's external auditor to the amounts set out in the Group's consolidated financial statements for the financial year.

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

Board Committees (Continued)

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 (resigned with effect from 30 June 2012), Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung, Mr. WONG Kai Man (appointed on 19 September 2012) 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 considered the appointment of Mr. WONG Kai Man as an independent non-executive Director and the nomination was accepted by the Board.

The Nomination Committee held one meeting during the financial year. The Nomination Committee reviewed succession planning, the board diversity and the revised Nomination Committee Charter, and the structure, size and composition of the Board.

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, Dr. David SUN Tak Kei (resigned with effect from 30 June 2012) and Mr. WONG Kai Man (appointed on 19 September 2012) 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 financial year. The Remuneration Committee discussed and reviewed the policy for the remuneration of executive Directors and senior management, and the annual salaries increment and remuneration packages for executive Directors and senior management before recommending them to the Board for consideration and approval. The Remuneration Committee also reviewed the shares to be awarded under the share purchase scheme, and approved the establishment of a qualified shares award sub-plan for eligible French employees under the share purchase scheme.

Risk Management Committee (renamed as the Risk Management and Sustainability Committee with effect from 15 May 2013)

The Risk Management Committee is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong, Dr. David SUN Tak Kei (resigned with effect from 30 June 2012) and Mr. WONG Kai Man (appointed on 19 September 2012) as members. The Risk Management Committee held two meetings during the financial 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.

To better reflect the scope of responsibilities of the Risk Management Committee (which involves works concerning sustainability and compliance), the Risk Management Committee was renamed as the Risk Management and Sustainability Committee with effect from 15 May 2013.

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 financial year, the fees in respect of audit services and tax 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 2013, 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.

Responsibilities in respect of Financial Statements (Continued)

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 43 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 an 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.

Whistleblowing Policy

The Group maintains a Whistleblowing 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 2013.

Continuous Disclosure Policy

The Company has established a Continuous Disclosure Policy to set out the Company's procedures for monitoring developments in our businesses for inside information and communicating such information to our shareholders, analysts, the media and other stakeholders in accordance with the new statutory price sensitive information disclosure requirement under the Securities and Futures Amendment Ordinance and the Listing Rules that took into effect on 1 January 2013.

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 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.

Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available by email: investor_relations@vtech.com or by post addressed to the Company's principal office address, Investor Relations contact in the Company's website or through the Company's share registrar.

Directors and Senior Management

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 62, 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. 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 57, 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 54, 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 64, 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 Group 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 non-profit think-tank based in Hong Kong. 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 70, 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.

Michael TIEN Puk Sun, BBS, JP, aged 62, 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 and Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China.

Patrick WANG Shui Chung, JP, aged 62, 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 and a non-executive director of Tristate Holdings Limited.

WONG Kai Man, BBS, JP, aged 62, appointed as Independent Non-Executive Director on 19 September 2012. Mr. WONG holds a Bachelor of Science degree in Physics from The University of Hong Kong and an MBA degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. WONG is a retired audit partner of PricewaterhouseCoopers with 32 years of professional accounting experience. He was a member of the Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited from 1999 to 2003. He is currently a non-executive director of the Securities and Futures Commission and an independent non-executive director of China Construction Bank Corporation, SCMP Group Limited, Shangri-La Asia Limited and SUNeVision Holdings Limited. Mr. WONG is an honorary associate professor of the School of Business of The University of Hong Kong. He is a court and council member of The University of Hong Kong and a court member of the City University of Hong Kong. Mr. WONG also serves on the boards of a number of non-governmental organisations.

Biographical Details of Senior Management

Group

TONG Chi Hoi, aged 48, 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 53, 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 44, 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 The 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 53, 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 61, 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 57, 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.

Europe

Gilles SAUTIER, aged 57, 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.

The Directors have the pleasure to present their report and the audited financial statements of the Group for the year ended 31 March 2013.

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 2013 are set out in the consolidated income statement on page 44.

An interim dividend of US16.0 cents (2012: US16.0 cents) per ordinary share was paid to shareholders on 20 December 2012. The Board has recommended the payment of a final dividend of US64.0 cents (2012: US60.0 cents) per ordinary share in respect of the year ended 31 March 2013, payable on 29 July 2013 to shareholders whose names appear on the register of members of the Company as at the close of business on 18 July 2013 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "2013 AGM").

The final dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 16 July 2013.

Commentary on Performance

A commentary on the performance of the Group is included in the Review of Operations set out on pages 9 to 11.

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 71.

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 16 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 46 and in note 17 to the financial statements respectively.

Donations

During the financial year, the Group made charitable and other donations in an aggregate of US$169,000.

Directors

The Directors who held office during the financial year and up to 15 May 2013 (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 (resigned with effect from 30 June 2012)
Michael TIEN Puk Sun
Patrick WANG Shui Chung
WONG Kai Man (appointed on 19 September 2012)

At the 2013 AGM, Dr. PANG King Fai, Mr. Denis Morgie HO Pak Cho and Mr. Michael TIEN Puk Sun shall retire as Directors by rotation in accordance with Bye-law 112 of the Company's Bye-laws while Mr. WONG Kai Man shall retire from the Board as the new Director appointed by the Board in accordance with the Bye-law 94 of the Company's Bye-laws. Save and except Mr. Denis Morgie HO Pak Cho, all of the above Directors, being eligible, shall offer themselves for re-election as Directors at the 2013 AGM. Mr. Denis Morgie HO Pak Cho has informed the Board of his intention of not seeking re-election at the 2013 AGM and he shall retire from the Board with effect from the conclusion of the 2013 AGM.

Brief biographical details of Directors and senior management are set out on pages 37 to 38 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 two 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 to which the Company, its subsidiaries, its holding companies, its controlling shareholder, or the subsidiaries of its controlling shareholder 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.

Directors' Rights to Acquire Shares or Debentures

Save for the share option scheme and the share purchase scheme disclosed below and in note 16 to the financial statements, at no time during the financial year was the Company, or any of its subsidiaries or its holding companies, a party to any arrangement which enables the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

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.

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 16 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. The shares to be awarded pursuant to the Share Purchase Scheme (the "Awarded Shares") will be granted to the eligible participants subject to the applicable conditions and vesting period as determined by the Remuneration Committee.

On 26 March 2013, the Company further adopted an Addendum to the Share Purchase Scheme for the eligible French employees of the Group ("French Subplan"). The Awarded Shares will be granted to the eligible French employees pursuant to the Share Purchase Scheme and the French Subplan. The vesting period applicable under the French Subplan shall not be less than 2 years following the date of the award and a further 2 years sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

Details of the Share Purchase Scheme and the French Subplan are set out in note 16 to the financial statements.

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

As at 31 March 2013, 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 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 ordinary shares					Approximate
Name of Director	Personal interest	Family interest	Other interest	Equity derivatives (share options)	Total	percentage of shareholding
Allan WONG Chi Yun	9,654,393	3,968,683	74,101,153 *(Note 1)*	–	87,724,229	35.04%
PANG King Fai	–	–	–	384,000	384,000	0.15%
Andy LEUNG Hon Kwong	–	–	–	128,000	128,000	0.05%
William FUNG Kwok Lun	449,430	–	592,200 *(Note 2)*	–	1,041,630	0.42%
Michael TIEN Puk Sun	–	211,500 *(Note 3)*	211,500 *(Note 3)*	–	423,000	0.17%
Patrick WANG Shui Chung	162,000	–	–	–	162,000	0.06%

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.

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

(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 2012	Number of share options held as at 31 March 2013
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 options were exercised was HK$92.35.
(2) The weighted average closing price per share of the Company immediately before the date on which options were exercised was HK$94.90.
(3) The weighted average closing price per share of the Company immediately before the date on which options were exercised was HK$95.50.

Save as disclosed above, as at 31 March 2013, 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 2013, 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	29.60%
Surplus Assets Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.60%
Honorex Limited	Interest of controlled corporation *(Note 1)*	65,496,225	26.16%
	Beneficial owner *(Note 1)*	1,416,325	0.57%
Conquer Rex Limited	Beneficial owner *(Note 1)*	65,496,225	26.16%
Templeton Asset Management Limited	Investment manager	37,538,400	14.99%
JPMorgan Chase & Co.	Beneficial owner *(Note 2)*	1,176,319	0.47%
	Investment manager *(Note 2)*	4,183,400	1.67%
	Custodian corporation/approved lending agent *(Note 2)*	10,937,755	4.37%
Short Positions			
JPMorgan Chase & Co.	Beneficial owner *(Note 2)*	1,074,011	0.43%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent *(Note 2)*	10,937,755	4.37%

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 Annual Report.

(2) The capacities of JPMorgan Chase & Co. in holding the 16,297,474 shares (long position) and 1,074,011 shares (short position) were as to (i) 1,176,319 shares (long position) and 1,074,011 shares (short position) as beneficial owner, (ii) 4,183,400 shares (long position) as investment manager and (iii) 10,937,755 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 31 March 2013, 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 and within the knowledge of the Directors, 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 2013 and up to the date of this Annual 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 2013.

Securities Purchase Arrangements

At the annual general meeting held on 13 July 2012, 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 and its subsidiaries have not redeemed any of its shares during the financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial year, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 79,400 Company's shares at a consideration of US$0.9 million.

Major Customers and Suppliers

For the year ended 31 March 2013, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases. The Group's largest customer accounted for approximately 13.4% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 32.8% 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 2013 AGM.

By Order of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 15 May 2013

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 44 to 70, which comprise the consolidated and Company balance sheets as at 31 March 2013, 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 2013 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

15 May 2013

Consolidated Financial Statements

Consolidated Income Statement

For the year ended 31 March 2013

	Note	2013 US$ million	2012 US$ million
Revenue	1	**1,858.0**	1,784.5
Cost of sales		**(1,260.2)**	(1,213.7)
Gross profit		**597.8**	570.8
Selling and distribution costs		**(260.0)**	(255.0)
Administrative and other operating expenses		**(56.0)**	(49.1)
Research and development expenses		**(57.1)**	(57.2)
Operating profit	1&2	**224.7**	209.5
Net finance income		**1.7**	2.1
Profit before taxation		**226.4**	211.6
Taxation	4	**(24.1)**	(19.7)
Profit for the year and attributable to shareholders of the Company		**202.3**	191.9
Earnings per share (US cents)	6		
– Basic		**80.9**	77.0
– Diluted		**80.8**	76.9

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	2013 US$ million	2012 US$ million
Profit for the year		**202.3**	191.9
Other comprehensive income (after tax and reclassification adjustments) for the year			
Fair value gains on hedging		**2.5**	1.4
Realisation of hedging reserve		**(1.5)**	(0.3)
Exchange translation differences		**(3.6)**	(2.7)
(Deficit)/surplus arising on revaluation of properties – net of deferred tax	4(d)	**(1.7)**	9.1
Other comprehensive income for the year		**(4.3)**	7.5
Total comprehensive income for the year		**198.0**	199.4

Consolidated Balance Sheet

As at 31 March 2013

	Note	2013 US$ million	2012 US$ million
Non-current assets			
Tangible assets	7	**88.4**	91.0
Leasehold land payments	8	**5.2**	5.1
Investments		**0.1**	0.2
Deferred tax assets	9(b)	**3.7**	5.9
		97.4	102.2
Current assets			
Stocks	10	**276.9**	239.2
Debtors, deposits and prepayments	11	**259.5**	244.2
Taxation recoverable	9(a)	**0.4**	0.8
Deposits and cash	12	**308.6**	326.5
		845.4	810.7
Current liabilities			
Creditors and accruals	13	**(330.6)**	(314.9)
Provisions	14	**(28.2)**	(31.5)
Taxation payable	9(a)	**(7.2)**	(4.5)
		(366.0)	(350.9)
Net current assets		**479.4**	459.8
Total assets less current liabilities		**576.8**	562.0
Non-current liabilities			
Deferred tax liabilities	9(b)	**(4.5)**	(5.8)
Net assets		**572.3**	556.2
Capital and reserves			
Share capital	16(a)	**12.5**	12.5
Reserves		**559.8**	543.7
Total equity		**572.3**	556.2

Approved and authorised for issue by the Board of Directors on 15 May 2013.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 47 to 70 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 2013

	Note	2013 US$ million	2012 US$ million
Non-current assets			
Investments in subsidiaries	21	**227.5**	227.5
Current assets			
Amounts due from subsidiaries	21(b)	**293.5**	267.1
Deposits and cash	12	**0.8**	0.6
		294.3	267.7
Current liabilities			
Amounts due to subsidiaries	21(b)	**(139.9)**	(119.6)
Creditors and accruals	13	**(0.4)**	(0.4)
		(140.3)	(120.0)
Net current assets		**154.0**	147.7
Net assets		**381.5**	375.2
Capital and reserves			
Share capital	16(a)	**12.5**	12.5
Reserves	17(b)	**369.0**	362.7
Total equity		**381.5**	375.2

Approved and authorised for issue by the Board of Directors on 15 May 2013.

Allan WONG Chi Yun
Director

PANG King Fai
Director

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

	Note	2013 US$ million	2012 US$ million
Operating activities			
Operating profit		**224.7**	209.5
Depreciation of tangible assets	2	**29.2**	27.4
Amortisation of leasehold land payments	2	**0.1**	0.1
Gain on disposal of tangible assets	2	**(0.1)**	(0.1)
Increase in stocks		**(37.7)**	(9.4)
Increase in debtors, deposits and prepayments		**(14.3)**	(19.2)
Increase in creditors and accruals		**15.7**	30.0
Decrease in provisions		**(3.3)**	(7.9)
Cash generated from operations		**214.3**	230.4
Interest received		**1.7**	2.1
Taxes paid		**(19.5)**	(21.3)
Net cash generated from operating activities		**196.5**	211.2
Investing activities			
Purchase of tangible assets	7	**(29.9)**	(29.7)
Proceeds from disposal of tangible assets		**1.0**	0.3
Proceeds received from/(placement of) bank deposits with maturity greater than three months	12	**15.0**	(60.0)
Net cash used in investing activities		**(13.9)**	(89.4)
Financing activities			
Proceeds from shares issued upon exercise of share options	16(a) &17(b)	**8.4**	6.3
Payment for shares acquired for Share Purchase Scheme	16(c)	**(0.9)**	(2.7)
Dividends paid	5	**(190.3)**	(194.5)
Net cash used in financing activities		**(182.8)**	(190.9)
Effect of exchange rate changes		**(2.7)**	2.5
Decrease in cash and cash equivalents		**(2.9)**	(66.6)
Cash and cash equivalents at 1 April		**176.5**	243.1
Cash and cash equivalents at 31 March	12	**173.6**	176.5

The notes and principal accounting policies on pages 47 to 70 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

	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 equity US$ million
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 year ended 31 March 2012										
Comprehensive income										
Profit for the year		–	–	–	–	–	–	–	191.9	191.9
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	1.4	–	1.4
Realisation of hedging reserve		–	–	–	–	–	–	(0.3)	–	(0.3)
Exchange translation differences		–	–	–	–	(2.7)	–	–	–	(2.7)
Surplus arising on revaluation of properties, net of deferred tax		–	–	–	9.1	–	–	–	–	9.1
Other comprehensive income for the year		–	–	–	9.1	(2.7)	–	1.1	–	7.5
Total comprehensive income for the year		–	–	–	9.1	(2.7)	–	1.1	191.9	199.4
Final dividend in respect of the previous year		–	–	–	–	–	–	–	(154.6)	(154.6)
Interim dividend in respect of the current year	5	–	–	–	–	–	–	–	(39.9)	(39.9)
Shares issued under share option scheme	16(a)& 17(b)	0.1	6.2	–	–	–	–	–	–	6.3
Equity-settled share based payments		–	0.9	–	–	–	1.1	–	–	2.0
Shares purchased for Share Purchase Scheme	16(c)& 17(b)	–	–	(2.7)	–	–	–	–	–	(2.7)
Vesting of shares of Share Purchase Scheme	16(c)& 17(b)	–	–	1.8	–	–	–	–	–	1.8
At 31 March 2012 and 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 year ended 31 March 2013										
Comprehensive income										
Profit for the year		–	–	–	–	–	–	–	202.3	202.3
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	2.5	–	2.5
Realisation of hedging reserve		–	–	–	–	–	–	(1.5)	–	(1.5)
Exchange translation differences		–	–	–	–	(3.6)	–	–	–	(3.6)
Deficit arising on revaluation of properties, net of deferred tax		–	–	–	(1.7)	–	–	–	–	(1.7)
Other comprehensive income for the year		–	–	–	(1.7)	(3.6)	–	1.0	–	(4.3)
Total comprehensive income for the year		–	–	–	(1.7)	(3.6)	–	1.0	202.3	198.0
Final dividend in respect of the previous year	5	–	–	–	–	–	–	–	(150.2)	(150.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	–	–	(40.1)	(40.1)
Shares issued under share option scheme	16(a)& 17(b)	–	8.4	–	–	–	–	–	–	8.4
Equity-settled share based payments		–	2.0	–	–	–	(2.0)	–	–	–
Shares purchased for Share Purchase Scheme	16(c)& 17(b)	–	–	(0.9)	–	–	–	–	–	(0.9)
Vesting of shares of Share Purchase Scheme	16(c)& 17(b)	–	–	0.9	–	–	–	–	–	0.9
At 31 March 2013		**12.5**	**138.6**	**(0.9)**	**19.6**	**5.8**	**2.2**	**2.4**	**392.1**	**572.3**

The notes and principal accounting policies on pages 47 to 70 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 development is relevant to the Group's financial statements:

- Amendments to IFRS 7, Financial instruments: Disclosures – Transfer of financial assets

The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 23).

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 24.

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.

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 in the Company's balance sheet are stated at cost less impairment losses (see note (K)).

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.

Principal Accounting Policies (Continued)

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.

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:

Freehold land is not depreciated.

Leasehold land	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

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 revenue reserve and is not reclassified to profit or loss.

Principal Accounting Policies (Continued)

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 tangible assets in terms of which that the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets 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.

(ii) Impairment of other assets

The carrying amounts of the Group's assets including tangible assets, construction in progress, interest in subsidiaries, 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.

Principal Accounting Policies (Continued)

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.

(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.

Principal Accounting Policies (Continued)

R Income Tax (Continued)

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.

(iii) Equity and equity related compensation benefits

For share options granted under the 2001 Scheme and 2011 Scheme, the fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share option is spread over the vesting period, taking into account the probability that the options will vest.

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

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 Share held for Share Purchase Scheme

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

Upon vesting, the related costs of the vested Awarded Shares recognised as employee share-based compensation expenses are credited to Shares held for Share Purchase Scheme, and decrease in revenue reserve 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 revenue reserve 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.

Principal Accounting Policies (Continued)

U Derivative Financial Instruments (Continued)

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.

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.

Year ended 31 March 2013	**North America US$ million**	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
Reportable segment revenue	**933.4**	**769.9**	**99.8**	**54.9**	**1,858.0**
Reportable segment profit	**111.5**	**93.3**	**13.3**	**6.6**	**224.7**
Depreciation and amortisation	**0.7**	**1.7**	**26.9**	**–**	**29.3**
Reportable segment assets	**168.0**	**109.7**	**660.4**	**0.5**	**938.6**
Reportable segment liabilities	**(45.4)**	**(27.0)**	**(285.5)**	**(0.9)**	**(358.8)**

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)

(c) Reconciliations of reportable segment assets and liabilities

	Note	**2013 US$ million**	2012 US$ million
Assets			
Reportable segment assets		**938.6**	906.0
Investments		**0.1**	0.2
Taxation recoverable	9(a)	**0.4**	0.8
Deferred tax assets	9(b)	**3.7**	5.9
Consolidated total assets		**942.8**	912.9
Liabilities			
Reportable segment liabilities		**(358.8)**	(346.4)
Taxation payable	9(a)	**(7.2)**	(4.5)
Deferred tax liabilities	9(b)	**(4.5)**	(5.8)
Consolidated total liabilities		**(370.5)**	(356.7)

For the year ended 31 March 2013, approximately 13% (2012: 13%) 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 18(a).

2 Operating Profit

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

	Note	2013 US$ million	2012 US$ million
Staff related costs			
– salaries and wages		**267.3**	228.2
– pension costs: defined contribution schemes	15	**11.4**	8.3
– pension costs: defined benefit scheme	15	**1.4**	0.9
– severance payments		**1.0**	0.8
– share-based payment expenses		**0.9**	3.8
		282.0	242.0
Cost of inventories	10(b)	**1,260.2**	1,213.7
Depreciation of tangible assets	7	**29.2**	27.4
Amortisation of leasehold land payments	8	**0.1**	0.1
Gain on disposal of tangible assets		**(0.1)**	(0.1)
Auditors' remuneration			
– audit services		**0.8**	0.8
– audit related services		**0.1**	0.1
– tax services		**0.4**	0.5

	Note	2013 US$ million	2012 US$ million
Operating leases charges: minimum lease payments			
– land and buildings		**15.0**	14.8
– others		**2.2**	2.2
Impairment loss of trade debtors	11(b)	**1.7**	1.5
Impairment loss of trade debtors written back	11(b)	**–**	(1.7)
Royalties		**21.1**	23.0
Provision for defective goods returns	14	**25.4**	18.0
Net foreign exchange loss/(gain)		**1.9**	(1.3)
Net gain on forward foreign exchange contracts			
– Net gain on cash flow hedging instruments reclassified from equity		**(1.5)**	(0.3)
– Net gain on forward foreign exchange contracts		**(0.8)**	–

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 *(vi)* US$ million	2013 Total US$ million
Executive Directors *(i)*						
Allan WONG Chi Yun *(iii)*	**–**	**0.9**	**2.1**	**0.1**	**–**	**3.1**
PANG King Fai	**–**	**0.5**	**0.7**	**–**	**–**	**1.2**
Andy LEUNG Hon Kwong	**–**	**0.5**	**0.8**	**–**	**–**	**1.3**
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	**–**	**–**	**–**	**–**	**–**	**–**
WONG Kai Man *(v)*	**–**	**–**	**–**	**–**	**–**	**–**
	–	**1.9**	**3.6**	**0.1**	**–**	**5.6**

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payments *(vi)* 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

3 Directors' Emoluments and Individuals with Highest Emoluments (Continued)

Directors' emoluments (Continued)

Notes:

(i) *The directors' fee paid to each executive Director was US$30,000 (2012: US$30,000) per annum.*

(ii) *The emoluments paid to each Independent Non-executive Director was US$30,000 (2012: 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$3,600,000 for the year ended 31 March 2013 (2012: 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 resigned as an Independent Non-executive Director with effect from 30 June 2012.*

(v) *Mr. WONG Kai Man was appointed as an Independent Non-executive Director on 19 September 2012.*

(vi) *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 (2012: three) are directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2012: two) individuals are as follows:

	2013 US$ million	2012 US$ million
Salaries, allowances and benefits in kind	1.0	0.9
Discretionary bonuses	1.1	1.1
Contribution to retirement benefit schemes	–	–
Share-based payments	–	0.3
	2.1	2.3

The emoluments fell within the following bands:

	2013 Individuals	2012 Individuals
US$		
897,001 – 961,000	1	1
1,153,001 – 1,217,000	1	–
1,269,001 – 1,333,000	–	1
	2	2

During the years ended 31 March 2012 and 31 March 2013, there were no amounts paid to directors and individuals for compensation for loss of office and inducement for joining the Group.

Emoluments of senior management

Other than the directors' remuneration and emoluments of five highest individuals disclosed in note 3, the emoluments of the senior management whose profiles are included in Directors and Senior Management section of this Annual Report fell within the following bands:

	2013 Individuals	2012 Individuals
US$		
257,001 – 321,000	1	–
321,001 – 385,000	–	1
385,001 – 449,000	1	–
449,001 – 513,000	2	1
513,001 – 577,000	–	2
577,001 – 641,000	2	1
641,001 – 705,000	–	1
	6	6

4 Taxation

	Note	2013 US$ million	2012 US$ million
Current tax			
– Hong Kong		16.4	14.6
– Overseas		6.3	5.6
Over-provision in respect of prior years			
– Hong Kong		(0.1)	–
Deferred tax			
– Origination and reversal of temporary differences	9(b)	1.5	(0.5)
		24.1	19.7

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2012: 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 2013 was 10.6% (2012: 9.3%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2013 %	2012 %
Statutory domestic income tax rate	16.5	16.5
Difference in overseas income tax rates	1.2	1.1
Tax effect of non-temporary differences	(6.6)	(6.5)
Tax losses not recognised	–	0.1
Others	(0.5)	(1.9)
Effective income tax rate	10.6	9.3

(d) Included in the consolidated statement of comprehensive income for the year ended 31 March 2013 was US$1.7 million (2012: surplus US$9.1 million) related to the deficit on revaluation of properties which was derived at after the related tax credit of US$0.6 million (2012: tax expenses US$1.9 million).

5 Dividends

	Note	2013 US$ million	2012 US$ million
Interim dividend of US16.0 cents (2012: US16.0 cents) per share declared and paid	17	40.1	39.9
Final dividend of US64.0 cents (2012: US60.0 cents) per share proposed after the balance sheet date	17	160.2	149.7

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 23 May 2012, the directors proposed a final dividend of US60.0 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.

6 Earnings Per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$202.3 million (2012: US$191.9 million).

The calculation of basic earnings per share is based on the weighted average of 250.1 million (2012: 249.1 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 250.3 million (2012: 249.4 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme.

	2013	2012
Profit attributable to shareholders (US$ million)	**202.3**	191.9
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**250.1**	249.1
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.2**	0.3
Weighted average number of ordinary shares (diluted) (in million)	**250.3**	249.4
Diluted earnings per share (US cents)	**80.8**	76.9

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 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 and 1 April 2012	70.6	13.0	278.0	119.4	6.9	487.9
Additions	–	0.3	19.6	10.0	–	29.9
Disposals	(0.4)	(0.4)	(19.2)	(10.2)	–	(30.2)
Revaluation *(note (i))*	(2.5)	–	–	–	–	(2.5)
Effect of changes in exchange rates	(0.2)	0.1	0.2	0.2	–	0.3
At 31 March 2013	**67.5**	**13.0**	**278.6**	**119.4**	**6.9**	**485.4**
Accumulated depreciation and impairment						
At 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 and 1 April 2012	26.8	7.8	252.6	102.8	6.9	396.9
Charge for the year	2.0	1.0	17.5	8.7	–	29.2
Written back on disposals	(0.4)	(0.4)	(19.2)	(9.3)	–	(29.3)
Revaluation *(note (i))*	(0.2)	–	–	–	–	(0.2)
Effect of changes in exchange rates	0.1	0.1	0.1	0.1	–	0.4
At 31 March 2013	**28.3**	**8.5**	**251.0**	**102.3**	**6.9**	**397.0**
Net book value at 31 March 2013	**39.2**	**4.5**	**27.6**	**17.1**	**–**	**88.4**
Net book value at 31 March 2012	43.8	5.2	25.4	16.6	–	91.0
Cost or valuation of tangible assets is analysed as follows:						
At cost	42.3	13.0	278.6	119.4	6.9	460.2
At professional valuation *(note (i))*	25.2	–	–	–	–	25.2
	67.5	**13.0**	**278.6**	**119.4**	**6.9**	**485.4**

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 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 and 1 April 2012	28.1	42.5	70.6
Disposals	–	(0.4)	(0.4)
Revaluation *(note (i))*	(2.5)	–	(2.5)
Effect of changes in exchange rates	(0.4)	0.2	(0.2)
At 31 March 2013	**25.2**	**42.3**	**67.5**
Accumulated depreciation			
At 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 and 1 April 2012	–	26.8	26.8
Charge for the year	0.7	1.3	2.0
Written back on disposals	–	(0.4)	(0.4)
Revaluation *(note (i))*	(0.2)	–	(0.2)
Effect of changes in exchange rates	–	0.1	0.1
At 31 March 2013	**0.5**	**27.8**	**28.3**
Net book value at 31 March 2013	**24.7**	**14.5**	**39.2**
Net book value at 31 March 2012	28.1	15.7	43.8
Cost or valuation of tangible assets is analysed as follows:			
At cost	–	42.3	42.3
At professional valuation *(note (i))*	25.2	–	25.2
	25.2	**42.3**	**67.5**
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)	15.0	–	15.0
Overseas			
Freehold land and buildings	9.7	–	9.7
Short-term leasehold buildings	–	14.5	14.5
	9.7	14.5	24.2
Net book value of revalued land and buildings had the assets been carried at cost less accumulated depreciation	5.5	–	5.5

Note: (i) Revaluation of properties

The medium-term leasehold land and buildings held by the Group for own use was 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 with recent experience in the location and category of property being valued.

The freehold land and buildings held by the Group for own use was revalued as at 31 March 2013 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 Habets & Straten Makelaars/Taxateurs o.g. with recent experience in the location and category of property being valued.

The revaluation deficit of US$2.3 million (2012: surplus US$11.0 million) have been recognised in other comprehensive income for the year ended 31 March 2013 and accumulated in the property revaluation reserve of the Group (note 17(c)), net of deferred tax (note 9(b)).

8 Leasehold Land Payments

	Note	2013 US$ million	2012 US$ million
Net book value at 1 April		**5.1**	5.0
Amortisation	2	**(0.1)**	(0.1)
Effect of changes in exchange rates		**0.2**	0.2
Net book value at 31 March *(note (i))*		**5.2**	5.1
Leasehold land payments in respect of:			
Owner-occupied properties		**5.2**	5.1

Note

(i) Included in leasehold land payments is the amount of US$3.0 million (2012: US$3.0 million) paid for the acquisition of certain sites in the PRC.

9 Income Tax in the Consolidated Balance Sheet

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

	2013 US$ million	2012 US$ million
Provision for Profits Tax for the year	**(22.7)**	(20.2)
Provisional Profits Tax paid	**16.2**	16.7
	(6.5)	(3.5)
Balance of Profits Tax provision relating to prior years	**(0.3)**	(0.2)
	(6.8)	(3.7)

	2013 US$ million	2012 US$ million
Taxation recoverable	**0.4**	0.8
Taxation payable	**(7.2)**	(4.5)
	(6.8)	(3.7)

(b) The deferred tax assets and liabilities and the movements for the years ended 31 March 2012 and 31 March 2013 are attributable to the following items:

	1 April 2011 US$ million	Credited/ (charged) to consolidated income statement US$ million	Charged to reserve US$ million	31 March 2012 and 1 April 2012 US$ million	Credited/ (charged) to consolidated income statement US$ million	Credited to reserve US$ million	31 March 2013 US$ million
Deferred tax assets							
Tax losses carried forward	3.4	0.9	–	4.3	(2.2)	–	**2.1**
Other deductible temporary differences	2.0	(0.4)	–	1.6	–	–	**1.6**
	5.4	0.5	–	5.9	(2.2)	–	**3.7**
Deferred tax liabilities							
Accelerated tax depreciation	(0.2)	0.1	–	(0.1)	0.1	–	**–**
Revaluation of properties	(3.2)	–	(1.9)	(5.1)	–	0.6	**(4.5)**
Others	(0.5)	(0.1)	–	(0.6)	0.6	–	**–**
	(3.9)	–	(1.9)	(5.8)	0.7	0.6	**(4.5)**
Net deferred tax (liabilities)/assets	1.5	0.5	(1.9)	0.1	(1.5)	0.6	**(0.8)**

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:

	2013 US$ million	2012 US$ million
Deferred tax assets	**3.7**	5.9
Deferred tax liabilities	**(4.5)**	(5.8)
	(0.8)	0.1

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$5.1 million (2012: US$10.7 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$30.4 million (2012: US$47.6 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 2013.

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 jurisdictions.

10 Stocks

(a) Inventories in the consolidated balance sheet comprise:

	2013 US$ million	2012 US$ million
Raw materials	**89.9**	82.1
Work in progress	**29.2**	35.1
Finished goods	**157.8**	122.0
	276.9	239.2

Stocks carried at net realisable value at 31 March 2013 amounted to US$5.8 million (2012: US$6.7 million).

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

	2013 US$ million	2012 US$ million
Carrying amount of inventories sold	**1,255.1**	1,214.3
Write-down of inventories	**5.4**	2.3
Reversal of write-down of inventories	**(0.3)**	(2.9)
	1,260.2	1,213.7

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.

11 Debtors, Deposits and Prepayments

	Note	2013 US$ million	2012 US$ million
Trade debtors (Net of allowance for doubtful debts of US$7.2 million (2012: US$6.9 million))	11(a)&(b)	**224.9**	210.6
Other debtors, deposits and prepayments		**28.9**	29.8
Forward foreign exchange contracts			
– held as cash flow hedging instruments	18(b)&(d)	**2.5**	1.4
– held as fair value through profit or loss	18(d)	**0.8**	–
Pension assets	15	**2.4**	2.4
		259.5	244.2

All of other debtors, deposits and prepayments apart from the amounts of US$7.1 million (comprised largely of royalty prepayments) (2012: US$8.7 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:

	2013 US$ million	2012 US$ million
0 – 30 days	**114.9**	114.8
31 – 60 days	**77.3**	73.7
61 – 90 days	**24.3**	18.1
>90 days	**8.4**	4.0
Total	**224.9**	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.

(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 2013, the Group's trade debtors of US$7.2 million (2012: US$6.9 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.

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

	Note	2013 US$ million	2012 US$ million
At 1 April		**6.9**	7.9
Impairment loss recognised	2	**1.7**	1.5
Impairment loss written back	2	**–**	(1.7)
Uncollectible amounts written off		**(1.3)**	(0.8)
Effect of changes in exchange rates		**(0.1)**	–
At 31 March		**7.2**	6.9

(c) Trade debtors that are not impaired

As at 31 March 2013, 97% (2012: 97%) of the Group's trade debtors were not impaired, of which 100% (2012: 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.

12 Deposits and Cash

	The Group		The Company	
	2013 US$ million	2012 US$ million	2013 US$ million	2012 US$ million
Short term bank deposits	**135.0**	150.0	**–**	–
Cash at bank and in hand	**173.6**	176.5	**0.8**	0.6
Deposits and cash	**308.6**	326.5	**0.8**	0.6
Less: bank deposits with maturity greater than three months	**(135.0)**	(150.0)	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**173.6**	176.5	**0.8**	0.6

Deposits and cash as at 31 March 2013 include US$28.9 million equivalent (2012: US$22.5 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.

13 Creditors and Accruals

		The Group		The Company	
	Note	**2013 US$ million**	2012 US$ million	**2013 US$ million**	2012 US$ million
Trade creditors	13(a)	**176.2**	173.8	**–**	–
Other creditors and accruals	13(b)	**154.4**	141.1	**0.4**	0.4
		330.6	314.9	**0.4**	0.4

(a) Ageing Analysis

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

	2013 US$ million	2012 US$ million
0–30 days	**68.3**	75.3
31–60 days	**35.1**	55.4
61–90 days	**47.5**	21.6
>90 days	**25.3**	21.5
Total	**176.2**	173.8

(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.

14 Provisions

At 31 March 2013, provisions of US$28.2 million (2012: US$31.5 million) include provisions for defective goods returns of US$23.0 million (2012: US$26.4 million).

		Defective goods returns	
	Note	**2013 US$ million**	2012 US$ million
At 1 April		**26.4**	34.5
Effect of changes in exchange rates		**(0.1)**	(0.1)
Additional provisions		**25.4**	23.2
Unused amounts reversed		**–**	(5.2)
Charged to consolidated income statement	2	**25.4**	18.0
Utilised during the year		**(28.7)**	(26.0)
At 31 March		**23.0**	26.4

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.

15 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$10.8 million (2012: US$7.7 million) and US$0.6 million (2012: US$0.6 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 Towers Watson Hong Kong Limited ("Towers Watson"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Towers Watson as at 31 March 2013 using the projected unit credit method.

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

	Note	**2013 US$ million**	2012 US$ million
Fair value of Scheme assets		**24.3**	22.9
Present value of funded defined benefit obligations		**(30.8)**	(31.1)
Unrecognised actuarial losses		**8.9**	10.6
Assets recognised in the consolidated balance sheet	11	**2.4**	2.4
The amounts recognised in the consolidated income statement are as follows:			
Current service cost		**2.0**	1.6
Interest cost		**0.4**	0.7
Expected return on plan assets		**(1.5)**	(1.5)
Net actuarial losses recognised in the year		**0.5**	0.1
Expenses recognised in the consolidated income statement	2	**1.4**	0.9
The actual return on plan assets was as follows:			
Expected return on plan assets		**1.5**	1.5
Actuarial losses on plan assets		**–**	(2.3)
Actual return on plan assets		**1.5**	(0.8)

15 Pension Schemes (Continued)

	2013 US$ million	2012 US$ million
Movement in the assets recognised in the consolidated balance sheet:		
At 1 April	**2.4**	2.0
Expenses recognised in the consolidated income statement	**(1.4)**	(0.9)
Contributions paid	**1.4**	1.3
At 31 March	**2.4**	2.4
Movement in fair value of Scheme assets:		
At 1 April	**22.9**	22.7
Expected return on plan assets	**1.5**	1.5
Actual Group's contributions	**1.4**	1.3
Actual benefit paid	**(1.5)**	(0.3)
Actuarial losses on plan assets	**–**	(2.3)
At 31 March	**24.3**	22.9
Movement in present value of funded defined benefit obligations:		
At 1 April	**31.1**	23.8
Interest cost	**0.4**	0.7
Current service cost	**2.0**	1.6
Actual benefits paid	**(1.5)**	(0.3)
Actuarial (gains)/losses	**(1.2)**	5.3
At 31 March	**30.8**	31.1

	2013 US$ million	2012 US$ million	2011 US$ million	2010 US$ million	2009 US$ million
Historical information					
Present value of funded defined benefit obligations	**30.8**	31.1	23.8	22.4	24.2
Fair value of Scheme assets	**(24.3)**	(22.9)	(22.7)	(20.0)	(13.7)
Deficit in the plan	**6.5**	8.2	1.1	2.4	10.5
Experience gains on Scheme liabilities	**(0.5)**	(0.1)	(0.1)	(1.0)	(0.6)
Experience losses/(gains) on Scheme assets	**–**	2.3	(0.7)	(4.4)	6.4

	2013	2012
Scheme assets consist of the following:		
Equities	**69.4%**	69.4%
Bonds	**27.3%**	26.7%
Cash and others	**3.3%**	3.9%
	100.0%	100.0%
The principal actuarial assumptions used as at 31 March 2013 (expressed as weighted average) are as follows:		
Discount rate	**1.3%**	1.3%
Expected rate of return on plan assets	**7.0%**	7.0%
Future salary increases	**5.0%**	5.0%

16 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	2013 US$ million	2012 US$ million
Authorised		
Ordinary shares: 400,000,000 (2012: 400,000,000) of US$0.05 each	**20.0**	20.0

	2013		2012	
	No. of shares	**US$ million**	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At 1 April	**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 31 March	**250,378,133**	**12.5**	249,489,133	12.5

Note: Subsequent to the balance sheet date and up to the date of this Annual Report, the issued and fully paid share capital of the Company was increased to 250,506,133 ordinary shares upon the exercise of 128,000 share options.

The Company's issued and fully paid shares as at 31 March 2013 included 82,800 shares (2012: 99,300 shares) held in trust by the trustee under the Share Purchase Scheme, details of which are set out in note 16(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.

16 Share Capital, Share Options and Share Purchase Scheme (Continued)

(b) Share Options (Continued)

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 to 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 period within which the options must be exercised will be specified by the Company at the time of grant, and must expire no later than 10 years from the date of grant. The Company may specify any minimum period(s) for which an option must be held before it can be exercised. The 2011 Scheme does not contain any such minimum period. The 2011 Scheme has a life of 10 years and will expire on 21 July 2021. As at the date of this Annual Report, the number of shares which may be issued upon exercise of options to be granted under the 2011 Scheme was 23,095,913 shares, which represented approximately 9.22% of the issued share capital of the Company. During the financial year and since the adoption of the 2011 Scheme, no options granted, exercised, lapsed or cancelled under the 2011 Scheme.

As at the date of this Annual Report, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 726,000 shares, which represented approximately 0.29% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the financial year were as follows:

Date of grant	Exercise price	Exercisable period *(Note 1)*	Number of share options: Balance in issue at 1 April 2012	Exercised during the year	Balance in issue at 31 March 2013
Directors					
17 April 2008	HK$41.07	23 April 2010 to 22 April 2012	113,000	(113,000) *(Note 2)*	–
17 April 2008	HK$41.07	23 April 2011 to 22 April 2013	248,000	(120,000) *(Note 3)*	**128,000**
9 April 2010	HK$85.35	12 April 2012 to 12 April 2014	896,000	(512,000) *(Note 4)*	**384,000**
Employees					
9 April 2010	HK$85.35	12 April 2012 to 3 May 2014	486,000	(144,000) *(Note 5)*	**342,000**
			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 year. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$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 year. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$95.50 per share and HK$92.35 per share respectively.

(4) An aggregate of 512,000 share options were exercised at the exercise price of HK$85.35 per share during the financial year. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$92.35 per share and HK$91.30 per share respectively.

(5) An aggregate of 144,000 share options were exercised at the exercise price of HK$85.35 per share during the financial year. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$95.14 per share and HK$92.88 per share respectively.

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

(7) Subsequent to the financial year and up to the date of this Annual Report, an aggregate of 128,000 share options were exercised at the exercise price of HK$41.07 per share.

16 Share Capital, Share Options and Share Purchase Scheme (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 22 April 2012	23 April 2011 to 22 April 2013	12 April 2012 to 3 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 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. The Awarded Shares will be granted to the eligible participants subject to the applicable conditions and vesting period as determined by the Remuneration Committee.

On 26 March 2013, the Company further adopted an Addendum to the Share Purchase Scheme for the French Subplan. The Awarded Shares will be granted to the eligible French employees pursuant to the Share Purchase Scheme and the French Subplan. The vesting period applicable under the French Subplan shall not be less than 2 years following the date of the award and a further 2 years sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

During the year ended 31 March 2013, 79,400 shares (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 financial year was US$0.9 million (2012: US$2.7 million).

Details of the Awarded Shares which have been granted during the year ended 31 March 2012 and 31 March 2013 are as follows:

	2013	2012
Date of award *(Note 1)*	**15 June 2012**	27 June 2011
Average purchase cost per share	**HK$74.16**	HK$95.42
Number of Awarded Shares granted	**95,900**	144,700
Cost of related Awarded Shares	**US$0.9 million**	US$1.8 million
Vesting Period	**15 June 2012 to 14 July 2012**	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.

(4) No Awarded Shares were granted under the French Subplan during the financial year.

As at 31 March 2013, a total of 82,800 shares (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 year ended 31 March 2013, share-based payment expenses of US$0.9 million (2012: US$1.8 million) in respect of the Awarded Shares were charged to the consolidated income statement.

16 Share Capital, Share Options and Share Purchase Scheme (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 2013 (2012: $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 2012 and 31 March 2013 is as follows:

	The Group		The Company	
	2013 US$ million	2012 US$ million	**2013 US$ million**	2012 US$ million
Total equity	**572.3**	556.2	**381.5**	375.2
Less: Proposed dividends	**(160.2)**	(149.7)	**(160.2)**	(149.7)
	412.1	406.5	**221.3**	225.5

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

17 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2012 and 31 March 2013 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 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		–	–	–	–	–	(154.6)	(154.6)
Interim dividend in respect of the current year	5	–	–	–	–	–	(39.9)	(39.9)
Shares issued under share option scheme	16(a)	0.1	6.2	–	–	–	–	6.3
Equity-settled share based payments		–	0.9	–	–	1.1	–	2.0
Shares purchased for Share Purchase Scheme	16(c)	–	–	(2.7)	–	–	–	(2.7)
Vesting of shares of Share Purchase Scheme	16(c)	–	–	1.8	–	–	–	1.8
At 31 March 2012 and 1 April 2012		12.5	128.2	(0.9)	(1.2)	4.2	232.4	375.2
Changes in equity for the year ended 31 March 2013								
Comprehensive income								
Profit for the year		–	–	–	–	–	188.2	188.2
Total comprehensive income for the year		–	–	–	–	–	188.2	188.2
Final dividend in respect of the previous year	5	–	–	–	–	–	(150.2)	(150.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	(40.1)	(40.1)
Shares issued under share option scheme	16(a)	–	8.4	–	–	–	–	8.4
Equity-settled share based payments		–	2.0	–	–	(2.0)	–	–
Shares purchased for Share Purchase Scheme	16(c)	–	–	(0.9)	–	–	–	(0.9)
Vesting of shares of Share Purchase Scheme	16(c)	–	–	0.9	–	–	–	0.9
At 31 March 2013		**12.5**	**138.6**	**(0.9)**	**(1.2)**	**2.2**	**230.3**	**381.5**

The consolidated profit attributable to shareholders includes a profit of US$188.2 million (2012: US$227.2 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$230.3 million (2012: US$232.4 million).

17 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.

18 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 32.8% 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) Currency 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 Euro ("EUR"), Pounds Sterling ("GBP"), Canadian dollars ("CAD"), 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 2013, the notional principal amounts of these outstanding forward foreign exchange contracts were US$7.9 million (2012: US$13.9 million) with net positive fair value of US$0.1 million (2012: US$Nil) 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 2013, the notional principal amounts of the outstanding forward foreign exchange contracts for hedging highly probable forecast transactions were US$197.7 million (2012: US$152.0 million) with net positive fair value of US$2.4 million (2012: positive US$1.4 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 2013 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, CAD, JPY and AUD 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 2012 and 31 March 2013.

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.

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 2012.

18 Financial Risk Management and Fair Values

(Continued)

(c) Interest rate risk

At 31 March 2012 and 31 March 2013, 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

	2013		2012	
	Effective interest rate	**Within one year US$ million**	Effective interest rate	Within one year US$ million
Variable rate	**0.25%**	**173.6**	0.46%	176.5
Fixed rate	**1.90%**	**135.0**	1.57%	150.0

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$0.4 million and US$0.4 million for the years ended 31 March 2012 and 31 March 2013, respectively. This is mainly attributable to the Group's exposure to interest rate changes on its variable rate income-earning financial assets including floating rate 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 2013						
Creditors and accruals	**330.6**	**330.6**	**330.6**	**–**	**–**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts – at fair value through profit or loss						
– outflow		**20.8**	**20.8**	**–**	**–**	**–**
– inflow		**(21.6)**	**(21.6)**	**–**	**–**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts – cash flow hedge						
– outflow		**211.6**	**211.6**	**–**	**–**	**–**
– inflow		**(214.1)**	**(214.1)**	**–**	**–**	**–**
The Company						
At 31 March 2013						
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 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	–	–	–

18 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 2013 were US$0.8 million (2012: US$Nil) and US$2.5 million (2012: US$1.4 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 2012 and 31 March 2013.

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 2012 and 31 March 2013, the fair values of all forward foreign exchange contracts are categorised as level 2.

19 Commitments

	2013 US$ million	2012 US$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	**25.7**	24.5
Contracted but not provided for	**7.1**	8.4
	32.8	32.9
(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	**15.8**	14.9
Between one and two years	**13.8**	13.9
Between two and five years	**30.6**	31.2
In more than five years	**28.2**	36.5
	88.4	96.5

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 2020, 2030 and 2031 respectively. The lease expiring in 2030 has a non-cancellable period of first ten years. The leases expiring in 2020 and 2031 are 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 2020, 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).

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 2013 amount to US$2.5 million (2012: US$4.0 million), of which US$2.4 million and US$0.1 million are payable in the financial years ended 31 March 2014 and 2015 respectively.

20 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 2013, 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$267.7 million (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 31 March 2013, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

21 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 2013 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
VTech Finance Limited	Ordinary HK$1,000,000	*100	Provision of group financing services
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

21 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$18,725,011	*100	Manufacturing and sale of electronic products
VTech (Qingyuan) Plastic & 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) 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 VTech employees (note 16(c))

As the VTech Share Purchase Scheme Trust (the "Trust") is set up solely for the purpose of purchasing, administrating and holding shares of the Company for the Share Purchase Scheme (note 16(c)), the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the services of the employees who have been awarded shares of the Company under the Shares Purchase Scheme through their continued employment with the Group.

22 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.

23 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 March 2013

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 2013 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 IAS 1, Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
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 venture (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Annual Improvements to IFRSs 2009 - 2011 Cycle	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9 Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for the following:

Revised IAS 19, Employee benefits

Revised IAS 19 introduces a number of amendments to the accounting for employee benefits. Among them, revised IAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. This will change the Group's accounting for defined benefit scheme under which the corridor method is currently applied. The revised IAS 19 is effective as for the accounting period beginning from 1 April 2013, and retrospective adoption is required. Upon retrospective adoption of the revised IAS 19, the Group's revenue reserve as at 1 April 2012 and 31 March 2013 will decrease by US$10.6 million and US$8.9 million respectively to US$369.5 million and US$383.2 million respectively.

24 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 15, 16 and 18 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				
	2009 US$ million	2010 US$ million	2011 US$ million	2012 US$ million	**2013 US$ million**
Non-current assets					
Tangible assets	101.5	81.4	78.4	91.0	**88.4**
Leasehold land payments	2.2	4.9	5.0	5.1	**5.2**
Other non-current assets	5.4	5.8	5.6	6.1	**3.8**
	109.1	92.1	89.0	102.2	**97.4**
Current assets					
Stocks	128.0	159.3	229.8	239.2	**276.9**
Debtors, deposits and prepayments	190.2	211.4	225.0	244.2	**259.5**
Financial assets at fair value through profit and loss	4.9	–	–	–	**–**
Deposits and cash	287.2	382.6	333.1	326.5	**308.6**
Other current assets	3.1	0.7	0.3	0.8	**0.4**
	613.4	754.0	788.2	810.7	**845.4**
Current liabilities	(278.0)	(324.9)	(329.4)	(350.9)	**(366.0)**
Net current assets	335.4	429.1	458.8	459.8	**479.4**
Total assets less current liabilities	444.5	521.2	547.8	562.0	**576.8**
Non-current liabilities					
Deferred tax liabilities	(4.3)	(3.7)	(3.9)	(5.8)	**(4.5)**
	(4.3)	(3.7)	(3.9)	(5.8)	**(4.5)**
Net assets/Total equity	440.2	517.5	543.9	556.2	**572.3**

	Consolidated income statement for the years ended 31 March				
	2009 US$ million	2010 US$ million	2011 US$ million	2012 US$ million	**2013 US$ million**
Revenue	1,448.2	1,532.3	1,712.8	1,784.5	**1,858.0**
Profit before taxation	159.0	225.5	220.3	211.6	**226.4**
Taxation	(15.8)	(20.2)	(19.1)	(19.7)	**(24.1)**
Profit for the year	143.2	205.3	201.2	191.9	**202.3**
Attributable to:					
Shareholders of the Company	143.2	206.5	202.0	191.9	**202.3**
Non-controlling interests	–	(1.2)	(0.8)	–	**–**
Profit for the year	143.2	205.3	201.2	191.9	**202.3**
Basic earnings per share (US cents)	58.5	83.7	81.5	77.0	**80.9**

Corporate Information

Board of Directors

Executive Directors

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

Independent Non-executive Directors

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

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

Company Secretary

CHANG Yu Wai

Registered Office

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Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Auditor

KPMG
Certified Public Accountants

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

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

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