VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2014

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 2.2% to US$1,898.9 million
- Gross profit margin improved to 33.4%, from 32.2% in the last financial year
- Profit attributable to shareholders of the Company rose 0.9% to US$203.3 million
- Strong financial position, with deposits and cash of US$322.9 million, and debt free
- Final dividend of US64.0 cents per ordinary share, providing a full-year dividend of US80.0 cents per ordinary share, the same as the dividend paid in the financial year 2013

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2014 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2014

	Note	**2014** **US$ million**	2013 (Restated) US$ million
Revenue	2	**1,898.9**	1,858.0
Cost of sales		**(1,264.6)**	(1,260.2)
Gross profit		**634.3**	597.8
Selling and distribution costs		**(286.4)**	(260.0)
Administrative and other operating expenses		**(63.8)**	(56.8)
Research and development expenses		**(58.0)**	(57.1)
Operating profit	2&3	**226.1**	223.9
Net finance income		**1.4**	1.7
Profit before taxation		**227.5**	225.6
Taxation	4	**(24.2)**	(24.1)
Profit for the year and attributable to shareholders of the Company		**203.3**	201.5
Earnings per share (US cents)	6		
- Basic		**81.1**	80.6
- Diluted		**81.1**	80.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2014

	2014 US$ million	2013 (Restated) US$ million
Profit for the year	**203.3**	201.5
Other comprehensive income (after tax and reclassification adjustments) for the year		
Items that will not be reclassified to profit or loss:		
Deficit arising on revaluation of properties, net of deferred tax	**(1.3)**	(1.7)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	**4.7**	2.3
	3.4	0.6
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses) / gains on hedging	**(4.3)**	2.5
Realisation of hedging reserve	**(2.3)**	(1.5)
Exchange translation differences	**6.7**	(3.6)
	0.1	(2.6)
Other comprehensive income for the year	**3.5**	(2.0)
Total comprehensive income for the year	**206.8**	199.5

CONSOLIDATED BALANCE SHEET

As at 31 March 2014

	Note	**31 March 2014 US$ million**	31 March 2013 (Restated) US$ million	1 April 2012 (Restated) US$ million
Non-current assets				
Tangible assets		**85.9**	88.4	91.0
Leasehold land payments		**5.1**	5.2	5.1
Investments		**0.1**	0.1	0.2
Deferred tax assets		**2.5**	4.6	7.0
		93.6	98.3	103.3
Current assets				
Stocks		**265.9**	276.9	239.2
Debtors, deposits and prepayments	7	**235.8**	257.1	241.8
Taxation recoverable		**0.9**	0.4	0.8
Deposits and cash		**322.9**	308.6	326.5
		825.5	843.0	808.3
Current liabilities				
Creditors and accruals	8	**(304.4)**	(330.6)	(314.9)
Provisions		**(27.9)**	(28.2)	(31.5)
Taxation payable		**(5.1)**	(7.2)	(4.5)
		(337.4)	(366.0)	(350.9)
Net current assets		**488.1**	477.0	457.4
Total assets less current liabilities		**581.7**	575.3	560.7
Non-current liabilities				
Net obligations on defined benefit scheme		**(2.0)**	(6.5)	(8.2)
Deferred tax liabilities		**(4.1)**	(4.5)	(5.8)
		(6.1)	(11.0)	(14.0)
Net assets		**575.6**	564.3	546.7
Capital and reserves				
Share capital		**12.5**	12.5	12.5
Reserves		**563.1**	551.8	534.2
Total equity		**575.6**	564.3	546.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

		Attributable to shareholders of the Company								
	Note	**Share capital US$ million**	**Share premium US$ million**	**Shares held for Share Purchase Scheme US$ million**	**Properties revaluation reserve US$ million**	**Exchange reserve US$ million**	**Capital reserve US$ million**	**Hedging reserve US$ million**	**Revenue reserve US$ million**	**Total equity US$ million**
At 1 April 2012, as previously reported		12.5	128.2	(0.9)	21.3	9.4	4.2	1.4	380.1	556.2
Effect of adoption of IAS 19 (Revised 2011)	1	-	-	-	-	-	-	-	(9.5)	(9.5)
At 1 April 2012, as restated		12.5	128.2	(0.9)	21.3	9.4	4.2	1.4	370.6	546.7
Changes in equity for the year ended 31 March 2013										
Comprehensive income										
Profit for the year, as restated		-	-	-	-	-	-	-	201.5	201.5
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)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	1	-	-	-	-	-	-	-	2.3	2.3
Deficit arising on revaluation of properties, net of deferred tax		-	-	-	(1.7)	-	-	-	-	(1.7)
Other comprehensive income for the year, as restated		-	-	-	(1.7)	(3.6)	-	1.0	2.3	(2.0)
Total comprehensive income for the year, as restated		-	-	-	(1.7)	(3.6)	-	1.0	203.8	199.5
Final dividend in respect of the previous year		-	-	-	-	-	-	-	(150.2)	(150.2)
Interim dividend in respect of the current year	5	-	-	-	-	-	-	-	(40.1)	(40.1)
Shares issued under share option scheme		-	8.4	-	-	-	-	-	-	8.4
Equity-settled share based payments		-	2.0	-	-	-	(2.0)	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(0.9)	-	-	-	-	-	(0.9)
Vesting of shares of Share Purchase Scheme		-		0.9	-	-	-	-	-	0.9
At 31 March 2013, as restated		12.5	138.6	(0.9)	19.6	5.8	2.2	2.4	384.1	564.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 March 2014

	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 2013, as previously reported		12.5	138.6	(0.9)	19.6	5.8	2.2	2.4	392.1	572.3
Effect of adoption of IAS 19 (Revised 2011)	1	-	-	-	-	-	-	-	(8.0)	(8.0)
At 1 April 2013, as restated		12.5	138.6	(0.9)	19.6	5.8	2.2	2.4	384.1	564.3
Changes in equity for the year ended 31 March 2014										
Comprehensive income										
Profit for the year		-	-	-	-	-	-	-	203.3	203.3
Other comprehensive income (after tax and reclassification adjustments)										
Fair value losses on hedging		-	-	-	-	-	-	(4.3)	-	(4.3)
Realisation of hedging reserve		-	-	-	-	-	-	(2.3)	-	(2.3)
Exchange translation differences		-	-	-	-	6.7	-	-	-	6.7
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		-	-	-	-	-	-	-	4.7	4.7
Deficit arising on revaluation of properties, net of deferred tax		-	-	-	(1.3)	-	-	-	-	(1.3)
Other comprehensive income for the year		-	-	-	(1.3)	6.7	-	(6.6)	4.7	3.5
Total comprehensive income for the year		-	-	-	(1.3)	6.7	-	(6.6)	208.0	206.8
Final dividend in respect of the previous year	5	-	-	-	-	-	-	-	(160.5)	(160.5)
Interim dividend in respect of the current year	5	-	-	-	-	-	-	-	(40.1)	(40.1)
Shares issued under share option scheme		-	4.7	-	-	-	-	-	-	4.7
Equity-settled share based payments		-	1.2	-	-	-	(1.2)	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(1.0)	-	-	-	-	-	(1.0)
Vesting of shares of Share Purchase Scheme		-	-	1.4	-	-	-	-	-	1.4
At 31 March 2014		**12.5**	**144.5**	**(0.5)**	**18.3**	**12.5**	**1.0**	**(4.2)**	**391.5**	**575.6**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

	Note	**2014** US$ million	2013 (Restated) US$ million
Operating activities			
Operating profit		**226.1**	223.9
Depreciation of tangible assets	3	**31.2**	29.2
Amortisation of leasehold land payments	3	**0.1**	0.1
Gain on disposal of tangible assets	3	**(0.1)**	(0.1)
Decrease / (increase) in stocks		**11.0**	(37.7)
Decrease / (increase) in debtors, deposits and prepayments		**18.9**	(14.3)
(Decrease) / increase in creditors and accruals		**(30.4)**	15.7
Decrease in provisions		**(0.3)**	(3.3)
Increase in net obligations on defined benefit scheme		**0.7**	0.8
Cash generated from operations		**257.2**	214.3
Interest received		**1.4**	1.7
Taxes paid		**(25.1)**	(19.5)
Net cash generated from operating activities		**233.5**	196.5
Investing activities			
Purchase of tangible assets		**(30.1)**	(29.9)
Proceeds from disposal of tangible assets		**0.3**	1.0
Proceeds received from bank deposits with maturity greater than three months		**-**	15.0
Net cash used in investing activities		**(29.8)**	(13.9)
Financing activities			
Proceeds from shares issued upon exercise of share options		**4.7**	8.4
Payment for shares acquired for Share Purchase Scheme		**(1.0)**	(0.9)
Dividends paid	5	**(200.6)**	(190.3)
Net cash used in financing activities		**(196.9)**	(182.8)
Effect of exchange rate changes		**7.5**	(2.7)
Increase / (decrease) in cash and cash equivalents		**14.3**	(2.9)
Cash and cash equivalents at 1 April		**173.6**	176.5
Cash and cash equivalents at 31 March		**187.9**	173.6
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated balance sheet		**322.9**	308.6
Less: Bank deposits with maturity greater than three months		**(135.0)**	(135.0)
Cash and cash equivalents in the consolidated statement of cash flows		**187.9**	173.6

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated 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 comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Company Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IAS 1 (Amendment), *Presentation of financial statements – Presentation of items of other comprehensive income*
- IAS 19 (Revised 2011), *Employee benefits*
- IFRSs (Amendment), *Annual improvements to IFRSs 2009-2011 cycle*
- IFRS 7 (Amendment), *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*

IAS 1 (Amendment), *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IAS 19 (Revised 2011), *Employee benefits*

IAS 19 (Revised 2011) introduces a number of amendments to the accounting for defined benefit scheme. Among them, IAS 19 (Revised 2011) eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit scheme 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. IAS 19 (Revised 2011) also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

1. Basis of preparation *(continued)*

IAS 19 (Revised 2011), *Employee benefits* *(continued)*

As a result of the adoption of IAS 19 (Revised 2011), the Group has changed its accounting policy with respect to defined benefit scheme, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 1 April 2012 and 31 March 2013, and with consequential adjustments to comparatives for the year ended 31 March 2013 as follows:

	As previously reported US$ million	Effect of adoption of IAS 19 (Revised 2011) US$ million	As restated US$ million
Consolidated income statement for the year ended 31 March 2013			
Administrative and other operating expenses	(56.0)	(0.8)	(56.8)
Profit for the year	202.3	(0.8)	201.5
Basic earnings per share (US cents)	80.9	(0.3)	80.6
Diluted earnings per share (US cents)	80.8	(0.3)	80.5
Consolidated statement of comprehensive income for the year ended 31 March 2013			
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	-	2.3	2.3
Total comprehensive income for the year	198.0	1.5	199.5
Consolidated balance sheet as at 31 March 2013			
Deferred tax assets	3.7	0.9	4.6
Debtors, deposits and prepayments	259.5	(2.4)	257.1
Net obligations on defined benefit scheme	-	(6.5)	(6.5)
Revenue reserve	392.1	(8.0)	384.1
Consolidated balance sheet as at 1 April 2012			
Deferred tax assets	5.9	1.1	7.0
Debtors, deposits and prepayments	244.2	(2.4)	241.8
Net obligations on defined benefit scheme	-	(8.2)	(8.2)
Revenue reserve	380.1	(9.5)	370.6

IFRSs (Amendment), *Annual Improvements to IFRSs 2009-2011 Cycle*

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them,

(i) IAS 1 has been amended to clarify that an opening balance sheet is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening balance sheet. The amendments also remove the requirement to present related notes to the opening balance sheet when such balance sheet is presented. Since the Group considers that the restatement resulting from the adoption of IAS 19 (Revised 2011) has a material impact on the opening financial position, an additional balance sheet as at 1 April 2012 has been presented in these financial statements.

1. Basis of preparation *(continued)*

IFRSs (Amendment), *Annual Improvements to IFRSs 2009-2011 Cycle* *(continued)*

(ii) IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group has continued to disclose segment assets and segment liabilities in note 2.

IFRS 7 (Amendment), *Financial instruments: Disclosures – offsetting financial assets and financial liabilities*

The amendments to IFRS 7 require companies to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Group has outstanding derivative financial instruments presented as financial assets/liabilities in the consolidated balance sheet which are under master netting agreements. The amendments to HKFRS 7 require retrospective application. The application of the amendments has had no impact on the results or financial position of the Group but results in additional disclosures in the Group's consolidated financial statements.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 April 2013.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the Group's consolidated financial statements.

1. Basis of preparation *(continued)*

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in the Group's consolidated financial statements.

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

2. Segment information

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

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

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

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

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

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

(a) Segment revenues and results

Revenue is allocated to the reporting segment based on the location of 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.

2. Segment information *(continued)*

(b) Segment assets and liabilities

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

Segment liabilities include creditors and accruals and provisions with the exception of deferred tax liabilities and taxation payable.

Year ended 31 March 2014

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
Reportable segment revenue	**950.7**	**791.8**	**108.9**	**47.5**	**1,898.9**
Reportable segment profit	**94.8**	**110.6**	**13.5**	**7.2**	**226.1**
Depreciation and amortisation	**0.6**	**1.7**	**29.0**	**-**	**31.3**
Reportable segment assets	**154.6**	**101.3**	**659.3**	**0.4**	**915.6**
Reportable segment liabilities	**(52.8)**	**(27.3)**	**(253.8)**	**(0.4)**	**(334.3)**

Year ended 31 March 2013, as restated

	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	12.5	6.6	223.9
Depreciation and amortisation	0.7	1.7	26.9	-	29.3
Reportable segment assets	168.0	109.7	658.0	0.5	936.2
Reportable segment liabilities	(45.4)	(27.0)	(292.0)	(0.9)	(365.3)

(c) Reconciliations of reportable segment assets and liabilities

	2014 US$ million	2013 (Restated) US$ million
Assets		
Reportable segment assets	**915.6**	936.2
Investments	**0.1**	0.1
Taxation recoverable	**0.9**	0.4
Deferred tax assets	**2.5**	4.6
Consolidated total assets	**919.1**	941.3
Liabilities		
Reportable segment liabilities	**(334.3)**	(365.3)
Taxation payable	**(5.1)**	(7.2)
Deferred tax liabilities	**(4.1)**	(4.5)
Consolidated total liabilities	**(343.5)**	(377.0)

For the year ended 31 March 2014, approximately 15% (2013: 13%) of the Group's revenue is derived from a single external customer. This revenue is attributable to the North America segment.

3. Operating profit

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

	2014 **US$ million**	2013 US$ million
Depreciation of tangible assets	**31.2**	29.2
Amortisation of leasehold land payments	**0.1**	0.1
Gain on disposal of tangible assets	**(0.1)**	(0.1)
Net foreign exchange loss / (gain)	**0.4**	(0.4)
Net loss / (gain) on forward foreign exchange contracts		
- Net loss / (gain) on cash flow hedging instruments reclassified from equity	**4.3**	(1.5)
- Net loss / (gain) on forward foreign exchange contracts	**0.5**	(0.8)

4. Taxation

	2014 **US$ million**	2013 US$ million
Current tax		
- Hong Kong	**15.3**	16.4
- Overseas	**7.3**	6.3
Over-provision in respect of prior years		
- Hong Kong	**(0.1)**	(0.1)
Deferred tax		
- Origination and reversal of temporary differences	**1.7**	1.5
	24.2	24.1

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2013: 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.

5. Dividends

	2014 **US$ million**	2013 US$ million
Interim dividend of US16.0 cents (2013: US16.0 cents) per share declared and paid	**40.1**	40.1
Final dividend of US64.0 cents (2013: US64.0 cents) per share proposed after the balance sheet date	**160.6**	160.2

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

At a meeting held on 15 May 2013, the Directors proposed a final dividend of US64.0 cents per ordinary share for the year ended 31 March 2013, which was estimated to be US$160.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2013. The final dividend was approved by shareholders at the annual general meeting on 12 July 2013. As a result of shares issuance upon exercise of share options during the period between 1 April 2013 and 12 July 2013, the final dividend paid in respect of the year ended 31 March 2013 totaled US$160.5 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$203.3 million (2013: US$201.5 million, as restated).

The calculation of basic earnings per share is based on the weighted average of 250.7 million (2013: 250.1 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 250.8 million (2013: 250.3 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.

	2014	2013 (Restated)
Profit attributable to shareholders (US$ million)	**203.3**	201.5
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**250.7**	250.1
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.1**	0.2
Weighted average number of ordinary shares (diluted) (in million)	**250.8**	250.3
Diluted earnings per share (US cents)	**81.1**	80.5

7. Debtors, deposits and prepayments

At 31 March 2014, total debtors, deposits and prepayments of US$235.8 million (31 March 2013: US$257.1 million, as restated) included net trade debtors of US$208.6 million (31 March 2013: US$224.9 million).

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

	2014 US$ million	2013 US$ million
0-30 days	**120.6**	114.9
31-60 days	**67.9**	77.3
61-90 days	**18.4**	24.3
>90 days	**1.7**	8.4
Total	**208.6**	224.9

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.

8. Creditors and accruals

At 31 March 2014, total creditors and accruals of US$304.4 million (31 March 2013: US$330.6 million) included trade creditors of US$140.8 million (31 March 2013: US$176.2 million).

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

	2014	2013
	US$ million	US$ million
0-30 days	**56.5**	68.3
31-60 days	**33.4**	35.1
61-90 days	**34.8**	47.5
>90 days	**16.1**	25.3
Total	**140.8**	176.2

FINAL DIVIDEND

The Board of Directors (the "Board") has recommended a final dividend (the "Final Dividend") of US64.0 cents per ordinary share in respect of the year ended 31 March 2014, payable on 4 August 2014 to shareholders whose names appear on the register of members of the Company as at the close of business on 24 July 2014 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 18 July 2014 (the "2014 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 22 July 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the 2014 AGM, the register of members of the Company will be closed from 15 July 2014 to 18 July 2014 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2014 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of 26 Burnaby Street, Hamilton, HM 11, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 14 July 2014.

(b) For the purpose of determining shareholders who are qualified for the Final Dividend, the register of members of the Company will be closed on 24 July 2014, during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of 26 Burnaby Street, Hamilton, HM 11, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 23 July 2014.

LETTER TO SHAREHOLDERS

VTech delivered top-line growth across its major markets in the financial year 2014, reporting record revenue despite a generally soft retail environment. Gross margin continued to improve, as material costs were lower. The Group's efforts to raise productivity through automation also began to bear fruit. Profit attributable to shareholders of the Company, however, showed lower growth due to higher advertising and promotion expenses. During the financial year, the Group's leadership in core product categories was further strengthened.

Results and Dividend

Group revenue for the year ended 31 March 2014 increased by 2.2% to US$1,898.9 million. The increase was mainly attributable to higher revenue in North America, Europe and Asia Pacific, offsetting lower revenue in Other Regions.

Profit attributable to shareholders of the Company rose 0.9% to US$203.3 million. During the financial year 2014, the Group increased its advertising and promotion expenses to support InnoTab® in the US in response to a competitive market. Basic earnings per share grew by 0.6% to US81.1 cents, compared to US80.6 cents in the previous financial year.

The Board has proposed a final dividend of US64.0 cents per ordinary share, providing a full-year dividend of US80.0 cents per ordinary share, the same as the dividend paid in the financial year 2013.

Costs and Operations

The Group's gross margin improved in the financial year 2014 as lower material costs more than offset higher labour costs and manufacturing overheads. Material costs declined due to subdued global demand and VTech's efforts in re-engineering products for lower cost. The Group also succeeded in reducing the impact of the rise in the minimum wage in China, via its initiatives to raise productivity through automation and process improvement. As a result, VTech employed 11% fewer workers on average compared with the previous financial year despite output being higher. Manufacturing overheads increased owing to higher production capacity, inflation in China and the appreciation of the Renminbi.

Our Business

The Group's sales composition continued to evolve in response to changes in market demand.

In the financial year 2014, Electronic Learning Products (ELPs) remained the Group's largest product line, followed by telecommunication (TEL) products and contract manufacturing services (CMS).

Overall sales of the Group via e-tailers have risen strongly, outpacing the traditional sales channels. Sales of content downloaded from VTech's app store, Learning Lodge™, continued to see good growth.

Even though the European toy markets were generally down or flat in the calendar year 2013, VTech ELPs outperformed in the region to deliver 16.5% revenue growth. The Group was the number one player in the overall Infant Toys category in France, the UK and Germany in the calendar year 2013[1]. Furthermore, Storio® was the number one children's educational tablet in Europe for the second year

[1] Source: NPD Group, Retail Tracking Service

in a row[2]. In the US, Go! Go! Smart Wheels® delivered a strong performance in the financial year 2014. Sales of InnoTab, however, were lower due to competition from low-cost consumer electronics tablets. In the financial year 2014, standalone products accounted for about 68% of total ELPs revenue, while platform products accounted for approximately 32%, as compared with about 64% and 36% respectively in the financial year 2013.

In TEL products, the businesses in the US and Asia Pacific posted good performances, partially offsetting the weakness in Europe. In residential phones, the Group maintained its number one position in the US[3] and grew its share further as the market continued to consolidate. Sales of commercial phones and other telecommunication products continued to rise. Among these, baby monitors and the cordless business phone system, SynJ®, were the best performers. VTech also started shipping ErisStation™, its first conference phone with wireless microphones, to customers in the US and Europe in the fourth quarter of the financial year. In the financial year 2014, commercial phones and other telecommunication products represented about 14% of total TEL products revenue, against approximately 12% in the financial year 2013.

VTech CMS registered 7.2% revenue growth in the financial year 2014, once again outperforming the global EMS market and marking the 12th consecutive year of growth. Its strong reputation and expertise in a number of product categories enabled it to add new customers and expand geographically, resulting in top-line growth in all regions.

Our Strategies

VTech's proven strategy centres on four growth drivers: product innovation, gains in market share, geographical expansion and operational excellence.

Product innovation has given the Group leadership in core product categories, while acting as the driver for growth in the new product areas.

VTech's ELPs have benefited from tremendous growth in areas beyond that of core learning and the Group will build on this momentum by introducing new product ranges. The infant-toddler vehicles line Go! Go! Smart Wheels and its playsets were strong performers in the financial year 2014. Riding on their success, the Group will increase its presence in the playset arena with the launch of Go! Go! Smart Animals™ in the US and Europe. More vehicles and playsets, meanwhile, will be added to the Go! Go! Smart Wheels line. The Switch & Go Dinos® range of vehicles for the preschool segment will expand further with the introduction of Switch & Go Dinos Turbo, adding nine new models to the range.

VTech will also continue to broaden its learning products portfolio. More than 100 new standalone products targeting infants, toddlers, preschoolers and grade-schoolers, will be introduced globally this calendar year.

In platform products, VTech continues to innovate to capture the latest trends. Kidizoom® Smart Watch, the world's first children's smartwatch with a camera, will hit the shelves in both the US and Europe this summer. To maintain momentum in children's tablets, the Group will upgrade InnoTab with new versions, including InnoTab Max. With a 7" LCD screen and a child-proof design, InnoTab Max has an upgraded processor for an enhanced experience, backed by a rich and expert-endorsed library of educational software titles.

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2 Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of Storio for the combined market of France, the UK, Germany, Spain and Italy

3 Source: MarketWise Consumer Insights, LLC

For TEL products, growth will be driven by commercial phones and other telecommunication products, which will see new offerings across the spectrum during the financial year 2015. Among them, a new range of small to medium sized business (SMB) phones will be launched under the VTech brand. This will include a new conference phone model with wireless microphones, SIP (Session Initiation Protocol) phones and a 4-line, SIP-based telephone system catering to the needs of small businesses. VTech's range of baby monitors will be enhanced by the introduction of more video and audio models. For connected home™ devices, in addition to Wi-Fi video monitors, a new family of home monitoring devices based on the DECT ULE (Ultra Low Energy) standard will be launched in the second half of the financial year 2015.

In residential phones, the Group continues to develop products with new styling and features. The DECT platform has been re-engineered to make it more cost-competitive. This supports the strategy to revitalise the European TEL products business and strengthen VTech's leadership position in the US. The Group will also introduce new CAT-iq handsets in Europe offering affordable, high-definition voice quality supporting multiple lines during the financial year 2015.

The ability to offer DFM (Design for Manufacturing), flexible services and manufacturing know-how in a number of product categories has made VTech CMS a leading contract manufacturer. It has a dedicated manufacturing facility offering reduced logistics and customs clearance costs for customers wishing to distribute their products in China. The Group's stringent quality control system and experienced staff allow it to handle low to medium volumes as well as a high mix of different products. As in previous years, VTech CMS received numerous customer service awards during the financial year 2014.

Gains in market share will continue to be the growth driver for the Group in the financial year 2015.

VTech continued to be the world's largest player in ELPs from infancy to preschool in the calendar year 2013[4]. The pipeline of new products will enable the Group to strengthen its market leadership in the core learning area, while pursuing growth in new areas.

In addition to leadership in ELPs, VTech remained the world's number one manufacturer of cordless telephones in the calendar year 2013[5]. In the calendar year 2014, further market share gains are expected for TEL products in the US and Asia Pacific. Market share in Europe and Other Regions will recover, driven by new product launches and the signing of a major new distributor for the Middle East.

The Group's commitment to quality products and services has enabled CMS to win market share year after year. According to *Manufacturing Market Insider*, VTech CMS ranked among the world's top 50 EMS providers in the calendar year 2013. The Group expects to continue to increase its CMS sales globally in the financial year 2015.

Geographic expansion will see more emphasis on expanding outside North America and Western Europe, in order to capture growth opportunities. In Asia Pacific, the potential in China is huge and it will continue to be the most important market for development. The developed markets in the region such as Australia and Japan will continue to be a focus. The Group will also extend its reach to other markets including Taiwan, Malaysia and Korea. In Other Regions, the Group aims to grow sales in Latin America and the Middle East.

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[4] Source: MarketWise Consumer Insights, LLC and Retail Tracking Service of NPD Group. Ranking based on 2012 and 2013 total estimated annual retail sales in the combined toy categories of infant electronic learning and preschool electronic learning

[5] Source: MZA Ltd, 2014

Operational excellence underpins VTech's success. As costs in China are set to rise further, operational efficiency is becoming increasingly important. In addition to process improvement and product optimisation for manufacturing, the Group will increase its application of automation by deploying more commercially available and in-house custom-made machines. This will reduce the number of workers further, even as output increases. The Group will also benefit from enhanced competitiveness as automation improves product quality, reduces time to market and increases flexibility in production.

Outlook

Economic recovery in the US appears to be on a sustainable footing, while the economies of Western Europe are improving. With a stabilised market environment and new products ready to be launched, the Group is targeting further revenue growth in the financial year 2015.

Sales of ELPs in the financial year 2015 are forecast to increase as the strong momentum in standalone products carries through. Innovative products including Go! Go! Smart Animals and Switch & Go Dinos Turbo, as well as new core learning products, will drive growth. Despite the introduction of Kidizoom Smart Watch, sales of platform products are still expected to be challenging. InnoTab will face rising competition as more low-cost tablets are being introduced to the consumer electronics aisles.

TEL products revenue is also expected to increase. Growth will be driven by commercial phones and other telecommunication products, as the Group introduces new products and makes higher shipments of continuing products. Sales of residential phones in Europe and Other Regions are expected to recover, while in Asia Pacific growth will continue. In the US, although the residential phone market will shrink further, VTech will continue to increase its share.

CMS is expected to grow further in the financial year 2015. Business with existing customers will increase, as the Group continues to take market share from the competition. New customers will add a further stimulus to growth. To cope with higher expected demand over the next three years, the Group plans to add a new CMS factory building. This will raise manufacturing capacity by 25% once it enters operation in the middle of the calendar year 2015.

Regarding costs, material prices are expected to hold broadly steady, although labour costs and manufacturing overheads in China will continue to rise. However, the Group's gross profit margin is expected to be stable as efficiency gains through automation, process improvements and product optimisation should offset higher costs in China.

As a global company that is part of the communities in which it operates, VTech recognises the need to step up its effort to achieve sustainable development. The goal is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating value for stakeholders and communities. To this end, VTech will continue to incorporate sustainability concepts into product design, improve energy and resource efficiency in operations, and upgrade employees' living and working environments.

VTech's product innovation and operational efficiency have given it market-leading positions in a number of areas. It continues to gain market share and expand geographically, while maintaining a strong financial position. The Group will continue to implement its sustainability strategies, while exploring every avenue of potential growth to generate higher returns for shareholders.

Finally, I wish to thank all the Group's employees worldwide for their dedication to ensuring another successful year for VTech, my fellow directors for their counsel and all shareholders, customers and suppliers for their support.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2014

	2014	2013 (Restated)	Change
	US$ million	US$ million	US$ million
Revenue	**1,898.9**	1,858.0	40.9
Gross profit	**634.3**	597.8	36.5
Gross profit margin	**33.4%**	32.2%	
Total operating expenses	**(408.2)**	(373.9)*	(34.3)
Total operating expenses as a percentage of revenue	**21.5%**	20.2%*	
Operating profit	**226.1**	223.9*	2.2
Operating profit margin	**11.9%**	12.0%*	
Net finance income	**1.4**	1.7	(0.3)
Profit before taxation	**227.5**	225.6*	1.9
Taxation	**(24.2)**	(24.1)	(0.1)
Effective tax rate	**10.6%**	10.7%*	
Profit for the year and attributable to shareholders of the Company	**203.3**	201.5*	1.8
Net profit margin	**10.7%**	10.8%*	

* Restated upon the adoption of IAS 19 (Revised 2011) as described in note 1 to the financial statements.

Revenue

Group revenue for the year ended 31 March 2014 rose by 2.2% to US$1,898.9 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.

	2014		2013		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**950.7**	**50.1%**	933.4	50.2%	17.3	1.9%
Europe	**791.8**	**41.7%**	769.9	41.4%	21.9	2.8%
Asia Pacific	**108.9**	**5.7%**	99.8	5.4%	9.1	9.1%
Other regions	**47.5**	**2.5%**	54.9	3.0%	(7.4)	-13.5%
	1,898.9	**100.0%**	1,858.0	100.0%	40.9	2.2%

Gross Profit/Margin

Gross profit for the financial year 2014 was US$634.3 million, an increase of US$36.5 million or 6.1% compared to the US$597.8 million recorded in the previous financial year. Gross profit margin for the year rose from 32.2% to 33.4%. The decline in material costs offset higher labour costs and manufacturing overheads arising from the increase in wages and production capacity, as well as Renminbi appreciation during the financial year 2014.

Operating Profit/Margin

Operating profit for the year ended 31 March 2014 was US$226.1 million, an increase of US$2.2 million or 1.0% over the previous financial year. The improvement in operating profit was mainly due to the increase in gross profit and gross profit margin, which offset the increase in total operating expenses.

Operating profit margin, however, declined from 12.0% to 11.9%. It was mainly due to the increase in total operating expenses as a percentage of Group revenue, which offset the improvement in gross profit margin. The ratio of EBITDA to revenue was 13.6%, same as the last financial year.

Total operating expenses were US$408.2 million, an increase of 9.2% over the last financial year. Correspondingly, total operating expenses as a percentage of Group revenue rose from 20.2% to 21.5%.

Selling and distribution costs rose by 10.2% from US$260.0 million in the previous financial year to US$286.4 million in the financial year 2014. The increase was mainly attributable to the increased spending on advertising and promotional activities by the Group especially for the children's educational tablets in response to the keen market competition during the financial year. As a percentage of Group revenue, selling and distribution costs increased from 14.0% to 15.1%.

Administrative and other operating expenses increased from US$56.8 million to US$63.8 million over the same period last year, which was mainly due to the increase in employee related costs. An exchange loss of US$0.4 million arising from the Group's global operations in the ordinary course of business was also recorded in the financial year 2014, which contrasted with an exchange gain of US$0.4 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.1% to 3.3%.

During the financial year 2014, the research and development expense was US$58.0 million, an increase of 1.6% over the previous financial year. Research and development expense as a percentage of Group revenue was 3.1%, same as the last financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2014 was US$203.3 million, an increase of US$1.8 million as compared to the last financial year. Net profit margin, however, decreased from 10.8% to 10.7%.

Taxation charges increased from US$24.1 million in the last financial year to US$24.2 million in the financial year 2014. The effective tax rate decreased from 10.7% to 10.6%.

Basic earnings per share for the year ended 31 March 2014 were US81.1 cents as compared to US80.6 cents in the previous financial year.

Dividends

During the financial year 2014, 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$160.6 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2014 were US$575.6 million, an increase of 2.0% from US$564.3 million in the last financial year. Shareholders' funds per share increased by 1.8% from US$2.25 to US$2.29.

The Group had no borrowings as at 31 March 2013 and 31 March 2014.

The Group's financial resources remain strong. As at 31 March 2014, deposits and cash increased from US$308.6 million to US$322.9 million, an increase of 4.6% compared with the last financial year-end-date. It was mainly due to the increase in cash generated from operations compared with the same period last year. The Group has adequate liquidity to meet its current and future working capital requirements.

Analysis of Cash Flow from Operations

	2014	2013 (Restated)	Change
	US$ million	US$ million	US$ million
Operating profit	**226.1**	223.9	2.2
Depreciation and amortisation	**31.3**	29.3	2.0
EBITDA	**257.4**	253.2	4.2
Gain on disposal of tangible assets	**(0.1)**	(0.1)	-
Working capital change	**(0.1)**	(38.8)	38.7
Cash generated from operations	**257.2**	214.3	42.9

The Group's cash generated from operations for the year ended 31 March 2014 was US$257.2 million, as compared to US$214.3 million in the previous financial year. The increase was mainly attributable to the increase in EBITDA in the financial year 2014 and the lower working capital investment compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2013 (Restated)	**Hedging & others**	**Working capital change per cash flow**	**Balance as at 31 March 2014**
	US$ million	**US$ million**	**US$ million**	**US$ million**
Stocks	276.9	-	(11.0)	**265.9**
Trade debtors	224.9	-	(16.3)	**208.6**
Other debtors, deposits and prepayments	32.2	(2.4)	(2.6)	**27.2**
Trade creditors	(176.2)	-	35.4	**(140.8)**
Other creditors and accruals	(154.4)	(4.2)	(5.0)	**(163.6)**
Provisions	(28.2)	-	0.3	**(27.9)**
Net obligations on defined benefit scheme	(6.5)	5.2	(0.7)	**(2.0)**
Total working capital	168.7	(1.4)	0.1	**167.4**

Stocks as of 31 March 2014 were US$265.9 million, decreased from US$276.9 million as of 31 March 2013. The turnover days fell from 90 days to 87 days. The reduction resulted from management's effort to improve stock management.

As at 31 March 2014 and 2013

All figures are in US$ million unless stated otherwise	**2014**	2013
Stocks	**265.9**	276.9
Average stocks as a percentage of Group revenue	**14.3%**	13.9%
Turnover days	**87 days**	90 days

Trade debtors as of 31 March 2014 were US$208.6 million, decreased from US$224.9 million as of 31 March 2013. Debtor turnover days improved from 62 days to 54 days. The decrease in the trade debtor balance as at 31 March 2014 was mainly due to continuous efforts to tighten debt collection and credit exposure management. The amounts with overdue balances greater than 30 days accounted for 1.0% of the gross trade debtors as of 31 March 2014.

As at 31 March 2014 and 2013

All figures are in US$ million unless stated otherwise	**2014**	2013
Trade debtors	**208.6**	224.9
Average trade debtors as a percentage of Group revenue	**11.4%**	11.7%
Turnover days	**54 days**	62 days

Other debtors, deposits and prepayments as of 31 March 2014 were US$27.2 million, compared to US$32.2 million as of 31 March 2013. The decline was mainly attributable to the decrease in prepayments and the reversal of fair value gains on forward foreign exchange contracts upon exercise.

Trade creditors as of 31 March 2014 were US$140.8 million, as compared to US$176.2 million as of 31 March 2013. Creditor turnover days decreased from 85 days to 78 days.

As at 31 March 2014 and 2013

All figures are in US$ million unless stated otherwise	**2014**	2013
Trade creditors	**140.8**	176.2
Turnover days	**78 days**	85 days

Other creditors and accruals as of 31 March 2014 were US$163.6 million, increased from US$154.4 million as of 31 Mach 2013. The increase was largely attributable to the increase in accruals of advertising expenses and royalties, as well as the increase in fair value losses on forward foreign exchange contracts in the financial year 2014.

Provisions as of 31 March 2014 were US$27.9 million, as compared to US$28.2 million as of 31 March 2013.

Net obligations on defined benefit scheme as of 31 March 2014 were US$2.0 million, as compared to US$6.5 million as of 31 March 2013. The decrease was mainly due to the re-measurement of net liability of defined benefit scheme.

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 2014, the Group invested US$30.1 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 2015, the Group will incur capital expenditure of US$34.7 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.

Employees

The average number of VTech's employees for the financial year 2014 was around 30,900, compared to 34,800 in the previous financial year. Staff related costs for the year ended 31 March 2014 were approximately US$293 million, as compared to approximately US$282 million in the financial year 2013.

Review of Operations

North America

Group revenue in North America increased by 1.9% to US$950.7 million in the financial year 2014, as higher revenue from TEL products and CMS offset lower revenue from ELPs. North America remained VTech's largest market, accounting for 50.1% of Group revenue.

ELPs revenue in North America declined by 1.1% to US$358.1 million, mainly because of lower sales of platform products. InnoTab, the Group's educational tablet for children, has faced increasing competition in the US market. Sales of MobiGo® 2 were lower due to the popularity of tablets, while V.Reader reached the end of its product life cycle.

Standalone products posted good growth, driven by strong sell-through of Go! Go! Smart Wheels, infant products and Switch & Go Dinos. The full launch of Go! Go! Smart Wheels in all major retailers in the US boosted sales, following only a limited launch in the financial year 2013. Its vehicles, Train Station and Airport playsets were the best performers. The range was cited in a number of top awards, including Walmart's Top 20 Toys "Chosen by Kids" and Amazon.com's Holiday Toy List. In infant products, Sit-to-Stand Learning Walker™ and Alphabet Activity Cube™ performed especially well. Growth in Switch & Go Dinos was driven by the introduction of new models.

Revenue from TEL products in North America rose by 2.4% to US$398.6 million, driven by higher sales of residential phones, commercial phones and other telecommunication products. Sales of residential phones grew as VTech gained further market share as a result of the continuing consolidation of brands in the market. This helped the Group to maintain its number one position in the US residential phones market[6]. Sales of commercial phones and other telecommunication products also increased, as the existing product lines continued to perform well, while the Group expanded its offering by launching several new products.

For commercial phones and other telecommunication products, positive momentum continued for the SMB phones, SynJ and Syn248®. Higher sales were recorded for baby monitors, as the Group expanded its distribution channels. Hotel phones also saw growth, with VTech expanding its customer base to an increasing number of the world's leading hotel chains. CareLine™ is VTech's home safety telephone system designed for seniors. This product line achieved increased sales and received many favourable online reviews during the financial year 2014.

The launch of ErisStation, the Group's first conference phone, in March 2014 was very successful. Featuring four DECT 6.0 microphones with Orbitlink Wireless Technology™, ErisStation makes conversations more comfortable by letting meeting participants spread out while allowing all parties to enjoy interference-free, high-quality conference calls.

CMS revenue in North America increased by 6.5% to US$194.0 million. Sales of professional audio equipment, solid-state lighting, home appliances and communication products were higher, offsetting lower sales of industrial products. In professional audio equipment, the Group added a new account and secured more orders from an existing customer as it expanded its product portfolio to target a new market segment. Solid-state lighting posted solid growth, as the new client ramped up orders. Sales of home appliances and communication products also increased, supported by the customer's new product launch and more orders of VoIP (Voice over Internet Protocol) phones.

Europe

Group revenue in Europe was up 2.8% to US$791.8 million in the financial year 2014, as higher revenue from ELPs and CMS compensated for lower revenue from TEL products. Europe remained the second largest market of the Group, representing 41.7% of Group revenue.

ELPs revenue in Europe increased by 16.5% to US$385.8 million, with sales growth across all major markets, especially France, from both standalone and platform products. The growth in standalone products was driven by the Toot-Toot Drivers® range, infant products, Kidizoom® and the Kidi line of products. During the calendar year 2013, VTech was the number one market player in the overall Infant Toys category in France, the UK and Germany[7]. Furthermore, Toot-Toot Drivers garnered a number of top industry awards. In France, Its Train Station was given the "Toy Grand Prix 2013" award in the preschool toy category by *La Revue du Jouet* magazine, while in the UK, it was named "Preschool Toy of the Year" by the Toy Retailers Association. Toot-Toot Drivers Garage was also ranked among the top five best-selling infant items by retail value in France, the UK and Germany[8].

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

In platform products, children's educational tablets led the growth. The InnoTab range was updated for the UK market through the introduction of InnoTab 3 and 3S, while Storio 2 was sold in all VTech's major European markets. In the calendar year 2013, Storio continued to be the number one children's educational tablet in Europe[9] for the second year in a row.

TEL products revenue in Europe decreased by 24.2% to US$154.3 million. The decline was mainly due to lower sales of residential phones. This resulted from the decline of the fixed-line telephones market, a generally weak economy in Europe and the Group's decision to focus on higher margin business. For commercial phones and other telecommunication products, sales of baby monitors, connected home devices and hotel phones were higher, offsetting lower sales of integrated access devices. In January 2014, the Group began initial shipments of its conference phone and SIP phones to the UK and France. These new products have been very well received by both customers and end-users.

CMS revenue in Europe increased by 7.1% to US$251.7 million. Professional audio equipment, wireless headsets and home appliances saw higher sales, offsetting lower revenue from switching mode power supplies and medical and health products. Professional audio equipment delivered robust growth, as the Group benefited from new product launches by existing customers. More orders from new accounts in Germany also buoyed sales. Wireless headsets posted decent growth, as VTech gained market share owing to better service, while good sell-through of the client's products also contributed to higher revenue. Sales of home appliances rose as the new Italian customer increased orders. Switching mode power supplies and medical and health products, however, saw sales decline as the switching mode power supplies customer divested its solar power inverter business, while the product of the medical and health client did not sell as expected, resulting in lower orders.

Asia Pacific

Group revenue in Asia Pacific increased by 9.1% to US$108.9 million during the financial year 2014, driven by higher sales among all product lines. The region represented 5.7% of Group revenue.

ELPs revenue in Asia Pacific increased by 9.2% to US$21.3 million. Strong growth was seen in China, boosted by increasing revenues from traditional and online sales channels. Higher sales were also recorded in Korea, as the Group made some inroads in the market. Sales in Australia, however, registered a decline during the financial year 2014.

Revenue from TEL products in the region grew by 8.7% to US$41.1 million, mainly due to higher sales in Australia, China and Japan. In Australia, sales rose as VTech increased its share of the cordless phone market. The Group also started selling baby monitors to Australian customers, adding to the growth in this market. Sales in China climbed, as the Group increased market penetration by introducing more VTech and AT&T branded products. In Japan, sales growth was driven by the addition of a new ODM (Original Design Manufacturing) customer.

CMS revenue in Asia Pacific rose by 9.4% to US$46.5 million. Japan posted higher sales, driven by more orders for marine radio and medical and health products. Australia also recorded sales growth, with sales increases in professional audio equipment, home appliances and medical and health products. Sales in China and Korea, however, were lower as orders for solid-state lighting and Bluetooth speakerphones declined.

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[9] NPD Group, Retail Tracking Service. Ranking based on total retail sales of Storio for the combined market of France, the UK, Germany, Spain and Italy

Other Regions

Other Regions comprise Latin America, the Middle East and Africa. Group revenue in Other Regions declined by 13.5% to US$47.5 million, mainly due to lower sales of TEL products and ELPs. These regions accounted for 2.5% of Group revenue.

ELPs revenue in Other Regions dropped 28.0% to US$13.4 million, with all regions seeing sales declines, especially Latin America.

Revenue from TEL products in Other Regions fell 7.6% to US$32.9 million, with Latin America and the Middle East recording sales decreases during the financial year 2014.

CMS revenue in Other Regions was US$1.2 million in the financial year 2014, as compared to US$0.7 million in the financial year 2013.

CORPORATE GOVERNANCE PRACTICES

The Company 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") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2014, 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 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 four out of seven of the Directors being independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management and Sustainability Committee with defined terms of reference which are no less exacting than those set out in the Code. Full details of the Company's corporate governance practices will be disclosed in the Company's Annual Report for the year ended 31 March 2014.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man, succeeding Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management, 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. WONG Kai Man, as the 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 the 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:

- audited Group financial statements and reports for the year ended 31 March 2013;
- report from the external auditor for the year ended 31 March 2013;
- unaudited Group Interim Financial Report for the six months ended 30 September 2013 in the 2013/2014 Interim Report;
- 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 2013 in the 2013/2014 Interim Report;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- appointment of the external auditor and its remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under Whistleblowing Policy; 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 22 May 2014 (the date of this Announcement), the Audit Committee met to review the audited Group financial statements and reports for the year ended 31 March 2014 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 2014 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 2014 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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 2014.

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 69,000 Company's shares at a consideration of US$1.0 million.

By Order of the Board
VTech Holdings Limited
Allan WONG Chi Yun
Chairman

Hong Kong, 22 May 2014

As at the date of this announcement, the Executive Directors of the Company are Dr. Allan WONG Chi Yun (Chairman and Group Chief Executive Officer), Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong. The Independent Non-executive Directors of the Company are Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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