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# VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

**(Stock code: 303)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2011

**PERFORMANCE HIGHLIGHTS**

- Record revenue of US$1,712.8 million, up 11.8%
- Profit attributable to shareholders of the Company declined 2.2% to US$202.0 million
- Strong balance sheet, with net cash of US$333.1 million
- Final dividend of US62.0 cents per ordinary share, giving a total dividend for the year of US78.0 cents per ordinary share, the same as the previous financial year

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 2011 together with the comparative figures for the previous year as follows:

**CONSOLIDATED INCOME STATEMENT**
For the year ended 31 March 2011

| | Note | **2011 US$ million** | 2010 US$ million |
|---|---|---|---|
| **Revenue** | 2 | **1,712.8** | 1,532.3 |
| Cost of sales | | **(1,145.9)** | (972.9) |
| **Gross profit** | | **566.9** | 559.4 |
| Selling and distribution costs | | **(241.6)** | (207.3) |
| Administrative and other operating expenses | | **(49.8)** | (71.2) |
| Research and development expenses | | **(56.8)** | (56.8) |
| **Operating profit** | 2&3 | **218.7** | 224.1 |
| Net finance income | | **1.6** | 1.4 |
| **Profit before taxation** | | **220.3** | 225.5 |
| Taxation | 4 | **(19.1)** | (20.2) |
| **Profit for the year** | | **201.2** | 205.3 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **202.0** | 206.5 |
| Non-controlling interests | | **(0.8)** | (1.2) |
| **Profit for the year** | | **201.2** | 205.3 |
| **Earnings per share (US cents)** | 6 | | |
| - Basic | | **81.5** | 83.7 |
| - Diluted | | **81.2** | 83.4 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

| | 2011 US$ million | 2010 US$ million |
|---|---|---|
| **Profit for the year** | **201.2** | 205.3 |
| **Other comprehensive income (after tax and reclassification adjustments) for the year** | | |
| Realisation of hedging reserve | **-** | 0.3 |
| Fair value gains on hedging | **0.3** | - |
| Exchange translation differences | **7.2** | 2.9 |
| Surplus arising on revaluation of properties | **1.3** | - |
| Other comprehensive income for the year | **8.8** | 3.2 |
| **Total comprehensive income for the year** | **210.0** | 208.5 |
| **Attributable to:** | | |
| Shareholders of the Company | **210.8** | 209.6 |
| Non-controlling interests | **(0.8)** | (1.1) |
| **Total comprehensive income for the year** | **210.0** | 208.5 |

**CONSOLIDATED BALANCE SHEET**
As at 31 March 2011

| | Note | **2011 US$ million** | 2010 US$ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Tangible assets | | **78.4** | 81.4 |
| Leasehold land payments | | **5.0** | 4.9 |
| Investments | | **0.2** | 0.2 |
| Deferred tax assets | | **5.4** | 5.6 |
| | | **89.0** | 92.1 |
| **Current assets** | | | |
| Stocks | | **229.8** | 159.3 |
| Debtors, deposits and prepayments | 7 | **225.0** | 211.4 |
| Taxation recoverable | | **0.3** | 0.7 |
| Deposits and cash | | **333.1** | 382.6 |
| | | **788.2** | 754.0 |
| **Current liabilities** | | | |
| Creditors and accruals | 8 | **(284.9)** | (272.9) |
| Provisions | | **(39.4)** | (42.4) |
| Taxation payable | | **(5.1)** | (9.6) |
| | | **(329.4)** | (324.9) |
| **Net current assets** | | **458.8** | 429.1 |
| **Total assets less current liabilities** | | **547.8** | 521.2 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(3.9)** | (3.7) |
| **Net assets** | | **543.9** | 517.5 |
| | | | |
| **Capital and reserves** | | | |
| Share capital | | **12.4** | 12.4 |
| Reserves | | **531.5** | 503.3 |
| **Shareholders' funds attributable to the Company's shareholders** | | **543.9** | 515.7 |
| Non-controlling interests | | **-** | 1.8 |
| **Total equity** | | **543.9** | 517.5 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2011

| | Note | Share capital US$ million | Share premium US$ million | Properties revaluation reserve US$ million | Exchange reserve US$ million | Capital reserve US$ million | Hedging reserve US$ million | Revenue reserve US$ million | Total US$ million | Non-controlling interests US$ million | Total equity US$ million |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | | | | |
| **At 1 April 2009** | | 12.3 | 106.9 | 10.9 | 2.1 | 1.7 | (0.3) | 306.6 | 440.2 | - | 440.2 |
| **Changes in equity for the year ended 31 March 2010** | | | | | | | | | | | |
| **Comprehensive income** | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 206.5 | 206.5 | (1.2) | 205.3 |
| **Other comprehensive income (after tax and reclassification adjustments)** | | | | | | | | | | | |
| Realisation of hedging reserve | | - | - | - | - | - | 0.3 | - | 0.3 | - | 0.3 |
| Exchange translation differences | | - | - | - | 2.8 | - | - | - | 2.8 | 0.1 | 2.9 |
| Other comprehensive income for the year | | - | - | - | 2.8 | - | 0.3 | - | 3.1 | 0.1 | 3.2 |
| **Total comprehensive income for the year** | | - | - | - | 2.8 | - | 0.3 | 206.5 | 209.6 | (1.1) | 208.5 |
| Final dividend in respect of the previous year | | - | - | - | - | - | - | (101.2) | (101.2) | - | (101.2) |
| Interim dividend in respect of the current year | 5 | - | - | - | - | - | - | (39.5) | (39.5) | - | (39.5) |
| Shares issued under share option scheme | | 0.1 | 5.7 | - | - | - | - | - | 5.8 | - | 5.8 |
| Equity-settled share based payments | | - | 0.7 | - | - | 0.1 | - | - | 0.8 | - | 0.8 |
| Capital injection | | - | - | - | - | - | - | - | - | 2.9 | 2.9 |
| **At 31 March 2010** | | 12.4 | 113.3 | 10.9 | 4.9 | 1.8 | - | 372.4 | 515.7 | 1.8 | 517.5 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 31 March 2011

| | | Attributable to shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital US$ million | Share premium US$ million | Properties revaluation reserve US$ million | Exchange reserve US$ million | Capital reserve US$ million | Hedging reserve US$ million | Revenue reserve US$ million | Total US$ million | Non-controlling interests US$ million | Total equity US$ million |
| **At 1 April 2010** | | 12.4 | 113.3 | 10.9 | 4.9 | 1.8 | - | 372.4 | 515.7 | 1.8 | 517.5 |
| **Changes in equity for the year ended 31 March 2011** | | | | | | | | | | | |
| **Comprehensive income** | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 202.0 | 202.0 | (0.8) | 201.2 |
| **Other comprehensive income (after tax and reclassification adjustments)** | | | | | | | | | | | |
| Fair value gains on hedging | | - | - | - | - | - | 0.3 | - | 0.3 | - | 0.3 |
| Exchange translation differences | | - | - | - | 7.2 | - | - | - | 7.2 | - | 7.2 |
| Surplus arising on revaluation of properties | | - | - | 1.3 | - | - | - | - | 1.3 | - | 1.3 |
| Other comprehensive income for the year | | - | - | 1.3 | 7.2 | - | 0.3 | - | 8.8 | - | 8.8 |
| **Total comprehensive income for the year** | | - | - | 1.3 | 7.2 | - | 0.3 | 202.0 | 210.8 | (0.8) | 210.0 |
| Final dividend in respect of the previous year | 5 | - | - | - | - | - | - | (153.9) | (153.9) | - | (153.9) |
| Interim dividend in respect of the current year | 5 | - | - | - | - | - | - | (39.7) | (39.7) | - | (39.7) |
| Shares issued under share option scheme | | - | 6.8 | - | - | - | - | - | 6.8 | - | 6.8 |
| Equity-settled share based payments | | - | 1.0 | - | - | 1.3 | - | - | 2.3 | - | 2.3 |
| Capital injection | | - | - | - | - | - | - | - | - | 0.9 | 0.9 |
| Acquisition of non-controlling interests | | - | - | - | - | - | - | 1.9 | 1.9 | (1.9) | - |
| **At 31 March 2011** | | **12.4** | **121.1** | **12.2** | **12.1** | **3.1** | **0.3** | **382.7** | **543.9** | **-** | **543.9** |

## CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2011

| | Note | **2011 US$ million** | 2010 US$ million |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | **218.7** | 224.1 |
| Depreciation of tangible assets | 3 | **33.1** | 36.6 |
| Amortisation of leasehold land payments | 3 | **0.1** | 0.1 |
| Impairment loss on construction in progress | 3 | **-** | 6.9 |
| Increase in stocks | | **(70.5)** | (31.3) |
| Increase in debtors, deposits and prepayments | | **(13.6)** | (21.2) |
| Increase in creditors and accruals | | **12.0** | 40.0 |
| (Decrease) / increase in provisions | | **(3.0)** | 0.6 |
| **Cash generated from operations** | | **176.8** | 255.8 |
| Interest received | | **1.6** | 1.4 |
| Taxes paid | | **(23.1)** | (12.4) |
| **Net cash generated from operating activities** | | **155.3** | 244.8 |
| **Investing activities** | | | |
| Purchase of tangible assets | | **(25.9)** | (20.3) |
| Proceeds from disposal of tangible assets | | **0.1** | 0.3 |
| Capital injection to a subsidiary | | **-** | (3.0) |
| Proceeds received upon maturity of financial assets | | **-** | 5.0 |
| Proceeds received from / (placement of) bank deposits with maturity greater than three month | | **95.7** | (140.7) |
| **Net cash generated from / (used in) investing activities** | | **69.9** | (158.7) |
| **Financing activities** | | | |
| Proceeds from shares issued upon exercise of share options | | **6.8** | 5.8 |
| Dividends paid | 5 | **(193.6)** | (140.7) |
| **Net cash used in financing activities** | | **(186.8)** | (134.9) |
| Effect of exchange rate changes | | **7.8** | 3.5 |
| **Increase / (decrease) in cash and cash equivalents** | | **46.2** | (45.3) |
| Cash and cash equivalents at beginning of the year | | **196.9** | 242.2 |
| **Cash and cash equivalents at end of the year** | | **243.1** | 196.9 |

**Analysis of the balance of cash and cash equivalents**

| | | | |
|---|---|---|---|
| Deposits and cash in the consolidated balance sheet | | **333.1** | 382.6 |
| Less: Bank deposits with maturity greater than three months | | **(90.0)** | (185.7) |
| **Cash and cash equivalents in the consolidated statement of cash flows** | | **243.1** | 196.9 |

## 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 include International Accounting Standards ("IASs") and related Interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

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

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

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

b. The impact of the revised IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and the revised IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

c. The amendment to IAS 39 ("IAS 39 (amended)") provides additional guidance on when a financial item can be designated as a hedged item and on assessing hedge effectiveness. The adoption of IAS 39 (amended) had no significant impact on the financial statements of the Group.

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

The other accounting policies have been consistently applied by the Group.

## 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.

### (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.

## 2. Segment information *(continued)*

**Year ended 31 March 2011**

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

Year ended 31 March 2010

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

**Reconciliations of reportable segment assets and liabilities**

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

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

## 3. Operating profit

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

| | 2011 US$ million | 2010 US$ million |
|---|---|---|
| Depreciation of tangible assets | **33.1** | 36.6 |
| Amortisation of leasehold land payments | **0.1** | 0.1 |
| Impairment loss on construction in progress | **-** | 6.9 |
| Net foreign exchange gain | **(1.7)** | - |
| Net (gain) / loss on forward foreign exchange contracts | | |
| - Net loss on cash flow hedging instruments reclassified from equity | **-** | 0.3 |
| - Net gain on the forward foreign exchange contracts | **(0.1)** | (0.3) |

## 4. Taxation

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

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year.

(b) Overseas taxation has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

## 5. Dividends

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

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

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

## 6. Earnings per share

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

The basic earnings per share is based on the weighted average of 247.9 million (2010: 246.6 million) ordinary shares in issue during the year. The diluted earnings per share is based on 248.9 million (2010: 247.7 million) ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for the number of dilutive potential ordinary shares under the Company's share option scheme.

During the year ended 31 March 2011, no share was purchased, granted and awarded under the Group's Share Purchase Scheme. Accordingly, no adjustment to the diluted earnings per share is made in respect of the Group's Share Purchase Scheme.

## 7. Debtors, deposits and prepayments

At 31 March 2011, total debtors, deposits and prepayments of US$225.0 million (31 March 2010: US$211.4 million) included trade debtors of US$198.8 million (31 March 2010: US$185.7 million).

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

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

The majority of the Group's sales are on letter of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

## 8. Creditors and accruals

At 31 March 2011, total creditors and accruals of US$284.9 million (31 March 2010: US$272.9 million) included trade creditors of US$142.6 million (31 March 2010: US$136.0 million).

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

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

## 9. Comparative figures

As a result of the application of improvements to IFRSs 2009, certain comparative figures including the tangible assets and leasehold land payments have been reclassified to conform to current year's presentation. Further details of these developments are disclosed in note 1.

## FINAL DIVIDEND

The Board of Directors (the "Board") has recommended a final dividend ("Final Dividend") of US62.0 cents per ordinary share in respect of the year ended 31 March 2011, payable on 25 July 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 22 July 2011 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The Final Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 13 July 2011.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 July 2011 to 22 July 2011, both dates inclusive, during which period no transfer of shares will be effected.

In order to be entitled to attend and vote at the forthcoming annual general meeting and to qualify for the Final Dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company no later than 4:30 p.m., the local time of the share registrars on 14 July 2011.

The principal registrar of the Company is Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

## CHAIRMAN'S STATEMENT

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

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

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

### Results and Dividend

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

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

## Segment Results

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

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

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

## Outlook

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

We are nonetheless planning for top line growth in the financial year 2012. Our product innovation, market leadership and growing reputation in the EMS industry position us well to achieve sales growth across our markets.

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

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

### *North America*

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

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

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

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

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

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

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

***Europe***

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

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

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

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

***Asia Pacific and Other Regions***

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

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

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

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

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

**Conclusion**

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

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

## REVIEW OF OPERATIONS

### Segment Results

#### *North America*

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

Sales of TEL products during the financial year declined by 18.3% to US$421.1 million. As noted at the interim, this decrease partly reflects comparison with a very strong performance in the previous financial year, when one of our major competitors exited the market and another suffered a delivery problem. The natural decline in the US cordless phone market also contributed to the decrease in sales. Nonetheless, the Group was able to maintain its market share and its number one position in the US corded and cordless phone market, with an estimated share of almost 50%[1].

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

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

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

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

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

***Europe***

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

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

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

The UK and France achieved the best performance in Europe. Being the only European country that launched both MobiGo and Storio during the financial year, the UK benefited from their contribution. Higher sales in the UK were also due to the continued strength of the Kidizoom line, with the Kidizoom Plus Camera the top selling toy for the second year in a row in the calendar year 2010[2]. Despite a somewhat slow first half, France delivered solid growth for the full year. We made good gains in market share, especially in the infant category, in which we attained the number one market position[2].

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

***Asia Pacific***

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

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

[2] *NPD EPoS Retail Tracking Service 2010*

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

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

***Other Regions***

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

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

## REVIEW OF FINANCIAL RESULTS

### Revenue

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

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

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

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

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

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

**Gross Profit/Margin**

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

**Operating Profit/Margin**

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

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

Administrative and other operating expenses fell from US$71.2 million in the previous financial year to US$49.8 million in the financial year 2011. This was mainly attributable to lower legal and professional costs during the financial year. With better foreign exchange risk management, the net exchange gain arising from the Group's global operations in the ordinary course of business was US$1.8 million in the financial year 2011. This contrasted with the minimal exchange loss recorded in previous financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 4.6% in the previous financial year to 2.9% during the financial year.

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

**Profit attributable to shareholders and Dividends**

The profit attributable to shareholders of the Company for the year ended 31 March 2011 was US$202.0 million, a decrease of US$4.5 million as compared to the previous financial year.

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

**Liquidity and Financial resources**

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

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

| **As at 31 March 2011 and 2010** | **2011**<br>**US$ million** | 2010<br>US$ million |
|---|---|---|
| Deposits and cash | **333.1** | 382.6 |

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

**Treasury Policies**

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimise the Group's financial risks. The Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging foreign exchange transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes.

**Working Capital**

| **As at 31 March 2011 and 2010**<br>*All figures are in US$ million unless stated otherwise* | **2011** | 2010 |
|---|---|---|
| **Stocks** | **229.8** | 159.3 |
| Average stocks as a percentage of Group revenue | **11.4%** | 9.4% |
| Turnover days | **85 Days** | 75 days |
| **Trade debtors** | **198.8** | 185.7 |
| Average trade debtors as a percentage of Group revenue | **11.2%** | 11.1% |
| Turnover days | **63 days** | 61 days |

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

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

**Capital Expenditure**

For the year ended 31 March 2011, the Group invested US$25.9 million in the purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

### Capital Commitments and Contingencies

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

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

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

### Employees

The average number of employees for the financial year 2011 was 32,300, an increase of 19.2% from 27,100 in the previous financial year. Staff related costs for the year ended 31 March 2011 were approximately US$210 million, as compared to approximately US$172 million in the financial year 2010.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on The Stock Exchange of Hong Kong Limited. The corporate governance rules applicable to the Company are the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2011, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun (“Dr. WONG”) has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the non-executive directors form the majority of the Board, with five out of eight of our directors being independent non-executive directors. The Board believes the appointment of Dr. WONG 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 Remuneration Committee, a Nomination Committee and a Risk Management Committee with defined terms of reference which are no less exacting than those set out in the Code. Full details on the subject of corporate governance are set out in the Company’s Annual Report for the year ended 31 March 2011.

## AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Dr. David SUN Tak Kei (appointed on 25 January 2011), Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung (ceased to be a member on 25 January 2011) as members. All of the members are independent non-executive directors. It has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. Denis HO, as Chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the year. 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 Financial Officer, the Chief Compliance Officer and the external auditor. Work performed by the Audit Committee during the year included, but not limited to, reviewing the following:

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

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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

Hong Kong, 31 May 2011

*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 are Dr. William FUNG Kwok Lun, Mr. Denis Morgie HO Pak Cho, Dr. David SUN Tak Kei, Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung.*

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