vtech

# VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

**(Stock code: 303)**

# ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2012

**PERFORMANCE HIGHLIGHTS**

- Group revenue increased by 4.2% to US$1,784.5 million
- Profit attributable to shareholders of the Company declined by 5.0% to US$191.9 million
- Strong balance sheet, with deposits and cash of US$326.5 million
- Final dividend of US60.0 cents per ordinary share, giving a total dividend for the year of US76.0 cents, a decrease of 2.6% over the previous financial year

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 2012 together with the comparative figures for the previous year as follows:

**CONSOLIDATED INCOME STATEMENT**
For the year ended 31 March 2012

| | Note | **2012 US$ million** | 2011 US$ million |
|---|---|---|---|
| **Revenue** | 2 | **1,784.5** | 1,712.8 |
| Cost of sales | | **(1,213.7)** | (1,145.9) |
| **Gross profit** | | **570.8** | 566.9 |
| Selling and distribution costs | | **(255.0)** | (241.6) |
| Administrative and other operating expenses | | **(49.1)** | (49.8) |
| Research and development expenses | | **(57.2)** | (56.8) |
| **Operating profit** | 2&3 | **209.5** | 218.7 |
| Net finance income | | **2.1** | 1.6 |
| **Profit before taxation** | | **211.6** | 220.3 |
| Taxation | 4 | **(19.7)** | (19.1) |
| **Profit for the year** | | **191.9** | 201.2 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **191.9** | 202.0 |
| Non-controlling interests | | **-** | (0.8) |
| **Profit for the year** | | **191.9** | 201.2 |
| **Earnings per share (US cents)** | 6 | | |
| - Basic | | **77.0** | 81.5 |
| - Diluted | | **76.9** | 81.2 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
For the year ended 31 March 2012

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

**CONSOLIDATED BALANCE SHEET**
As at 31 March 2012

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2012

| | | Attributable to shareholders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital US$ million | Share premium US$ million | Share held for Share Purchase Scheme US$ million | Properties revaluation reserve US$ million | Exchange reserve US$ million | Capital reserve US$ million | Hedging reserve US$ million | Revenue reserve US$ million | Total US$ million | Non-controlling interests US$ million | Total equity US$ million |
| **At 1 April 2010** | | 12.4 | 113.3 | - | 10.9 | 4.9 | 1.8 | - | 372.4 | 515.7 | 1.8 | 517.5 |
| **Changes in equity for the year ended 31 March 2011** | | | | | | | | | | | | |
| **Comprehensive income** | | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | - | 202.0 | 202.0 | (0.8) | 201.2 |
| **Other comprehensive income (after tax and reclassification adjustments)** | | | | | | | | | | | | |
| Fair value gains on hedging | | - | - | - | - | - | - | 0.3 | - | 0.3 | - | 0.3 |
| Exchange translation differences | | - | - | - | - | 7.2 | - | - | - | 7.2 | - | 7.2 |
| Surplus arising on revaluation of properties, net of deferred tax | | - | - | - | 1.3 | - | - | - | - | 1.3 | - | 1.3 |
| Other comprehensive income for the year | | - | - | - | 1.3 | 7.2 | - | 0.3 | - | 8.8 | - | 8.8 |
| **Total comprehensive income for the year** | | - | - | - | 1.3 | 7.2 | - | 0.3 | 202.0 | 210.8 | (0.8) | 210.0 |
| Final dividend in respect of the previous year | | - | - | - | - | - | - | - | (153.9) | (153.9) | - | (153.9) |
| Interim dividend in respect of the current year | 5 | - | - | - | - | - | - | - | (39.7) | (39.7) | - | (39.7) |
| Shares issued under share option scheme | | - | 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 CHANGES IN EQUITY** *(continued)*
For the year ended 31 March 2012

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**
For the year ended 31 March 2012

| | Note | **2012 US$ million** | 2011 US$ million |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | **209.5** | 218.7 |
| Depreciation of tangible assets | 3 | **27.4** | 33.1 |
| Amortisation of leasehold land payments | 3 | **0.1** | 0.1 |
| Gain on disposal of tangible assets | 3 | **(0.1)** | - |
| Increase in stocks | | **(9.4)** | (70.5) |
| Increase in debtors, deposits and prepayments | | **(19.2)** | (13.6) |
| Increase in creditors and accruals | | **30.0** | 12.0 |
| Decrease in provisions | | **(7.9)** | (3.0) |
| **Cash generated from operations** | | **230.4** | 176.8 |
| Interest received | | **2.1** | 1.6 |
| Taxes paid | | **(21.3)** | (23.1) |
| **Net cash generated from operating activities** | | **211.2** | 155.3 |
| **Investing activities** | | | |
| Purchase of tangible assets | | **(29.7)** | (25.9) |
| Proceeds from disposal of tangible assets | | **0.3** | 0.1 |
| (Placement of) / proceeds received from bank deposits with maturity greater than three months | | **(60.0)** | 95.7 |
| **Net cash (used in) / generated from investing activities** | | **(89.4)** | 69.9 |
| **Financing activities** | | | |
| Proceeds from shares issued upon exercise of share options | | **6.3** | 6.8 |
| Payment for shares acquired for Share Purchase Scheme | | **(2.7)** | - |
| Dividends paid | 5 | **(194.5)** | (193.6) |
| **Net cash used in financing activities** | | **(190.9)** | (186.8) |
| Effect of exchange rate changes | | **2.5** | 7.8 |
| **(Decrease) / increase in cash and cash equivalents** | | **(66.6)** | 46.2 |
| Cash and cash equivalents at 1 April | | **243.1** | 196.9 |
| **Cash and cash equivalents at 31 March** | | **176.5** | 243.1 |

| | | | |
|---|---|---|---|
| **Analysis of the balance of cash and cash equivalents** | | | |
| Deposits and cash in the consolidated balance sheet | | **326.5** | 333.1 |
| Less: Bank deposits with maturity greater than three months | | **(150.0)** | (90.0) |
| **Cash and cash equivalents in the consolidated statement of cash flows** | | **176.5** | 243.1 |

## 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 certain new and revised IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

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

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

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact of the Group's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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

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.

## 2. Segment information *(continued)*

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

### (a) Segment revenues and results

Revenue is allocated to the reporting segment based on the location of the external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue, depreciation and amortisation, and impairment of assets.

### (b) Segment assets and liabilities

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

Segment liabilities include trade creditors, bills payable, accruals, and provisions for electronic product warranties attributable to the manufacturing and sales activities of the individual reportable segments with the exception of deferred tax liabilities and taxation payable.

**Year ended 31 March 2012**

| | **North America US$ million** | **Europe US$ million** | **Asia Pacific US$ million** | **Others US$ million** | **Total US$ million** |
|---|---|---|---|---|---|
| Reportable segment revenue | **903.5** | **719.3** | **94.1** | **67.6** | **1,784.5** |
| Reportable segment profit | **94.6** | **93.1** | **13.6** | **8.2** | **209.5** |
| Depreciation and amortisation | **0.8** | **1.9** | **24.8** | **-** | **27.5** |
| Reportable segment assets | **140.2** | **104.3** | **660.9** | **0.6** | **906.0** |
| Reportable segment liabilities | **(41.7)** | **(28.4)** | **(275.9)** | **(0.4)** | **(346.4)** |

Year ended 31 March 2011

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

## 2. Segment information *(continued)*

**Reconciliations of reportable segment assets and liabilities**

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

For the year ended 31 March 2012, approximately 13% (2011: 14%) of the Group's revenue is derived from a single external customer. This revenue is attributable to the North America segment.

## 3. Operating profit

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

| | **2012 US$ million** | 2011 US$ million |
|---|---|---|
| Depreciation of tangible assets | **27.4** | 33.1 |
| Amortisation of leasehold land payments | **0.1** | 0.1 |
| Gain on disposal of tangible assets | **(0.1)** | - |
| Net foreign exchange gain | **(1.3)** | (1.7) |
| Net gain on forward foreign exchange contracts | | |
| - Net gain on cash flow hedging instruments reclassified from equity | **(0.3)** | - |
| - Net gain on the forward foreign exchange contracts | **-** | (0.1) |

## 4. Taxation

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

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year.

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

## 5. Dividends

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

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

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

## 6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$191.9 million (2011: US$202.0 million).

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

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

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

## 7. Debtors, deposits and prepayments

At 31 March 2012, total debtors, deposits and prepayments of US$244.2 million (31 March 2011: US$225.0 million) included net trade debtors of US$210.6 million (31 March 2011: US$198.8 million).

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

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

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

## 8. Creditors and accruals

At 31 March 2012, total creditors and accruals of US$314.9 million (31 March 2011: US$284.9 million) included trade creditors of US$173.8 million (31 March 2011: US$142.6 million).

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

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

## FINAL DIVIDEND

The Board of Directors (the "Board") has recommended a final dividend ("Final Dividend") of US60.0 cents per ordinary share in respect of the year ended 31 March 2012, payable on 30 July 2012 to shareholders whose names appear on the register of members of the Company as at the close of business on 19 July 2012 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting.

The Final Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 17 July 2012.

## 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 2012 annual general meeting to be held on 13 July 2012 ("2012 AGM"), the register of members of the Company will be closed on 10 July 2012 to 13 July 2012 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2012 AGM, all transfer documents, accompanied by the relevant share certificates should be lodged with the principal share registrar of the Company, Butterfield Fulcrum Group (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, 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 9 July 2012.

(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 19 July 2012, during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all transfers, accompanied by the relevant share certificates should be lodged with the principal share registrar of the Company, Butterfield Fulcrum Group (Bermuda) Limited of Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, 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 18 July 2012.

## CHAIRMAN'S STATEMENT

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

### Results and Dividend

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

The Board has proposed a final dividend of US60.0 cents per ordinary share. Together with the interim dividend of US16.0 cents per ordinary share, this gives a total dividend for the year of US76.0 cents per ordinary share. It represents a decrease of 2.6% over the previous financial year.

### Operations

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

### Segment Results

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

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

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

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

### Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Conclusion

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

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

## REVIEW OF OPERATIONS

### Segment Results

#### *North America*

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

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

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

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

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

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

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

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[2] MarketWise Consumer Insights, LLC

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

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

***Europe***

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

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

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

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

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

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

***Asia Pacific***

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

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

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

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

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

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

***Other Regions***

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

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

## REVIEW OF FINANCIAL RESULTS

### Revenue

Group revenue for the year ended 31 March 2012 rose by 4.2% over the previous financial year to US$1,784.5 million. The increase in revenue was largely driven by higher sales in North America and Europe, which contrasted with a decrease in revenue in Asia Pacific and other regions. Sales to North America increased by 3.3% over the previous financial year to US$903.5 million, accounting for 50.6% of Group revenue. In Europe, revenue rose by 7.7% to US$719.3 million, representing 40.3% of Group revenue. Sales to the Asia Pacific market declined by 4.2% to US$94.1 million, accounting for 5.3% of Group revenue. Revenue from other regions fell by 6.2% to US$67.6 million, representing 3.8% of Group revenue.

The increase in revenue in North America was mainly due to higher sales of ELPs and CMS, which offset a decrease in revenue of TEL products. Revenue from TEL products in North America was US$415.3 million, a decrease of 1.4% over the previous financial year. Sales of branded corded and cordless phones were lower, as the residential phone market in the US is mature. For ELPs, revenue grew by 7.5% to US$308.5 million. The growth was led by strong sales of platform products following the full launch of InnoTab an educational tablet for children in October 2011. Revenue from CMS rose by 7.8% to US$179.7 million. Professional audio equipment and internet phones for office use were major growth drivers. Higher sales of commercial solid state lighting also supported growth.

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

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

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

**Gross Profit/Margin**

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

**Operating Profit/Margin**

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

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

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

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

**Profit attributable to shareholders and Dividends**

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

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

## Liquidity and Financial Resources

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

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

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

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

## Treasury Policies

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

## Working Capital

| **As at 31 March 2012 and 2011**<br>*All figures are in US$ million unless stated otherwise* | **2012** | 2011 |
|---|---|---|
| **Stocks** | **239.2** | 229.8 |
| Average stocks as a percentage of Group revenue | **13.1%** | 11.4% |
| Turnover days | **82 days** | 85 days |
| **Trade debtors** | **210.6** | 198.8 |
| Average trade debtors as a percentage of Group revenue | **11.5%** | 11.2% |
| Turnover days | **56 days** | 63 days |

Stocks as of 31 March 2012 were US$239.2 million, as compared to US$229.8 million on 31 March 2011. The turnover days decreased from 85 days to 82 days. The increase in stock level was primarily to cater for increased demand for the Group's products in the first quarter of the financial year 2013. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

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

## Capital Expenditure

For the year ended 31 March 2012, the Group invested US$29.7 million in the purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

## Capital Commitments and Contingencies

In the financial year 2013, the Group will incur capital expenditure of US$32.9 million for ongoing business operations.

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

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

**Employees**

The average number of employees for the financial year 2012 was 31,600, compared to 32,300 in the previous financial year. Staff related costs for the year ended 31 March 2012 were approximately US$238 million, as compared to approximately US$210 million in the financial year 2011.

## 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 "Stock Exchange"). The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2012, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as non-executive Directors form the majority of the Board, with five out of eight of the Directors being independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management Committee with defined terms of reference which are no less exacting than those set out in the Code. Full details on the subject of corporate governance are set out in the Company's Annual Report for the year ended 31 March 2012.

## AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Dr. David SUN Tak Kei and Mr. Michael TIEN Puk Sun as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

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

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

- unaudited Group Interim Financial Report for the six months ended 30 September 2011 in the 2011/2012 Interim Report of the Company;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2011 in the 2011/2012 Interim Report of the Company;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- appointment of the external auditor and their remuneration;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- respective audit plans of the internal and external auditors; and
- revised Audit Committee Charter.

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

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

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After specific enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2012.

## PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial year, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 244,000 Company's shares at a consideration of US$2.7 million.

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

Hong Kong, 23 May 2012

*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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