vtech

VTech Holdings Ltd 2013/2014

HKSE : 303

Interim Report 中期報告書

for the six months ended 30 September 2013

截至二零一三年九月三十日止六個月

I am pleased to report that VTech delivered both top-line and bottom-line growth in the first half of the financial year 2014, despite a weaker-than-expected performance of telecommunication (TEL) products in Europe. The Group also benefited from lower cost of materials, resulting in an improved gross margin and contributing to a higher profit during the period.

Results and Dividend

Group revenue for the six months ended 30 September 2013 increased by 1.9% over the same period of the previous financial year to US$892.4 million. This was primarily due to higher revenue in North America and Asia Pacific, more than offsetting lower revenue in Other Regions. Revenue in Europe was flat compared with the same period last year.

Profit attributable to shareholders of the Company increased by 4.7% to US$95.2 million. The rise in profit was mainly attributable to higher revenue and an improved gross margin. Basic earnings per share consequently increased by 4.4% to US38.0 cents, compared to US36.4 cents in the corresponding period last year.

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

Cost and Operations

In the first half of the financial year 2014, labour costs and manufacturing overheads in China continued to rise, as the minimum wage increased and the Renminbi appreciated further. This was offset by lower cost of materials and our success in optimising product design. All these factors resulted in an improved gross margin during the period.

Segment Results

North America

Group revenue in North America increased by 3.8% to US$455.8 million in the first half of the financial year 2014. The increase was due to higher revenue from TEL products and electronic learning products (ELPs), while contract manufacturing services (CMS) revenue in the region held steady. North America remains the largest market for the Group, accounting for 51.1% of Group revenue.

In the first half of the financial year 2014, revenue from TEL products rose by 2.1% to US$201.5 million as VTech maintained its position as the number one supplier of cordless phones in the US. Sales of residential phones increased as we benefited from further consolidation in the market. Growth in this established product category was supplemented by higher sales of non-residential phone products, including small-to-medium sized business (SMB) phones, hotel phones and baby monitors. Our SynJ® cordless business phone system increased its share in the SMB market, while the Synapse® business phone system began to reap the rewards of an improved sales strategy and better market segmentation. Sales of hotel phones have grown, as VTech has established itself as a reliable supplier to an increasing number of leading hotel chains. A strong increase in sales of baby monitors was recorded in the first half of the financial year, attributable to the expansion of our distribution channels.

During the period, our CareLine™, a home-safety telephone system designed specifically for the fast-growing seniors market, has received excellent feedback from consumers and generated a good number of favourable online reviews. We also shipped the world's first home entrance monitoring system which combines a versatile cordless phone with a digital video door bell. The product has been well-received by our customers.

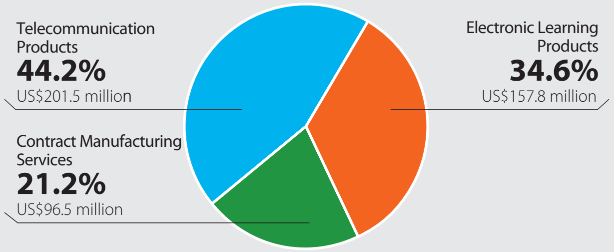
ELPs revenue in North America during the first six months rose by 8.5% to US$157.8 million. The growth was driven by higher sales of standalone and platform products. Among standalone products, infant products were the key driver. Our line of smart infant vehicles and playsets, Go! Go! Smart Wheels™, sold strongly and has been included in numerous recommended toy lists for the upcoming holiday season, including Walmart's "2013 Holiday Top Toy List Chosen By Kids", The Toy Insider's "Hot 20 Toys for the Holidays" and Amazon.com's "2013 Holiday Toy List". Switch and Go Dinos®, our line of interactive pre-school toys that transform between dinosaurs and vehicles, also contributed to higher sales of standalone products.

Sales of platform products rose during the period, as higher sales of the InnoTab® range more than compensated for lower sales of MobiGo® 2 and V.Reader®. Our new generation of tablets, InnoTab 3 and 3S, hit the shelves in the US in late August this year. InnoTab 3S has been selected as one of the Toy Insider's "Top Tech 12", raising its profile among shoppers looking for the best technology toys. The InnoTab 3S exclusive bundle has also been included in "2013 Holiday Hot Toy List" from Toys"R"Us.

During the period, VTech once again set the industry standard by the introduction of VTech Kid Connect™, a ground-breaking communication app exclusive to the VTech InnoTab 3S. The app gives pre-schoolers as young as three years old the ability to communicate with their parents and older siblings, by exchanging voice messages, text messages, stickers, photos and drawings, all within a kid-safe, kid-friendly environment. Through these innovative features, children can communicate with their parents' smartphones and tablets, as well as with friends or siblings anywhere in the world who also have an InnoTab 3S.

CMS revenue in North America increased by 0.3% to US$96.5 million. Although growth was seen in professional audio equipment, home appliances, communication and wireless products, this was mostly offset by a decline in sales of solid state lighting and industrial products. During the period, we added a new customer in the professional audio area, owing to our strong reputation in the industry.

Revenue in North America by Product Line
for the six months ended 30 September 2013



Total: US$455.8 million

Europe

Group revenue in Europe was up by 0.2% to US$352.7 million, as higher revenues from ELPs and CMS were offset by lower revenue from TEL products. Europe is the second largest market for the Group, accounting for 39.5% of Group revenue.

Revenue from TEL products decreased by 25.3% to US$79.2 million. The decline was due to lower sales of cordless telephones, which was the result of market weakness and our decision to focus on higher margin business. Sales of our baby monitors and connected home™ devices, however, continued to grow during the period.

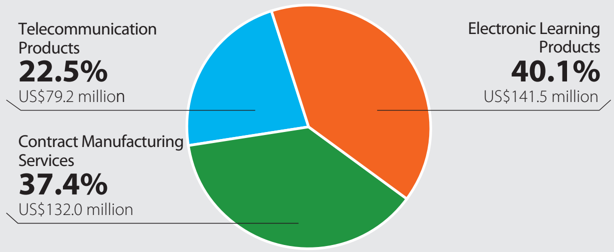
Revenue from ELPs in Europe was up by 10.3% over the first half of the last financial year to US$141.5 million. Educational tablets led the growth, along with Toot-Toot Drivers®, our line of smart infant vehicles and playsets, and Switch and Go Dinos. During the period, the InnoTab range was updated in the UK market with the introduction of InnoTab 3 and 3S, while Storio® 2 was sold in all VTech's major markets in Europe.

These product lines garnered a number of important awards during the first six months of the financial year 2014. Toot-Toot Drivers Train Station was given the "Toy Grand Prix 2013 Award (Pre-school category)" by France's *La Revue du Jouet* magazine, while InnoTab 3 was selected as one of the "Top Toys for Christmas 2013" by Smyths Toys Superstores in the UK.

Geographically, France, Germany, the Benelux countries and Spain saw good growth during the period, while sales were lower in the UK.

CMS revenue in Europe rose by 12.1% during the first half of the financial year 2014 to US$132.0 million. The sales increase was driven by professional audio equipment, wireless headsets and home appliances. Professional audio equipment posted robust growth, as we benefited from the new product launch of a customer. The addition of a new customer in Germany also contributed to growth. Wireless headsets saw higher sales, driven by good sell-through of our customer's products and our ability to gain more orders at the expense of our competition. During the period, we added a new customer in Italy in the area of home appliances, which led to higher sales in that category. In contrast to other categories, sales of switching mode power supplies declined owing to lower sales of solar power inverters.

Revenue in Europe by Product Line
for the six months ended 30 September 2013



Total: US$352.7 million

Asia Pacific

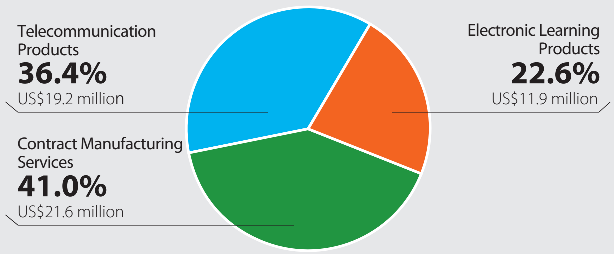
Group revenue in Asia Pacific increased by 3.3% to US$52.7 million in the first half of the financial year 2014. The region accounted for 5.9% of Group revenue.

Revenue from TEL products was up by 2.7% to US$19.2 million. Growth was seen in Australia and China, driven by higher sales of integrated access devices and cordless telephones respectively. Sales in Japan returned to normal levels as compared with the strong rebound seen in the same period last year when the country was recovering from the severe earthquake.

Revenue from ELPs in Asia Pacific was US$11.9 million, a 6.3% increase over the same period last year. Sales were higher in China, as we made further inroads into the market. Shipment to Australia, our biggest market in Asia Pacific, was down due to the overall softness in the Australian toy market.

CMS revenue in Asia Pacific increased by 2.4% as compared with the first half of the previous financial year, to US$21.6 million. Sales of marine radios and medical & health products were higher, offsetting lower sales of solid state lighting. During the period, we started shipping the first item of our new product category, testing and measurement equipment, to our Japanese customer.

Revenue in Asia Pacific by Product Line
for the six months ended 30 September 2013



Total: US$52.7 million

Other Regions

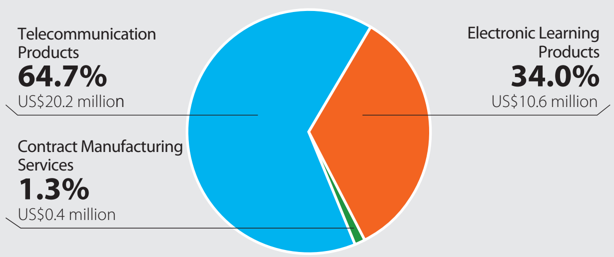
Other Regions include Latin America, the Middle East and Africa. Revenue in the first half of the financial year 2014 was US$31.2 million, down 8.5% as compared with the same period last year. These regions accounted for 3.5% of Group revenue.

Revenue from TEL products increased by 3.6% to US$20.2 million. Growth was seen in Latin America, offsetting the sales declines in the Middle East and Africa.

ELPs revenue in Other Regions decreased by 25.9% to US$10.6 million. The decline was mainly due to lower sales in Latin America and the Middle East.

CMS revenue in Other Regions was US$0.4 million, as compared to US$0.3 million in the same period last year.

Revenue in Other Regions by Product Line
for the six months ended 30 September 2013



Total: US$31.2 million

Outlook

The operating environment in our major markets is likely to remain challenging for the remainder of the financial year. In the US, the pace of recovery appears to be slowing, while many European economies face conditions that are still tough and uncertain. Nonetheless, we are optimistic of achieving top-line growth with improved gross profit margin for the full financial year 2014.

Although we expect labour costs and manufacturing overheads to rise further, these will be offset by lower cost of materials, resulting in gross margin improvement year on year. We are, however, planning for higher advertising and promotional expenses in the second half in order to maintain sales in a competitive environment.

Sales of TEL products are expected to pick up in the second half. Our residential phone businesses in Europe and Other Regions are improving. Continued growth is expected in North America and Asia Pacific, driven by further market share gains and new product launches. Our non-residential phone business will continue to expand, driven by a number of significant new product launches globally in the second half of the financial year. These include VTech's first wireless conferencing system, a SIP (Session Initiation Protocol) terminal, SIP-based commercial phones, new models of baby monitors and connected home devices.

The positive momentum in ELPs is expected to carry into the second half, driven by the good sell-through of our standalone products, especially Go! Go! Smart Wheels and Switch and Go Dinos. Sales of platform products are expected to hold steady. In light of the keen competition in the children's tablet market in the US and the UK, aggressive advertising and promotions have been planned for the holiday season.

CMS is expected to see growth in the second half of the financial year. The sales increase will be driven by more orders from existing customers in professional audio equipment and wireless headsets. Additional business from new customers in both existing and new product categories will also support growth.

In conclusion, we have made a solid start to the financial year 2014 and look set to continue on a growth path in the second half of the financial year. Even though the operating environment in our key markets remains challenging, VTech will continue to leverage its strength in product innovation, strong balance sheet, market leadership and operational excellence to bring sustainable returns to shareholders.

Allan WONG Chi Yun
Chairman

Hong Kong, 13 November 2013

Management Discussion and Analysis

Financial Overview

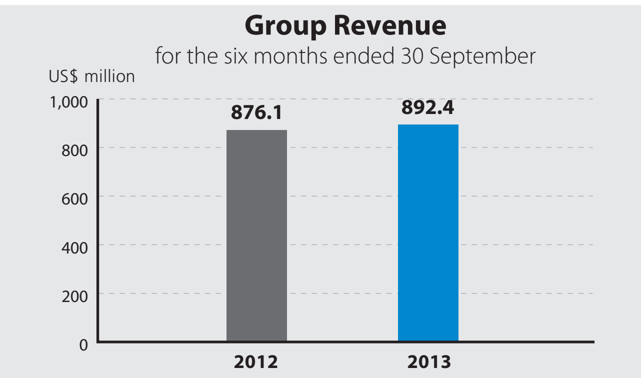
For the six months ended 30 September 2013	Six months ended 30 September 2013 US$ million	2012 (Restated) US$ million	Change US$ million
Revenue	**892.4**	876.1	16.3
Gross profit	**282.5**	266.3	16.2
Gross profit margin	**31.7%**	30.4%	
Total operating expenses	**(177.5)**	(167.3)*	(10.2)
Total operating expenses as a percentage of revenue	**19.9%**	19.1%	
Operating profit	**105.0**	99.0*	6.0
Operating profit margin	**11.8%**	11.3%	
Net finance income	**0.8**	1.9	(1.1)
Profit before taxation	**105.8**	100.9*	4.9
Taxation	**(10.6)**	(10.0)	(0.6)
Effective tax rate	**10.0%**	9.9%	
Profit for the period and attributable to shareholders of the Company	**95.2**	90.9*	4.3

* Restated upon the adoption of IAS 19 (Revised 2011) as described in note 2 to the Interim Financial Report.

Revenue

Group revenue for the six months ended 30 September 2013 rose by 1.9% over the same period of the previous financial year to US$892.4 million. The increase in revenue was largely driven by higher sales in North America, Europe and Asia Pacific, which offset a decrease in revenue in other regions.

	Six months ended 30 September 2013		Six months ended 30 September 2012		Increase/(decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**455.8**	**51.1%**	439.0	50.1%	16.8	3.8%
Europe	**352.7**	**39.5%**	352.0	40.2%	0.7	0.2%
Asia Pacific	**52.7**	**5.9%**	51.0	5.8%	1.7	3.3%
Other regions	**31.2**	**3.5%**	34.1	3.9%	(2.9)	–8.5%
	892.4	**100.0%**	876.1	100.0%	16.3	1.9%



Gross Profit/Margin

Gross profit for the six months ended 30 September 2013 was US$282.5 million, an increase of US$16.2 million or 6.1% compared to the US$266.3 million recorded in the same period last year. Gross profit margin for the period rose from 30.4% to 31.7%. The decline in material costs offset the higher labour cost and manufacturing overheads arising from the increase in wages and production capacity, as well as Renminbi appreciation during the first half of the financial year 2014.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2013 was US$105.0 million, an increase of US$6.0 million or 6.1% compared with the same period of the previous financial year. Operating profit margin also rose from 11.3% to 11.8%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and the improvement in gross profit margin, which offset the increase in total operating expenses as percentage of Group revenue.

Total operating expenses were US$177.5 million, an increase of 6.1% over the same period last year. Total operating expenses as a percentage of Group revenue also rose from 19.1% to 19.9%.

Selling and distribution costs increased from US$111.9 million to US$115.6 million, an increase of 3.3% compared with the same period last year. It was mainly attributable to the increased spending on advertising and promotional activities by the Group during the first half of the financial year. As a percentage of Group revenue, selling and distribution costs rose from 12.8% to 13.0%.

Administrative and other operating expenses rose from US$26.9 million to US$31.4 million over the same period last year, which was mainly due to the increase in employee related costs. An exchange loss of US$0.5 million arising from the Group's global operations in the ordinary course of business was also recorded in the first half of the financial year 2014, which contrasted with an exchange gain of US$0.4 million in the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.0% to 3.5%.

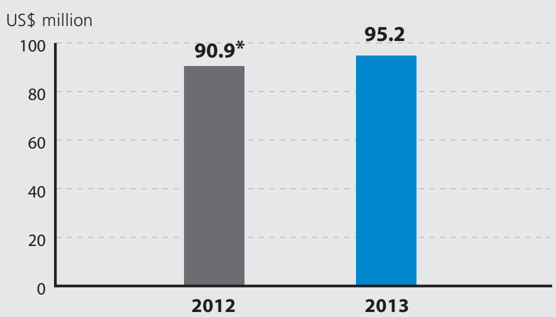
During the first half of the financial year 2014, the research and development expense was US$30.5 million, an increase of 7.0% over the same period last year. Research and development expense as a percentage of Group revenue rose from 3.3% to 3.4%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2013 was US$95.2 million, an increase of US$4.3 million or 4.7% compared with the same period last year. Net profit margin also increased from 10.4% to 10.7%.

Basic earnings per share for the six months ended 30 September 2013 were US38.0 cents as compared to US36.4 cents in the first half of the previous financial year.

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



* Restated

Dividends

Since the balance sheet date, the directors of the Company (the "Directors") have declared an interim dividend of US16.0 cents per share, which is estimated to be US$40.1 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As of 30 September 2013, the Group had deposits and cash of US$94.7 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements.

Working Capital

Stocks as of 30 September 2013 were US$399.3 million, increased from US$276.9 million as of 31 March 2013. The higher stock level was primarily to cater for the increased demand of the Group's products in the second half of the financial year and the seasonality of most of the Group's businesses. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities. As compared to the corresponding period of last financial year, stocks increased by US$59.3 million or 17.4%, and turnover days increased from 111 days to 126 days.

Trade debtors as of 30 September 2013 were US$380.2 million, increased from US$224.9 million as of 31 March 2013. This was mainly due to the growth in revenue in the first half of the financial year and the seasonal nature of most of the Group's businesses. As compared to the corresponding period of last financial year, trade debtors increased by US$2.9 million or 0.8%, and turnover days decreased from 61 days to 59 days.

Trade creditors as of 30 September 2013 were US$259.3 million, increased from US$176.2 million as of 31 March 2013. As compared to the corresponding period of last financial year, trade creditors increased by US$14.8 million or 6.1%, and turnover days increased from 74 days to 85 days.

Treasury Policies

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

Capital Expenditure and Contingencies

For the six months ended 30 September 2013, the Group invested US$17.3 million in the purchase of tangible assets including plant and machinery, equipment, computer systems, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

As of 30 September 2013, the Group had no material contingencies.

Interim Financial Report

Consolidated Income Statement

For the period ended 30 September 2013

	Note	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited and restated) US$ million	Year ended 31 March 2013 (Audited and restated) US$ million
Revenue	3	**892.4**	876.1	1,858.0
Cost of sales		**(609.9)**	(609.8)	(1,260.2)
Gross profit		**282.5**	266.3	597.8
Selling and distribution costs		**(115.6)**	(111.9)	(260.0)
Administrative and other operating expenses		**(31.4)**	(26.9)	(56.8)
Research and development expenses		**(30.5)**	(28.5)	(57.1)
Operating profit	3&4	**105.0**	99.0	223.9
Net finance income		**0.8**	1.9	1.7
Profit before taxation		**105.8**	100.9	225.6
Taxation	5	**(10.6)**	(10.0)	(24.1)
Profit for the period/year and attributable to shareholders of the Company		**95.2**	90.9	201.5
Earnings per share (US cents)	7			
– Basic		**38.0**	36.4	80.6
– Diluted		**38.0**	36.3	80.5

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2013

	Note	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited and restated) US$ million	Year ended 31 March 2013 (Audited and restated) US$ million
Profit for the period/year		**95.2**	90.9	201.5
Other comprehensive income (after tax and reclassification adjustments) for the period/year				
Items that will not be reclassified to profit or loss:				
Deficit arising on revaluation of properties, net of deferred tax		**–**	–	(1.7)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	2	**3.6**	(1.7)	2.3
		3.6	(1.7)	0.6
Items that may be reclassified subsequently to profit or loss:				
Fair value gains on hedging		**4.6**	0.1	2.5
Realisation of hedging reserve		**(1.1)**	(0.8)	(1.5)
Exchange translation differences		**5.9**	(1.9)	(3.6)
		9.4	(2.6)	(2.6)
Other comprehensive income for the period/year		**13.0**	(4.3)	(2.0)
Total comprehensive income for the period/year		**108.2**	86.6	199.5

Consolidated Balance Sheet

As at 30 September 2013

	Note	30 September 2013 (Unaudited) US$ million	2012 (Unaudited and restated) US$ million	31 March 2013 (Audited and restated) US$ million
Non-current assets				
Tangible assets		**91.7**	92.6	88.4
Leasehold land payments		**5.2**	5.1	5.2
Investments		**0.1**	0.2	0.1
Deferred tax assets		**8.0**	9.7	4.6
		105.0	107.6	98.3
Current assets				
Stocks	8	**399.3**	340.0	276.9
Debtors, deposits and prepayments	9	**417.5**	411.8	257.1
Taxation recoverable		**0.7**	0.2	0.4
Deposits and cash		**94.7**	108.9	308.6
		912.2	860.9	843.0
Current liabilities				
Creditors and accruals	10	**(447.5)**	(417.2)	(330.6)
Provisions		**(28.8)**	(31.5)	(28.2)
Taxation payable		**(16.4)**	(11.0)	(7.2)
		(492.7)	(459.7)	(366.0)
Net current assets		**419.5**	401.2	477.0
Total assets less current liabilities		**524.5**	508.8	575.3
Non-current liabilities				
Net obligations on defined benefit scheme	2	**(2.9)**	(10.6)	(6.5)
Deferred tax liabilities		**(4.5)**	(5.7)	(4.5)
		(7.4)	(16.3)	(11.0)
Net assets		**517.1**	492.5	564.3
Capital and reserves				
Share capital	11	**12.5**	12.5	12.5
Reserves		**504.6**	480.0	551.8
Total equity		**517.1**	492.5	564.3

Condensed Consolidated Statement of Cash Flows

For the period ended 30 September 2013

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million	Year ended 31 March 2013 (Audited) US$ million
Net cash (used in)/generated from operating activities	**(45.8)**	(58.1)	196.5
Investing activities			
Purchase of tangible assets	**(17.3)**	(17.0)	(29.9)
Proceeds from disposal of tangible assets	**0.2**	0.5	1.0
Proceeds received from bank deposits with maturity greater than three months	**125.0**	150.0	15.0
Net cash generated from/(used in) investing activities	**107.9**	133.5	(13.9)
Net cash used in financing activities	**(156.8)**	(141.8)	(182.8)
Effect of exchange rate changes	**5.8**	(1.2)	(2.7)
Decrease in cash and cash equivalents	**(88.9)**	(67.6)	(2.9)
Cash and cash equivalents at the beginning of period/year	**173.6**	176.5	176.5
Cash and cash equivalents at the end of period/year	**84.7**	108.9	173.6
Analysis of the balance of cash and cash equivalents			
Deposits and cash in the consolidated balance sheet	**94.7**	108.9	308.6
Less: Bank deposits with maturity greater than three months	**(10.0)**	–	(135.0)
Cash and cash equivalents in the condensed consolidated cash flow statement	**84.7**	108.9	173.6

The notes on pages 8 to 14 form part of this Interim Financial Report. Details of dividends payable to shareholders of the Company attributable to the profit for the period are set out in note 6.

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2013 – unaudited

	Note	Attributable to shareholders of the Company								
	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Properties revaluation reserve US$ million	Exchange reserve US$ million	Capital reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2013, as previously reported		12.5	138.6	(0.9)	19.6	5.8	2.2	2.4	392.1	572.3
Effect of adoption of IAS 19 (Revised 2011)	2	–	–	–	–	–	–	–	(8.0)	(8.0)
At 1 April 2013, as restated		12.5	138.6	(0.9)	19.6	5.8	2.2	2.4	384.1	564.3
Changes in equity for the six months ended 30 September 2013										
Comprehensive income										
Profit for the period		–	–	–	–	–	–	–	95.2	95.2
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	4.6	–	4.6
Realisation of hedging reserve		–	–	–	–	–	–	(1.1)	–	(1.1)
Exchange translation differences		–	–	–	–	5.9	–	–	–	5.9
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		–	–	–	–	–	–	–	3.6	3.6
Other comprehensive income for the period		–	–	–	–	5.9	–	3.5	3.6	13.0
Total comprehensive income for the period		–	–	–	–	5.9	–	3.5	98.8	108.2
Dividends approved and paid during the period	6	–	–	–	–	–	–	–	(160.5)	(160.5)
Shares issued under share option scheme	11(a)	–	4.7	–	–	–	–	–	–	4.7
Equity-settled share based payments		–	1.2	–	–	–	(1.2)	–	–	–
Shares purchased for Share Purchase Scheme	11(c)	–	–	(1.0)	–	–	–	–	–	(1.0)
Vesting of shares of Share Purchase Scheme	11(c)	–	–	1.4	–	–	–	–	–	1.4
At 30 September 2013		**12.5**	**144.5**	**(0.5)**	**19.6**	**11.7**	**1.0**	**5.9**	**322.4**	**517.1**
At 1 April 2012, as previously reported		12.5	128.2	(0.9)	21.3	9.4	4.2	1.4	380.1	556.2
Effect of adoption of IAS 19 (Revised 2011)	2	–	–	–	–	–	–	–	(9.5)	(9.5)
At 1 April 2012, as restated		12.5	128.2	(0.9)	21.3	9.4	4.2	1.4	370.6	546.7
Changes in equity for the six months ended 30 September 2012										
Comprehensive income										
Profit for the period, as restated		–	–	–	–	–	–	–	90.9	90.9
Other comprehensive income (after tax and reclassification adjustments)										
Fair value gains on hedging		–	–	–	–	–	–	0.1	–	0.1
Realisation of hedging reserve		–	–	–	–	–	–	(0.8)	–	(0.8)
Exchange translation differences		–	–	–	–	(1.9)	–	–	–	(1.9)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax, as restated		–	–	–	–	–	–	–	(1.7)	(1.7)
Other comprehensive income for the period, as restated		–	–	–	–	(1.9)	–	(0.7)	(1.7)	(4.3)
Total comprehensive income for the period, as restated		–	–	–	–	(1.9)	–	(0.7)	89.2	86.6
Dividends approved and paid during the period	6	–	–	–	–	–	–	–	(150.2)	(150.2)
Shares issued under share option scheme	11(a)	–	8.4	–	–	–	–	–	–	8.4
Equity-settled share based payments		–	2.1	–	–	–	(2.0)	–	–	0.1
Vesting of shares of Share Purchase Scheme	11(c)	–	–	0.9	–	–	–	–	–	0.9
At 30 September 2012, as restated		12.5	138.7	–	21.3	7.5	2.2	0.7	309.6	492.5

The notes on pages 8 to 14 form part of this Interim Financial Report.

1 Basis of Preparation

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

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the changes mentioned in note 2.

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

The Interim Financial Report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The Interim Financial Report has not been audited or reviewed by the auditors pursuant to the International Auditing Practices Board guidance on International Standards on Review Engagements 2410 *"Review of Interim Financial Information performed by the independent auditor of the entity"*.

The financial information relating to the financial year ended 31 March 2013 included in the Interim Financial Report does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 March 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 May 2013.

2 Changes in Accounting Policies

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

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

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

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

IAS 19 (Revised 2011), *Employee benefits*

IAS 19 (Revised 2011) introduces a number of amendments to the accounting for defined benefit scheme. Among them, IAS 19 (Revised 2011) eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit scheme could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. IAS 19 (Revised 2011) also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of IAS 19 (Revised 2011), the Group has changed its accounting policy with respect to defined benefit scheme, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 30 September 2012 and 31 March 2013, and the results for the six months ended 30 September 2012 and the year ended 31 March 2013 as follows:

	As previously reported US$ million	Effect of adoption of IAS 19 (Revised 2011) US$ million	As restated US$ million
Consolidated income statement for the six months ended 30 September 2012			
Administrative and other operating expenses	(26.6)	(0.3)	(26.9)
Profit for the period	91.2	(0.3)	90.9
Basic earnings per share (US cents)	36.5	(0.1)	36.4
Diluted earnings per share (US cents)	36.5	(0.2)	36.3
Consolidated statement of comprehensive income for the six months ended 30 September 2012			
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	–	(1.7)	(1.7)
Total comprehensive income for the period	88.6	(2.0)	86.6
Consolidated balance sheet as at 30 September 2012			
Debtors, deposits and prepayments	414.0	(2.2)	411.8
Net obligations on defined benefit scheme	–	(10.6)	(10.6)
Deferred tax assets	8.4	1.3	9.7
Revenue reserve	321.1	(11.5)	309.6

2 Changes in Accounting Policies (continued)

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

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

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

The improvements to IFRSs 2009 to 2011 cycle consists of six amendments to five existing standards, including an amendment to IAS 34, *Interim Financial Reporting*. The amendment aligns the disclosure requirements for segment assets and liabilities in interim financial reports with those in IFRS 8, *Operating Segments*. It has had no significant impact on the results and financial position of the Group.

IFRS 10, *Consolidated financial statements*

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

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

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this Interim Financial Report as a result of adopting IFRS 12.

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and nonfinancial instruments. Some of the disclosures are specifically required for financial instruments in the Interim Financial Reports. The Group has provided those disclosures in note 12. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.

The adoption of the other revisions, amendments and new standards has had no effect on the Group's interim financial information.

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

3 Segment Information

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

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

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

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

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

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

(a) Segment revenues and results

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

The measure used for reporting segment profit is operating profit.

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

3 Segment Information (continued)

(b) Segment assets and liabilities

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

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

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

	Reportable segment revenue Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
North America	**455.8**	439.0
Europe	**352.7**	352.0
Asia Pacific	**52.7**	51.0
Others	**31.2**	34.1
	892.4	876.1

	Reportable segment profit Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited and restated) US$ million
North America	**52.0**	47.7
Europe	**40.8**	37.6
Asia Pacific	**7.1**	7.8
Others	**5.1**	5.9
	105.0	99.0

	Reportable segment assets 30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited and restated) US$ million
North America	**256.6**	168.0
Europe	**207.8**	109.7
Asia Pacific	**543.7**	658.0
Others	**0.3**	0.5
	1,008.4	936.2

	Reportable segment liabilities 30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
North America	**(58.3)**	(45.4)
Europe	**(45.7)**	(27.0)
Asia Pacific	**(371.0)**	(285.5)
Others	**(1.3)**	(0.9)
	(476.3)	(358.8)

(c) Reconciliation of reportable segment assets and liabilities

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited and restated) US$ million
Assets		
Reportable segment assets	**1,008.4**	936.2
Investments	**0.1**	0.1
Taxation recoverable	**0.7**	0.4
Deferred tax assets	**8.0**	4.6
Consolidated total assets	**1,017.2**	941.3
Liabilities		
Reportable segment liabilities	**(476.3)**	(358.8)
Taxation payable	**(16.4)**	(7.2)
Net obligations on defined benefit scheme	**(2.9)**	(6.5)
Deferred tax liabilities	**(4.5)**	(4.5)
Consolidated total liabilities	**(500.1)**	(377.0)

4 Operating Profit

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

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Cost of inventories	**609.9**	609.8
Depreciation of tangible assets	**15.4**	14.4
(Gain)/loss on disposal of tangible assets	**(0.1)**	0.1
Write-down of inventories net of reversals	**1.9**	2.3
Impairment loss of trade debtors net of reversals	**1.0**	1.8
Interest income from bank deposits	**(0.8)**	(1.9)
Net foreign exchange loss/(gain)	**0.5**	(0.4)

5 Taxation

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Current tax		
– Hong Kong	**11.5**	10.5
– Overseas	**2.9**	2.1
Deferred tax		
– Origination and reversal of temporary differences	**(3.8)**	(2.6)
	10.6	10.0
Current tax	**14.4**	12.6
Deferred tax	**(3.8)**	(2.6)
	10.6	10.0

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

6 Dividends

(a) Dividends attributable to the period:

	Six months ended 30 September 2013 (Unaudited) US$ million	2012 (Unaudited) US$ million
Interim dividend of US16.0 cents (2012: US16.0 cents) per share declared	**40.1**	40.1

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

(b) At a meeting held on 15 May 2013, the Directors proposed a final dividend of US64.0 cents (2012: US60.0 cents) per ordinary share for the year ended 31 March 2013, which was estimated to be US$160.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2013. The final dividend was approved by shareholders at the annual general meeting on 12 July 2013. As a result of shares issuance upon exercise of share options during the period between 1 April 2013 and 12 July 2013, the final dividend paid in respect of the year ended 31 March 2013 totaled US$160.5 million (2012: US$150.2 million).

7 Earnings per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$95.2 million (2012: US$90.9 million, as restated).

The calculation of basic earnings per share is based on the weighted average of 250.6 million (2012: 249.9 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share is based on 250.7 million (2012: 250.1 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential ordinary shares under the Company's share option scheme.

	Six months ended 30 September 2013 (Unaudited)	2012 (Unaudited and restated)
Profit attributable to shareholders (US$ million)	**95.2**	90.9
Weighted average number of ordinary shares in issue less shares held for Share Purchase Scheme (in million)	**250.6**	249.9
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (in million)	**0.1**	0.2
Weighted average number of ordinary shares (diluted) (in million)	**250.7**	250.1
Diluted earnings per share (US cents)	**38.0**	36.3

8 Stocks

Stocks in the consolidated balance sheet at 30 September 2013 comprised mainly of finished goods of US$292.9 million (31 March 2013: US$157.8 million, 30 September 2012: US$201.0 million).

9 Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$417.5 million (31 March 2013: US$257.1 million, as restated, 30 September 2012: US$411.8 million, as restated) include trade debtors of US$380.2 million (31 March 2013: US$224.9 million, 30 September 2012: US$377.3 million).

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

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
0-30 days	**218.8**	114.9
31-60 days	**115.7**	77.3
61-90 days	**42.5**	24.3
>90 days	**3.2**	8.4
Total	**380.2**	224.9

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

10 Creditors and Accruals

Creditors and accruals of US$447.5 million (31 March 2013: US$330.6 million, 30 September 2012: US$417.2 million) include trade creditors of US$259.3 million (31 March 2013: US$176.2 million, 30 September 2012: US$244.5 million).

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
Trade creditors	**259.3**	176.2
Other creditors and accruals	**188.2**	154.4
	447.5	330.6

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

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
0-30 days	**81.0**	68.3
31-60 days	**80.6**	35.1
61-90 days	**71.2**	47.5
>90 days	**26.5**	25.3
Total	**259.3**	176.2

11 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
Authorised		
Ordinary shares: 400,000,000 (31 March 2013: 400,000,000) of US$0.05 each	**20.0**	20.0

	30 September 2013 (Unaudited)		31 March 2013 (Audited)	
	No. of shares	US$ million	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At the beginning of period/year	**250,378,133**	**12.5**	249,489,133	12.5
Shares issued upon exercise of share options	**494,000**	**–**	889,000	–
At the end of period/year	**250,872,133**	**12.5**	250,378,133	12.5

The Company's issued and fully paid shares as at 30 September 2013 included 39,000 shares (31 March 2013: 82,800 shares) held in trust by the trustee under a share purchase scheme (the "Share Purchase Scheme"), details of which are set out in note 11(c).

(b) Share Options

The Company operates a share option scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of these share option schemes include employees and officers of any member of the Group.

At the annual general meeting of the Company held on 22 July 2011, the shareholders of the Company approved the adoption of a new share option scheme of the Company (the "2011 Scheme") and the cancellation of the share option scheme adopted by the Company on 10 August 2001 (the "2001 Scheme") which originally would have expired on 9 August 2011, upon which no further options will be offered but in all other respects the provisions of the 2001 Scheme shall remain in force and the options granted prior to the cancellation of the 2001 Scheme shall continue to be valid and exercisable in accordance with the 2001 Scheme.

As at the date of adoption of the 2011 Scheme, the maximum number of shares which may be issued upon exercise of all options to be granted under the 2011 Scheme or any other share option schemes adopted by the Company is 24,938,913 shares. Further details of the 2011 Scheme are set out in the circular of the Company dated 20 June 2011. Under the 2011 Scheme, the Directors may, at their discretion, at any time during 10 years from the date of adoption of the 2011 Scheme, invite employees and officers of any member of the Group to subscribe for shares of the Company in accordance with the terms of the 2011 Scheme. During the financial period and since the adoption of the 2011 Scheme, no options were granted, exercised, lapsed or cancelled under the 2011 Scheme.

As at the date of this Interim Report, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 360,000 shares, which represented approximately 0.14% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the financial period were as follows:

			Number of share options		
Date of grant	Exercise price	Exercisable period (Note 1)	Balance in issue at 1 April 2013	Exercised during the period	Balance in issue at 30 September 2013
Directors					
17 April 2008	HK$41.07	23 April 2011 to 22 April 2013	128,000	(128,000) (Note 2)	**–**
9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	384,000	(174,000) (Note 3)	**210,000**
Employees					
9 April 2010	HK$85.35	12 April 2012 to 18 April 2014	342,000	(192,000) (Note 4)	**150,000**
			854,000	(494,000)	**360,000**

Notes:
(1) The 2001 Scheme does not specify any minimum holding period before the option can be exercised but the Board has the authority to determine the minimum holding period at the time of grant of any particular option.
(2) An aggregate of 128,000 share options were exercised at the exercise price of HK$41.07 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$106.50 per share and HK$102.40 per share respectively.
(3) An aggregate of 174,000 share options were exercised at the exercise price of HK$85.35 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$116.90 per share and HK$113.10 per share respectively.
(4) An aggregate of 192,000 share options were exercised at the exercise price of HK$85.35 per share during the financial period. The weighted average closing prices of the shares of the Company immediately before the date on which the options were exercised and at the date of exercise were HK$114.10 per share and HK$115.54 per share respectively.
(5) No options were granted, lapsed or cancelled during the financial period.

11 Share Capital, Share Options and Share Purchase Scheme (continued)

(b) Share Options (continued)

Share option expenses charged to the consolidated income statement are determined using the Black-Scholes option pricing model based on the following assumptions:

	Date of grant	
	17 April 2008 (Note 1)	9 April 2010 (Note 2)
Fair value of each share option as of the date of grant	HK$5.95	HK$22.12
Closing price at the date of grant	HK$40.1	HK$85.1
Exercise price	HK$41.07	HK$85.35
Expected volatility	43.33%	54.24%
Annual risk-free interest rate	1.88%	0.99%
Expected average life of options	3.5 years	2.5 years
Expected dividend yield (Note 3)	10.3%	5.22%
Exercisable period	23 April 2011 to 29 April 2013	12 April 2012 to 4 May 2014

Notes:
(1) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the two years immediately preceding the grant date.
(2) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the three years immediately preceding the grant date.
(3) Expected dividend yield is based on historical dividends over one year prior to grant date.
(4) Changes in the subjective input assumptions could significantly affect the fair value estimate.

(c) Share Purchase Scheme

On 30 March 2011 (the "Adoption Date"), the Company adopted the Share Purchase Scheme, which is a share incentive award scheme for the purpose of incentivising employees and attracting suitable personnel for the continuous development of the Group. Eligible participants of the Share Purchase Scheme include Directors, officers and employees of any member of the Group as the Remuneration Committee may determine or approve. The shares to be awarded pursuant to the Share Purchase Scheme (the "Awarded Shares") will be the existing shares, which will be purchased on the Stock Exchange by the independent trustee with funds provided by the Company, and will be awarded in such manner as the Remuneration Committee may determine or approve. The maximum number of shares that can be held by the trustee under the Share Purchase Scheme is limited to 3% of the issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting). The Share Purchase Scheme shall be valid and effective for a term of 20 years from the Adoption Date. The Awarded Shares will be granted to the eligible participants subject to the applicable conditions and vesting period as determined by the Remuneration Committee.

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

During the six months ended 30 September 2013, 69,000 shares (30 September 2012: 1,400 shares) were acquired on the Stock Exchange pursuant to the Share Purchase Scheme. The total amount paid to acquire the shares during the period was US$1.0 million (30 September 2012: US$15,000).

Details of the Awarded Shares which have vested during the six months ended 30 September 2012 and 30 September 2013 are as follows:

	30 September 2013 (Unaudited)	30 September 2012 (Unaudited)
Date of award (Note 1)	**7 June 2013**	15 June 2012
Average purchase cost per share	**HK$95.17**	HK$74.16
Number of Awarded Shares granted (Note 4)	**112,800**	95,900
Cost of related Awarded Shares	**US$1.4 million**	US$0.9 million
Vesting period	**7 June 2013 to 13 June 2013**	15 June 2012 to 14 July 2012
Vesting period for share granted under French Subplan	**7 June 2015 to 13 June 2015**	–

Notes:
(1) The date of award refers to the date on which the Company issued the letter of award to the eligible participants for the entitlement of the Awarded Shares.
(2) No Awarded Shares were granted to executive Directors or non-executive Directors during the financial period.
(3) No Awarded Shares were lapsed or cancelled during the financial period.
(4) Including 12,400 Awarded Shares granted under the French Subplan during the six months ended 30 September 2013.

As at 30 September 2013, a total of 39,000 shares (31 March 2013: 82,800 shares) were held in trust by the trustee under the Share Purchase Scheme. Dividends derived from the shares held under the trust will be reinvested to acquire further shares.

During the six months ended 30 September 2013, share-based payment expenses of US$1.4 million (30 September 2012: US$0.9 million) in respect of the Awarded Shares was charged to the consolidated income statement.

12 Fair Value Measurements of Financial Instruments

(a) Financial assets and liabilities measured at fair value

The Group's financial instruments are measured at fair value at the end of the reporting period on a recurring basis, categorized into three-level fair value hierarchy as defined in IFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: fair values measured using quoted prices in active markets for identical financial instruments
- Level 2: fair values measured using inputs other than quoted prices but whose inputs are directly or indirectly based on observable market data
- Level 3: fair values measured using inputs not based on observable market data

At 30 September 2013, the fair values of the forward foreign exchange contracts included in financial assets and liabilities were US$6.2 million and US$3.2 million respectively (31 March 2013: US$3.3 million (financial assets)). At 30 September 2013 and 31 March 2013, the fair values of all forward foreign exchange contracts were categorised as Level 2.

During the six months ended 30 September 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 fair value hierarchy classifications.

The fair value of forward foreign exchange contracts in Level 2 has been determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are exchange rates, discount rate and yields.

13 Capital Commitments

	30 September 2013 (Unaudited) US$ million	31 March 2013 (Audited) US$ million
Capital commitments for property, plant and equipment:		
Authorised but not contracted for	**9.8**	25.7
Contracted but not provided for	**6.0**	7.1
	15.8	32.8

14 Contingent Liabilities

The Directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. In the opinion of the legal counsel, it is too early to evaluate the outcome of these claims and provisions have been made only to the extent that the amounts can be reliably estimated.

Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective business. Having reviewed the outstanding claims and taking into account of legal advice received, the Directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

As at 30 September 2013, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries related to overdrafts, short term loans and credit facilities of up to US$317.2 million (31 March 2013: US$267.7 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at the period end date, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

15 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet effective for the Annual Accounting period ending 31 March 2014

Up to the date of the interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ending 31 March 2014 and which have not been adopted in the interim financial report.

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

	Effective for accounting period beginning on or after
Amendments to IAS 32, *Financial instruments: Presentation-Offsetting financial assets and financial liabilities*	1 January 2014
Amendments IAS 36, *Recoverable amounts disclosure for non-financial assets*	1 January 2014
Amendments to IFRS 10, *Consolidated financial statements*, IFRS 12, *Disclosure of interests in other entities* and IAS 27 *Separate financial statements "Investment entities"*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

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

16 Approval of Interim Financial Report

The Interim Financial Report was approved by the Board on 13 November 2013.

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

As at 30 September 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

(1) Interests in the Company

	Number of ordinary shares					
Name of Director	Personal interest	Family interest	Other interest	Equity derivatives (share options)	Total	Approximate percentage of shareholding
Allan WONG Chi Yun	9,654,393	3,968,683	74,101,153 (Note 1)	–	87,724,229	34.97%
PANG King Fai	–	–	–	210,000	210,000	0.08%
Andy LEUNG Hon Kwong	128,000	–	–	–	128,000	0.05%
William FUNG Kwok Lun	449,430	–	592,200 (Note 2)	–	1,041,630	0.42%
Michael TIEN Puk Sun	–	211,500 (Note 3)	211,500 (Note 3)	–	423,000	0.17%
Patrick WANG Shui Chung	162,000	–	–	–	162,000	0.06%

Notes:
(1) The shares were beneficially owned as to 1,416,325 shares by Honorex Limited ("Honorex"), as to 65,496,225 shares by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 shares by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets Limited ("Surplus Assets"). Surplus Assets was wholly owned by Credit Suisse Trust Limited as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was the founder. Surplus Assets was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Surplus Assets was wholly owned by Credit Suisse Trust Limited which was deemed to be interested in such shares by virtue of the SFO.
(2) The shares were held by Golden Step Limited which was beneficially owned by Dr. William FUNG Kwok Lun.
(3) The shares were held by Romsley International Limited which was jointly owned by Mr. Michael TIEN Puk Sun and his spouse.
(4) All the interests stated above represented long positions.

(2) Share Options of the Company

				Number of share options held	
Name of Director	Date of grant	Exercise price	Exercisable period	as at 1 April 2013	as at 30 September 2013
PANG King Fai	17 April 2008	HK$41.07	23 April 2011 to 22 April 2013	128,000	– (Note 1)
	9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	256,000	210,000 (Note 2)
Andy LEUNG Hon Kwong	9 April 2010	HK$85.35	13 April 2012 to 12 April 2014	128,000	– (Note 2)

Notes:
(1) The weighted average closing price per share of the Company immediately before the date on which the options were exercised was HK$106.50.
(2) The weighted average closing price per share of the Company immediately before the date on which the options were exercised was HK$116.90.

Save as disclosed above, as at 30 September 2013, none of the Directors and chief executives of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Disclosure of Interests

Substantial Shareholdings

As at 30 September 2013, other than the interests of the Directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Long Positions			
Credit Suisse Trust Limited	Interest of controlled corporation (Note 1)	74,101,153	29.54%
Surplus Assets Limited	Interest of controlled corporation (Note 1)	74,101,153	29.54%
Honorex Limited	Interest of controlled corporation (Note 1)	65,496,225	26.11%
	Beneficial owner (Note 1)	1,416,325	0.56%
Conquer Rex Limited	Beneficial owner (Note 1)	65,496,225	26.11%
Templeton Asset Management Limited	Investment manager	37,538,400	14.96%
JPMorgan Chase & Co.	Beneficial owner (Note 2)	764,201	0.30%
	Investment manager (Note 2)	3,664,400	1.46%
	Custodian corporation/approved lending agent (Note 2)	10,377,015	4.14%
Short Positions			
JPMorgan Chase & Co.	Beneficial owner (Note 2)	527,168	0.21%
Lending Pool			
JPMorgan Chase & Co.	Custodian corporation/approved lending agent (Note 2)	10,377,015	4.14%

Notes:

(1) The shares were beneficially owned as to 1,416,325 shares by Honorex, as to 65,496,225 shares by Conquer Rex and as to 7,188,603 shares by Twin Success. Conquer Rex was wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets. Surplus Assets was wholly owned by Credit Suisse Trust Limited as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was the founder. Surplus Assets was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Surplus Assets was wholly owned by Credit Suisse Trust Limited which was deemed to be interested in such shares by virtue of the SFO. Dr. Allan WONG Chi Yun's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this Interim Report.

(2) The capacities of JPMorgan Chase & Co. in holding the 14,805,616 shares (long position) and 527,168 shares (short position) were as to (i) 764,201 shares (long position) and 527,168 shares (short position) as beneficial owner, (ii) 3,664,400 shares (long position) as investment manager and (iii) 10,377,015 shares (long position) in the lending pool as custodian. The interest of JPMorgan & Co. was attributable on account through a number of entitles directly or indirectly controlled by JPMorgan Chase & Co.

Save as disclosed above, as at 30 September 2013, the Company had not been notified by any person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by Company under Section 336 of the SFO.

Corporate Governance Code

VTech Holdings Limited is incorporated in Bermuda and has its shares listed on the Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2013, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

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

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management and Sustainability Committee with defined terms of reference which are no less exacting than those set out in the Code. Corporate governance practices adopted by the Company during the six months ended 30 September 2013 are in line and consistent with those practices set out in the Company's 2013 Annual Report.

Mr. Denis Morgie HO Pak Cho retired as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 12 July 2013 ("2013 AGM"). Following Mr. Denis Morgie HO Pak Cho's retirement, he also ceased to be the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee, and Mr. WONG Kai Man was appointed as the chairman of the Audit Committee in place of Mr. Denis Morgie HO Pak Cho with effect from the conclusion of the 2013 AGM.

Model Code of Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After specific enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2013.

Audit Committee

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

Mr. WONG Kai Man, as chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the financial period to the date of this Interim Report. The meetings were attended by the Chairman, the Chief Compliance Officer, the Chief Financial Officer and the external auditor. In addition, the chairman of Audit Committee held periodic independent meetings with the Chief Compliance Officer, the Chief Financial Officer and the external auditor. Work performed by the Audit Committee during the financial period to the date of this Interim Report included, but not limited to, reviewing the following:

- audited Group financial statements and reports for the year ended 31 March 2013;
- report from the external auditor for the year ended 31 March 2013;
- unaudited Group Interim Financial Report for the six months ended 30 September 2013;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2013;
- 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;
- reports made under Whistleblowing Policy; and
- respective audit plans of the internal and external auditors.

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

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

Risk Management and Sustainability Committee

The Risk Management Committee was renamed as the Risk Management and Sustainability Committee on 15 May 2013. The Risk Management and Sustainability Committee is now responsible for monitoring and reviewing the risk management and sustainability strategy of the Group.

The Risk Management and Sustainability Committee is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong and Mr. WONG Kai Man as members. The Risk Management and Sustainability Committee held a meeting during the financial period to review the Group's risk management, internal control systems, and sustainability strategy, policies and improvement activities.

The Risk Management and Sustainability Committee has developed a framework for the management and control of risks in the Group. Risks are being more formally identified and recorded in the Risk Register for key operations. This Risk Register is updated regularly and the major risks are being reviewed from time to time by the Risk Management and Sustainability Committee.

The Risk Management and Sustainability Committee ensures that any new and emerging risks are promptly identified, evaluated and appropriate actions are taken by the management. This requires the active and frequent participation by the process owner of each function in identifying risks affecting its business and implementing measures to reduce such risks, as well as the active monitoring on the progress of the improvement in internal control procedures.

The Risk Management and Sustainability Committee also determines the scope of the Sustainability Report, and monitors the sustainability targets and key performance indicators.

Interim Dividend

The Board has declared an interim dividend ("Interim Dividend") of US16.0 cents per ordinary share in respect of the six months ended 30 September 2013, payable on 19 December 2013 to shareholders whose names appear on the register of members of the Company as at the close of business on 9 December 2013.

The Interim Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 9 December 2013.

Closure of Register of Members

The register of members of the Company will be closed on 9 December 2013, during which no transfer of shares will be effected.

In order to qualify for the Interim Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration no later than 4:30 p.m. (the local time of the relevant share registrar) on Friday, 6 December 2013.

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

Review of Interim Report

The Group's Interim Report for the six months ended 30 September 2013 has been reviewed by the Audit Committee.

Purchase, Sale or Redemption of Listed Shares

The Company and its subsidiaries have not redeemed any of its shares during the six months ended 30 September 2013. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial period, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 69,000 Company's shares at a consideration of US$1.0 million.

Changes to Information in respect of Directors

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

– Dr. PANG King Fai ceased to be an honorary professor of the Electrical and Electronic Engineering Department of The University of Hong Kong on 1 November 2013.

– Dr. Patrick WANG Shui Chung has retired as chairman and director of the Hong Kong Applied Science and Technology Research Institute Company Limited with effect from 21 October 2013.

– Mr. WONG Kai Man ceased to be an honorary associate professor of the School of Business of The University of Hong Kong on 15 September 2013 and was conferred the title of honorary fellow by City University of Hong Kong on 16 September 2013.

Board of Directors

Executive Directors

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

Independent Non-executive Directors

William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung
WONG Kai Man

Audit Committee

WONG Kai Man *(Chairman)*
William FUNG Kwok Lun
Michael TIEN Puk Sun

Nomination Committee

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

Remuneration Committee

Michael TIEN Puk Sun *(Chairman)*
William FUNG Kwok Lun
WONG Kai Man

Risk Management and Sustainability Committee

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

Company Secretary

CHANG Yu Wai

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office

23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po, New Territories
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Auditor

KPMG
Certified Public Accountants

Information for Shareholders

Listing

Shares of VTech Holdings Limited are listed on The Stock Exchange of Hong Kong Limited. It is a constituent of the Hang Seng HK 35 and Hang Seng High Dividend Yield Index.

Stock Code

The Stock Exchange of Hong Kong Limited: 303

Financial Calendar

Closure of Register of Members: 9 December 2013

Payment of Interim Dividend: 19 December 2013

FY2014 Annual Results Announcement: May 2014

Share Information

Board Lot: 100 shares

Issued Shares as at 30 September 2013: 250,872,133 shares

Dividend

Dividend per ordinary share for the six months ended 30 September 2013: US16.0 cents per share

Share Registrars

Principal

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
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