



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

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

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



1. Environmental Protection – our environmental efforts help us to design, manufacture and supply innovative and high quality products in a cost effective and environmentally friendly manner
2. Workplace Quality – our commitments to provide a supportive, pleasant and healthy workplace for our employees enable us to foster a stable and motivated workforce
3. Sustainable Operating Practices – our efforts to achieve highest levels of product quality and safety standards with good corporate governance practices in place enable VTech to provide high quality and safe products for our customers and create value for our business partners

4. Community Investment – to use our skills and resources to support the communities in which we operate
5. Shareholder Communications – to create value and sustain long-term interests of the company and its shareholders

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

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



ENVIRONMENTAL PROTECTION

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

Product Design – we design for the environment

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

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

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

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



embedding the 3Rs (Reduce, Reuse and Recycle) practice into our production chain and maximising the lifecycle of our production materials.



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

Manufacturing – we produce products in a sustainable manner

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

During the financial year 2013, we have implemented the following on-going sustainability initiatives in our manufacturing facilities with two major priorities: (i) increasing energy efficiency through machinery and equipment improvement; and (ii) reducing chemical use through

(i) Increasing energy efficiency through machinery and equipment improvement

- In order to improve the energy efficiency of our existing machinery and equipment, we install Variable-Frequency Drives (VFD) on our air compressors and plastic injection machines, which help to control the systems at variable-speed with less energy consumption than the fixed-speed operations. It also enables us to prolong the useful life of our existing machinery and reduce our investment in the new replacement.
- In one of our facilities, we centralised the air conditioning systems by linking the pipes of cooling systems between separate buildings. This enables the system administrator to reduce the number of chillers in operation for each building separately and achieve substantial energy saving especially during the low season.
- Plastic injection machines need to maintain resin at high temperature during the injection process. After installing the induction heating circuits in the machines, heating efficiency is improved and thereby reducing electricity consumption.
- We replace diesel water heaters in our dormitories with electric heat-pump hot water systems to reduce carbon emissions and energy consumption. In the working and living areas, we are also gradually replacing fluorescent lamps with LED light bulbs to achieve greater energy efficiency.

(ii) Reducing chemical use through the 3Rs practice

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

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

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

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

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

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

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

- It was awarded with “Hong Kong – Guangdong Cleaner Production Partners” under the scheme jointly launched by

the Hong Kong Productivity Council and the Guangdong Provincial Government in 2012.

- It was recognised as a “Cleaner Production Enterprise in Guangdong Province” from the Guangdong Provincial Government and “Cleaner Production Enterprise in Dongguan City” from the Dongguan Municipal Government.
- It participated in the “12th Five-Year Energy Saving Plan” of the Dongguan Municipal Government.

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

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

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

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

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

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

Recycling – we aim to reduce the impact on the environment

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

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

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

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



WORKPLACE QUALITY

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

Employee Numbers and Costs

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

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

Workplace

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

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



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

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

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

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

Human and Labour Rights

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

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

We also have procedures in place to ensure that our policies are properly executed throughout the company. These include conducting employee interviews and surveys, on-site visits and

audits on a regular basis. Any issues or enquiries raised by our employees through different communication channels will also be handled and investigated by the company with care and in a confidential manner.

Health and Safety

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

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

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

Learning and Development

VTech recognise that a capable and motivated workforce is integral to our success. We actively promote continuous learning and provide different kinds of training programs for our employees, encouraging them to develop and advance their careers in our company. These include general training

courses such as business skills and knowledge, effective communication skills, foreign language courses, etc. Outdoor team building activities and off-site management workshops are also arranged for the employees on specific topics. We also subsidise the external professional development training courses that are relevant to our business needs.

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

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

Employee Communications

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

Employee Relations

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

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



SUSTAINABLE OPERATING PRACTICES

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

Product Quality Assurance

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

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

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

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

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

Examples of the international safety standards are as follows:

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

Supply Chain Management

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

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

eliminate the identified deficiencies. We also provide training to suppliers on continuous improvement processes to facilitate their implementation of the corrective actions.

Code of Conduct

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

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

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



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

Innovation

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



Helping Children and the Elderly

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

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

General Corporate Philanthropy

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

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



SHAREHOLDER COMMUNICATIONS

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

Shareholder Value

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

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

Investor Communications

In order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company, VTech has established a Shareholders Communication Policy to set out the Company's procedures in providing the shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company in a number of ways:

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

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