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VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 12.0% to US\$1,124.1 million
- Profit attributable to shareholders of the Company rose by 31.0% to US\$118.0 million
- Gross margin increased from 29.5% to 30.7%
- Interim dividend of US17.0 cents per ordinary share, the same as the dividend paid in the corresponding period last year
- Rationalisation of manufacturing base

UNAUDITED INTERIM RESULTS

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2019 together with the comparative figures for the same period last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

	Note	Six months ended 30 September		Year ended
		2019 (Unaudited) US\$ million	2018 (Unaudited) (note) US\$ million	31 March 2019 (Audited) (note) US\$ million
Revenue	3	1,124.1	1,003.5	2,161.9
Cost of sales		(779.3)	(707.0)	(1,525.5)
Gross profit		344.8	296.5	636.4
Other income	4	8.5	5.9	5.9
Selling and distribution costs		(138.5)	(124.7)	(294.0)
Administrative and other operating expenses		(39.2)	(39.1)	(77.9)
Research and development expenses		(40.7)	(38.3)	(77.2)
Operating profit	3(b) & 4	134.9	100.3	193.2
Net finance (expense)/income		(3.2)	0.1	(0.9)
Profit before taxation		131.7	100.4	192.3
Taxation	5	(13.7)	(10.3)	(21.0)
Profit for the period/year and attributable to shareholders of the Company		118.0	90.1	171.3
Earnings per share (US cents)	7			
- Basic		46.9	35.8	68.2
- Diluted		46.9	35.8	68.1

Note: The Group has initially applied International Financial Reporting Standard ("IFRS") 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Six months ended 30 September		Year ended 31 March 2019
	2019 (Unaudited) US\$ million	2018 (Unaudited) (note) US\$ million	(Audited) (note) US\$ million
Profit for the period/year	118.0	90.1	171.3
Other comprehensive income for the period/year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net assets of defined benefit scheme, net of deferred tax	-	-	0.2
	-	-	0.2
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on hedging, net of deferred tax	(4.9)	(1.4)	5.9
Realisation on hedging, net of deferred tax	(2.9)	1.9	3.5
Exchange translation differences	(13.7)	(20.3)	(20.4)
	(21.5)	(19.8)	(11.0)
Other comprehensive income for the period/year	(21.5)	(19.8)	(10.8)
Total comprehensive income for the period/year	96.5	70.3	160.5

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	30 September		31 March
		2019 (Unaudited) US\$ million	2018 (Unaudited) (note) US\$ million	2019 (Audited) (note) US\$ million
Non-current assets				
Tangible assets		80.1	88.2	84.3
Right-of-use assets	2&8	127.9	-	-
Leasehold land payments		-	4.4	4.5
Intangible assets		18.2	19.1	18.6
Investments		13.9	5.4	5.4
Goodwill		36.1	35.6	36.1
Net assets on defined benefit scheme		2.5	2.6	2.6
Deferred tax assets		8.8	8.1	5.8
		287.5	163.4	157.3
Current assets				
Stocks		457.3	492.6	369.9
Debtors, deposits and prepayments	9	540.1	521.7	319.1
Taxation recoverable		4.1	1.6	3.6
Deposits and cash		102.5	74.3	237.0
		1,104.0	1,090.2	929.6
Current liabilities				
Creditors and accruals	10	(644.1)	(651.6)	(443.9)
Provisions for defective goods returns and other liabilities		(25.6)	(27.2)	(24.9)
Lease liabilities	2	(17.3)	-	-
Taxation payable		(12.8)	(12.4)	(7.7)
		(699.8)	(691.2)	(476.5)
Net current assets		404.2	399.0	453.1
Total assets less current liabilities		691.7	562.4	610.4
Non-current liabilities				
Lease liabilities	2	(120.5)	-	-
Deferred tax liabilities		(2.9)	(3.0)	(3.4)
		(123.4)	(3.0)	(3.4)
Net assets		568.3	559.4	607.0
Capital and reserves				
Share capital		12.6	12.6	12.6
Reserves		555.7	546.8	594.4
Total equity		568.3	559.4	607.0

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

NOTES

1. Basis of Preparation

The interim results set out in this announcement do not constitute the Group's Interim Financial Report for the six months ended 30 September 2019 but are extracted from that Interim Financial Report.

The unaudited Interim Financial Report has been prepared in accordance with the applicable disclosure provisions 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 ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on 11 November 2019.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2019 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual consolidated financial statements. Details of any changes in accounting policies are set out 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 has not been audited or reviewed by the auditors pursuant to International Standards on Auditing or International Standards on Review Engagements.

The financial information relating to the financial year ended 31 March 2019 that is included in the Interim Financial Report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The annual consolidated financial statements for the year ended 31 March 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20 May 2019.

2. Changes in Accounting Policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this Interim Financial Report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRS Interpretations Committee Interpretation 4, *Determining whether an arrangement contains a lease*, Standard Interpretations Committee Interpretation ("SIC") 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 and are substantially unchanged.

The Group has initially applied IFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under IAS 17.

2 Changes in Accounting Policies (*continued*)

IFRS 16, *Leases* (*continued*)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group has used transitional practical expedient and applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. Contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to land and buildings.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

2 Changes in Accounting Policies (continued)

IFRS 16, Leases (continued)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.94%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

- (i) The Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 March 2020;
- (ii) When measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);
- (iii) The Group excluded the initial direct costs from the right-of-use assets at the date of initial application; and
- (iv) The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 US\$ million
Operating lease commitments at 31 March 2019	98.1
Less: Commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(3.9)
- lease agreements entered into before but not yet commenced as at 31 March 2019	(23.4)
Add: Lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	111.5
	182.3
Less: total future interest expenses	(37.9)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019	144.4

2 Changes in Accounting Policies (continued)

IFRS 16, Leases (continued)

(b) Transitional impact (continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of IFRS 16). Difference between the right-of-use assets recognised and the lease liabilities, net of deferred tax, of US\$11.2 million is recognised as an adjustment to the opening balance of equity at 1 April 2019.

As at 31 March 2019, the Group had no leases previously classified as finance leases.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 US\$ million	Impact of initial application of IFRS 16 US\$ million	Carrying amount at 1 April 2019 US\$ million
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Right-of-use assets	-	135.1	135.1
Leasehold land payments	4.5	(4.5)	-
Deferred tax assets	5.8	2.6	8.4
Total non-current assets	157.3	133.2	290.5
Lease liabilities (current)	-	(15.2)	(15.2)
Current liabilities	(476.5)	(15.2)	(491.7)
Net current assets	453.1	(15.2)	437.9
Total assets less current liabilities	610.4	118.0	728.4
Lease liabilities (non-current)	-	(129.2)	(129.2)
Total non-current liabilities	(3.4)	(129.2)	(132.6)
Net assets	607.0	(11.2)	595.8

2 Changes in Accounting Policies (continued)

IFRS 16, Leases (continued)

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments US\$ million	Total minimum lease payments US\$ million	Present value of the minimum lease payments US\$ million	Total minimum lease payments US\$ million
Within 1 year	17.3	22.3	15.2	20.6
After 1 year but within 2 years	14.6	19.1	15.3	20.4
After 2 years but within 5 years	29.0	40.8	29.6	41.5
After 5 years	76.9	92.1	84.3	99.8
	120.5	152.0	129.2	161.7
	137.8	174.3	144.4	182.3
Less: total future interest expenses		(36.5)		(37.9)
Present value of lease liabilities		137.8		144.4

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The adoption of IFRS 16 does not have material impact on the financial result and segment results of the Group for the period ended 30 September 2019.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. The capital element is classified as financing cash outflows rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

3. Revenue and Segment Information

(a) Revenue

The principal activity of the Group is design, manufacture and distribution of consumer electronic products. All revenue of the Group are from contracts with customers within the scope of IFRS 15 and recognised at a point in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and regions is as follows:

Six months ended 30 September 2019

	North America (Unaudited) US\$ million	Europe (Unaudited) US\$ million	Asia Pacific (Unaudited) US\$ million	Other Regions (Unaudited) US\$ million	Total (Unaudited) US\$ million
Electronic Learning Products	253.2	145.7	44.6	9.1	452.6
Telecommunication Products	125.6	57.3	13.7	9.5	206.1
Contract Manufacturing Services	143.1	237.6	83.6	1.1	465.4
Total	521.9	440.6	141.9	19.7	1,124.1

Six months ended 30 September 2018

	North America (Unaudited) US\$ million	Europe (Unaudited) US\$ million	Asia Pacific (Unaudited) US\$ million	Other Regions (Unaudited) US\$ million	Total (Unaudited) US\$ million
Electronic Learning Products	210.9	129.1	40.7	9.2	389.9
Telecommunication Products	131.3	62.4	17.9	11.4	223.0
Contract Manufacturing Services	127.9	208.9	53.5	0.3	390.6
Total	470.1	400.4	112.1	20.9	1,003.5

(b) 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
- ♦ Other Regions, 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 derives its 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 are manufactured in the Group's manufacturing facilities located primarily in the People's Republic of China and Malaysia under the Asia Pacific segment.

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

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

(i) Segment revenues and results

Revenue is allocated to the reportable segments 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.

All revenue from contracts with customers are sales of electronic products and are recognised at a point of time.

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 and depreciation and amortisation.

(ii) Segment assets and liabilities

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

Segment liabilities include creditors and accruals and provisions for defective goods returns and other liabilities with the exception of taxation payable and deferred tax liabilities.

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

	Reportable segment revenue		Reportable segment profit	
	Six months ended		Six months ended	
	30 September		30 September	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	521.9	470.1	71.3	51.3
Europe	440.6	400.4	29.3	27.5
Asia Pacific	141.9	112.1	30.4	17.7
Other Regions	19.7	20.9	3.9	3.8
	1,124.1	1,003.5	134.9	100.3

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

(ii) Segment assets and liabilities *(continued)*

	Reportable segment assets		Reportable segment liabilities	
	30 September 2019 (Unaudited) US\$ million	31 March 2019 (Audited) (note) US\$ million	30 September 2019 (Unaudited) US\$ million	31 March 2019 (Audited) (note) US\$ million
North America	223.1	145.1	(96.6)	(72.3)
Europe	227.4	122.3	(57.7)	(29.5)
Asia Pacific	859.9	750.0	(653.1)	(366.9)
Other Regions	-	-	(0.1)	(0.1)
	1,310.4	1,017.4	(807.5)	(468.8)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

(iii) Reconciliation of reportable segment assets and liabilities

	30 September 2019 (Unaudited) US\$ million	31 March 2019 (Audited) (note) US\$ million
Assets		
Reportable segment assets	1,310.4	1,017.4
Intangible assets	18.2	18.6
Investments	13.9	5.4
Goodwill	36.1	36.1
Taxation recoverable	4.1	3.6
Deferred tax assets	8.8	5.8
Consolidated total assets	1,391.5	1,086.9
Liabilities		
Reportable segment liabilities	(807.5)	(468.8)
Taxation payable	(12.8)	(7.7)
Deferred tax liabilities	(2.9)	(3.4)
Consolidated total liabilities	(823.2)	(479.9)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

4. Operating Profit

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

	Six months ended 30 September	
	2019 (Unaudited) US\$ million	2018 (Unaudited) (note (i)) US\$ million
Cost of inventories	779.3	707.0
Fair value gain on investments measured at fair value through profit or loss (Note (ii))	(8.5)	-
Gain on disposal of tangible assets (Note (ii))	-	(5.9)
Depreciation of tangible assets	18.9	17.9
Depreciation of right-of-use assets	8.8	-
Amortisation of intangible assets	0.4	0.5
Write-down of inventories, net of reversals	3.3	4.8
Loss allowance of trade debtors	0.2	0.4
Reversal of loss allowance of trade debtors	(0.9)	(1.4)
Interest expense/(income), net	0.3	(0.1)
Interest on lease liabilities	2.9	-
Net foreign exchange gain	(0.3)	(0.2)

Notes:

(i) The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 2.

(ii) Included in other income in the Consolidated Statement of Profit or Loss.

5. Taxation

	Six months ended 30 September	
	2019 (Unaudited) US\$ million	2018 (Unaudited) US\$ million
Current tax		
- Hong Kong	9.7	8.9
- Overseas	4.2	3.2
Deferred tax		
- Origination and reversal of temporary differences	(0.2)	(1.8)
	13.7	10.3
Current tax	13.9	12.1
Deferred tax	(0.2)	(1.8)
	13.7	10.3

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

6. Dividends

(a) Dividend attributable to the period:

	Six months ended 30 September	
	2019 (Unaudited) US\$ million	2018 (Unaudited) US\$ million
Interim dividend of US17.0 cents (2018: US17.0 cents) per share declared	42.8	42.8

The interim dividend was proposed after the end of the relevant financial period and has not been recognised as liabilities at the end of the relevant financial period.

(b) At a meeting held on 20 May 2019, the Directors proposed a final dividend of US50.0 cents (2018: US63.0 cents) per ordinary share for the year ended 31 March 2019, which was estimated to be US\$125.8 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2019. The final dividend was approved by shareholders at the annual general meeting on 12 July 2019. The final dividend paid in respect of the year ended 31 March 2019 totaled US\$125.9 million (2018: US\$158.5 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\$118.0 million (2018: US\$90.1 million).

The calculation of basic earnings per share is based on the weighted average of 251.6 million (2018: 251.4 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

No material adjustment has been made to the basic earnings per share presented for the periods ended 30 September 2018 and 30 September 2019 as the Company did not have any significant dilutive potential Awarded Shares during these periods.

8. Right-of-use assets

As discussed in note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17.

During the six months ended 30 September 2019, the Group entered into a number of lease agreements for use of factory premises, warehouses and office space, and therefore recognised additions to right-of-use assets of US\$5.7 million.

9. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US\$540.1 million (31 March 2019: US\$319.1 million, 30 September 2018: US\$521.7 million) include trade debtors of US\$489.9 million (31 March 2019: US\$263.0 million, 30 September 2018: US\$471.1 million).

An ageing analysis of trade debtors, based on the invoice date and net of allowance, is as follows:

	30 September 2019 (Unaudited) US\$ million	31 March 2019 (Audited) US\$ million
0-30 days	270.3	144.7
31-60 days	170.9	75.5
61-90 days	42.9	36.8
>90 days	5.8	6.0
Total	489.9	263.0

The majority of the Group's sales are on letters 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\$644.1 million (31 March 2019: US\$443.9 million, 30 September 2018: US\$651.6 million) include trade creditors of US\$400.8 million (31 March 2019: US\$244.7 million, 30 September 2018: US\$402.9 million).

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

	30 September 2019 (Unaudited) US\$ million	31 March 2019 (Audited) US\$ million
0-30 days	104.6	94.3
31-60 days	100.3	40.3
61-90 days	95.2	55.7
>90 days	100.7	54.4
Total	400.8	244.7

11. Comparative Figures

The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

INTERIM DIVIDEND

The board of Directors (the “Board”) has declared an interim dividend (the “Interim Dividend”) of US17.0 cents per ordinary share in respect of the six months ended 30 September 2019, payable on 16 December 2019 to shareholders whose names appear on the register of members of the Company as at the close of business on 5 December 2019.

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 5 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 5 December 2019, 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 Wednesday, 4 December 2019.

The principal registrar is MUFG Fund Services (Bermuda) Limited, 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, 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.

CHAIRMAN’S STATEMENT

The first six months of the financial year 2020 saw VTech achieve an increase in both revenue and profit. Revenue rose on higher sales to North America, Europe and Asia Pacific, while lower costs and higher operational efficiency boosted profits. The US tariffs had no negative impact on the financial results in the period.

Results and Dividend

Group revenue for the six months ended 30 September 2019 increased by 12.0% to US\$1,124.1 million, as higher sales in North America, Europe and Asia Pacific offset lower sales in Other Regions.

Profit attributable to shareholders of the Company rose by 31.0% to US\$118.0 million. This was attributable to higher revenue and gross profit, lower operating expenses as a percentage of Group revenue, as well as a fair value gain on an investment in a company that designs and distributes integrated circuit products.

Basic earnings per share increased by 31.0% to US46.9 cents, compared to US35.8 cents in the first six months of the previous financial year.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the corresponding period last year.

Costs

The Group’s gross profit margin in the first six months of the financial year 2020 increased to 30.7%, from 29.5% in the corresponding period last year. Materials prices were lower, while direct labour costs and manufacturing overheads benefited from the depreciation of the Renminbi. In addition, the Group achieved further productivity improvements.

US-China Trade Tensions

The first half of the financial year 2020 saw continued trade tensions between the US and China, with further tariffs on imports announced and introduced by both countries. A number of the Group's contract manufacturing services (CMS) customers became affected when List 3 came into force in September 2018. VTech residential phones, which fall under List 4A, have been subject to tariffs since 1 September 2019. If List 4B comes into force on 15 December 2019, virtually all VTech products manufactured in mainland China for export to the US would be subject to US tariffs.

The Group took various measures to mitigate the impact of the tariffs on its businesses during the period. Production of electronic learning products (ELPs) and telecommunication (TEL) products was accelerated, so that the majority of such products for the US market were shipped before the tariffs came into effect. For the CMS business, it is the customers themselves who bear the additional tariff cost, and most of those affected have been transferring production to the Group's manufacturing facilities in Malaysia.

Segment Results

North America

Group revenue in North America rose by 11.0% to US\$521.9 million in the first six months of the financial year 2020 as higher sales of ELPs and CMS offset lower sales of TEL products. North America remained VTech's largest market, accounting for 46.4% of Group revenue.

ELPs revenue in North America increased by 20.1% to US\$253.2 million, with sales rising for both LeapFrog and VTech branded products. The increase resulted from strong growth in both Canada and the US, with the US additionally benefiting from the accelerated shipment of products ahead of the tariffs. During the first nine months of the calendar year 2019, the Group strengthened its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada¹.

Growth in standalone products was supported by higher sales of both LeapFrog and VTech branded products. LeapFrog standalone products posted a significant sales increase, buoyed by rising sales of infant, toddler and preschool products. Among the new items launched, Smart Sizzlin' BBQ Grill™, LeapStory™ and Learn & Groove® Dancing Panda™ sold particularly well. This strong performance was supported by the introduction of LeapBuilders® to the North American market, allowing the Group to expand into the building sets category.

For the VTech brand, growth was led by higher sales of infant, toddler and preschool products. This was driven by the introduction of new items such as Mix & Match-a-Saurus™ and Myla the Magical Unicorn™, along with the good performance of preschool licensed products. The Kidi line of products also saw solid growth. These successes offset a decline in the Go! Go! Smart family of products.

Platform products too registered higher sales, driven by growth in VTech platform products. Sales of the Kidizoom® Smartwatch range and Touch & Learn Activity Desk™ Deluxe were higher, offsetting a decline in KidiBuzz™. Sales of LeapFrog platform products were lower, due to sales declines for children's educational tablets, the LeapStart® line of interactive learning systems and LeapReader®. These decreases, however, were partially offset by launches of two new products, RockIt Twist™, a handheld gaming system targeting children aged four to eight years, and LeapStart Go, a complete learning system that brings books to life. Subscriptions to the LeapFrog Academy® continued to grow steadily.

¹ Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending September 2019

During the first six months of the financial year 2020, the Group's ELPs again received numerous awards from toy and parenting industry experts, key retailers and toy advisory boards in both Canada and the US. Myla the Magical Unicorn and Mix & Match-a-Saurus were both included in Walmart's "Top Rated by Kids" toy list, while RockIt Twist was in Target's "Bullseye's 2019 Top Toy's List". Eight products made *The Toy Insider's* "2019 Holiday Gift Guide", including LeapBuilders ABC Smart House™ and Myla the Magical Unicorn. Myla the Magical Unicorn and LeapStart Go were also featured in Amazon's "2019 Top 100 Toys". In Canada, RockIt Twist and Myla the Magical Unicorn were named to Walmart's list of "Top Toys for 2019".

TEL products revenue in North America was 4.3% lower at US\$125.6 million, as residential phones, commercial phones and other telecommunication products all registered lower sales. During the period, VTech strengthened its leadership position in the US residential phones market².

Sales of residential phones declined owing to the continued contraction of the fixed-line telephone market in the US. The rate of sales decline slowed, however, as VTech recouped some lost market share and became the sole supplier to some key retail customers.

Commercial phones and other telecommunication products saw a decrease, as lower sales of headset products, hotel phones and small to medium sized business (SMB) phones offset growth in VoIP (Voice over Internet Protocol) phones and conference phones. Sales of baby monitors remained stable during the period. The Group's new series of products under the Snom brand are gaining traction, contributing to overall growth for its VoIP phones. Although sales of headset products declined as an existing customer faced an issue with excess inventory, this was partially offset by a new customer launching a mobile phone station during the period. Sales of hotel phones declined in the face of keen competition. The Group's current range of SMB phones has reached the end of its life cycle, leading to a downtrend in sales.

CMS revenue in North America rose by 11.9% to US\$143.1 million. The increase was attributable to growth in professional audio equipment, medical and health products and solid-state lighting. This offset a sales decline in communication products, while sales of industrial products were stable. Professional audio equipment grew as VTech cleared a backlog of orders for a customer following an improvement in the supply of materials, while another customer was buoyed by the good market response to its products. Growth in medical and health products was driven by higher sales of hearing aids, as a customer transferred part of its in-house production to VTech, which now manufactures finished products rather than printed circuit board (PCB) assembly. Solid-state lighting benefited from the addition of a new customer, while sales of communication products declined as the customer's product reached the end of its life cycle.

Europe

Group revenue in Europe increased by 10.0% to US\$440.6 million in the first six months of the financial year 2020, as higher sales of ELPs and CMS offset lower revenue from TEL products. Europe was VTech's second largest market, accounting for 39.2% of Group revenue.

ELPs revenue in Europe rose by 12.9% to US\$145.7 million, with higher sales of both standalone and platform products. Despite weak European currencies, growth was supported by new product lines, which have been well received by the market. With the logistics issues that affected the business in continental Europe in the first half of the previous financial year resolved, France, Germany and Spain all recorded higher sales. In the UK, the uncertain political and economic environment, along with tough market conditions, resulted in lower sales in the country. In the first nine months of the calendar year 2019, VTech was the number one infant and toddler toy manufacturer in France, the UK, Germany, Spain and the Benelux countries³.

In standalone products, both the VTech and LeapFrog brands posted growth. Growth in VTech came from higher sales of infant, toddler and preschool products, Kidizoom Camera and the Kidi line of products. These increases compensated for declines in the Toot-Toot family of products. LeapFrog also saw rising sales of infant, toddler and preschool products in the first half of the financial year 2020, owing to new product launches.

² Source: MarketWise Consumer Insights, LLC

³ Source: NPD Group, Retail Tracking Service

Platform products achieved growth across both brands. For VTech, there were higher sales of Kidizoom Smartwatches, KidiCom™ MAX and Touch & Learn Activity Desk. Growth for LeapFrog was driven by higher sales of the LeapStart interactive learning system, augmented by the introduction of LeapStart Go and RockIt Twist.

During the period, VTech ELPs won several important awards in Europe. Kidizoom Pixi™ was named “Best Electronic Toy” in the “Grand Prix du Jouet 2019” award from *La Revue du Jouet* magazine in France, while in Spain, the Spanish Association of Toy Manufacturers named Kidizoom Touch 5.0 and Turbo Force® Racers Race Track “Best Toy of the Year 2019” in their respective categories of Electronic Toys and Vehicles, Radio Control and Tracks. In the UK, Hop-a-Roo Kangaroo and KidiGear™ Walkie Talkies gained, respectively, gold and silver medals in the “2019 Independent Toy Awards” given by Toy Shop UK.

Revenue from TEL products in Europe decreased by 8.2% to US\$57.3 million in the first six months of the financial year 2020. Sales of residential phones continued to decline, offsetting growth of commercial phones and other telecommunication products.

Sales of residential phones registered a decline, as the fixed-line telephone market contracts. In addition, a number of existing customers reduced orders to the Group during the period.

Commercial phones and other telecommunication products saw growth. Sales of VoIP phones continued to grow steadily as the new line of Snom products gains traction. CAT-iq handsets were boosted by the addition of a new customer in Germany, while the CareLine range saw increasing orders from a number of existing customers. The baby monitors and hotel phones businesses remained stable. Sales of integrated access devices (IADs) were lower, however, as a customer reduced orders.

CMS revenue in Europe grew by 13.7% to US\$237.6 million, with an increase across the board. Professional audio equipment benefited from three factors. The market reception has been good for a customer’s new generation of products, a new customer has been added and, as for the US, a backlog of orders has been cleared for a major customer. Hearables saw good sell-through of customers’ products and more new projects were won from a major customer. Sales of IoT (Internet of Things) products grew on the back of more orders for internet-connected smart thermostats and air-conditioning controls. With an increasing number of installations by UK households wanting to track their energy consumption, the growth from smart meters was significant. In communication products, production of network routers for an existing customer was ramped up. Medical and health products saw higher sales of hearing aids following the decision by the customer to allow VTech to manufacture finished products rather than only handle PCB assembly. In addition, the Group gained a new customer in the field of hair removal products.

Asia Pacific

Group revenue in Asia Pacific increased by 26.6% to US\$141.9 million in the first six months of the financial year 2020, as higher sales of ELPs and CMS offset lower sales of TEL products. The Asia Pacific region rose to 12.6% of Group revenue.

Revenue from ELPs in Asia Pacific increased by 9.6% to US\$44.6 million, led by continued growth in mainland China and Australia. In mainland China, there was further growth of the KidiSchool line, which targets the early education segment. There were also increasing sales to maternity-infant-child specialty retailers and an e-commerce retailer. In Australia, several new customers were added and there was also further expansion of sales channels. This supported a strong sell-through of both the VTech and LeapFrog product lines.

TEL products revenue in Asia Pacific declined by 23.5% to US\$13.7 million. Higher sales in Hong Kong were insufficient to offset lower sales in Australia, Japan and Malaysia. In Hong Kong, sales were higher because of increased orders for IADs from an existing customer. In Australia, the continued contraction of the fixed-line telephone market led to lower sales of residential phones, offsetting growth in baby monitors. Sales in Japan declined owing to reduced shipment to a customer who faced financial problems. Excess inventory at one customer led to lower sales in Malaysia.

CMS revenue in Asia Pacific increased by 56.3% to US\$83.6 million as sales of professional audio equipment and medical and health products continued to rise, offsetting a sales decline in communication products. Sales of professional audio equipment were boosted by the addition of sales from the DJ equipment business that formed part of the acquisition of the production facilities in Malaysia. The acquisition was completed on 20 August 2018 and hence a full six months' contribution was recorded for the first half of the financial year 2020, as against less than two months' contribution in the first half of the financial year 2019. Medical and health products benefited from more orders for diagnostic ultrasound systems and hearing aids. Sales of marine radios, in contrast, recorded a decline.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 5.7% to US\$19.7 million in the first six months of the financial year 2020. ELPs and TEL products saw sales declines, while CMS registered growth. Other Regions accounted for 1.8% of Group revenue.

ELPs revenue in Other Regions declined by 1.1% to US\$9.1 million for the period. Higher sales in the Middle East were offset by lower sales in Latin America and Africa.

TEL products revenue in Other Regions decreased by 16.7% to US\$9.5 million. The decline was attributable to sales decreases in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US\$1.1 million in the first six months of the financial year 2020, as compared to US\$0.3 million in the corresponding period of the last financial year.

Outlook

Group revenue for the full financial year 2020 is forecast to increase year-on-year. The growth rate will moderate in the second half, however, as some of the Group's second half shipments of ELPs and TEL products to US customers were brought forward into the first six months, in order to avoid the new tariffs. ELPs and CMS are both expected to record higher revenues for the full year. Although TEL products revenue is expected to be lower, the rate of decline will moderate year-on-year.

The Group's gross profit margin is expected to improve. Materials prices are expected to be lower, while labour costs and manufacturing overheads are forecast to benefit from the weaker Renminbi. There will, however, be some negative impact from the US trade tariffs, as well as from the weakness in European currencies. The Group has been discussing with customers various measures to alleviate the impact of the tariffs, including sharing the additional costs and increased use of domestic fulfilment.

To raise its competitiveness and position for further growth, VTech has embarked on a strategy of rationalising its manufacturing base. The implementation of this strategy began in August 2018 with the acquisition of the manufacturing facilities in Malaysia. The ramp up of production at these facilities has been smooth and the Group is helping CMS customers impacted by the US tariffs to transfer production there. The expansion of manufacturing capacity in Malaysia will continue.

ELPs revenue for the full financial year 2020 is forecast to increase. New product launches will boost sales worldwide and strengthen the Group's market share. In North America, the growth momentum continues, albeit at a more moderate pace because of the effect of the accelerated shipments in the first six months. In Europe, the business has now recovered from the logistics issue experienced in the first half of the previous financial year, although the market is soft and some retailers are facing financial problems. Positive momentum in the Asia Pacific region will continue, with rising sales in Australia and mainland China.

To complement VTech's preschool learning toy business, a new animation series inspired by the award-winning Go! Go! Smart Wheels® will be launched on Netflix. Designed for preschoolers and called Go! Go! Cory Carson, the first episode of season one has been confirmed to premiere on 4 January 2020. New products associated with the animation are planned for launch in North America in Spring 2020, followed by other markets in Autumn 2020.

TEL products revenue is anticipated to decrease for the full financial year 2020, but the rate of decline is expected to moderate year-on-year. In residential phones, sales are anticipated to see a decline, though VTech will continue to regain market share in North America. Sales of commercial phones and other telecommunication products are forecast to be stable. VoIP phones, CAT-iq handsets and mobile phone stations are expected to grow, offsetting the declines in other product categories.

The Group is accelerating the development of new products. VTech will launch a line of super-long range residential phones with large displays and a visual ringer feature in North America. A new generation of SMB phones and hotel phones will also gradually replace the existing product ranges. The category of VoIP phones will be enriched with wireless headsets, cordless handsets and wireless desksets. A new line of VoIP conference phones, including video phones with large colour touch displays, will come onto the market. As for baby monitors, VTech will launch a new line of high definition video baby monitors with a remote access function. This pipeline of new products will be instrumental in restoring the TEL products business to growth.

CMS is on track to achieve full year growth. Hearables will benefit from strong sell-through and new product launches by a major customer. VTech is also winning more new projects from this customer, boosting sales and market share. Professional audio equipment will see rising sales to existing customers, driven by the good performance of their new products, while the Group is also acquiring new customers. DJ equipment sales are expected to continue to grow. Sales of medical and health products will be driven by rising orders of hearing aids, as the Group starts the manufacture of finished products for a customer. Growth is also expected from IoT products as demand for smart meters remains encouraging. The industrial products business is forecast to be stable.

The current business environment remains overshadowed by the US-China trade tensions. Despite this, the Group will continue to pursue its growth strategy, focusing on product innovation, market share gain, geographic expansion and operational excellence. Together with the rationalisation of the Group's production base, this will ensure VTech stays competitive in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended		Change US\$ million
	2019 US\$ million	2018 US\$ million	
Revenue	1,124.1	1,003.5	120.6
Gross profit	344.8	296.5	48.3
Gross profit margin	30.7%	29.5%	
Other income	8.5	5.9	2.6
Total operating expenses	(218.4)	(202.1)	(16.3)
Total operating expenses as a percentage of revenue	19.4%	20.1%	
Operating profit	134.9	100.3	34.6
Operating profit margin	12.0%	10.0%	
Net finance (expense)/income	(3.2)	0.1	(3.3)
Profit before taxation	131.7	100.4	31.3
Taxation	(13.7)	(10.3)	(3.4)
Effective tax rate	10.4%	10.3%	
Profit for the period and attributable to shareholders of the Company	118.0	90.1	27.9

Revenue

Group revenue for the six months ended 30 September 2019 increased by 12.0% over the same period of the previous financial year to US\$1,124.1 million. The increase in revenue was largely driven by the higher sales in North America, Europe and Asia Pacific, which offset the decrease in revenue in other regions.

	Six months ended 30 September 2019		Six months ended 30 September 2018		Increase / (decrease)	
	US\$ million	%	US\$ million	%	US\$ million	%
North America	521.9	46.4%	470.1	46.8%	51.8	11.0%
Europe	440.6	39.2%	400.4	39.9%	40.2	10.0%
Asia Pacific	141.9	12.6%	112.1	11.2%	29.8	26.6%
Other Regions	19.7	1.8%	20.9	2.1%	(1.2)	(5.7%)
	1,124.1	100.0%	1,003.5	100.0%	120.6	12.0%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2019 was US\$344.8 million, an increase of US\$48.3 million or 16.3% compared with the same period last year. Gross profit margin for the period also increased from 29.5% to 30.7%. It was mainly attributable to the lower materials prices, while direct labour costs and manufacturing overhead benefited from depreciation of Renminbi against the US dollar. Further productivity gains also contributed to the improvement in gross profit margin during the period.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2019 was US\$134.9 million, an increase of US\$34.6 million or 34.5% compared with the same period of the previous financial year. Operating profit margin also increased from 10.0% to 12.0%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and gross profit margin, which offset the increase in total operating expenses. Operating profit for the six months ended 30 September 2019 also included a fair value gain of US\$8.5 million on an investment in a company that designs and distributes integrated circuit products, while the gain on disposal of tangible assets of US\$ 5.9 million was recorded in the same period of last year.

Total operating expenses increased from US\$202.1 million to US\$218.4 million compared with the same period last year. Total operating expenses as a percentage of Group revenue dropped from 20.1% to 19.4%.

Selling and distribution costs increased from US\$124.7 million to US\$138.5 million, an increase of 11.1% 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 decreased from 12.4% to 12.3%.

Administrative and other operating expenses increased from US\$39.1 million to US\$39.2 million compared with the same period last year. The net exchange gain arising from the Group's global operations in the ordinary course of business was US\$0.3 million, as compared with net exchange gain of US\$0.2 million in the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue decreased from 3.9% to 3.5%.

During the first half of the financial year 2020, the research and development expenses were US\$40.7 million, an increase of 6.3% compared with the same period last year. Research and development expenses as a percentage of Group revenue decreased from 3.8% to 3.6%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2019 was US\$118.0 million, an increase of US\$27.9 million or 31.0% compared with the same period last year. Net profit margin also increased from 9.0% to 10.5%.

Basic earnings per share for the six months ended 30 September 2019 were US46.9 cents as compared to US35.8 cents in the first half of the previous financial year.

Dividends

Since the end of the relevant financial period, the Directors have declared an interim dividend of US17.0 cents per share, which is estimated to be US\$42.8 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As of 30 September 2019, the Group had deposits and cash of US\$102.5 million and was debt-free. The Group also has adequate liquidity to meet its current and future working capital requirements.

Working Capital

Stocks as of 30 September 2019 were US\$457.3 million, increased from US\$369.9 million as of 31 March 2019 with turnover days of 100 days. The higher stock level was primarily due to the higher 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 decreased by US\$35.3 million or 7.2%, while turnover days increased from 138 days to 141 days. The pull-in of shipments from some US customers as a result of the US-China trade war also contributed to the lower stock level compared with the same period last year.

Trade debtors as of 30 September 2019 were US\$489.9 million, increased from US\$263.0 million as of 31 March 2019 with turnover days of 65 days. This was mainly due to 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\$18.8 million or 4.0%, while turnover days decreased from 63 days to 62 days.

Trade creditors as of 30 September 2019 were US\$400.8 million, increased from US\$244.7 million as of 31 March 2019 with turnover days of 94 days. As compared to the corresponding period of last financial year, trade creditors decreased by US\$2.1 million or 0.5%, while turnover days increased from 103 days to 105 days.

Right-of-use assets and Lease liabilities

As a result of the adoption of IFRS 16, *Leases*, right-of-use assets of US\$127.9 million and lease liabilities of US\$137.8 million were presented in the consolidated statement of financial position as of 30 September 2019. The adoption of IFRS 16 has resulted in increased depreciation and finance charges, offset by a reduction in lease charges. During the first half of the financial year 2020, the Group's depreciation of right-of-use assets amounted to US\$8.8 million with related finance costs of US\$2.9 million.

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. The Group principally use forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business. 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 2019, the Group invested US\$17.1 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

As of 30 September 2019, the Group had no material contingencies.

CORPORATE GOVERNANCE PRACTICES

The Company 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”) set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2019, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the majority of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role 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, each 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 2019 are in line and consistent with those practices set out in the Company’s 2019 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung and Dr. Patrick WANG Shui Chung 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 control and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. WONG Kai Man, as the chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee has held two meetings during the financial period and up to the date of this Announcement. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Company Secretary and Group Chief Compliance Officer, the Group Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial period and up to the date of this Announcement included, but not limited to, reviewing the following:

- Group’s audited consolidated financial statements and reports for the year ended 31 March 2019;
- report from the external auditor for the year ended 31 March 2019;
- corporate governance report setting out the corporate governance practices in the 2019 Annual Report in compliance with the Code;
- Group’s unaudited Interim Financial Report for the six months ended 30 September 2019;
- report from the external auditor based on limited agreed-upon procedures on the Group’s unaudited interim results for the six months ended 30 September 2019;
- corporate governance section setting out the corporate governance practices in the 2019/2020 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- re-appointment of the external auditor and its remuneration for the year ending 31 March 2020;
- fee level and nature of non-audit work performed by the external auditor for the year ended 31 March 2019;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under the Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- training and continuous professional development of the Directors and senior management;
- 2019 Sustainability Report; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, financial reporting and internal audit functions.

In addition to the above, the Audit Committee assisted the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. It reviewed 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 on a regular basis.

It should be noted that a system of internal control, no matter how well it is designed and operated, can only provide reasonable but not absolute assurance that the objectives of the system of internal control, such as safeguarding assets from inappropriate use or ensuring compliance with regulations, are met. As a result, it should not be expected that a system of internal control will prevent or detect all errors and frauds.

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, risk management and internal control system, and the internal audit function of the Group continued 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 in this regard.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After having made specific enquiries, 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 2019.

REVIEW OF INTERIM RESULTS

The Group’s unaudited interim results for the six months ended 30 September 2019 have 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 2019. 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 75,100 Company’s shares at a consideration of approximately US\$0.6 million.

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

Hong Kong, 11 November 2019

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

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