

Corporate Governance

VTech is committed to maintaining a strong system of corporate governance so that all business activities and decision-making can be properly regulated. The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005. The Company has already put in place corporate governance practices to meet all the provisions of the Code except for the combined role of Chairman and Chief Executive Officer. The Company has also complied with, to a certain extent, the recommended best practices in the Code. Throughout the year ended 31st March 2005, the Company complied with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") except for the appointment of non-executive directors for a specific term despite the one-third rotational provision (other than the Chairman) under the existing Company's Bye-laws. At the forthcoming annual general meeting, the directors proposed a special resolution to amend the existing Bye-laws of the Company so that every director is subject to retirement by rotation at least once every three years in compliance with the provisions of the Code.

Board of Directors For the year ended 31st March 2005, the Board of Directors (the "Board") comprised two executive directors and four independent non-executive directors. The independent non-executive directors are high calibre executives with diversified industry expertise and bring a wide range of skills and experience to the Group. They bring independent judgement on issues of strategy, performance, risk and people through their contribution at board meetings. The Board considers that four non-executive directors, more than one third of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules. All non-executive directors are required to submit themselves for re-election at least every three years. Biographical details of all directors are set out on page 24.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Board's focus is on the formulation of business strategy and policy, and on control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include: financial statements, dividend policy, the annual operating budgets, major investments and board memberships.

Four board meetings at approximately quarterly interval are scheduled for 2005/2006 with other meetings as necessary. All Directors have access to the advice and services of the Company Secretary and independent professional advice may be taken by the Directors as required.

The Directors acknowledge their responsibility for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group and of the results and cash flow for the period. In preparing the financial statements for the year ended 31st March 2005, the Directors have:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The following paragraphs describe the key governance structures operating in the Group under the overall direction of the Board.

Board of Management For the year ended 31st March 2005, the Board of Management has been delegated the authority by the Board of Directors to be responsible for the management of all business activities of the Group. Its members are appointed by the Board from time to time and comprises executive directors and senior management executives.

Model Codes for Securities Transactions The Company has adopted the Model Codes as set out in Appendix 10 of the Listing Rules and Appendix to Chapter 16 of the Listing Rules of the Financial Services Authority in the United Kingdom (the "UK Listing Rules") regarding securities transactions by directors and senior management in relation to the accounting period covered by the Annual Report. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out therein.

Audit Committee The Audit Committee comprising three independent non-executive directors, has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations. Terms of reference of the Audit Committee which have been adopted by the Audit Committee are posted on the Company's website.

Mr. Raymond CH'EN Kuo Fung, being a member of the Audit Committee, has the appropriate financial management expertise. The Audit Committee meets at least twice a year to receive reports from external auditors, reviews the interim and annual financial statements, and receives regular reports from the internal audit functions. The meetings deal with the matters of significance arising from the work conducted since the previous meeting and are attended by the Chairman, Chief Compliance Officer, Group Chief Financial Officer and external auditors.

Risk Management Committee The Board has the overall responsibility for internal control, including risk management, and sets appropriate policies having regard to the objectives of the Group. Executive directors and management has the responsibility for the identification, evaluation and management of financial and non-financial risks and for the implementation and maintenance of control systems across the Group in accordance with Group policies. The Risk Management Committee, comprising the executive directors, assists the Audit Committee in reviewing and assessing the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by the relevant departments.

The Group maintains controls to safeguard the Group's assets and ensure that transactions are executed in accordance with management's authorisation. The information systems in place are designed to ensure that the financial report is reliable.

Remuneration Committee The Remuneration Committee comprises three independent non-executive directors. It is responsible for reviewing and recommending all elements of the executive directors and senior management remuneration. The remuneration for the non-executive directors is determined by the Board. Terms of reference of the Remuneration Committee which have been adopted by the Remuneration Committee are posted on the Company's website.

Bye-laws of the Company At the annual general meeting held on 13th August 2004, the shareholders had passed a special resolution to amend the Company's Bye-laws to reflect the amendments to Appendix 3 to the Listing Rules which came into effect on 31st March 2004. The Company has instituted changes to implement the retirement by rotation for all Directors at least once every three years (including those appointed for a specific term) by proposing to amend its Bye-laws in the forthcoming annual general meeting in accordance with the Code.