

VTECH GROUP OF COMPANIES

AUDIT COMMITTEE CHARTER

1) Formation

The Audit Committee was formed on 26 March 1999 pursuant to a Board of Directors' (the Board's) resolution passed on the same date.

2) Purpose

The purpose of the Audit Committee is to assist the Board in fulfilling its overseeing responsibilities for the financial reporting, risk management, evaluation of internal control system and auditing processes. The Audit Committee also ensures that the Group complies with all applicable laws, regulations and the code of conduct policies.

3) Composition

The Audit Committee shall consist of at least two Independent Non-Executive Directors ("INED") of the Board. The Board shall nominate and appoint committee members and the Committee shall nominate one of the members as the Chairman of the Committee.

4) Frequency of meeting

The Audit Committee shall meet at least twice a year, with an authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via Tele- or videoconference.

5) Meeting procedures

Quorum of meeting shall not be less than two committee members, and each committee member in the meeting shall carry one vote.

The committee members shall elect among themselves a Chairman at each meeting. The committee members shall also appoint the secretary to the Committee from time to time. The Head of Internal Audit will be invited to attend all meetings to be conducted by the Committee.

The committee shall invite other members of management and external auditors or professionals to attend meetings and provide pertinent information, as necessary. It may hold private meetings with auditors and executive sessions.

The Secretary to the Audit Committee is responsible for preparation of meeting agenda and minutes. Meeting agenda shall be provided in advance to members, along with appropriate briefing materials. Minutes shall be prepared and endorsed by the Board.

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6) Responsibilities

The committee shall carry out the following responsibilities:

Financial Information

- Monitor the integrity of financial statements, annual report and accounts, half-year report and to review significant financial reporting judgments contained in them. In reviewing the annual report and accounts, half-year report before submission to the board, the committee should focus particularly on:
 - any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from audit;
 - the going concern assumptions and any qualifications;
 - compliance with accounting standards; and
 - compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;
- In performing the above review, members of the committee must liaise with the Board, senior management and the person appointed as the Group's qualified accountant and the committee must meet, at least once a year, with the Group's auditors; and the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Group's qualified accountant, compliance officer or auditors;
- Review with management and the external auditors the results of the audit, including any difficulties encountered
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards
- Understand how management develops interim financial information, and the nature and extent of internal and external auditors involvement
- Review interim financial reports with management and the external auditors, before filing with regulators, and consider whether they are complete and consistent with the information known to committee members

Risk management

- Understand the scopes, duties and responsibilities of the group's Risk Management Committee as defined by its charter
- Ensure adequate control procedures are in place in mitigating all major risks of the Group
- Obtain and review reports from the Risk Management Committee

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Financial Reporting System and Internal Control

- Consider the effectiveness of the Group's internal control over annual and interim financial reporting, including information technology security and control
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses
- Review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response
- Ensure that the board will provide a timely response to the issues raised in the external auditor's management letter
- Discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system
- Consider any findings of major investigations of internal control matters as delegated by the board or on its own initiative and management's response
- Review the group's financial and accounting policies and practices

Internal Audit

- Review with management and Head of Internal Audit the plans, activities, staffing and organisational structure of the internal audit function
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of Head of Internal Audit
- Review and monitor the effectiveness of the internal audit function with reference to the International Standards for the Professional Practice of Internal Auditing
- Ensure that internal audit function is adequately resourced and has appropriate standing within the Group.
- On a regular basis, meet separately with Head of Internal Audit to discuss any matters that the committee or internal audit believes should be discussed privately

External Audit

- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee should discuss with the auditor the nature and scope of the audit, including coordination of audit effort with internal audit, and reporting obligations before the audit commences
- Review the performance of the external auditors, and exercise final approval on the appointment, reappointment and removal of the auditors and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Group, including non-audit services, and discussing the relationships with the auditors
- Develop and implement policy on the engagement of an external auditor to supply non-audit services.

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- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately
- Act as the key representative body for overseeing the Group's relation with the external auditor

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- Review the findings of any examinations by regulatory agencies, and any auditor observations
- Review the process for communicating code of conduct to all employees, and for monitoring compliance therewith
- Obtain regular updates from management and Group legal counsel regarding compliance matters

Other Responsibilities

- Perform other activities related to this charter as requested by the Board
- Institute and oversee special investigations as needed
- Review and assess the adequacy of the committee charter annually, requesting Board approval for proposed changes
- Confirm annually that all responsibilities outlined in this charter have been carried out
- Evaluate the committee's and individual members' performance on a regular basis
- Review the remuneration of the senior executives of the Group
- Review arrangements by which employees of the issuer may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The committee should ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action

7) Authority

The Audit Committee has authority to conduct or authorise investigations into any matters within its scope of responsibility. It is empowered to:

- retain outside counsel, accountants or others to advise the committee or assist in the conduct of an investigation;
- seek any information it requires from employees – all of whom are directed to co-operate with the committee's request – or external parties; and
- meet with the Group officers, external auditors or outside counsel, as necessary

8) Reporting requirements

- Regularly report to the Board about committee activities, issues and related recommendations
- Provide an open avenue of communication between internal audit, the external auditors and the Board

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- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by the rules
- Review any other reports the Group issues that relate to committee responsibilities