

Corporate Governance Report

VTech Holdings Limited is incorporated in Bermuda. The Company has its primary share listing on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and London Stock Exchange plc. The primary corporate governance rules applicable to the Company is the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). Throughout the year ended 31st March 2006, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below:

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board of Directors (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 non-executive directors form the majority of the Board of which four out of six are independent. The Board believes the appointment of Mr. Allan WONG to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Company is not subject to the Combined Code on Corporate Governance under the Listing Rules of the Financial Services Authority in the United Kingdom (the "UK Listing Rules") that applies to United Kingdom incorporated companies.

Model Code 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 UK Listing Rules regarding securities transactions by directors and senior management in relation to the accounting period covered by the Annual Report. All Directors confirmed, following specific enquiry by the Company, that they have fully complied with the required standard of dealings set out therein throughout the year ended 31st March 2006.

The Board

The Board comprises two executive directors and four independent non-executive directors. The names and brief biographies are set out on page 24 of this report. The 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 appointed for a specific term of three years and all directors are required to submit themselves for re-election at least once every three years under the Company's Bye-laws.

The Board has received from each independent non-executive director a written 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 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 and major corporate activities.

Four Board meetings at approximately quarterly interval are scheduled for 2006/07 with other meetings are held as required. 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 attendance of individual members of the Board and other Board Committees during the financial year is set out below:

	Meetings attended/Eligible to attend		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
Allan WONG Chi Yun	4/4	–	–
Albert LEE Wai Kuen	4/4	–	–
Independent Non-Executive Directors			
Raymond CH'EN Kuo Fung	2/4	2/2	1/1
William FUNG Kwok Lun	3/4	2/2	1/1
Michael TIEN Puk Sun	4/4	2/2	1/1
Patrick WANG Shui Chung	4/4	–	–

Board Committees

The Board has established four committees with specific responsibilities as described below. The terms of reference of the Remuneration Committee, Nomination Committee and Audit Committee are posted on the Company's website.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Michael TIEN Puk Sun with Mr. Raymond CH'IEN Kuo Fung and Mr. William FUNG Kwok Lun as members, all are independent non-executive directors. It is responsible for reviewing and recommending all elements of the executive directors and senior management remuneration. The fees of the non-executive directors are determined by the Board.

The Remuneration Committee was established on 22nd June 2005 and met once during the year to review and adopt the terms of reference. It also reviewed the level of remuneration paid to executive directors. Up to the date of the Annual Report, the Remuneration Committee reviewed the Group's remuneration policy and reviewed the remuneration package of the executive directors and senior management for the year ended 31st March 2006.

Nomination Committee

The Nomination Committee, chaired by Mr. William FUNG Kwok Lun with Mr. Patrick WANG Shui Chung and Mr. Allan WONG Chi Yun as members (a majority of the members are independent non-executive directors), was established on 21st June 2006. It is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience.

Audit Committee

The Audit Committee is chaired by Mr. Raymond CH'IEN Kuo Fung with Mr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members, all are independent non-executive directors. It 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.

Mr. Raymond CH'IEN Kuo Fung has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee held two meetings during the year. It reviewed work done by internal and external auditors, the relevant fees and terms, reports from external auditors in relation to the interim and annual financial statements, and receives regular reports from the internal audit functions in accordance with the Committee's terms of reference. The meetings were attended by the Chairman, Chief Compliance Officer, Chief Financial Officer and external auditors.

Auditors' Remuneration

An analysis of remuneration in respect of audit and non-audit services provided by KPMG, the auditors, is shown in note 2 to the financial statements.

Risk Management Committee

The Risk Management Committee, comprising the executive directors, held two meetings during the year to review the Group's risk management and internal control systems.

Responsibilities in Respect of Financial Statements

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility to prepare the financial statements as set out on pages 33 to 34. The statement of the external auditors about their reporting responsibilities on the financial statements is set out on page 32.

Internal Controls

The Directors have the overall responsibility for internal control, including risk management, and sets appropriate policies having regard to the objectives of the Group. The Directors, through the Audit Committee, have continued to review the effectiveness of the Group's system of financial and non-financial controls. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits.

The Audit Committee reviews the effectiveness of the internal control environment of the Group. It receives reports from the internal and external auditors, which include recommendation for improvement. The Internal Audit's work plan based on risk assessment is discussed and agreed every year with the Audit Committee.

The Group has put in place an organisational structure with formal defined lines of responsibility and delegation of authority. There are also established procedures for planning, capital expenditure, treasury transactions, information and reporting systems, and for monitoring the Group's businesses and performance.

Code of Conduct

Employees are required to strictly follow the Code of Conduct to ensure the Group operates to the highest standards of business conduct and ethics in our dealings with customers, business partners, shareholders, employees and the business communities. Every employee is provided a copy of the Code of Conduct and they are required to confirm compliance with the Code in writing each year.