

## Corporate Governance Practices

VTech Holdings Limited 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 year ended 31 March 2018, 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 deviations from code provisions A.2.1 and A.6.7 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 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 Company and its subsidiaries (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.

Under code provision A.6.7 of the Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. WONG Kai Man was unable to attend the 2017 annual general meeting of the Company held on 24 July 2017 ("2017 AGM") due to his other prior engagement. However, the Board believes that the presence of the other independent non-executive Directors at such general meeting has allowed the Board to develop a balanced understanding of the views of shareholders.

The key corporate governance principles and practices of the Company are set out below.

## Board of Directors

The Board currently comprises three executive Directors and four independent non-executive Directors. The independent non-executive Directors are executives of high calibre with diversified industry expertise and bring a wide range of skills and experience to the Group. They bring to the Company independent judgement on issues of strategy, performance, risk and human resources management through their contribution at Board meetings. In addition, the Directors disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved on a biannual basis. Their names and brief biographies are set out on page 38 of the 2018 Annual Report.

## Appointment and Re-election of Directors

All Directors are appointed for a specific term of three years and are required to submit themselves for re-election at least once every three years under the Company's Bye-laws. In accordance with the Company's Bye-laws, each new Director appointed by the Board during the year shall hold office until the next annual general meeting and thereafter the same Director, if re-elected, shall be subject to retirement by rotation. There exists no relationship among Board members and senior management, including financial, operational, family or other relevant material relations.

## Independence of Independent Non-executive Directors

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 considers that the four independent non-executive Directors, being majority 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.

Although some independent non-executive Directors have served as Board member for more than nine years and this could be relevant to the determination of independence, the Board and the Nomination Committee, when assessing the independence of the independent non-executive Directors, will consider the character and judgement demonstrated by the Director's commitment and contribution to the Board and other relevant factors such as expertise, experience, and stability to the Board. There is no business or other relationships or circumstances that are likely to affect their independent judgement.

Any further reappointment of an independent non-executive Director who has served the Board for more than nine years will be subject to separate resolution to be approved by shareholders.

## Roles and Responsibilities of the Board

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, but are not restricted to, deliberation of business plans, risk management, internal control, preliminary announcements of interim and final results, dividend policy, annual budgets, major corporate activities such as material acquisitions and disposals, and connected transactions.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

Four Board meetings at approximately quarterly intervals are scheduled with other meetings held as required. All Directors have access to the advice and services of the company secretary of the Company (the "Company Secretary") and independent professional advice may be sought by the Directors if required.

The attendance of individual Directors at Board Meetings (BM), Audit Committee Meetings (ACM), Nomination Committee Meeting (NCM), Remuneration Committee Meeting (RCM), Risk Management and Sustainability Committee Meetings (RMSCM) and Annual General Meeting (AGM) during the financial year is set out below:

Directors	Meetings attended/Eligible to attend					
	BM	ACM	NCM	RCM	RMSCM	AGM
<b>Executive Directors</b>						
Allan WONG Chi Yun ( <i>Chairman</i> )	4/4	-	1/1	-	2/2	1/1
PANG King Fai	4/4	-	-	-	2/2	1/1
Andy LEUNG Hon Kwong	4/4	-	-	-	2/2	1/1
<b>Independent Non-executive Directors</b>						
William FUNG Kwok Lun	4/4	1/2	1/1	1/1	-	1/1
KO Ping Keung <sup>Note</sup>	1/1	-	-	1/1	-	-
Patrick WANG Shui Chung	4/4	2/2	1/1	1/1	-	1/1
WONG Kai Man	3/4	2/2	1/1	1/1	2/2	0/1

*Note: Professor KO Ping Keung was appointed as an independent non-executive Director, and a member of the Audit Committee, the Nomination Committee and the Remuneration Committee with effect from 30 January 2018.*

In addition to the regular Board meetings, the Chairman had a meeting with the independent non-executive Directors without the presence of the executive Directors during the financial year.

# Corporate Governance Report

## Board Evaluation

The Board recognises the importance and benefits of conducting regular evaluation of its performance. A board evaluation for the financial year 2017/2018 was conducted in the form of a questionnaire to all Directors individually. The areas covered included composition, effectiveness, process of the Board and the committees. The results of the evaluation was circulated to the Board and discussed.

## Board Committees

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.

### Audit Committee

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung (appointed on 30 January 2018) 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 year. 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 year included, but is not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2017;
- report from the external auditor for the year ended 31 March 2017;
- corporate governance report in the 2017 Annual Report in compliance with the Code;
- unaudited Group Interim Financial Report for the six months ended 30 September 2017 in the 2017/2018 Interim Report;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2017 in the 2017/2018 Interim Report;
- corporate governance section in the 2017/2018 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- fee level and nature of non-audit work performed by external auditor;
- 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;
- 2017 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.

On the date of the 2018 Annual Report, the Audit Committee met to review the audited Group's consolidated financial statements and reports for the year ended 31 March 2018 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results of the Group for the year ended 31 March 2018 have been reviewed with no disagreement by the Audit Committee.

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 year. 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, 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 regarding this.

### Nomination Committee

The Nomination Committee is chaired by Dr. William FUNG Kwok Lun with Professor KO Ping Keung (appointed on 30 January 2018), Dr. Patrick WANG Shui Chung, Mr. WONG Kai Man and Dr. Allan WONG Chi Yun as members. The majority of the members of the Nomination Committee are independent non-executive Directors. It is responsible for reviewing the structure, size and diversity of the Board, and identifying and nominating candidates for appointment to the Board such that it has the relevant blend of skills, knowledge and professional experience. Candidates for appointment as Directors may be sourced internally or externally through various channels such as using the services of specialist executive search firms. The aim is to appoint individuals of the highest calibre in their area of expertise and experience.

#### *Board Diversity*

The Company sees increasing diversity at the Board level as an essential element to complement the Company's corporate strategy and has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board.

## Board Committees (Continued)

### Nomination Committee (Continued)

The Nomination Committee monitors the implementation of the Board Diversity Policy and has responsibility in leading the progress for Board appointments. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but is not limited to gender, age, cultural and educational background, skills, knowledge, industry and professional experience, business perspectives and the legitimate interests of the Company's principal shareholders.

Selection of candidates for Board appointments will be considered taking into account a range of aspects described above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has held one meeting during the financial year. The Nomination Committee reviewed the structure, size and diversity of the Board. It also considered the appointment of Professor KO Ping Keung as an independent non-executive Director with reference to qualifications and related expertise, and the appointment was accepted by the Board.

### Remuneration Committee

The Remuneration Committee is chaired by Dr. Patrick WANG Shui Chung with Dr. William FUNG Kwok Lun, Professor KO Ping Keung (appointed on 30 January 2018) and Mr. WONG Kai Man as members. All of the members are independent non-executive Directors. It is responsible for reviewing and recommending all elements of the executive Directors' and senior management's remunerations to the Board.

The emoluments of executive Directors and senior management are based on skills, knowledge and performance, together with reference to the profitability of the Company, and prevailing market conditions. In addition, the Company has established a share option scheme and a share purchase scheme to provide incentives and rewards to eligible participants for their continuous contribution to the Group.

The Remuneration Committee has held one meeting during the financial year. The Remuneration Committee discussed and reviewed the policy for the remuneration of executive Directors and senior management, and the annual salaries increment and remuneration packages for executive Directors and senior management, including the share option scheme and the share purchase scheme for executive Directors and senior management before recommending them to the Board for consideration and approval. It also reviewed and approved the shares to be awarded under the share purchase scheme subject to the performance conditions, and the revision on an Addendum to the Share Purchase Scheme for the eligible French employees of the Group (the "French Subplan").

### Risk Management and Sustainability Committee

The Risk Management and Sustainability Committee is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong, Mr. WONG Kai Man, Ms. Shereen TONG Ka Hung and Mr. CHANG Yu Wai as members. It comprises executive Directors, an independent non-executive Director, the Group Chief Financial Officer, and the Company Secretary and Group Chief Compliance Officer. It is responsible for monitoring and reviewing the risk management and sustainability strategies of the Group on a regular basis, and reports to the Audit Committee on a biannual basis of any significant findings.

The Risk Management and Sustainability Committee has held two meetings during the financial year to review the Group's risk management and internal control system, and sustainability strategies, policies and improvement activities.

The Risk Management and Sustainability Committee has developed a framework for the management and control of risks in the Group. Risks are being more formally identified and recorded in a risk register (the "Risk Register") for key operations. This Risk Register is updated regularly and the major risks are being reviewed from time to time by the Risk Management and Sustainability Committee. The major risks in this Risk Register include:

- staff and supplier integrity;
- product design, quality and safety;
- sales and receivable management, and marketing and promotion;
- procurement and supplier management;
- compliance with patents and intellectual property rights requirements;
- cybersecurity and information technology risks;
- physical security and risk of fire;
- human resources, employee compensation and safety; and
- compliance with the relevant laws and regulations that have a significant impact on the Group.

In addition, the Risk Management and Sustainability Committee also reviewed the financial risks of the Group, the details of which are set out in note 22 to the financial statements.

The Risk Management and Sustainability Committee ensures that any new and emerging risks are promptly identified, evaluated and appropriate actions are taken by the management. This requires the active and frequent participation by the process owner of each function in identifying risks affecting its business and implementing measures to reduce such risks, as well as the active monitoring on the progress of the improvement in internal control procedures.

The Data Security Governance Board was established in January 2016 with defined terms of reference reporting to the Risk Management and Sustainability Committee. The Data Security Governance Board is chaired by the Group Chief Executive Officer and comprises the Group President, the CMS Chief Executive Officer, the TEL President, the Group Chief Financial Officer, the Company Secretary and Group Chief Compliance Officer, and the Group Chief Information Officer. It is responsible for the decision-making, implementation, enforcement, oversight, compliance and periodic review of the Data Security Policy. During the financial year and up to the date of the 2018 Annual Report, the Risk Management and Sustainability Committee has reviewed the meeting minutes of the Data Security Governance Board.

The Risk Management and Sustainability Committee also provides vision and strategic direction for our sustainability activities, reviews our sustainability strategies and improvement activities, assesses how the policies are implemented in achieving the sustainability goals and targets, and monitors the performance progress on a biannual basis. During the financial year and up to the date of the 2018 Annual Report, it has determined the scope of the Company's annual Sustainability Report and reviewed the Company's 2018 Sustainability Report, which informs our stakeholders of our sustainability strategies and activities, and the performance progress against our sustainability targets.

### Liability Insurance for the Directors

The Company purchases annually the Directors and officers' liability insurance for members of the Board to provide protection against claims arising from the lawful discharge of duties by the Directors.

## Directors' Training and Professional Development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment.

During the financial year, the Company has organised a one-day training session as part of the continuous professional development conducted by qualified professionals on accounting, taxation and Listing Rules requirements for the Directors and relevant staff to develop and refresh their knowledge and skills. In addition, the Directors attended other external seminars or briefings and read relevant materials on regulatory updates.

All Directors have provided to the Company their records of training which they have received during the financial year.

A summary of their records of training during the financial year is as follows:

Directors	Attending briefings, trainings, seminars, conference or giving speech	Reading articles, researches, journals and updates
<b>Executive Directors</b>		
Allan WONG Chi Yun ( <i>Chairman</i> )	✓	✓
PANG King Fai	✓	✓
Andy LEUNG Hon Kwong	✓	✓
<b>Independent Non-executive Directors</b>		
William FUNG Kwok Lun	✓	✓
KO Ping Keung ( <i>appointed on 30 January 2018</i> )	✓	✓
Patrick WANG Shui Chung	✓	✓
WONG Kai Man	✓	✓

Note: Training areas include information related to the Company or electronic manufacturing industry, laws, rules and regulations, accounting standards and business management.

## External Auditor

The Audit Committee reviews and monitors the external auditor's independence and objectivity. It also meets with the external auditor to consider the nature, scope and results of their audit with senior management. The external audit engagement partner is subject to periodical rotation of not more than seven years.

During the financial year, the fees in respect of audit services, tax services and other advisory services provided by KPMG, the external auditor, are summarised below:

	2018 US\$ million	2017 US\$ million
Audit services	0.8	1.0
Audit related services	0.1	0.1
Tax services	0.7	0.5
Other advisory services	0.1	0.1

## Responsibilities in respect of Financial Statements

The Directors are responsible for overseeing the preparation of the consolidated financial statements for the year ended 31 March 2018 to give a true and fair view of the financial position of the Group as at that date and of its financial performance for the year then ended. In doing so, the Directors have adopted the appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgements and estimates that are prudent and reasonable in preparing the consolidated financial statements on the going concern basis.

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

The statement by the external auditor of the Company regarding their responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 44 to 47 of the 2018 Annual Report.

## Company Secretary

The Company Secretary is an employee of the Company, reports to the Chairman and is responsible for providing advice to the Board for ensuring the Board procedures are followed. The Company Secretary has taken no less than 15 hours of relevant professional training duly complied with the training requirement under Rule 3.29 of the Listing Rules.

## Internal Control

The Directors have the overall responsibility for internal control, including risk management, and set appropriate policies having regard to the objectives of the Group. The Board, through the Audit Committee and the Risk Management and Sustainability Committee, reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance issues, risk management process, information systems security and effectiveness of financial reporting and compliance with the Listing Rules.

The Group's internal control system aims at safeguarding assets from inappropriate use, maintaining proper accounts and ensuring compliance with regulations. The management is primarily responsible for the design, implementation and maintenance of the internal control system. The system is designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the operation of the Company. The internal audit function monitors the effectiveness of the system and the procedures for monitoring by key operations.

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

## Internal Audit Department

The Group's Internal Audit Department has been established for more than 20 years and the Internal Audit Department has direct access to the Audit Committee. The Internal Audit Department reviews the effectiveness of the internal control system. Every three years, the Internal Audit Department carries out a risk assessment on each identified audit area and devises a three-year audit plan according to the nature of business and risk exposures, and the scope of work includes financial and operational reviews. The three-year audit plan is further divided into three annual audit plans. Every year, the Internal Audit Department reviews the upcoming annual audit plan and makes adjustments to it where appropriate. The three-year audit plan and the annual audit plans, with subsequent adjustments where appropriate, are reviewed and agreed by the Audit Committee. In addition to the agreed schedule of work, the Internal Audit Department conducts other review and investigative work as may be required. The Audit Committee receives summary reports from the Internal Audit Department periodically while the results of internal audit reviews and responses to the recommended corrective actions are also reported to the executive Directors. The Internal Audit Department is also responsible for following up the corrective actions to ensure that satisfactory controls are maintained.

## Internal Control (Continued)

### Other Control and Management

#### *Code of Conduct*

The Company's policy on code of conduct is also an important part of the Group's internal control process. Employees are required to strictly follow the code of conduct to ensure the Group operates to the highest standards of business behaviour and ethics in our dealings with customers, business partners, shareholders, employees, and the business community. The policy is reinforced and monitored by an annual confirmation of compliance in writing.

#### *Whistleblowing Policy*

The Group maintains a Whistleblowing Policy to facilitate the raising of matters of serious concern by employees in confidence without the fear of recrimination. Procedures are established for employees to report complaints and suspected internal malpractices directly to the Group Chief Compliance Officer, who will review the complaints and determine the appropriate mode of investigation and subsequent corrective action. Recommendations on improvements are communicated to the respective department's senior management for implementation. The Group Chief Compliance Officer reports the nature and status of complaints received on a quarterly basis, and the results of his review of the complaints to the Audit Committee on a biannual basis.

#### *Risk Register*

The Company maintains the Risk Register to record the major and identifiable risks in the critical functions in the operation of the Company. The Risk Register is being reviewed by the Risk Management and Sustainability Committee on a biannual basis. At management level, department representatives of each key business unit/function maintain a risk register documenting the key risks and the response measures of the relevant risk. To facilitate the review of the Risk Register by the Risk Management and Sustainability Committee, the Internal Audit Department will review the operation of the risk management framework, including the effectiveness of reporting to the highest levels, and the continuing operation of appropriate risk responses.

### 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 enquiry, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2018.

### Continuous Disclosure Policy

The Company has established a Continuous Disclosure Policy to set out the Company's procedures for monitoring developments in our businesses for inside information and communicating such information with our shareholders, analysts, media and other stakeholders in accordance with the inside sensitive information disclosure requirement under the Securities and Futures Ordinance and the Listing Rules.

## Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between shareholders and the Board. An annual general meeting shall be held in each year at the time and place determined by the Board.

### Procedure for shareholders to convene special general meeting

Under the Company's Bye-laws, in addition to regular annual general meetings, the Board, on the requisition of shareholders of the Company holding not less than one-tenth of the paid-up capital of the Company, may convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the registered office of the Company. The requisition(s) must state the purposes of the meeting, and must be signed by the requisitioner(s).

### Procedure for shareholders to propose resolution at annual general meeting

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders or not less than 100 shareholders may propose any resolutions at the annual general meeting and circulate to other shareholders written statement with respect to the matter to be dealt with at the annual general meeting by sending a written notice of their proposals to the Company Secretary at the Company's principal office address at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

### Procedure for shareholders to propose a person for election as a Director

The procedures for proposing a person for election as Director at a general meeting are set out in the Corporate Governance under Investors section of the Company's website.

### Procedure for shareholders to send enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

## Changes in Constitutional Documents

There is no change in the Company's constitutional documents during the financial year ended 31 March 2018.

## Shareholders Communication Policy

The Company has established a Shareholders Communication Policy to set out the procedures for providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company. This is in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Shareholders and the investment community may at any time make a request for publicly available Company information by email to [investor\\_relations@vtech.com](mailto:investor_relations@vtech.com), by post addressed to the Company's head office address, via the contact form on the Company's website or through the Company's share registrar.