

# Corporate Governance Report

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Throughout the year ended 31 March 2020, 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 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 half 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 key corporate governance principles and practices of the Company are set out below.

## Board of Directors

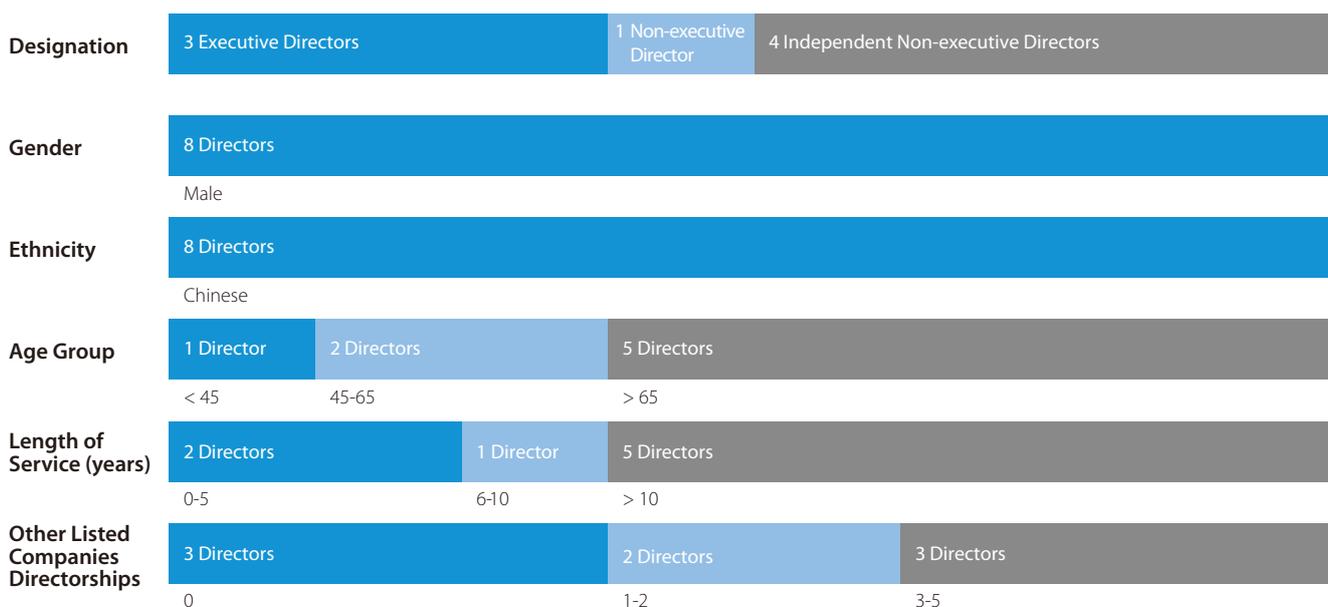
### Board Composition

The Board currently comprises three executive Directors, one non-executive Director 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.

Details of all Directors and their biographies, including relationship between the Board members are set out on pages 49 to 50 of the 2020 Annual Report.

The Board composition and Board skills and experience are set out below:

#### (i) Board Composition



**Board of Directors** (Continued)**Board Composition** (Continued)

## (ii) Board Skills and Experience

	Industry and Manufacturing	Mainland China	Global Business	Technology	Logistics/ Supply Chain	Accounting Professional/ Legal and Compliance
<b>Executive Directors</b>						
Allan WONG Chi Yun ( <i>Chairman</i> )	✓	✓	✓	✓	✓	
PANG King Fai	✓	✓	✓	✓	✓	
Andy LEUNG Hon Kwong	✓	✓	✓	✓	✓	
<b>Non-executive Director</b>						
William WONG Yee Lai ( <i>appointed on 12 November 2019</i> )	✓		✓	✓		
<b>Independent Non-executive Directors</b>						
William FUNG Kwok Lun	✓	✓	✓	✓	✓	
KO Ping Keung	✓	✓	✓	✓		
Patrick WANG Shui Chung	✓	✓	✓	✓	✓	
WONG Kai Man	✓	✓	✓	✓		✓
<b>Total (in number):</b>	<b>8</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>1</b>
<b>Total (in percentage):</b>	<b>100%</b>	<b>88%</b>	<b>100%</b>	<b>100%</b>	<b>63%</b>	<b>13%</b>

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. Directors are also reminded to notify the Company in a timely manner any changes of such information.

**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 not limited to the following:

- deliberation of business plans, risk management, internal control, sustainability strategies, improvement activities and performance progress against the sustainability target;
- preliminary announcements of interim and final results, interim and annual reports, and sustainability reports;
- dividend policy;
- annual budgets;
- major corporate activities such as material acquisitions and disposals, and connected transactions; and
- Directors' appointment, re-election and removal.

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.

## Board of Directors (Continued)

### Appointment and Re-election of Directors

All Directors are appointed for a specific term of three years and are subject to retirement by rotation and re-election at least once every three years at the annual general meetings under the Company's Bye-laws. In accordance with the Company's Bye-laws, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. In addition, any Director appointed by the Board during the year, either to fill a casual vacancy or as an addition to the Board, shall hold office until the next annual general meeting and shall be subject to retirement by rotation.

### Independence of Independent Non-executive Directors

The Board has received from each independent non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that the four independent non-executive Directors are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules. The written annual confirmation from each of the independent non-executive Directors of his independence also covered his immediate family members (as defined under the Listing Rules).

When assessing the independence of the independent non-executive Directors, the Board and the Nomination Committee 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. Notwithstanding that some independent non-executive Directors have served as Board members for more than nine years, this does not and would not affect their independent judgement as they have been providing objective view and independent opinion to the Company over the years, and have continued to demonstrate a firm commitment to their independent roles. There is no business or other relationships or circumstances that are likely to affect their independent judgement.

Any further re-appointment of an independent non-executive Director who has served the Board for more than nine years are subject to a separate resolution to be approved by shareholders. Reasons will be given in the circular to shareholders to explain why the Board believes those independent non-executive Directors are still independent and should be re-elected. If the independent non-executive Director will be holding his seventh (or more) listed company directorship, the Board will explain in the circular why he will still be able to devote sufficient time to the Board.

### Board, Board Committees and Shareholders' Meetings

Four Board meetings at approximately quarterly intervals are scheduled with other meetings held as required. Dates of regular Board meetings and Board Committees meetings are scheduled in the prior year to facilitate maximum attendance of Directors. The draft agenda for regular meetings of the Board and Board Committees is usually sent to the Directors at least 14 days before the intended date of the meetings. Directors are advised to inform the Chairman of the Board and Board Committees before the meeting if they wish to include any matters in the agenda. The agenda together with the Board papers are usually sent to the Directors at least 3 days before the meetings. Minutes of the meetings of the Board and Board Committees record in sufficient detail the matters considered by the Board and Board Committees, the decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of the minutes of the meetings of the Board and Board Committees are sent to all Directors or respective Board Committees members for their comment and records within a reasonable period after the meetings are held. Minutes of the meetings of the Board and Board Committees are kept by the Company Secretary of the Company (the "Company Secretary"). All Directors have access to the advice and services of the Company Secretary and independent professional advice may be sought by the Directors if required.

## Board of Directors (Continued)

### Board, Board Committees and Shareholders' Meetings (Continued)

The attendance of the 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>Non-executive Director</b>						
William WONG Yee Lai ( <i>appointed on 12 November 2019</i> )	1/1	–	–	–	–	–
<b>Independent Non-executive Directors</b>						
William FUNG Kwok Lun	4/4	2/2	1/1	1/1	–	1/1
KO Ping Keung	4/4	2/2	1/1	1/1	–	1/1
Patrick WANG Shui Chung	4/4	2/2	1/1	1/1	–	1/1
WONG Kai Man	4/4	2/2	1/1	1/1	2/2	1/1

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

### Board Evaluation

The Board recognises the importance and benefits of conducting regular evaluation of its performance. Since 2017, the Board has adopted a structured process to evaluate its own performance every two years in the form of a questionnaire to all Directors individually with the aim of improving the effectiveness of the Board and Board Committees. The areas covered included composition, effectiveness, and process of the Board and Board Committees.

The evaluation results of the Board and Board Committees for the financial year 2018/2019 indicated that the Directors broadly agreed that the Board operates satisfactorily, and they were satisfied, in general, with the composition and effectiveness of each Board Committees. The evaluation result was circulated to the Board for review and discussion at the Board meeting in May 2019, and was also presented to the respective Board Committees for follow-up during the financial year.

### Board Committees

The Board has delegated authority to various Board Committees to deal with specific matters. An Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee were established with defined terms of reference which are no less exacting than those set out in the Code. The composition and charter of the Board Committees are reviewed and updated periodically to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

**Board Committees** (Continued)

Board of Directors			
↓			
Board Committees			
Audit Committee	Nomination Committee	Remuneration Committee	Risk Management and Sustainability Committee
Mr. WONG Kai Man* <i>(Chairman)</i> Dr. William FUNG Kwok Lun* Professor KO Ping Keung* Dr. Patrick WANG Shui Chung*	Dr. William FUNG Kwok Lun* <i>(Chairman)</i> Professor KO Ping Keung* Dr. Patrick WANG Shui Chung* Mr. WONG Kai Man* Dr. Allan WONG Chi Yun	Dr. Patrick WANG Shui Chung* <i>(Chairman)</i> Dr. William FUNG Kwok Lun* Professor KO Ping Keung* Mr. WONG Kai Man*	Dr. Allan WONG Chi Yun <i>(Chairman)</i> Dr. PANG King Fai Mr. Andy LEUNG Hon Kwong Mr. WONG Kai Man* Mr. Hillson CHEUNG Hoi <sup>++</sup> Ms. Shereen TONG Ka Hung <sup>#</sup> Mr. CHANG Yu Wai <sup>#</sup>
Roles and Responsibilities	Roles and Responsibilities	Roles and Responsibilities	Roles and Responsibilities
<p>It has been established to assist the Board in fulfilling its responsibilities for overseeing 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.</p> <p>It is also responsible for overseeing 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.</p>	<p>It is responsible for reviewing the structure, size and diversity of the Board, identifying and nominating candidates for appointment to the Board, assessing the independence of the independent non-executive Directors, assessing the time commitment of a proposed independent non-executive Director and the length of service, making recommendations to the Board on the re-appointment of the Directors and succession planning for the Directors, and reviewing the Nomination Policy and the Board Diversity Policy periodically, and recommending revisions to such policies to the Board.</p>	<p>It is responsible for reviewing and recommending all elements of the executive Directors' and senior management's remunerations, including the granting of share options and share award to employees under the Company's share option scheme and share award scheme, to the Board.</p>	<p>It is responsible for monitoring and reviewing the risk management and sustainability strategies of the Group and Sustainability Report on a regular basis, and reports to the Audit Committee on a biannual basis of any significant findings.</p> <p>It is also delegated with the authority from the Board to provide 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.</p>

\* Independent Non-executive Directors

# Senior Management

+ appointed on 11 May 2020

## Board Committees (Continued)

### Audit Committee

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 not limited to, reviewing the following before recommending them to the Board for consideration and approval:

- 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 in the 2019/2020 Interim Report;
- report from the external auditor based on limited agreed-upon procedures on the Group's unaudited Interim Financial Report for the six months ended 30 September 2019 in the 2019/2020 Interim Report;
- corporate governance section setting out the corporate governance policies and 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 ended 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.

On the date of the 2020 Annual Report, the Audit Committee met to review the Group's audited consolidated financial statements and reports for the year ended 31 March 2020 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 2020 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, risk management and internal control system, and the internal audit function of the Group continued to be effective and adequate.

## Board Committees (Continued)

### Nomination Committee

The Nomination Committee has held one meeting during the financial year. The work performed by the Nomination Committee during the financial year included, but not limited to, discussing the succession planning process and reviewing the following:

- structure, size and diversity of the Board;
- individuals suitably qualified for appointment as Director;
- measurable objectives under the Board Diversity Policy and its progress;
- independence of the independent non-executive Directors; and
- re-election of retiring Directors at the forthcoming 2020 annual general meeting of the Company to be held on 10 July 2020 (the “2020 AGM”), including the assessment on the ability to devote sufficient time to the Board and the length of service of the proposed independent non-executive Director according to the requirements of the Listing Rules.

In addition, the Nomination Committee considered the appointment of Mr. William WONG Yee Lai as a non-executive Director with reference to the broad and diverse range of aspects specified in the Nomination Policy and Board Diversity Policy, and recommended his appointment to the Board for consideration and approval. The appointment was accepted by the Board in November 2019.

#### *Nomination Policy*

The Nomination Policy sets out the selection criteria and procedures for the Nomination Committee to select and recommend suitable candidates for directorship with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company’s business.

The Nomination Committee shall consider a variety of factors in assessing the suitability of a proposed candidate for directorship, including but not limited to the following selection criteria:

- Board Diversity Policy;
- accomplishment and experience appropriate to the requirements of the Company’s business;

- commitment in respect of sufficient time, interest and attention to the Company’s business;
- compliance with the criteria of independence under the Listing Rules for the appointment of independent non-executive Director; and
- any other relevant factors as may be considered by the Nomination Committee from time to time.

If the Board recognises the need to appoint a new director subject to the provisions in the Company’s Bye-laws, the Nomination Committee, with or without assistance from external agencies, shall identify candidates in accordance with the selection criteria set out in the Nomination Policy, evaluate the candidates and recommend to the Board the appointment of the appropriate candidate for directorship. The Board decides the appointment based upon the recommendation of the Nomination Committee and the Board has the final authority on determining suitable director candidate for directorship.

Candidates for appointment as Directors may also 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 Policy*

The Board Diversity Policy sets out the approach to achieve diversity on the Board. The Nomination Committee monitors the implementation of the Board Diversity Policy and has the 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 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 set out in the Board Diversity Policy. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Having reviewed the Board composition, the Nomination Committee recognises the importance and benefits of the gender diversity at the Board level and shall continue to take initiatives to identify at least one female candidate to enhance the gender diversity among the Board members.

## Board Committees (Continued)

### Remuneration Committee

The Remuneration Committee has held one meeting during the financial year. The work performed by the Remuneration Committee during the financial year included, but not limited to, discussing and reviewing the following before recommending them to the Board for consideration and approval:

- policy for the remuneration of executive Directors and senior management;
- benchmarking of the remuneration package of executive Directors and senior management with reference to companies with comparable business or size;
- 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; and
- proposed revision of Directors' fee for the year ending 31 March 2021.

It also reviewed and approved the share options to be granted under the share option scheme and the shares to be awarded under the share purchase scheme subject to the performance conditions.

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.

### Risk Management and Sustainability Committee

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 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:

- economic and operational risks in relation to the novel coronavirus pandemic;
- staff and supplier integrity;
- product design, recall, 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;
- compliance with the relevant laws and regulations that have a significant impact on the Group;
- business interruption; and
- US tariffs against China export.

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 24 to the financial statements.

## Board Committees (Continued)

### Risk Management and Sustainability Committee (Continued)

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.

On the date of the 2020 Annual Report, the Risk Management and Sustainability Committee has reviewed and approved the Company's 2020 Sustainability Report, and the relevant disclosures in the Company's Annual Report before recommending them to the Board for consideration and approval.

#### Data Security Governance Board

The Data Security Governance Board was established with defined terms of reference reporting to the Risk Management and Sustainability Committee. It 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 2020 Annual Report, the Risk Management and Sustainability Committee has reviewed the meeting minutes of the Data Security Governance Board.

## 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. The Directors also received an annual update by qualified professionals on the Listing Rules update arranged by the Company. Materials on the subject of environmental, social and governance and e-learning provided by the Stock Exchange are also notified to the Directors from time to time. 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. The records are maintained by the Company Secretary for annual review by the Audit Committee. The training includes information related to the Company or electronic manufacturing industry, laws, rules and regulations, accounting standards and business management.

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>Non-executive Director</b>		
William WONG Yee Lai ( <i>appointed on 12 November 2019</i> )	✓	✓
<b>Independent Non-executive Directors</b>		
William FUNG Kwok Lun	✓	✓
KO Ping Keung	✓	✓
Patrick WANG Shui Chung	✓	✓
WONG Kai Man	✓	✓

## 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 and tax services provided by KPMG, the external auditor, are summarised below:

	<b>2020</b>	2019
	<b>US\$ million</b>	US\$ million
Audit services	<b>0.8</b>	0.9
Audit related services	<b>0.1</b>	0.1
Tax services	<b>0.8</b>	0.6

## 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 2020 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 management shall provide the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, financial position and prospects in sufficient detail.

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 56 to 60 of the 2020 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 and has 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 during the financial year.

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 Control (Continued)

### 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.

### 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. The Code of Conduct is a written statement of the core standards of behavior expected by the Group, includes provisions in improper business courtesies, conflicts of interest, handling of confidential and proprietary information and intellectual property, relationships with suppliers, contractors, customers, and business partners, competing with integrity, international trade and interacting with government, environmental protection, occupational health and safety, respect of labour and human rights, and equal opportunities.

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.

The Code of Conduct is set out in the Corporate Governance under Investors section of the Company's website.

#### *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 to the chairman of the Audit Committee 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. No incident of fraud or misconduct was considered to have material effect on the Group's financial statements or overall operations.

#### *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 enquiries, 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 2020.

### 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 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 requisitionist(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 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 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 2020.

## 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 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 principal office, via the contact form on the Company's website or through the Company's share registrar.

## Financial Key Dates

The financial calendar highlighting important dates for shareholders in 2020 is set out in the Investor Relations section of the 2020 Annual Report and is also available on the Company's website.

## Dividend Policy

The Company has established a Dividend Policy to set out the guidelines for the Board to determine (i) whether dividends are to be declared and paid; and (ii) the level of the dividend to be paid to the shareholders. It is the policy to allow the shareholders to participate in the Company's profits whilst to retain adequate reserves for future growth.

Normally, the Company pays dividends twice a year, which are the interim dividend and final dividend. In determining and recommending the frequency, amount and form of any dividends in any financial year/period, the Board shall consider the following factors:

- the actual and expected financial performance of the Group;
- global economic conditions and other factors that may have an impact on the business or financial performance of the Group;
- the Group's business strategies, current and future operations, liquidity position and capital requirements, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;
- any restrictions on payment of dividends in the Company's Bye-laws or may be imposed by the Group's lenders; and
- any other factors that the Board deems appropriate.