

## **VTECH HOLDINGS LIMITED AUDIT COMMITTEE CHARTER**

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### **1) Formation**

The Audit Committee (the "Committee") was formed on 26 March 1999 pursuant to a resolution passed by the board of directors of the Company (the "Board") on the same date.

### **2) Purpose**

The purpose of the 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 Committee also ensures that the Company and its subsidiaries (the "Group") comply with all applicable laws, regulations and the code of conduct policies.

### **3) Composition**

The Committee shall consist of at least three Independent Non-executive Directors ("INED"). The Board shall appoint Committee members and shall designate one of the members as the Chairman of the Committee.

### **4) Frequency of meeting**

The 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 telephonic or video-conferencing.

### **5) Meeting procedures**

- (a) Proceedings of meetings of the Committee shall be governed by the provisions of the Bye-laws of the Company. Quorum of meeting shall not be less than two Committee members, and each Committee member in the meeting shall carry one vote.
- (b) 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.
- (c) 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 external auditors and executive sessions.
- (d) The secretary to the Committee is responsible for preparation of meeting agenda and minutes. Meeting agenda shall be provided in advance to members, along with appropriate briefing materials.

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### **6) Responsibilities**

The Committee shall carry out the following responsibilities:

#### (a) Financial Information

- i) Monitor the integrity of the Group's financial statements, annual report and accounts, half-year report and to review significant financial reporting judgments contained in them. In reviewing these reports 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 Listing Rules and legal requirements in relation to financial reporting.
- ii) In performing the above review, members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Group's external auditors; and the Committee should consider any significant or unusual items that are, or may need to be, reflected in such report and accounts, it should give due consideration to any matters that have been raised by the Group's staff responsible for the accounting and financial reporting function, compliance officer or external auditors.
- iii) Review with management and the external auditors the results of the audit, including any difficulties encountered.
- iv) Review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- v) Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- vi) Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- vii) Understand how management develops interim financial information, and the nature and extent of internal and external auditors' involvement.
- viii) 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.

#### (b) Risk management

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

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(c) Financial Reporting System and Internal Control

- i) Consider the effectiveness of the Group's internal control over annual and interim financial reporting, including information technology security and control.
- ii) 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.
- iii) Review the external auditor's management letter, any material queries raised by the auditor to management about the accounting records, financial accounts or systems of control and management's response.
- iv) Ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.
- v) Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.
- vi) Consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.
- vii) Review the Group's financial and accounting policies and practices.
- viii) Review the draft representation letter prior to approval by the Board.

(d) Internal Audit

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

(e) External Audit

- i) Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.
- ii) Be responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal of that external auditor. Where the Board disagrees with the Committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Group should include in the

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- Corporate Governance Report a statement from the Committee explaining its recommendation and also the reason why the Board has taken a different view.
- iii) Review and confirm the independence of the external auditors by obtaining statements from the external auditors on relationships between the external auditors and the Group, including non-audit services, and discussing the relationships with the external auditors.
  - iv) The engagement of the external auditor to perform non-audit services is in general prohibited except for tax-related services. If a compelling reason exists to engage the external auditor due to their unique expertise in a particular area, the prior approval of the Committee is required.
  - v) On a regular basis, meet separately with the external auditors to discuss any matters that the Committee believes should be discussed privately.
  - vi) Act as the key representative body for overseeing the Group's relation with the external auditor.

(f) Corporate Governance

- (i) Develop and review the Group's policies and practices on corporate governance ("CG") on compliance with the Corporate Governance Code of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other related rules ("Code") and make recommendations to the Board.
- (ii) Review and monitor the training and continuous professional development of Directors and senior management that are relevant to the development of the Group's business and the Director's duties and responsibilities.
- (iii) Review and monitor the Group's policies and practices to ensure compliance with the Code, and other legal and regulatory requirements.
- (iv) Develop, review and monitor the code of conduct and compliance manual in relation to the CG matter (if any) applicable to employees and Directors.
- (v) Review the Group's compliance with the Code, and prepare the annual CG Report for the Board's consideration and approval.

(g) Compliance

- i) 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.
- ii) Review the findings of any examinations by regulatory agencies, and any auditor observations.
- iii) Review the process for communicating code of conduct to all employees, and for monitoring compliance therewith.
- iv) Obtain regular updates from management and Group legal counsel regarding compliance matters.

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(h) Other Responsibilities

- i) Perform other activities related to this charter as requested by the Board.
- ii) Institute and oversee special investigations as needed.
- iii) Review and assess the adequacy of the Committee Charter annually, requesting Board approval for proposed changes.
- iv) Confirm annually that all responsibilities outlined in this charter have been carried out.
- v) Evaluate the Committee's and individual members' performance on a regular basis.
- vi) Review arrangements under the existing whistleblowing policy about how the employees of the Group, in confidence, can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
- vii) Agree with the Board's policy relating to the hiring of employees or former employees of the external auditor and monitor the applications of such policy. The Committee will consider whether as a result of such hiring there has been any impairment of the auditor's judgment or independence in respect of an audit.
- viii) Consider other topics, as requested by the Board.

**7) Authority**

The Committee has authority to conduct or authorise investigations into any matters within its scope of responsibility and should be provided with sufficient resources to perform its duties. 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, outside counsel, as necessary.

**8) Reporting requirements**

- (a) Regularly report to the Board about Committee activities, issues such as suspected frauds and irregularities, failures of internal control or suspected infringement of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board and related recommendations.
- (b) Provide an open avenue of communication between internal audit, the external auditors and the Board.
- (c) Report annually to the shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by the rules.
- (d) Review any other reports the Group issues that are related to Committee responsibilities.