

PLAYMATES HOLDINGS LIMITED

The Terms of Reference of the Compensation Committee

1. Purpose

- 1.1 For the purpose of enhancing the Group's corporate governance in determining the remuneration of members of staff, the Board resolved on 27 February, 2004 to establish a Compensation Committee. The Board further resolved on 7 April 2005 to revise the terms of reference of the Compensation Committee in the light of the Code on Corporate Governance Practices issued by the Stock Exchange in November 2004.
- 1.2 The Compensation Committee's purpose is to advise the Board on the Group's *policy* and *structure* for the remuneration of directors and senior management; in particular, the establishment of a formal and transparent *procedure* for developing policy on such remuneration.
- 1.3 In carrying out its functions and responsibilities, the Compensation Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

2. Duties

- 2.1 Specifically, the Compensation Committee is charged with the following tasks and duties:
 - (a) to determine the specific remuneration packages of executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);
 - (b) to determine the specific remuneration packages of the Chairman of the Board and Chief Executive Officer;
 - (c) to make recommendations to the Board on the remuneration packages of non-executive directors;
 - (d) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- (e) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Group; and
- (f) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

3. Procedure

- 3.1 The Compensation Committee is there to ensure that no director or any of his associates is involved in deciding his own remuneration.
- 3.2 In connection with 3.1 above, it has been agreed that the compensation of non-executive directors, including Compensation Committee members shall be reviewed by the executive directors initially, and the executive directors should communicate their findings to the Compensation Committee. The Compensation Committee will then make recommendations to the full Board for final approval.
- 3.3 These terms of reference may be changed or modified by the Board from time to time to suit the Group's relevant circumstances, in particular to follow changes in regulatory requirements governing the subject matter.

4. Membership

- 4.1 Members of the Compensation Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than *two* members.
- 4.2 Only members of the Compensation Committee have the right to attend Compensation Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, other directors of the Company, human resources officer, external advisors and other persons having relevant skills and knowledge may be invited to attend any meeting as and when appropriate.

4.3 The Chairman of the Compensation Committee shall be appointed by the Board. In the absence of the Compensation Committee Chairman, the remaining members present shall elect one among themselves to chair the meeting.

5. Meetings

5.1 The quorum necessary for the transaction of business of the Compensation Committee shall be *two*.

5.2 The Chairman of the Compensation Committee shall request any meeting as he considers necessary but the Compensation Committee shall meet at least *once* a year.

5.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Compensation Committee, and any other person required to attend, no later than *two* working days before the date of the meeting.

5.4 All records (including minutes of the proceedings and resolutions of the Compensation Committee) should be prepared and handled by an independent person outside the Group assigned by the Chairman of the Compensation Committee.