

Corporate Governance Report

The board considers that good corporate governance of the Company is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The board is committed to maintaining and ensuring high standards of corporate governance and will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner. This report highlights some of the most important corporate governance practices of the Company.

A The Board

Composition and role

The board is led by the Chairman and currently comprises of two executive directors (one of whom is the Chairman) and five non-executive directors. Of the five non-executive directors, three of them are independent non-executive directors which represent more than one-third of the board.

In accordance with the provisions in the Bye-laws of the Company, the appointment of directors is considered by the board and they must stand for election by shareholders at the first annual general meeting following their appointment and must, except for the Chairman and managing director, stand for re-election by shareholders at least every three years. In the spirit of good corporate governance practices, the Chairman will voluntarily retire from his office and offer himself for re-election at the forthcoming annual general meeting to be held on 28 April 2005 notwithstanding that he is not required to do so by the Bye-laws.

The principal focus of the board is on the overall strategic development of the Group. The board also monitors the financial performance and the internal controls of the Group's business operations.

With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules.

All directors are regularly updated on governance and regulatory matters. There is an established procedure for directors to obtain independent professional advice at the expense of the Company in the furtherance of their duties.

Corporate Governance Report

A The Board (Continued)

Composition and role (Continued)

The board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. The Chairman is primarily responsible for drawing up and approving the agenda for each board meeting in consultation with all directors. Agenda and accompanying board papers in respect of regular board meetings are sent out in full to all directors within reasonable time before the meeting.

All directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the board to make an informed decision on matters placed before it.

The board has adopted in June 2004 a code for securities transactions by directors in line with the changes in the Listing Rules which became effective from 31 March 2004. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in Appendix 10 to the Listing Rules.

Board Committees

As an integral part of good corporate governance, the board has established the following committees which are all chaired by non-executive directors with defined terms of reference.

Audit Committee

The Audit Committee is established in 1999 and its current members include:

Mr. Anthony LO Kai Yiu – *Committee Chairman*

Mr. Allen LEE Peng Fei

Mr. TSIM Tak Lung

Mr. David YU Hon To

The majority of the Audit Committee members are independent non-executive directors. The board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted in 1999 with reference to “A Guide for the Formation of an Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee meets regularly reviewing the reporting of financial and other information to shareholders, the systems of internal control, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the board and the Company’s auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

Compensation Committee

The Compensation Committee is established in early 2004 and the current members include:

Mr. TSIM Tak Lung – *Committee Chairman*

Mr. Allen LEE Peng Fei

Mr. Anthony LO Kai Yiu

The majority of the Compensation Committee members are independent non-executive directors. The Compensation Committee advises the board on the Group's overall compensation policy and reviews and approves individual compensation packages of the Chairman, the Chief Executive Officer, the executive directors and the key senior executives of the Group.

Group Compensation Policy

Objectives

The objectives of the compensation policy are:

- to provide an equitable and competitive compensation package so as to attract and retain the best available human resources to serve corporate needs
- to provide base compensation to the employees that is competitive to the industry and general market condition
- to award employees in recognition of good individual and corporate performance
- to encourage future employee contributions to achieve overall corporate goals

Components

The compensation package for each employee is structured to attract and retain the best talent available, and will contain a combination or modification of some or all of the following three main components:

I. Base salary

Base salary and wage rate ranges are established for each position by evaluating the responsibilities and the duties required to be performed. The actual salary or wage rate for the person filling the position is determined based on the experience and ability of the individual selected for the position.

The base salary and wage rate ranges are reviewed periodically by reference to the general market and by comparison to comparable positions at competitors in the relevant industry. The actual salaries and wage rates of employees are reviewed annually and may be adjusted from time to time based on the cost of living and financial performance of the company.

Salaries and wages are base compensation and not intended to reward performance, either individually or corporately. Performance is rewarded through the other components of the compensation plan.

Corporate Governance Report

A The Board (Continued)

Board Committees (Continued)

Compensation Committee (Continued)

Group Compensation Policy (Continued)

II. Incentive bonus

Incentive bonus is linked to individual and corporate performance. Every year, profitability and other corporate performance targets are set and incentive bonuses will only be paid for that year if the targets are achieved.

The incentive bonus for each employee is determined with reference to his position and his individual performance during the year.

III. Stock option

Options to purchase shares in the Company are granted to employees from time to time at the discretion of the board, in order to retain valuable human resources and to motivate future performance of the employees.

Stock options granted to individual employees are determined with reference to their positions, their performance and ability to contribute to the overall corporate success.

The granting of stock options is subject to shareholders mandates as required and all applicable laws and regulations of relevant jurisdictions.

IV. Other benefits

In addition to the three main components, the Group offers other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions.

Top Five Paid Employees

The following table summarizes compensation information for the Chief Executive Officer and the four most highly compensated executive officers of the Group for the year ended 31 December 2004:

Name of Officer		Performance	Other	Employer's	
Executive Position	Salary	bonus	benefits	contribution	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>fund</i>	<i>HK\$</i>
		<i>(Note 1)</i>	<i>(Note 2)</i>		
Thomas Chan Chun Hoo Chairman & Chief Executive Officer	120,000	3,000,000	68,417	6,000	3,194,417
Lou Novak President, toy division	3,010,800	6,066,918	227,994	101,400	9,407,112
Ronnie Soong Head of Asian operations, toy division	2,210,000	1,860,612	10,363	12,000	4,092,975
John Sinclair Chief Operating Officer, toy division	2,227,680	1,002,456	156,827	101,400	3,488,363
Phil Jacobs Head of sales, toy division	1,790,100	724,994	235,294	101,400	2,851,788

Notes:

1. The bonus for Mr. Novak includes the amount of HK\$3,276,000 being awarded in respect of the cumulative performance achieved during the 3 years of 2002, 2003 and 2004 pursuant to his service contract.
2. Other benefits include car allowance, insurance premium and club membership.

Corporate Governance Report

B Investor Relationship and Communication

The Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. Briefings and meetings with institutional investors and analysts are conducted regularly. The Company is committed to continue to maintain an open and effective investor communication policy and to update investors on relevant information on its business on a timely manner, subject to relevant regulatory requirements. In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the executive directors and designated senior executives according to established practices and procedures of the Company.

The Company has also maintained a website at <http://www.playmatestoy.com> which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis.

C Code of Best Practice

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2004, with the exception that none of the non-executive directors of the Company was appointed for a specific term. Pursuant to Bye-law 87(1) of the Bye-laws of the Company, non-executive directors are subject to retirement by rotation and re-election (if they offer themselves for re-election) at the Company's annual general meetings.

D Business Ethics

The Company is committed to high standard of business ethics and integrity.

A long established code of conduct is enforced on all employees of the Group. No personal gifts or other forms of advantages from any person or organization doing business with the Group can be accepted by any employee. Business partners and suppliers are reminded from time to time that our policy forbids any employee or agent of the Group from accepting any gift from them.

The Group has developed a Code of Business Conduct for its manufacturing vendors and suppliers. All the vendors and suppliers of the Group are required to maintain a safe and healthy workplace, fair and ethical employment practice and ensure that proper environmental protection measures are in place. The Group also closely monitors that all the relevant codes of conduct stipulated by our major licensors and customers are strictly followed by our manufacturing vendors and suppliers.

The Company has a worldwide reputation in the toy industry for product quality and safety. Children's health, safety and well being are our primary concern and the Company is committed to observe all relevant safety and product quality rules at all costs.

E Social Responsibility

The Group has joined other leading companies in the toy industry to develop a common standard of business conduct for the toy manufacturing community to promote safe and healthy workplace, fair and ethical employment practice, and proper environmental protection measures.

The Group makes regular contributions in terms of financial and other supports to various charitable organizations. Employees are encouraged to have direct and active involvement in fundraising activities for the needs of the society.

F Family Members and Close Personal Relationships

The board recognises that talents, relevant experience and skills are the most important considerations in executive officers and staff selection. It is the Group's policy that job positions are filled by suitably qualified candidates selected through internal promotions or from the open market on the merits of qualification, experience, skills and achievements. No employee is hired on account of family or close personal connection to any board member.