

PLAYMATES HOLDINGS LIMITED
Terms of Reference of the Audit Committee

1. Membership

- 1.1 The Committee shall be appointed by the Board from amongst the non-executive directors of the Company and shall consist of not less than three members. The majority of the members shall be independent non-executive directors (“**INED**”). The Chairman of the Committee shall be an INED.
- 1.2 The Chairman of the Committee shall be appointed by the Board. In the absence of the Chairman of the Committee, the remaining members present shall elect one among themselves to chair the meeting.

2. Frequency and proceedings of meetings

- 2.1 The quorum for meeting shall be two.
- 2.2 The Chairman of the Committee shall request any meeting as he considers necessary but the Committee shall meet at least twice a year. The external auditor may request a meeting if they consider that one is necessary.
- 2.3 The Finance Vice President and Group Financial Controller or such other officers holding equivalent position, and representative(s) of the external auditor shall normally attend meetings. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditor without executive Board members present.
- 2.4 The Company Secretary shall be the secretary of the Committee.

3. Authority

- 3.1 The Committee is authorised by the Board to review, supervise and/or investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 3.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant qualification, experience and expertise if it considers necessary.
- 3.3 The Committee shall report the findings of its actions to the Board.

4. Duties

The Committee shall perform the following duties:

Relationship with the Company's auditors

- 4.1 to be primarily 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;
- 4.2 to 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;
- 4.3 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

- 4.4 to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, 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:-
 - (a) any changes in accounting policies and practices;
 - (b) major judgmental areas;
 - (c) significant adjustments resulting from audit;
 - (d) the going concern assumptions and any qualifications;
 - (e) compliance with accounting standards; and
 - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- 4.5 Regarding to 4.4 above:-
 - (a) members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's auditors; and

- (b) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

Oversight of the Company's financial reporting system and internal control procedures

- 4.6 to review the Company's financial controls, internal control and risk management systems;
- 4.7 to 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 programme and budget of the Company's accounting and financial reporting function;
- 4.8 to 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;
- 4.9 where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 4.10 to review the Group's financial and accounting policies and practices;
- 4.11 to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- 4.12 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 4.13 to report to the Board on the matters in these terms of reference;
- 4.14 to consider other topics, as defined by the Board;
- 4.15 to review arrangements employees of the Company can use, in confidence, to 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; and
- 4.16 to act as the key representative body for overseeing the Company's relations with the external auditor.

5. Minutes and records

All records (including minutes of the proceedings and resolutions of the Committee) should be prepared and handled by the secretary of the Committee. Draft and final versions of minutes shall be circulated to all members of the Committee for their comment and records respectively, in both cases within a reasonable period of time after the meeting.

Revised on 29 February 2012