



The Toy Company Limited

ANNUAL REPORT 2003

A MODEL ANNUAL REPORT CREATED BY DELOITTE

SECTION 02



INTRODUCTION

■ CHAIRMAN'S REPORT

MANAGING DIRECTOR'S
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COMPANY STRUCTURE

THE TOY COMPANY LIMITED IS A FICTITIOUS NEW ZEALAND COMPANY - PLEASE REFER TO "ABOUT THE MODEL FINANCIAL STATEMENTS" FOR MORE DETAILS
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Chairman's Report

Sustainability Report

The sustainability approach to reporting is gaining increasing international acceptance within the corporate community and is transforming corporate reporting practices. This year we made a commitment to acknowledge our responsibility for reporting wider economic, environmental and social performance. This report represents our commitment to meeting the needs of our stakeholders for more transparent and comparable information.

- We have chosen to prepare our sustainability report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines in the Triple Bottom Line Framework.
- We are pleased to present this report and welcome feedback from all our stakeholders through the completion of the feedback form at the end of the report or by direct contact with our sustainability office.

Financial Summary

The Group experienced continued growth in revenue (9.8%) in the current financial year in line with Directors' expectations. The net surplus for the year (excluding minority interests) of \$21.1m reflected a 15% increase on the previous financial year. The acquisition of Toddler Toys Retail Limited early in the financial

year yielded a pleasing result, contributing \$2.2m to consolidated net surplus for the year.

Operational Overview

The Group has also experienced continued growth in product lines and a growth in retail stores in the current financial year. This has been supported by our expansion of the Waikato manufacturing site allowing a 100% increase in production capacity at this site. This capacity is expected to support production growth for a further 8 years.

The Group approved and announced a restructuring plan in February 2003 to relocate our Auckland distribution centre to a more accessible location to maximise distribution efficiencies and reduce the affects the distribution site had on the local residential community.

Other highlights during the year were the completion of the implementation of ISO 14001 at all manufacturing sites and the "Kids First" policy, developed in conjunction with Sport and Recreation New Zealand's "Push Play" programme.



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Chairman's Report

Group Funding

On 31 December 2002, 600,000 ordinary shares were repurchased at \$2.50 per share. There were no other changes in Group funding during the year.

Investment

The sale of our Australian operation, Toddler Toys Australia Pty Limited in April 2002 has allowed the Group to refocus on our core business in New Zealand. Funds generated from the sale have allowed further investment in New Zealand with the purchase of Toddler Toys Retail Limited, an increase in the investment in Toddler Toys.co.nz Limited and the upcoming strategic purchase of Outdoor Toys Limited. The Board believes that these investments will yield a good return on investment in the medium term and are aligned to the Group's strategic objectives.

Vision for a Sustainable Future

The Toy Company Limited has an underlying vision to be the premier manufacturer and retailer of safe, educational toys for children, whilst not jeopardising their future by adversely affecting the environment. This vision is set against a backdrop of changes in society including concerns about the power of advertising reaching children, leading to demands for a constant stream of new, exciting products.

Over the past 10 years statistics have shown that society has increasingly disposed of items that are no longer needed. Although this is beginning to change, with the implementation of waste strategies by central and local government, The Toy Company Limited's aim is to take responsibility for the entire product life cycle of our toys including their disposal. The sustainability report summarises some of the programmes we have developed to minimise the environmental impact of the disposal of our products and help redistribute them to lower socio-economic groups where low disposable income limits the ability to purchase toys that assist in a child's long term education and development.

We have continued with our interest in the joint venture, Computer Toys Limited, which was established to develop, market and sell electronic computer games. This entity aims to meet customers changing demands in an environmentally friendly manner.

All of these issues, and the ways that we develop strategies and programmes to deal with them, are kept in balance by our focus: our commitment to make a difference, and our pursuit of a profitable and sustainable business. Over the past year, we have continued to improve our financial performance as well as further embedding sustainable systems.

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Over the years we have been working to ensure that our policies, organisational structure and management systems have been aligned with our sustainable vision, strategies and overall corporate culture. This is not a quick or simple task, and whilst many of our social and environmental indicators are above known industry norms, this year has revealed some weaknesses. A product recall was announced for motorised scooters sold between September 2002 and November 2002 due to the identification of an electrical fault. The cost of the recall was estimated at \$1m.

Future Outlook

The outlook for the Group is positive. Our focus is on further profit growth through pursuing an increase in sales through growing demand for our products and by pursuing new business opportunities and acquisitions. This focus is supported by the achieved increase in production capacity at the Waikato manufacturing site and the planned restructuring of the Auckland distribution centre in the upcoming year.

The continued release of new innovative products and the support of traditional childhood favourites represents our ongoing business and therefore the company confirms its continued investment in research and development. A continual focus on new product development is considered crucial to the future of our business.

Acquisitions made in the last year leave the company well positioned to deliver further growth and build value for our shareholders. We are excited about our move into the outdoor toy market and look forward to developing this area of business in line with our vision.

Dividends

The directors have declared a final dividend for the year of \$3.5m. This brings the total dividend payout for the year to \$12.5m or 28.5 cents per share, an increase of 4.7 cents per share compared to dividends paid in 2002.

Acknowledgments

On behalf of the Board, I would like to extend thanks to all management and staff for their continued support and commitment to the Group and its customers. They deserve great credit for their dedication and hard work in making our company the success it is.



Mr W Abbott

Chairman

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Managing Director's Review

It has been a successful year for The Toy Company Limited and the highlight for us is the publication of our first Sustainability Report. This is an important tool for us to become more publicly accountable to our stakeholders. We believe that our company will benefit by opening internal and external dialogue about performance, priorities and future sustainability plans. The production of this report has been an excellent planning tool in that it has increased the ability of our Board and Management teams to assess how our operations are currently aligned with the company's values and mission statement. It has also assisted them to assess the company's contribution to natural, human and social capital as well as identify the risks and opportunities The Toy Company Limited will face in the short, medium and long-term.

The complexity of current and future issues – our commitment to identifying and solving them.


For a business to be successful delivering healthy returns is fundamental. Our vision of a more sustainable development means that we take a broader view and chose to identify and present them in a format, known as the "Triple Bottom Line". As a company, our Directors and Management Team are committed to identifying and solving these issues.

Three strategic themes have been identified that our company needs to address:

1. Globalisation, sustainable development and corporate governance;
2. Industry's changing role and widening responsibilities; and
3. Stakeholders' demands for transparency, dialogue and accountability.

We face increasing pressure due to the following factors:

- constant changes in consumer demands requiring the continual development of new toys;
- a highly competitive market from local and imported products;
- an increasing number of operating sites and total number of employees;
- as store sizes and numbers increase, the company has a greater profile and impact on the communities that we operate in and the suppliers we purchase from;
- stakeholders increasing demands for good, transparent corporate governance in the light of recent company collapses overseas, and the intention to harmonise with International Financial Reporting Standards;
- the expectation of the design and production of environmentally friendly toys;
- an inability to fully control the product lifecycle;
- the moral obligation to ensure that all children have access to educational toys; and
- the need to ensure that parents are aware of the benefits of our products so they can make informed choices without directly targeting children with overt advertising campaigns.

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Managing Directors' Review

In this complex environment our values, the backbone of our core management system, are our guiding principles. However we know that the right choice is not always the obvious one and there may be other views of equal value that we need to know from our stakeholders. Informed decision making requires that different, sometimes opposing views are reconciled and a balance found between economic, social and environmental concerns.

■ A summary of the methods that we use to encourage formal and informal feedback with stakeholders are included in the section of the Sustainability Report titled 'Stakeholder Relationships'.

Major changes in operations

There have been a number of changes in investments that the Board has undertaken over the past financial year. The Australian subsidiary, Toddler Toys Australia Pty Limited was sold on 10 April 2002 as it continued to perform under the Board's requirements. The figures reported in the financial statements for the year ended 31 March 2003 include only 10 days trading operations of this entity.

Investment during the year included the acquisition of a subsidiary, Toddler Toys Retail Limited, purchased on 15 June 2002. This acquisition was in line with our growth strategy. Two retail stores were acquired that are located in suburbs in Auckland and Wellington where existing The Toy Company Limited stores are not located. This allowed expansion with minimum impact on the community.

The Board also increased its investment in the associate, Toddler Toys.co.nz Limited, at a cost of \$668,000. This web-based company continues to provide an alternative way for customers (particularly preschool educational institutions) to make purchases from remote locations, without needing to spend time or resources travelling to a retail outlet.

An expansion programme was undertaken at the Waikato manufacturing site during the year which has doubled the production capacity at the site. This programme was in line with the group's growth strategy and supports expected growth in operations for the next 8 years. The financial investment made by the group was in line with forecasts and planned spend.

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The Board approved and announced a restructuring plan in February 2003 to relocate the central Auckland distribution site to a more readily assessable eco-efficient site in South Auckland. This relocation will allow more efficient connection to distribution networks such as rail services and provide less impact on the local residential community. The building of the warehouse will commence in May 2003 with physical relocation planned for late in the 2004 financial year. Under the terms of our lease agreement with the current leased premises in central Auckland the group will not be able to sublet the leased premises. The benefits expected from the relocation are considered to out way the lease cost incurred to the end of the lease term.

On the 1st of May 2003 the Toy Company Limited acquired 100% ownership of Outdoor Toys Limited, a company engaged in the retail of outdoor toys. This acquisition will provide diversification of risk and enable the company to meet its goals in relation to the supply of safe, quality and educational outdoor play equipment.

Highs and Lows

Below is a summary of some of the highs and lows of our performance for the year to 31 March 2003.

Environmental

Highs:

- All manufacturing plants being accredited with ISO 14001 certification (refer page 15).
- Environmental reviews of manufacturing and distribution sites completed (refer page xx).
- Upcoming relocation of Auckland distribution site into new eco-efficient facility (refer page 25).

Lows:

- Clean up of oil spills on one of groups manufacturing sites caused by the previous occupant of the site (refer page 25).
- Increase in production waste (refer page 24).

Social

Highs

- Favourable impact reports for two new retail outlets (refer page xx).
- KIDS FIRST policy implemented in March 2002.
- 92% of staff believe that The Toy Company Limited, puts people first (refer page 29).

Lows:

- High number of employee and customer work place accidents (refer page 31).



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Economic

Highs:

- Expansion of retail chain with two acquired retail outlets in Auckland and Wellington and two new retail outlets opening in Whangarei and Whakatane.
- Net surplus (after minority interest) increased by 15% to \$21,111,000 (refer to statement of financial performance).
- Manufacturing capacity doubled at the Waikato manufacturing site.
- Restructuring of distribution network approved and announced (refer page 25).
- Agreement to purchase Outdoor Toys Limited, specialist manufacturers of play-grounds and other outdoor toys (refer to note 49 of the financial statements).

Lows:

- Sale of Australian subsidiary due to ongoing poor performance (refer to note 36 of the financial statements).
- Clean up costs borne by the Company due to pollution by previous tenant at manufacturing site (refer page 24 and note 26 of the financial statements).
- Recall of product due to electrical fault (refer to page 33 and note 23 of the financial statements).

A Sustainable Future

I believe we have a strong platform for a sustainable future. The publication of our first Sustainability Report takes us on the road towards more comprehensive reporting and management of environmental, social and economic opportunities and risks. I look forward to future improvements to this reporting process.



Margaret Black
Managing Director

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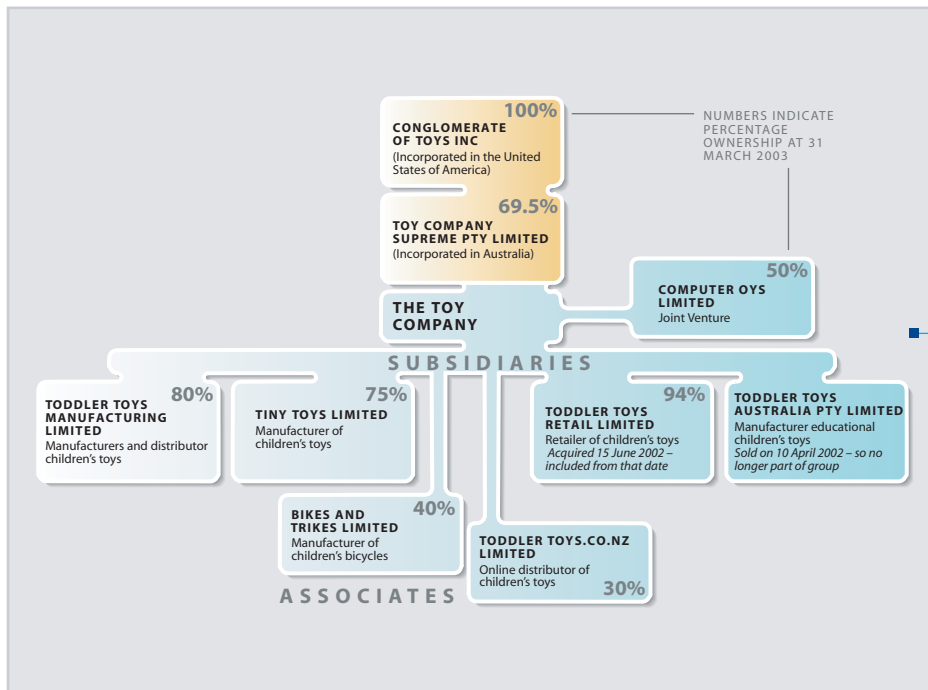
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Company Structure

The Toy Company Limited is a New Zealand company, incorporated under the Financial Reporting Act 1993. It has 43,400,000 issued ordinary shares at a value of \$37,285,000. (2002:42,000,000, \$32,800,000).

The Company is listed on the New Zealand Stock Exchange, with the largest shareholder (Toy Company Supreme Pty Limited) owning 69.5% of issued shares. It is therefore a subsidiary of

this Company, which is 100% owned by the Conglomerate of Toys Inc. The structure of the New Zealand operation is outlined in the diagram below.



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