



Corporate Governance

ANNUAL REPORT 2003

A MODEL ANNUAL REPORT CREATED BY DELOITTE

SECTION

04



CORPORATE
GOVERNANCE

- OUR DIRECTORS
- CORPORATE GOVERNANCE STATEMENT

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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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The Toy Company Limited and Subsidiaries

Our Directors

OUR DIRECTORS

**William Abbott, BE, MBA**

Chairman of Directors, Age 51

Mr Abbott was appointed to the Board as Chairman in September 1996 and has served as a director since 1989. He is currently a Director of *Plastics 'N' Things Ltd*, *NZ Plastics Merchants Federation* and the *Bigtown Kindergarten Association*.

Mr Abbott is a member of the Executive of the *New Zealand Exporters Federation* and has also served as Chairman of the *Council of Plastics Manufacturers Industry of New Zealand*.

**Margaret Black, BCom, CA, LLB**

Managing Director, Age 44

Ms Black was appointed to the Board in June 1998. She joined *The Toy Company Limited* in 1993 as Chief Executive, Retail Division. In June 1995 she took up an appointment as Vice President, *Global Toys (US) Limited* based in Detroit, USA. She returned to New Zealand in May 1998 and was appointed Managing Director of the company.

Ms Black is a director on the *Educational Committee of Child Development*.

**Oliver Hobson, BCom, FCA, CMA**

Senior Non-Executive Director, Age 57

Mr Hobson was appointed to the Board in March 1986 and served as the Managing Director of the company until he resigned in May 1998.

Mr Hobson is Chairman of the Board of *United Chemicals Plc*, and non-executive director of *Bigtown Business Development Board* and the *Global Research and Development Board*.

In addition to his commercial appointments, Mr Hobson is Chancellor of *Bigtown University* in New Zealand.

**Michael Edwards, BEng (Hons)**

Non-Executive Director, Age 39

Mr Edwards was appointed to the Board in May 1999. He has served as a director of the *Australian Institute of Economic Research* and is currently Vice President of Finance of *Toy Company Supreme Pty Limited*.

Mr Edwards is also a member of the *Knowledge Wave Foundation of New Zealand*.

**Ryan Newman, BBus, CA**

Non-Executive Director, Age 47

Mr Newman was appointed to the Board in October 1997. He is currently the Managing Director of *Toy Company Supreme Pty Limited*.

Mr Newman is a member of the *e-Government Advisory Board* and is a *National Council Member of the Institute of Directors*.

**Emma Ross, BA, Dip BIA**

Non-Executive Director, Age 55

Mrs Ross was appointed to the Board in April 2001. She is Chairman of *Kids Advertising Ltd*, and a member of the *Parents/Kids Advisory Committee*. She is President of the *Bigtown Philharmonia* and a trustee of the *Bigtown Community Trust*.

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Our Directors

OTHER SUBSIDIARY DIRECTORS



Mary Smith
Independent Director, Age 51
Director of retailing subsidiary.



Beverly Walker
Independent Director, Age 39
Director of manufacturing subsidiary.

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The Toy Company Limited and Subsidiaries

Statement of Corporate Governance

Appendix 16-
NZX Corporate
Governance Best
Practice Code

The Corporate Governance processes set out in this statement do not materially differ from the principles set out in the New Zealand Stock Exchange Corporate Governance Best Practice Code.

NZX Listing
Rules 10.5.3(i)

Financial Statements

It is the directors' responsibility to prepare financial statements that give a true and fair view of the financial position of the company and the group as at the end of the financial year and the results of operations and cash flows for the year. The external auditors are responsible for expressing an opinion on the financial report, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit.

The financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practice. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable judgements and estimates.

After reviewing internal management financial reports and budgets the directors believe that the company and the group will continue to be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

Directors are elected by the shareholders. The directors appoint a chair from amongst their members. Currently 83% of the six directors are non executive members and 50% are independent members.

The Directors have a diverse range of expertise and experience, and are committed to use these to benefit the company. Their skills in social, environmental and economic areas are identified and communicated to shareholders during the election process. An assessment of the Board's strengths, weaknesses and training needs is also made on an annual basis by an independent organisation, and summarised at the Annual General Meeting. This assists shareholders to identify who will be of most value to the Board.

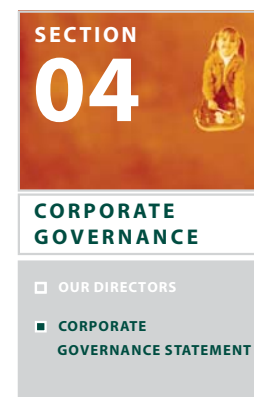
The Board carries out its responsibilities according to the following mandate:

- the Board should comprise at least six directors;
- at least two-thirds of the Board should be made up of non-executive directors;
- there is a maximum of two three year periods of appointment for non-executive directors;
- the Chairman of the Board should be a non-executive director;
- the position of Chairman and Managing Director cannot be combined;
- each director should possess a broad range of skills, qualifications and experience;
- the Board should meet on a monthly basis; and
- all available information in connection with items to be discussed at a meeting of the Board shall be provided to each director prior to that meeting.

The primary responsibilities of the Board include:

- the approval of the annual and half-year financial report;
- the establishment of the long term goals of the company and strategic plans to achieve those goals;
- succession planning for the Managing Director and the Board;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a quarterly basis;
- monitoring environmental, social and economic performance;
- ensuring that the company has implemented adequate systems of internal controls including internal financial controls together with appropriate monitoring of compliance activities; and
- ensuring legislative compliance;
- monitoring executive management;
- communicating with stakeholders.

GRI 3.2



GRI 3.3

GRI 3.1/ 3.4

The Toy Company Limited and Subsidiaries

Statement of Corporate Governance

Board of Directors (continued)

The Board also has responsibility for the system of written procedures, policies, guidelines and organisational structures that set out the division of responsibility between the Board and management and guide the careful selection and training of qualified senior management personnel.

Implementation of Vision and Policy

[3.7] Newly appointed members of the Board must take part in an induction programme which includes familiarisation with the strategic intent, including the vision, policies, and management systems. Depending on the member's skills, they are also given training on the financial reporting framework and analysing internal and external financial reports. The efficient running of the company is effectively shared with senior managers, who assist to implement the policies and strategy set by the Board.

Details of the groups Vision and Policy can be found under the Strategy section of the Sustainability Report.

Independent Professional Advice

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertaking in order to fulfil their duties and responsibilities as directors.

Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- corporate governance matters;
- responsibilities to shareholders;
- confidentiality and the safeguarding of Group information;
- compliance with laws and regulations;
- relations with customers and suppliers;
- ethical responsibilities;
- employment practices; and
- responsibilities to the environment and the community.

Conflicts of Interest


All Directors must disclose any specific and general interests which could be in conflict with their obligations to The Toy Company Limited, its subsidiaries, associates and joint ventures. These are detailed in the notes to the financial statements set out on pages xx and stock exchange disclosures on pages xx and xx.

Risk Management

The Board is responsible for the company's system of internal controls. The Board constantly monitors the operational and financial aspects of the company's activities and, through the audit committee, the Board considers the recommendations and advice of external and internal auditors and other external advisers on the operational and financial risks that face the company.

The Board ensures that recommendations made by the external and internal auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the company has an appropriate internal control environment in place to manage the key risks identified.

GRI 3.7

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<input checked="" type="checkbox"/> CORPORATE GOVERNANCE STATEMENT	

GRI 3.7

The Toy Company Limited and Subsidiaries

Statement of Corporate Governance

Risk Management (continued)

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, the employment and training of suitably qualified and experienced personnel, and in conjunction with the recommendations of the audit committee, the scope and work programme of internal auditors.

Internal Audit

The internal audit function is an independent appraisal function to examine and evaluate the group's activities. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function is to review the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the efficient management of the group's resources and the effective conduct of its operations. The head of internal audit has unrestricted access to the chair of the audit committee.

Internal Control

To fulfil its responsibilities, management maintains adequate accounting records and has developed and continues to maintain a system of internal controls. The directors acknowledge that they are responsible for the company's system of internal financial control.

Internal financial controls implemented by management can provide only reasonable and not absolute assurance against material misstatement or loss. Certain key procedures, which are designed to provide effective internal financial control, have been established by the audit committee.

The directors have reviewed the effectiveness of the system of internal financial control. No major breakdowns were identified during the year in the system of internal control.

Committees

The Board has three operating committees.

Remuneration Committee

The remuneration committee is composed of Michael Edwards, Emma Ross and Ryan Newman. The purpose of the committee is to ensure that the company's directors and senior executives are fairly rewarded for their individual contributions to the company's overall performance.

The remuneration committee has a written charter which outlines the remuneration committee's authority, duties, responsibilities and relationship with the Board. The performance of the remuneration committee is reviewed by the Board in accordance with the written charter.

The remuneration committee reviews the remuneration policies applicable to all directors and executive officers on an annual basis and makes recommendations on remuneration packages and terms of employment to the Board. Remuneration packages, which consist of base salary, fringe benefits, incentive schemes (including performance-related bonuses), superannuation, and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the company's operations, the remuneration committee seeks the advice of external advisers in connection with the structure of remuneration.

Particulars concerning directors' and executives' remuneration are set out below.



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Nomination Committee

The Board has established a nomination committee consisting of the three non-executive directors, Oliver Hobson (Chairman), William Abbott and Ryan Newman.

The nomination committee has a written charter which outlines the nomination committee's authority, duties, responsibilities and relationship with the Board. The performance of the nomination committee is reviewed annually by the Board in accordance with this written charter.

The nomination committee reviews the composition of the Board on an annual basis and makes recommendations to the Board, where considered necessary, to ensure that the Board comprises a majority (at least two thirds) of non-executive directors with an appropriate mix of skills and experience. Where necessary, the committee seeks the advice of external advisers in connection with the suitability of applicants for Board membership.

The terms and conditions of the appointment of non-executive directors are set out in a formal letter of appointment which deals with the following matters:

- duration of appointment (subject to the approval of the shareholders);
- remuneration;
- expectations concerning preparation and attendance at Board meetings;
- conflict resolution; and
- the right to seek independent legal and professional advice (subject to the prior approval of the Chairman).

Audit Committee


The Board has established an audit committee consisting of four members, Oliver Hobson, (senior Non-Executive Director and Chairman of the Audit Committee), William Abbott, Michael Edwards and Emma Ross.

The audit committee has a written charter which outlines the audit committee's authority, duties, responsibilities and relationship with the Board. The performance of the audit committee is reviewed annually by the Board in accordance with this written charter.

The audit committee provides a forum for the effective communication between the Board and external and internal auditors. The audit committee reviews:

- the annual and half-year financial reports prior to their approval by the Board;
- the effectiveness of management information systems and systems of internal control;
- the appointment of external auditors; and
- the efficiency and effectiveness of the internal and external audit functions, including reviewing the respective audit plans.

The audit committee generally invites the Managing Director, Chief Financial Officer, and the external and internal auditors to attend audit committee meetings. The audit committee also meets with and receives regular reports from the external and internal auditors concerning any matters which arise in connection with the performance of their respective roles, including the adequacy of internal controls. The audit committee monitors the independence of auditors and reviews and approves any services provided by the auditors other than in their statutory audit role.

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NZX 10.5.3(h)
GRI 3.1

Attendance at Meetings

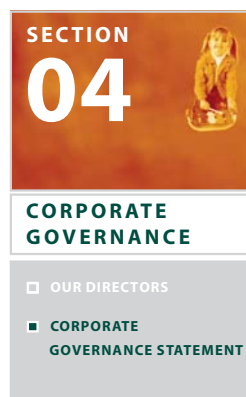
	Board Meetings		Remuneration Committee		Nomination Committee		Audit Committee	
	Held	Attendance	Held	Attendance	Held	Attendance	Held	Attendance
William Abbott	12	12	-	-	2	2	5	5
Margaret Black	12	12	-	-	-	-	-	-
Michael Edwards	12	11	3	3	-	-	5	5
Oliver Hobson	12	12	-	-	2	2	5	5
Ryan Newman	12	12	3	3	2	2	-	-
Emma Ross	12	12	3	3	-	-	5	4

CA s211(1)(f)
CA s211(1)(i)

Directors' Remuneration

Directors of the company and its subsidiaries during the year and remuneration and other benefits paid to directors by the company and its subsidiaries were as follows:

	Group	
	2003 \$000	2002 \$000
The Toy Company Limited		
M Black	220	210
W Abbott	30	25
O Hobson	20	18
M Edwards	20	18
R Newman	20	18
E Ross	20	18
Toddler Toys Manufacturing Limited		
M Black	10	8
L Thompson (resigned 31 May 2002)	3	8
B Walker (appointed 1 June 2002)	7	-
Tiny Toys Limited		
W Abbott	12	10
M Edwards	12	10
M Smith	12	10
E Ross (appointed 2 April 2002)	6	-
Toddler Toys Retail Limited (from 15 June 2002)		
W Abbott	5	-
E Ross	5	-
Toddler Toys Australia Pty Ltd (until 10 April 2002)		
M Black	1	9
O Hobson	1	9
K Cooley	1	9



1

Notes

1 Additional disclosures as appropriate include:

(a) all waivers granted by the Exchange or the Market Surveillance Panel and published, applicable as at balance date

NZX 10.5.3(f)

(b) details of any exercise of the Exchange's powers set out in Rule 5.4.2

NZX 10.5.3(g)

The Toy Company Limited and Subsidiaries

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NZX 10.5.3(h)
GRI 3.1

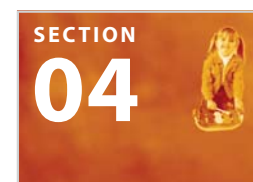
Executives' Remuneration

Remuneration and other benefits of \$100,000 per annum or more received by executives in their capacity as employees were:

CA s211(1)(i)(g)
CA s211(2)

Company	Number of Employees
<i>The Toy Company Limited</i>	
\$100,000 - \$109,999	1
\$110,000 - \$119,999	2
<i>Toddler Toys Manufacturing Limited</i>	
\$100,000 - \$109,999	2
\$110,000 - \$119,999	1
<i>Tiny Toys Limited</i>	
\$100,000 - \$109,999	1
<i>Toddler Toys Retail Limited</i>	
\$100,000 - \$109,999	2

CA s211(1)(e)
CA s211(2)



CORPORATE GOVERNANCE

OUR DIRECTORS

CORPORATE GOVERNANCE STATEMENT

Interest Registers

The following entries were recorded in the directors' interest registers of the company and its subsidiaries during the year:

Directors' share dealings

W Abbott purchased 10,000 shares in The Toy Company Limited on 1 March 2002 for a consideration of \$25,962.
O Hobson sold 5,000 shares in Toddler Toys Australia Pty Limited on 1 January 2003 for a consideration of \$7,900.

CA s148

Directors' transactions

M Black gave notice that she is a shareholder of Educational Toys Limited, and therefore has an interest in all transactions between The Toy Company Limited and that company. W Abbott provided legal services to the group at a discount of 50% on normal fees. Fees paid during the year totalled \$5,000 (2002: \$3,000). Directors have purchased goods from all companies within the group under normal trade terms. These purchases totalled \$1,963 (2002: \$2,051). Loans to directors authorised during the year:

Director	Lending Company	Date of Loan	Amount
M Edwards	Tiny Toys Limited	1 December 2002	\$104,000
M Edwards	The Toy Company Limited	1 December 2002	\$210,000

All directors' loans are at an interest rate of 7.5% (2002:7%) per annum and are repayable on 30 September 2003.

The Toy Company Limited and Subsidiaries

Statement of Corporate Governance

NZX 10.5.3(h)
GRI 3.1

Directors' Shareholdings

Equity securities in which each director and associated person of each director holds a relevant interest at balance date are listed below:

NZX 10.2.3(c)

Equity securities held to 31 March	2003	2002
W Abbott	412,000	402,000
M Black	185,000	185,000
O Hobson	125,000	125,000
M Edward	5,000	5,000

NZX 10.5.3(a)

Securities Amendment Act 2002 s26

Securities

The Company's ordinary shares are listed on the New Zealand Stock Exchange. Details in regard to such securities are as follows:

Substantial Security Holders ¹

The company's register of substantial security holders, prepared in accordance with section 26 of the Securities Amendment Act 1988 recorded the following information at 7 April 2003. ²

Name	Number of Voting Securities
Toy Company Supreme Pty Ltd	30,162,000
Hector Limited	5,604,000

At 7 April 2003 the total issued voting securities was 43,400,000

Spread of Security Holders as at 7 April 2003 ³

Number of security holders

1-999	984	93.5%
1,000 – 4,999	27	2.6%
5,000 – 9,999	11	1.0%
10,000 – 99,999	14	1.3%
100,000 – 499,999	12	1.2%
500,000 – 999,999	1	0.1%
1,000,000 – 5,999,999	2	0.2%
30,000,000 and above	1	0.1%
Total number of holders	1,052	100.0%

NZX 10.5.3(d)

Credit Rating

As at 31 March 2003 the company has the following credit ratings with rating agency Landed and Rich:

Short-term	A-2
Long-term	A

NZX 10.5.3(e)



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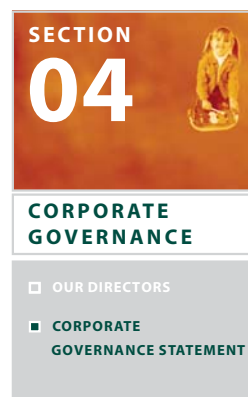
NZX 10.5.3(h)
GRI 3.1

20 Largest Equity Security Holders

NZX 10.5.3(b)

The names of the 20 largest holders of each class of quoted equity security as at 7 April 2003² are listed below.

Top 20 Shareholders	Number Ordinary Shares	Percentage Issued Shares
Toy Company Supreme Pty Limited	30,162,000	69.4%
Hector Limited	5,604,000	12.9%
Kirbie Limited	1,379,000	3.2%
Jones Limited	863,000	2.0%
W Abbott	412,000	0.9%
K&K Family Trust	397,000	0.9%
Sun Holdings Limited	265,000	0.6%
Kisago Trust	207,000	0.5%
Zeta Holdings Limited	196,000	0.5%
M Black	185,000	0.4%
Miro St. Investments Limited	162,000	0.4%
University of Tauranga	150,000	0.3%
Otago Trust	125,000	0.3%
O Hobson	125,000	0.3%
Athens Nominees Limited	118,000	0.3%
Greek Holdings Limited	113,000	0.3%
AANZAC Limited	98,000	0.2%
Alliance Bank	95,000	0.2%
Alpha Limited	74,000	0.2%
Beta Bank	72,000	0.2%
	40,802,000	94.0%



Notes

- ¹ A substantial security holder is a holder who has a relevant interest in 5 percent or more of the voting securities.
- ² Date to be not earlier than three months before the date of the statement of financial position being laid before the general meeting.
- ³ Date to be not earlier than two months before the date of publication of the annual report.

The Toy Company Limited and Subsidiaries

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NZX 10.5.3(h)
GRI 3.1

Donations ¹

Donations made by the company and group during the year ended 31 March 2003 totalled \$12,000 (2002: \$8,000).

CA s211(1)(h)

Changes in Business of Company and Subsidiaries

The group withdrew from the Australian market during the year ended 31 March 2003 with the sale of Toddler Toys Australia Pty Limited on 10 April 2002. The group extended its presence in the New Zealand retail market during the year ended 31 March 2003 with the purchase of a 94% share in a children's toy retailer, Toddler Toys Retail Limited on 15 June 2002. Refer to notes 7 and 36 of the financial statements. There were no other changes in the nature of business of the company or its subsidiaries, and there were no other changes in the classes of business in which the company had an interest during the financial year.

CA s211(1)(a)

On 1 May 2003 The Toy Company Limited acquired 100% ownership of Outdoor Toys Limited, a company engaged in the manufacture of outdoor toys. The financial effect of this acquisition is detailed in Note 49 of the financial statements.

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Notes

- ¹ Disclose in the annual report if not shown under Note 2 to the financial statements (i.e. if differential reporting applies) and if a unanimous resolution by the shareholders not to require disclosure under s211 of the Companies Act 1993 has not been passed.