



A Toy Journey

Insights into TOP-TOY's Sustainability
and Financial Performance 2010/2011





A toy journey has started and you are coming with us. We will take you from idea to drawing board, over production and transportation, to the store shelf and into children's playrooms. Join us for a story of what steps are taken, challenges overcome and dilemmas faced when we follow the journey of toys throughout our value chain.



SUSTAINABILITY IS SERIOUS BUSINESS TO US

Top management commitment is fundamental for successful implementation of sustainability. Read how TOP-TOY links sustainability and financial performance.

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OUR WORLD OF TOYS

We face challenges and dilemmas in a dynamic and fast changing industry. Read about TOP-TOY's role in the global toy industry and how we deal with stakeholder expectations.



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TOP-TOY AT A GLANCE

Gain an overview of TOP-TOY's financial performance through a financial snapshot of the company.

SCAN THE CODE

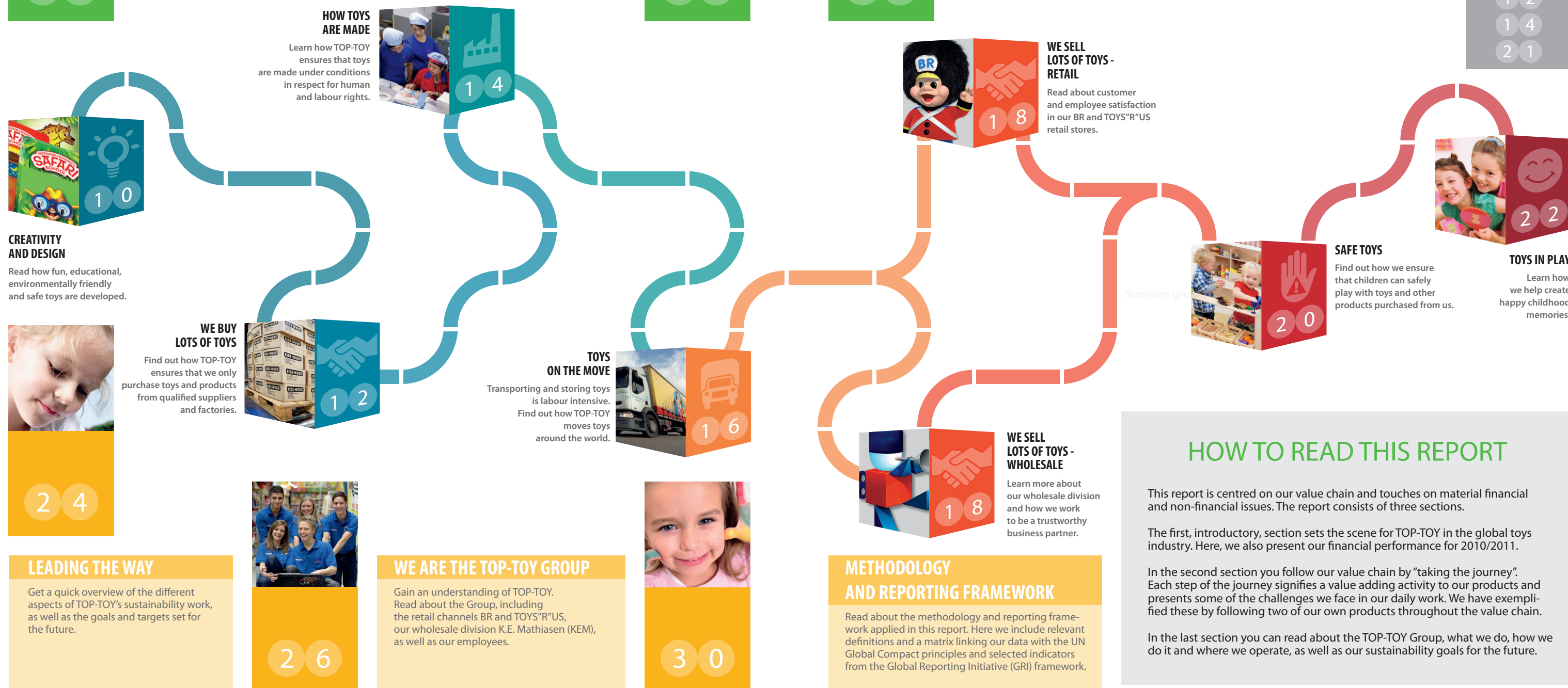
Throughout the report you can see how we work with sustainability at TOP-TOY by watching our short films.

To watch the films use your Smart Phone and QR reader application when you see the QR code.

QR CODE



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Welcome to our world of toys. We would like you to enjoy our universe as much as we do, and therefore, we have prepared this report, which highlights some of TOP-TOY's work during the 2010/11 financial period. We want to tell you about the initiatives we have undertaken during the twelve month period - and - we want to tell you about some of the challenges and dilemmas we face every day as part of doing business in a global context.



LARS GJØRUP

The Bottom Line and Sustainability

Financial and sustainability performance are two interlinked parts of our business. We cannot drive a successful business without thinking sustainability into the way we operate, at the same time, our work with sustainability has to be business driven and linked to our core business areas to add value.

In 2010/2011, our annual revenue grew from 3.6 billion DKK to 4.0 billion DKK. We are very satisfied with this growth, considering the impact of the global financial crisis in Northern Europe.

We Buy Lots of Toys

We buy our toys and other products for children from either our offices in Denmark or in Hong Kong. Our basic idea is to buy the right toys, at the right level of quality and at the right time and price.

In terms of value, about 50% of our products are bought from our Hong Kong office. We collaborate with suppliers globally to ensure that our products are produced in factories in compliance with human and labour rights. Local management and supervision of our suppliers brings with it efficiency and effectiveness in terms of resources and improvement of local conditions.

Examples of our efforts to collaborate with our suppliers include supplier seminars, last held in September 2010 for our Asian suppliers. The seminars were designed to prepare our suppliers to meet the new European Toy Safety Directive, which entered into force in July 2011.

Over the last couple of years we have also adapted our business planning schedule to accommodate increased production lead times, which gives suppliers managed from Hong Kong the possibility to better organise production processes with the producing factories.

Currently, we are in the process of expanding our processes for ensuring factory compliance, from covering our suppliers managed from Hong Kong, to also cover suppliers managed from Denmark. In that way we will ensure a uniform standard for all product purchases made throughout the TOP-TOY Group.

We Sell Lots of Toys

We sell our toys and other products to children in Northern Europe through our retail- or our wholesale divisions.

In 2010/11, we have opened 19 new stores (12 BR stores, 4 BR webshops and 3 TOYS"R"US mega stores). We will continuously assess the profitability of each of our stores. The additional stores are reflected in the revenue from our retail division which increased to 3.2 billion DKK compared to 2.8 billion DKK in 2009/2010. Despite the economic recession we are pleased to have welcomed even more customers in our stores.

In our wholesale division K.E. Mathiasen (KEM), we have completed our strategy to become the leading brand house in the Nordic. Effective January 1 2011, KEM became distributor of Mattel's portfolio of branded products. The partnership with Mattel has strengthened our market capabilities and we expect continuous growth going forward. The revenue for the wholesale division amounted to 829 million DKK compared to 754 million DKK in 2009/10.

This year's after tax profit was 128 million DKK compared to 163 million DKK in 2009/2010. Our financial performance is influenced by a rise in buying prices and exchange rate fluctuations.

Developing our Organisation

We are satisfied with the financial result. It reflects solidity due to our decision to perform a range of long-term investments in the development of TOP-TOY. These include:

- Employees in TOP-TOY have been introduced to a programme, focusing on how to improve teamwork, commitment and responsibility of each individual employee.
- The individual departments' core services and the cooperation across the group have been strengthened.
- We strive to improve our service and the customer experience through introducing a new Service Management programme in our BR and TOYS"R"US retail stores.

Stakeholder Dialogue is Essential

We aim to have open dialogue with our stakeholders such as customers, consumers, employees, suppliers and NGOs. Many stakeholders are – just like we are – concerned about social and environmental issues, and we see their concerns as opportunities to perform even better when it comes to introducing new product lines and innovating our business practices; putting us in the top class of suppliers of toys and other products for children. This report is an example of open communication with our stakeholders, which is essential to our continued business.

Supporting Sustainability

At TOP-TOY, we want to work strategically with sustainability by integrating social and environmental concerns into our business operations. TOP-TOY does not have all the answers, but we are working to continuously improve our performance to better meet and exceed the expectations of our stakeholders.

We will also continue to safeguard the integrity of the UN Global Compact by living up to the membership requirements, participating in events and promoting the initiative. In addition we will continue to build a growing knowledge base of corporate practices to promote dialogue and learning by identifying, implementing and



PETER GJØRUP

documenting change required for a better and more sustainable TOP-TOY.

Some of the concrete examples of what we work with are:

- Rolling out our supplier evaluation programme to all our suppliers.
- Developing a company wide Code of Conduct to ensure consistent conduct throughout the group.
- Including sustainability as a product characteristic in wooden products.
- Finding alternative, more environmentally friendly packaging options.
- Establishing a baseline for energy consumption.

In this report, you can read more about how far we have come, how we want to drive sustainability forward and how we plan to better integrate sustainability into our business operations.

Peter Gjørup and Lars Gjørup.



OUR WORLD OF TOYS

TOP-TOY is a family-owned and -operated business whose end-consumers are families with young children. Our business is to sell toys and other child related products for children. To do that, we take part in a global industry in a dynamic business environment. The industry, as all industries, has an impact on various stakeholders, as well as on the natural environment.

Challenges in the Toy Industry

TOP-TOP is a relatively small Danish company and we work in developing countries, such as China, where we often face challenges related to differences in ways of conducting business. Examples include different expectations to quality standards, requirements to workers' rights and issues related to corruption. Due to TOP-TOY's small size in the global toys industry - we hold less than 1% of the global market for toys and for other child related products it is even less - we must strike a balance between participating in the global industry and promoting our values and business conduct.

The very nature of the toys industry also poses challenges in terms of sustainability due to a high degree of seasonal fluctuation in demand. The Christmas season puts a lot of pressure on the toy industry. As an added feature, popularity of toys is increasingly defined by fashion and changing trends; these are influenced by cinema movies and TV programs. Combined, the underlying nature of

the toys industry requires that all stakeholders actively participate in improving social, ethical and environmental standards.

Working together in the Toy Industry

In general, the toy industry has developed a common compliance system to address the most relevant human and labour rights issues. This has been done through the International Council of Toys Industry (ICTI), which is known as the ICTI Care Process. The process includes provisions on overtime work, minimum age and focus on health and safety. The ICTI Care Process is a popular certification body for toys factories - about 80% of the factories that produce toys for TOP-TOY have the ICTI certificate.

Other controversial issues include how the industry contributes to the fight against corruption and the level of commitment to protecting the natural environment.

TOP-TOY is a member of the ICTI Technical Advisory Council, which is established to advise and support the ICTI CARE Process on technical issues.

Our stakeholders

Our stakeholders count a wide range of national and international regulators, customers, employees, business associations, NGOs, and business partners.

Prioritising which Challenges to Tackle First

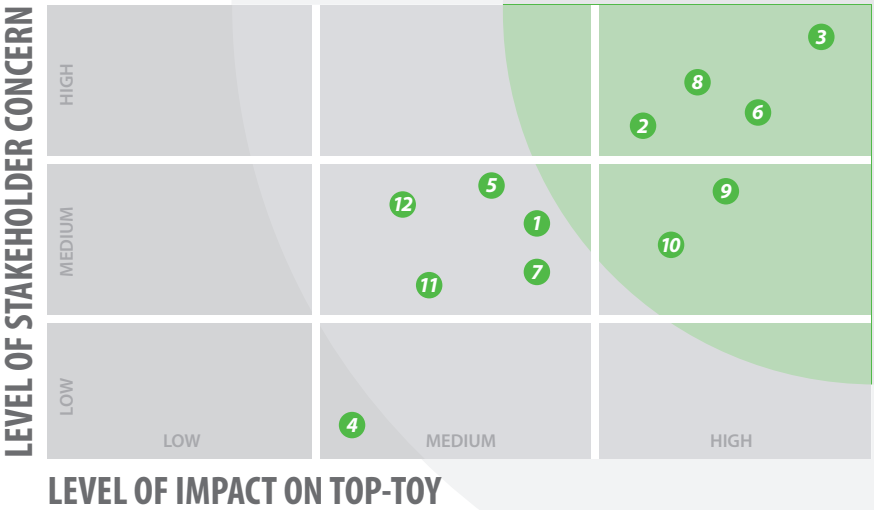
Assessing materiality implies finding which issues are currently most important to key stakeholders, as well as identifying emerging issues and investigating how these issues can affect the success of TOP-TOY. The materiality process, therefore, involves a stakeholder analysis based on interviews with key stakeholders, as well as a business impact analysis. To ensure an open and honest dialog with stakeholders, we commissioned a consultant to conduct in-depth interviews. The use of an external consultant guaranteed anonymity and high response rates. The materiality assessment was conducted in November 2010.

As part of the materiality assessment ten interviews with external stakeholders representing suppliers, peers, NGOs and the authorities were conducted, as well as 30 consumers were interviewed through exit-interviews after having visited one of your retail stores. During the interviews, stakeholders explained their demands and expectations in relation to sustainability at TOP-TOY.

Furthermore, 20 employees in the retail organisation were interviewed. The employees for interviews were selected to cover different managerial levels within TOP-TOY's organisation, as well as geographical locations.

The results from the interviews provided a gross list of potential material issues. This gross list was consolidated into a final list of six aspects covering twelve different issues. The different issues were debated and prioritised by the management group at TOP-TOY - including 30 managers - at a workshop.

Based on the outcome of the workshop and the interviews, the individual issues have been evaluated according to stakeholder concern as well as their level of impact on TOP-TOY. The issues have been consolidated into a materiality map, and we use this map to priorities which challenges to tackle first.



OUR STAKEHOLDERS	A LITTLE ABOUT THEM	READ MORE
Employees	Employees expect good jobs with a good working environment and a focus on the well being of the individual. Employees also expect a stimulating environment that allows for personal development.	We Sell Lots of Toys Page 18
Consumers and Customers	Consumers and customers have expectations to the play value and the safety of our products, as well as the conditions under which they are produced.	Creativity and Design Toys in Play Pages 10 and 22
Suppliers and Licensors	Our suppliers and licensors expect mutual respect and dialogue, leading to long-term relationships. Our business would not function without good business relationships with our suppliers and licensors.	We Buy Lots of Toys Page 12
Non-Governmental Organisations	NGOs are particularly aware of the potential impact TOP-TOY may have on its surrounding communities and environment.	How Toys are Made Toys on the Move Pages 14 and 16
Regulators	Regulators have a direct impact on our business and expect compliance to laws and regulations. This is best achieved through participation and dialogue.	Safe Toys Page 20
Business Associations	The global toys industry includes various different actors and relies on cooperation, information sharing and joint action to improve conditions globally. Examples of such cooperation include the ICTI Care Process and the European Committee for the Standardisation of Toys.	How Toys are Made Safe Toys Pages 14 and 20
Shareholders	Our shareholders expect long-term profitable growth, they own the company and determine the future direction of TOP-TOY through strategic and financial priorities.	TOP-TOY at a Glance Page 8

ASPECT	ISSUE
Factory Compliance Factory compliance includes many aspects of workers rights including human and labour rights. Working proactively to prevent the abuse of the workers rights includes adapting a business planning schedule to accommodate increased production lead time. An increased production lead time allows factories to better plan production and human resources.	1 Lead Time 2 Human and Labour Rights
Product Responsibility Product responsibility addresses whether legislation, rules and laws are followed in regards to product safety. Additionally, it addresses whether a toy adds value to a child's development and positive childhood experience. Eco-labelled products address customer's demand for environmentally friendly products made from organic material and sustainably harvested wood.	3 Product Safety 4 Eco-Labelled Products 5 Educational Value
Employees Employee well-being is a core element in securing motivated and loyal staff. Working systematically with job satisfaction is part of securing a good working environment. In addition a well defined employee Code of Conduct defining the expected behaviour for employees is reducing the likelihood of unintended misconduct.	6 Work Environment 7 Business Integrity
Communication Communication to parents must be open and honest, if a company want to be perceived as transparent in its operations. Additionally, any uncertainty as to the ethics of marketing towards children and other issues can be addressed in a constructive dialogue with relevant stakeholders.	8 Communication 9 Transparency 10 Marketing towards Children
Environment and Climate Change All business operations have an impact on the environment. This includes energy consumption and the use of packaging material for retail and transportation packaging.	11 Environment and Climate Change
Market Position Market position concerns aspects related to competition or the lack thereof and related laws such as the European Competition Law.	12 Competition



TOP-TOY AT A GLANCE

The nature of our business is to sell toys and other products to children across the Nordic countries and Germany. We sell toys through our retail channels BR and TOYS”R”US, as well as through our wholesale division K.E. Mathiasen (KEM). KEM has been part of the TOP-TOY family since 2009.

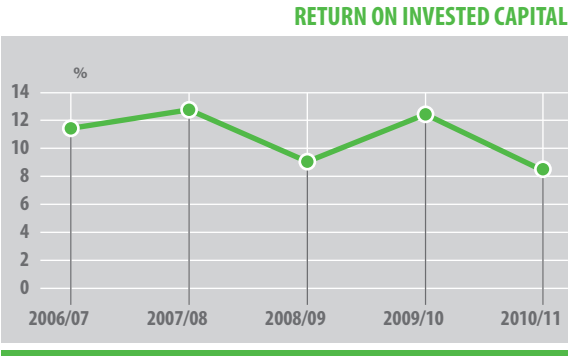
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Watch one of our Managing Directors, Lars Gjørup explain the vision for TOP-TOY.

The TOP-TOY Group’s financial performance is sound and we are confident in the long-term investments we have been able to make during the recent recession. Generally, the return on investment is satisfactory and we are excited to benefit from this in the years to come.

2010/2011 was a challenging financial year due to a modest growth in most of our markets, but the TOP-TOY Group has managed to generate an 8.3 % return on invested capital (ROIC).



The result is affected by a continuous focus on efficiency in the business units as well as an on-going optimisation of the product lines. On the other hand, significant resources have been put into organisational development in order to focus the business units and strengthen the support functions.

Throughout the financial year we have worked intensively to integrate KEM into TOP-TOY. This has been coupled with an organisational restructuring for a more streamlined company where our divisions are more specialised and efficient.

In KEM, we have completed our strategy to become the leading brand house in the Nordic. Effective January 1 2011, KEM became distributor of Mattel’s portfolio of branded products. The partnership with Mattel has strengthened our market capabilities and we expect continuous growth going forward. We also focus on developing a product portfolio of other child related products than toys; this includes products such as home furnishings, lamps, drink ware, and apparel as well as other exciting categories. It is a strategic decision to work on improving our non-toys selection, since we see a great interest in these products.

We have also opened 19 new stores including four BR webshops, which brings us to a total of 290 stores.

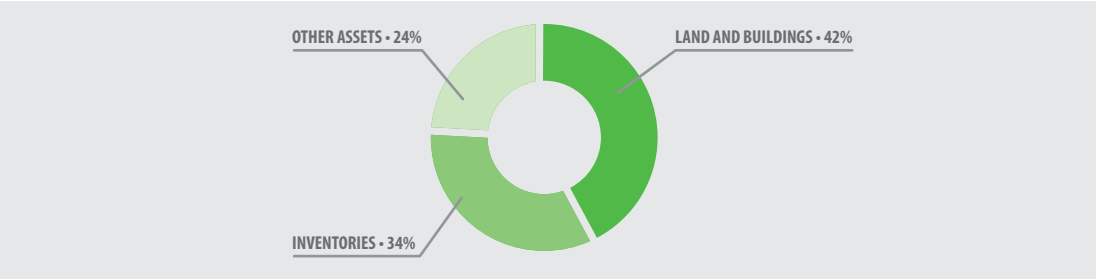
The broader range of products in both retail and wholesale and a growing number of shops are the main causes for the growth in inventories.

The 43.8% equity ratio underlines the fact that TOP-TOY is sound and solid and it gives us financial flexibility and enables us to act on new business opportunities in the future.

GROUP KEY FIGURES AND FINANCIAL RATIOS

	2006/07	2007/08	2008/09	2009/10	2010/11
5 years’ key figures in 1,000 DKK:					
Revenue	2,580,394	3,025,739	2,935,150	3,593,130	3,954,110
EBITDA	255,844	316,222	262,959	362,718	311,352
EBIT	192,227	238,064	181,167	273,574	216,608
Profit for the year	144,307	144,726	99,300	162,708	128,223
Balance sheet total	1,835,325	2,228,689	2,100,632	2,769,513	2,891,484
Equity	840,698	963,771	1,029,985	1,180,534	1,265,851
Number of employees	1,534	1,792	1,805	2,128	2,261
Number of stores	217	262	264	273	290
Key financial ratios:					
Operating margin	7.4 %	7.9 %	6.2 %	7.6 %	5.5 %
Return on invested capital	11.8 %	12.4 %	8.8 %	12.2 %	8.3 %
Equity ratio	45.8 %	43.2 %	49.0 %	42.6 %	43.8 %

DISTRIBUTION OF ASSETS 2010/11



NOTE: Total assets in 2010/11: 2.9 billion DKK

GET TO KNOW TOP-TOY

If you are new to TOP-TOY, you can read more about the group on page 26-31. This includes a general introduction to the group, as well as descriptions of our retail channels BR and TOYS”R”US and our wholesale division K.E. Mathiasen (KEM). In this chapter you can also read about the people employed in TOP-TOY.



CREATIVITY AND DESIGN

We sell many different toys and products for children through our retail and wholesale divisions. When developing, adapting or selecting toys for our customers, it is important to us that the toys are fun, educational and do not harm the environment unnecessarily, as well as being safe!



Generally speaking, we work with three categories determining the origin of toys and other child related products. The first relates to products we develop and design, these are our own brands such as KIDS-WOOD, PLAY2LEARN, BELLINO and FLEXI-TRAX. The second category relates to toys and products purchased as a concept but customised and adapted to our local markets, an example could be our DANSPIL Safari School Board Game. The third category relates to selecting “ready-to-sell” products designed, developed and produced by our suppliers. The majority of our products fall under this third category.

Some of the toys and products we develop are sold under TOP-TOY’s own brands and registered trademarks, which makes these products extra special to us.

EXAMPLES OF TOP-TOY PRODUCT SAFETY REQUIREMENTS EXCEEDING THE LAW

Perfumed and scented products	We only carry such products selectively, and in all instances they must be tested for common allergenic substances. We only accept the use of scents if it has an important functional value.
Preservatives	We do not accept products such as markers, paints, make-up or modelling compounds that contain preservatives, which are linked to known allergic reactions or the release of formaldehyde.
Phthalates in toys	We do not accept any kind of phthalates in toys.
Formaldehyde	We set strict restrictions for formaldehyde in textiles and glued wooden products.
Chlorine	We carry alternatives to chlorine products in our pool care offerings.

Fun and Educational Toys

First of all, we aim to provide toys, games and other products for children of different ages to play with and enjoy throughout their childhood.

We work to select and design educational toys, and in that way, we contribute to children’s positive play experience and development. For example, products like child walkers, shape sorters and basic memory games are stimulating and fun. Our product teams across our locations continuously work with selected product lines to improve the educational and learning value of our offerings. Other products are selected simply because they are popular and lots of fun. For example, we sometimes license properties from companies such as Disney, Cartoon Network, Lucasfilm, Sanrio and others to offer toys with popular characters that children recognise and like.

Safety in the Design Phase

TOP-TOY only sells toys and other related products to children that, as a minimum requirement, comply with applicable laws and regulations such as the European Toy Safety Directive. This gives parents and children assurance that toys sold through TOP-TOY’s retail and wholesale divisions fulfil or exceed all legal requirements, with regards to the safe use of chemical substances, as well as mechanical safety of toys. Safety is thought into the very first phases of product design and development.

Environmental Concerns

One of the areas where we can make a significant impact on protecting the environment is in the design of toys sold under private label brands. We are in the process of planning how to best incorporate sustainability into our own key product brands. With sustainability as a product characteristic, we aim to increase the integrity of our products by evaluating safety requirements, environmental impact, as well as social and ethical compliance for our products.

We are focusing on phasing-in wood from sustainably harvested forests for our wooden products. We apply international certification standards to ensure that the products are in fact made from wood from well-managed forests. This helps ensure that forests around the world are managed to meet the social, economic, eco-

logical and cultural needs of present and future generations.

Retail Packaging

Retail packaging is necessary as it protects the product from being damaged during transportation, it is also used for customer information and labelling purposes as required by law. However, we have an increasing focus on collaboration with suppliers to reduce the amount of packaging as much as possible.



WOODEN PRODUCTS FROM SUPPLIERS
MANAGED BY THE OFFICE IN HONG KONG

		TOP-TOY brands	Supplier brands	Total
All wooden products	Total number of wooden products	128	63	191
Wooden products in either FSC or rubberwood	Total number of wooden products in either FSC or rubber wood	84	7	91
	Percentage of all wooden products in either FSC or rubber wood	66 %	11 %	48 %
	Percentage of order quantity of all wooden products in either FSC or rubber wood	69 %	9 %	62 %

NOTE: “Wooden products” includes all products where the major component(s) is made of wood. Data from 2010/11.

TOYS OR NON-TOYS?

The definition of toys is provided by the European Commission as: “products designed or intended, whether or not exclusively, for use in play by children under the age of 14.” All toys must follow toy specific regulations such as the European Toy Safety Directive. Non-toy products may be subject to other regulations, including the General Product Safety Directive.

DANSPIL® Safari School Board Game

The DANSPIL Safari School Board Game is designed for young children to learn about wildlife in a fun way. Board Games intended for use in play by children under the age of 14 are legally defined as toys and are therefore required to follow the European Toy Safety Directive. Our DANSPIL Safari School, which is designed for children from age 4, follows all Toy Safety Directive requirements.

KIDS-WOOD® Baby Walker

The KIDS-WOOD baby walker, a toy for toddlers learning to walk has been developed under our KIDS-WOOD brand. Most of our KIDS-WOOD products – like the baby walker - are made from environmentally friendly wood such as certified wood or rubber wood. Rubber wood is seen as a good choice of raw material, since it has a minimal impact on the environment compared to traditionally harvested wood. We have a goal of 100% sustainably harvested wood in this product line. Currently, 94% of the items are made from sustainably harvested wood.



WE BUY LOTS OF TOYS



A TOY JOURNEY

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When we have decided on a great product that we want to sell in our retail stores and through our wholesale channels, we start our purchasing process. This means that we make sure suppliers and factories live up to our standards before we buy anything from them.



We do not own or operate production facilities and therefore we focus on creating long term relationships with our suppliers and selected factories for production of our own brands. We also work with licensors such as Disney, Cartoon Network and Lucasfilm in the process of choosing the right factories.

If a supplier fails to live up to our standard requirements, TOP-TOY can choose to stop negotiations with the supplier, likewise a supplier can choose to not continue the compliance process of submitting documentation and signing up to our terms and conditions for various reasons.

Suppliers usually own intellectual property rights to products and can sell the same product to different buyers such as TOP-TOY. Often, a supplier does not own factories, but outsource customers' orders to them. Therefore, a suppliers' factory base constantly changes.

A single factory may work for more than one supplier in order to secure a constant level of orders. For that reason, if a factory fails to meet our requirements it may affect more than one product and more than one supplier.

Manufacturing in China

Estimates suggest that the vast majority of all toys – up to 70% - in the world are assembled in China. The manufacturing environment in China is dynamic and ever changing. New factories are opened, others are closed down or transferred to new owners, some change addresses, and others are not real factories, but “show case factories”, presented to buyers to give a good impression of the working environment. Having a buying office in Hong Kong is therefore a great advantage for TOP-TOY. We have local people employed that possess the cultural background to work directly with suppliers and factories, ensuring that these meet TOP-TOY's standards and expectations.

There are many reasons for the concentration of the toys industry in China. The infrastructure in the country ensures efficiency of logistics, and the large number of suppliers and factories ensure a pool of knowledge and experience for high quality products.

SUPPLIERS AND FACTORIES MANAGED BY THE OFFICE IN HONG KONG

	2009/10	2010/11
Number of suppliers	254	261
Number of factories	468	472
Number of new factories	N/A	67

Facing Cultural Differences Internationally

Sourcing in emerging economies such as China often requires that a company navigates different ethical standards and corrupt business practices.

Corruption and bribery is widespread and accepted in many of the countries where toys are produced. As a point of departure, TOP-TOY does not accept any form of corruption or bribery under any circumstance.

TOP-TOY's factory compliance inspectors have a long history of integrity and honesty. Our human resource process is highly selective when hiring new inspectors to ensure they are the right people for the job. However, when we first set up our buying office in Hong Kong in 1992, we had to terminate a manager for accepting a bribe.



DANSPILO Safari School Board Game

The Safari School Board Game was bought as a concept from one of our suppliers, and we have further adapted the design and added educational features to better cater to our Nordic markets. Safari School is sold under our DANSPILO brand in BR and TOYS'R'US, as well as to wholesale customers in the Nordic countries.

KIDS-WOOD® Baby Walker

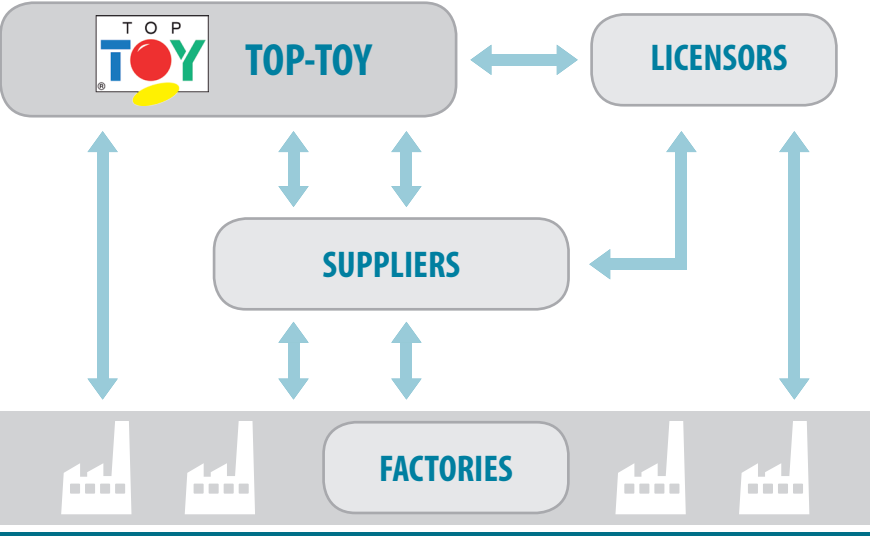
We believe that long term supplier relationships, along with other benefits, reduce the risk of corruption and bribery. For example, our three suppliers of the KIDS-WOOD line have been with us for a long time, one of them since 1992. Generally, we aim to have long standing business relationships with all our suppliers.

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Watch our Product Manager, Hanne Hilstrome, visit a supplier in China, looking for new exciting KIDS-WOOD items.

Choosing the Right Suppliers

We have a structured way of integrating new suppliers into our supply base through our purchasing process which involves reviewing working conditions and documentation. It also functions as a mechanism for continuous evaluation of existing suppliers. The process provides an objective framework for assessment and safeguards against the risk of unqualified and unethical suppliers. Our suppliers are either managed by our office in Hong Kong or by our offices in Denmark depending on the supplier's location.



CLOSE COLLABORATION WITH LICENSORS

We work closely with licensors such as Disney, Cartoon Network, Lucasfilm and Sanrio at all stages of design, development and manufacturing, as well as during marketing and promotion of the final products. We ensure that the factory compliance standards of our licensors are applied to the manufacturing of licensed products.



HOW TOYS ARE MADE



A TOY JOURNEY

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TOP-TOY does not own any factories and in most cases, we therefore rely on our suppliers to select factories for production. This does not mean that we do not take responsibility for social and ethical conditions at those factories, and despite good selection criteria, we face many dilemmas in our work.



On the Factory Floor

We are very aware of the many challenges in the manufacturing industry in countries such as China. The major issues related to working conditions are minimum wages and excessive overtime work.

When it comes to overtime work, we experience that factory owners have difficulties meeting requirements for the amount of legal overtime as defined by national and international law. TOP-TOY specifies how much overtime workers are allowed in our Factory Compliance Standards which ensure workers' well-being and the reduction of risk regarding safety and low quality products resulting from fatigue. The main challenge of enforcing our overtime requirements is that factory owners claim that their workers will be dissatisfied and find other work if they are not allowed to earn extra money by working overtime. On the other hand, a lack of labour law enforcement also poses a challenge to complying with our standards.

In addition we see problems related to health and safety at the work place including limited training and lack of personal protection equipment. The use of child labour in toy manufacturing is relatively limited since it is treated as a zero-tolerance issue by most global buyers, such as TOP-TOY.

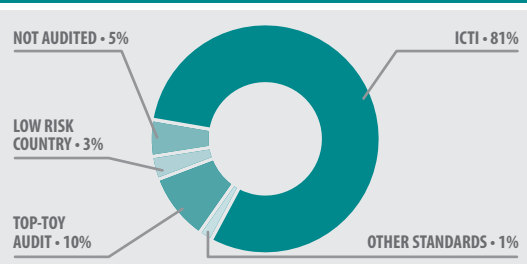
Our Approach to Factory Compliance

TOP-TOY expects all its suppliers and the factories they work with, to meet a set of standards. We have outlined our minimum requirements in our Factory Compliance Standards, which follow the ICTI Care Process. However, we have found that demanding compliance to minimum requirements is of little value unless we know whether they are followed or not. For this reason, we have a dedicated Factory Compliance Team that operates out of our Hong Kong office; in 2010/11 our team verified that the 472 factories, producing toys for our 261 suppliers managed by the office in Hong Kong met our minimum requirements.

Our Factory Compliance Team evaluates factories according to a risk assessment model based

FACTORY CERTIFICATION USED BY SUPPLIERS MANAGED BY THE OFFICE IN HONG KONG

	2009/10	2010/11
Number of factories	468	472
Factories holding an ICTI certificate	357	381
Factories audited against other standards*	34	6
Factories audited by TOP-TOY	46	48
Factories in low risk countries	12	12
Factories which have not been audited	19	25



* Other standards include suppliers' own standards and certificates. As of July 2010 TOP-TOY no longer accepts other standards than ICTI, BSCI or SA8000.

on a product's country of origin. In low risk countries, we do not currently audit factories due to the low risk of non-compliance with our Factory Compliance Standards. In high risk countries, factories can be pre-approved for production if they hold a recognised certificate.

A Good Supply Base

At TOP-TOY, we accept a number of different certifications and standards. The most common toy industry certificate is the ICTI Care Process. The ICTI Care Process is an industry specific ethical certification scheme for toy manufacturers and retailers.

In addition, we accept the Business Social Compliance Initiative (BSCI) Standard, which is an initiative for companies committed to improving working conditions in the global supply chain. We also accept SA8000 certificates, the most widely recognized global standard for managing human rights in the workplace. If a factory does not have any of the above certificates, our Factory Compliance Team will conduct a TOP-TOY Audit, which must be passed in order to produce for us. We conducted 134 TOP-TOY Audits in 2010/11.

If, during a TOP-TOY audit, we find non-compliance issues at a factory, we will work with the supplier and factory to improve conditions. In cases where a factory does not show improvements or refuses to make improvements, it will be de-activated from our list of active factories until having made necessary improvements. This means that we will not accept our suppliers to use that factory for producing our products. In severe cases of non-compliance, often related to zero-tolerance issues, our Factory Compliance Team will suspend TOP-TOY's business relationship with the factory immediately. Zero-tolerance issues include refusal to pay le-

gal minimum wages and instances where child- or forced labourers are found. If the factory does not eliminate all zero-tolerance issues they will be terminated permanently from TOP-TOY's factory base. During 2010/11 TOP-TOY found 32 factories with one or more zero-tolerance issues, of these, 20 were terminated.

HANDLING OF ZERO-TOLERANCE ISSUES FOR FACTORIES MANAGED BY THE OFFICE IN HONG KONG

	2010/11
Factories with one or more zero-tolerance issues	32
Factories terminated due to lack of improvements	20
Factories de-activated and waiting for further verification on the effectiveness of improvement actions	7
Number of factories re-activated after having satisfactory results due to improvement actions	5

Expanding Our Scope

Currently, TOP-TOY's Factory Compliance Programme applies to all suppliers managed by the office in Hong Kong. The next step in rolling out our Factory Compliance Programme is to include products sourced from our suppliers managed by our offices in Europe. This is our method of assuring that all products we sell are produced under conditions that meet or exceed our minimum requirements and to ensure uniform standards across the company.

MIGRANT WORKERS

Many factory workers are in fact migrant workers, especially in China, which counts 150 million migrant workers. Often, migrant workers find work at factories in order to save up money for their future, such as establishing a family upon their return home.

DANSPIR® Safari School Board Game

Excessive overtime work is often a problem in manufacturing, especially if workers live at factory dormitories; since daily life often becomes all about work and sleep. The factory that produces our Safari School Board Game is recognised for its effort for minimising overtime work and emphasising social activities. Our latest visit to the factory in 2011 confirmed that this is a well-managed factory of more than 10,000 employees. The factory also holds the ICTI certificate.

KIDS-WOOD® Baby Walker

Wood factories often have difficulties living up to good health and safety standards due to dust, severe noise and dangerous production machinery. Our KIDS-WOOD product suppliers are attentive to health and safety of their factory workers and make significant investments in state-of-the-art equipment. We have inspected all the factories and we are confident that worker's health and safety is a high priority.

QR CODE



Watch our Factory Compliance Manager, Wydy Ling, inspect a factory in China.

More information on how we work with Factory Compliance is available on our website top-toy.com/sustainability.



TOYS ON THE MOVE



A TOY JOURNEY

There are many aspects involved in the process of selling toys and other products to children; one of the more complex ones is the logistics involved. Here, the primary areas of concern are timing and occupational health and safety for our employees.



Timing is Essential

One of the major issues in our industry is timing. Timing relates to when products are ready to be sold in stores. Not surprisingly, the toy industry's peak season is Christmas, which means that toy production has huge seasonal fluctuations.

At TOP-TOY, we have a business planning schedule to ensure products are ready for sale in stores for Christmas. Products produced in Asia have to be shipped in August in order to reach stores in time. Therefore, we start to select products, suppliers and factories in October, November and December - more than a year in advance. Throughout January, February and March we work with our suppliers on forecasting. In April and May we place the final order with the supplier, thereafter production starts and factories make delivery in July and August. For products

BUSINESS PLANNING SCHEDULE FOR CHRISTMAS PRODUCTS

October – December	Selecting products, suppliers and factories
January – March	Working on forecasting with suppliers
April – May	Placing final order with supplier
June – August	Production
July – August	Delivery of final products
August – October	Products transported from Asia
October - November	Products ready for sale in the stores
December	Happy children receiving Christmas gifts

sold during other seasons than Christmas we have similar business planning schedules.

The seasonal fluctuations in the toy industry create peak work loads throughout the supply chain. At the factory level, this can lead to excessive use of overtime. Over the past couple of years, TOP-TOY has adapted its business planning schedule which has led to longer lead times. Longer lead times allow our suppliers and the factories they work with to plan production outside the normal peak season. Factory management can thereby better plan human resources; reducing overtime work and work related stress for factory workers. Previously, we have operated with deliveries made 30-45 days from the point of purchase, now we operate with deliveries made within 90-100 days. In combination with our improved forecasting, our suppliers can better plan the production process and associated workload.

Toys Moving In

When our orders have been produced, the finished goods are loaded into containers and transported to Denmark. It takes around five weeks to ship a container from Asia to Europe. Upon arrival, after having cleared customs, the container is transported to our distribution centre in Greve close to Copenhagen or in Brabrand close to Aarhus or one of our approved external warehouse facilities.

A large quantity of our products are also transported from European based suppliers directly to our distribution centres. Since airfreight is an expensive method of transportation and involves high levels of CO2 emissions, we strive not to use this way of transporting our products.

Toys Moving Out

At our distribution centres, the individual store deliveries are organised and loaded onto trucks and sent off for distribution to all our stores throughout Northern Europe and to our wholesale customers. At Christmas, we also ship containers directly to our large stores, in that way we by-pass the distribution centres; reducing the cost of reloading containers, as well as reducing the environmental impact of transportation.

Transportation Packaging

The packaging of our products is an important way of making sure that products are not damaged when they reach our stores and wholesale customers. Currently, there is no practical cost-effective alternative to ensuring undamaged products than to use cardboard wrapping which, from an environmental perspective, is not optimal. In our BR and TOYS"R"US stores, we collaborate with municipal services to recycle as much transportation cardboard as possible.

Occupational Health and Safety

Occupational health and safety is a priority issue for us. At our distribution centres, a number of our operations are automated but there are still times when employees have to carry products from one place to another. In our stores it is often not possible to install automated systems to relieve employees from carrying products because of the location or layout of the store. Therefore, we have ongoing e-learning programmes aimed at educating all relevant staff on lifting techniques.

The external warehouses we use in Europe all live up to related labour laws and for our own distribution centre in Copenhagen, we have developed special operational health and safety precautions for our pregnant employees.

During the high season, we employ extra staff in our distribution centres, as well as in the BR and TOYS"R"US stores to relieve employees from stress and to serve our customers in a satisfactory way.

However, no matter how hard one tries to avoid them, accidents still unfortunately happen from time to time. TOP-TOY only has occupational health and safety data available for Denmark, but we are in the process of creating a uniformed data collection system covering all employees.

LEAD TIME

Lead time is the time that the factories have to produce an order. Reduced lead time typically makes supply chain management more cost efficient but also increases risk of human and labour rights abuse. Longer lead time gives the suppliers and factories the ability to better plan their production.

REPORTED INJURIES IN DENMARK

Year*	Distribution Centre in Copenhagen	Stores in Denmark**
2006	4	20
2007	6	36
2008	10	44
2009	8	72
2010	4	52

NOTE: During 2010/11 we had 180 people (equal to 115 full time positions) at our Distribution Centre in Copenhagen. At our stores in Denmark, we had 2,528 people (equal to 692 full time positions).
* This data is only available on calendar year.
** The number of stores in Denmark increased from 102 in 2006 to 107 in 2010.

WORK RELATED INJURY IN DANISH STORES BY CATEGORY

2009	2010	Type
9	11	Falling, slipping or tripping
8	4	Lifting technique
36	7	Violence or threats*
4	3	Use of ladder
1	0	Stress
0	9	Falling on stairs
11	13	Handling of products
3	5	Other
72	52	Total

* Injury incident report is completed for all employees on duty in the store at the time of violence or threat, no matter if they have been affected by the violence or threat or not.

DANSPIL® Safari School Board Game

Our Safari School board game and the box it comes in is made from heavy cardboard. Some pulp and paper manufacturers purchase raw materials that come from endangered rainforests, which has damaging impact on the natural environment. We condemn illegal harvesting of natural resources and are increasingly choosing environmentally conscious suppliers. Our DANSPIL Safari School supplier is a conscious supplier and has several certificates and awards for environmental management including ISO14001, FSC Chain of Custody certificate and the Hong Kong Green Mark.

KIDS-WOOD® Baby Walker

Our KIDS-WOOD products are classic products that we carry for many years, therefore we are able to spread out production orders across the year to avoid putting too much pressure on our suppliers in the peak season.



WE SELL LOTS OF TOYS



A TOY JOURNEY

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We sell lots of toys and other child related products to children through our different distribution channels. We sell toys through our BR and TOYS”R”US retail stores, and we sell toys through our wholesale divisions to our business-to-business customers.



Marketing towards Children

An important part of selling toys is marketing and advertising to children. We advertise through popular TV- and radio channels and on-line banners. Every year we also send out printed

catalogues to our BR and TOYS”R”US customers. We also design catalogues for our wholesale customers for their use and distribution.

From an ethical perspective, marketing towards children is a sensitive issue, since children are vulnerable and impressionable. Therefore, we pay special attention to this audience when advertising. We make sure that the advertising message accurately portrays the features, quality and performance of our products and does not contain any misleading statements. We also work to always conduct our marketing activities with honesty and fairness, and without putting down competitors.

We continuously work to advertise in compliance with applicable regulations and best practices, including voluntary industry codes. We are currently planning how to take a more proactive stand in relation to marketing towards children, thereby contributing to best practice and good marketing ethics in our industry.

One example of how we are working on improving our advertising to children is related to the gender debate. In advertising, the gender debate focuses on how the genders are portrayed in their traditional roles versus more modern roles. At TOP-TOY, we actively avoid stereotyping the genders in traditional roles in our advertising and promotion material. Our guidelines, for example, ensure that girls are portrayed in activity equally to boys. Thereby, we work to inspire positive, educational and equal play for both genders.

Customer Satisfaction

We want all our retail and wholesale customers to have a good experience when purchasing products from us. For our retail customers, we offer good service through our exchange policy and we train our staff in Service Management to give customers a good shopping experience.

High quality is key to us, we want children to have good play experiences with the products we sell. We work hard to avoid defective products by sharing information regarding claims from both retail and wholesale customers with key suppliers. In this way, we make sure that our next delivery of a given product is improved. This quality cycle has been – and still is – a key source of continuous product improvement, thereby meeting our customer’s expectations of us.

If we learn that one of our products is non-compliant we will make a recall. We will coordinate product recalls and sales-stops with the manufacturers or licensors with whom we deal. Likewise, we always actively cooperate with authorities when a product is investigated to ensure a smooth product analysis. Of course, we aim to have zero recalls.

Being a Trustworthy Partner

It is important that our wholesale customers see us as a trustworthy business partner. For this reason we follow strict competition law and maintain strict information firewalls between our retail and wholesale divisions. All relevant Employees are also trained to avoid participating in discussions about prohibited subjects for example in the context of trade association meetings. Other aspects related to how we conduct ourselves are further defined in our new Code of Conduct.

Keeping our Employees

Besides offering our customers a good shopping experience in our stores, we want our store employees to work in a good and safe environment. With more than 6,000 people employed throughout the year, we see it as an important task to focus on their wellbeing and we do our best to act as a responsible employer.

Our store managers meet regularly to exchange best practices and experiences at local level. Once a year we conduct a Toy Summit. Our Toy Summit is attended by approximately 350 employees to learn about new products, trends, service management, and product safety.

At TOP-TOY, we work systematically with employee satisfaction and make significant investments in training seminars. Approximately 500 employees across the organisation including all Store Managers have attended our employee development seminars aiming to directly influence employees’ feeling of worth and wellbeing. Our development seminars focus on areas such as commitment and loyalty towards TOP-TOY, productivity, quality of work and competences.

DANSPIL® Safari School Board Game

The board game is marketed in both our retail and wholesale division, which requires that we have so called “firewalls” in place to earn our wholesale customer’s trust and meet legal requirements.

KIDS-WOOD® Baby Walker

We would like a product range that offers customers an environmentally friendly alternative to traditional products. Our baby walker is made from rubber wood, which is grown under the Tree+ programme. TOP-TOY is a participant of the Tree+ programme where we plant two trees per tree used for our products.

FIVE YEAR OVERVIEW OF RECALLS OF TOYS SOLD BY TOP-TOY

Responsible Party and Product	Year	Issue	Informant
TOP-TOY public recalls			
Hello Kitty - Drinking bottle	2011	Small parts	Internal control
Chemistry kit for children	2010	Ingredient banned in Norway	Authorities, Norway
Kung Fu Playset	2010	Phthalates and loose suction cup	Authorities, Finland
Wooden Puzzle with Animal Sounds	2010	Small parts	Authorities, Denmark
Floor Puzzle	2010	Small parts	Authorities, Denmark
Disney Princess Dress	2010	Drawstring	Authorities, Finland
Dr. Dreadful - Make your own candy	2007	Inaccurate usage instructions	Authorities, Denmark
Bindeez - Beads	2007	Risk of poisoning if swallowed	Authorities, Australia
Supplier public recalls			
Mattel – Fischer Price	2010	Small parts	Supplier
Hörby Swing	2009	Swing impact and entrapment hazard	Supplier
Megabrand - Magtastic and Magnetix Jr.	2008	Loose magnets	Supplier
Mattel – Cars	2007	Lead paint	Supplier
Mattel – Polly Pocket	2006	Loose magnets	Supplier

MARKETING TOWARDS CHILDREN

Marketing towards children must be conducted in a responsible manner and be sensitive to the fact that children are easy to impress. For example, we work to never monitor and target consumer behaviour without their knowledge, or to conceal that TOP-TOY is the sender of its advertising messages. This is increasingly a priority area as the multitude of marketing channels become more sophisticated and embedded in children’s daily lives.



SAFE TOYS



A TOY JOURNEY

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Selling safe and durable toys has always been a key priority for TOP-TOY. We want parents to know that their children can safely play with toys we sell, and we want our wholesale customers to see us as a reliable supplier supporting the reputation of their brands.



Increased Awareness

Over the past decades, public awareness of product safety has increased tremendously in Europe and, particularly, in the Nordic countries. When we ask our stakeholders about what sustainability issues are important to them, the majority will mention product safety. We aim to be a market leader in product safety, in order to meet our stakeholders' expectations of being a trustworthy company selling safe products for children.

Raising the Bar for Safety

Our systematic work with product safety started in 1991, where the European Union adopted stricter toy safety regulations. Despite our efforts to sell the highest quality toys, TOP-TOY experienced that a number of the products we purchased did not meet the new standards. Therefore, in 1992, TOP-TOY decided to establish the office in Hong Kong. The idea was to be close to the Chinese factories producing a large quantity of our toys, and in that way better control product safety. From a practical point of view, it is better to stop non-compliant products in the factory rather than consumers experiencing product safety issues.

Throughout the 1990's, we mainly focused on controlling products when they were produced, and our Quality Assurance Team went to the factories after mass production was completed but

prior to shipment in order to control product design and critical safety requirements. Quality inspections include physical tests such as drop tests to determine durability, functional tests to determine that the product works as it should, as well as safety compliance tests to make sure that the product is age appropriate.

In the 2000's, we broadened our scope for the Quality Assurance Team as we started to perform detailed product tests before an order was placed as part of our product approval process. Our broadened scope, led to the TOP-TOY Group earning a reputation among its Asian suppliers for stringent quality requirements, which exceeded many of the legal standards.

Chemical Safety

Besides looking at the physical safety requirements, TOP-TOY also pays great attention to controlling and identifying chemical ingredients and risks in the final products. This area is regulated by laws and regulations, but in some cases TOP-TOY exceeds regulatory standards when we consider the standards insufficient.

Some Asian toy factories have limited knowledge about chemical safety. Nor do they have the ability to develop and manufacture safe products. TOP-TOY developed capabilities to manage chemical safety when we realised the industry's control of chemical ingredients was inadequate, and that the risk of buying and selling harmful products was unacceptably high.

The New Toy Safety Directive

A new European Toy Safety Directive entered into force in July 2011, which means that toy manufacturers, importers and retailers have been made accountable for documenting that toys sold are safe and compliant. Some of the biggest changes are related to an increased requirement for documentation. This increased workload primarily rests on manufacturing companies.

When TOP-TOY has products manufactured under its own brands, we have the responsibility to document Toy Safety Directive compliance. Whereas for products that we buy from our suppliers responsibility for documentation lies with them. In these cases, TOP-TOY must ensure that all required documentation is available.

QUALITY ASSURANCE PRIOR TO PRODUCTION, MANAGED BY THE OFFICE IN HONG KONG

QUALITY ASSURANCE	DESCRIPTION	2009/10	2010/11
Number of new products verified with regard to labelling and documentation	<ul style="list-style-type: none">• We verify that new products carry correct and complete labels according to European and Nordic legal standards, warnings and any other relevant information to consumers.• We verify validity of product certificates.	2,127 products	1,781 products
Number of new products verified with regard to safety standards	<ul style="list-style-type: none">• We conduct in-depth assessment of all new TOP-TOY branded products in order to specify and/or verify that the products meet or exceed relevant safety standards and do not contain any harmful chemicals.• We test product functionality and durability.	701 products	501 products

QUALITY CONTROL DURING PRODUCTION, MANAGED BY THE OFFICE IN HONG KONG

QUALITY CONTROL PROCESS	DESCRIPTION	2009/10	2010/11
Number of process inspections	Number of times the TOP-TOY Quality Assurance Team performed quality control during mass-production.	183 inspections	86 inspections

QUALITY CONTROL AFTER PRODUCTION IS COMPLETED, MANAGED BY THE OFFICE IN HONG KONG

QUALITY CONTROL PROCESS	DESCRIPTION	2009/10	2010/11
Number of factories visited	Number of factories TOP-TOY Quality Assurance Team visited after mass production was completed for final product quality control prior to delivery.	402 factories	375 factories
Number of times factories were visited	Number of times TOP-TOY Quality Assurance Team visited a factory after mass production was completed to conduct final product quality control prior to delivery.	874 visits	803 visits
Number of product inspections	Number of times a factory completed an order and TOP-TOY Quality Assurance Team performed final product quality inspection of the order. Inspections can be either in-factory or in-house inspections.	5,316 inspections	6,228 inspections
Number of in-factory product inspections	Number of product quality inspections our Quality Assurance Team performed in the factory after mass production was completed prior to delivery.	4,109 inspections	4,408 inspections
Number of in-house product inspections	Number of product quality inspections our Quality Assurance Team performed in-house after mass production was completed prior to delivery.	1,207 inspections	1,820 inspections

A TOY INDUSTRY CHALLENGE

The toys industry spans many different sales outlets, from small shops and boutiques to chain stores and megastores. Not all retailers have the same level of control mechanisms and therefore have difficulty meeting the requirements of the European Toy Safety Directive which is a challenge for the industry.

DANSPILO Safari School Board Game

Board games have small parts and pieces such as dice and playing pieces, all such products must be labelled with the standard warning specifying unsuitability for children under the age of three. TOP-TOY always advises customers to buy age appropriate toys as indicated on the packaging. It is never safe to disregard age warnings.

KIDS-WOOD Baby Walker

Our KIDS-WOOD Baby Walker has gone through a comprehensive test programme including drop tests for durability, torque tests to warrant that loose parts do not unfasten easily as well as colour migration tests. Furthermore, it has been designed to avoid small parts and pieces that toddlers can choke on.

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Watch our Quality Assurance Manager, Clarence Wong and his team test product safety.

More information on how we work with Quality Assurance is available on our website top-toy.com/sustainability.



TOYS IN PLAY



A TOY JOURNEY

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A toy has come a long way to enter a child's playroom. From being conceptualised, assembled and placed in packaging, to being shipped across the world and shelved in a store. The most important part of a toy's life is being played with by children of all ages and nationalities bringing them fun and good childhood memories.



Happy Children

Positive play, happy children and safety are fundamental criteria to how we operate our business. We also focus a great deal of resources and attention to ensuring that our products are manufactured under ethically compliant conditions. As these fundamentals are in place, children can play together and develop skills through positive play.

Reusing Toys

Children develop and grow and they seek new challenges and experiences - even from their toys. Many toys and other products for children can be reused by other children. They can also be given to charity, in that way customers contribute to happy childhood memories for children who do not have easy access to toys.

Supporting the SOS Children's Village

TOP-TOY wants to ensure that also less fortunate children like orphans are given room to play and grow, therefore we support the work of the SOS Children's Villages in Nanchang in China.

In many areas in China children are left by their parents, who - of need - go to work in factories in distant locations. Authorities are not yet ready to fully help these children and millions of children are left without sufficient care.

We believe that every child needs a family and a safe home; as a business in the toys industry sourcing in China, we feel a responsibility to participate in countering the negative effects of migration of workers. For this reason we support the SOS Children's Village who works in China to help children left behind by their parents.

In the SOS Children's Village in Nanchang supported by TOP-TOY, 111 children have their home. 12 SOS-family houses are childhood homes for the children and here they are cared for by a SOS-mother. The family houses become the focal point of abandoned and orphaned children's lives.

Recycling toys

At the end of a toy's life, it is important to recycle it at proper recycling facilities and to sort the different types of materials according to the instructions provided by the local recycling facility.

Recycling is a good mechanism for protecting the environment. As customers and consumers of toys play a vital role in protecting the environment from harm by recycling packaging and products after use. In Northern Europe, where the vast majority of our products see the end of their usable life, we have good recycling facilities for all types of hardware including toys.

Batteries are especially important to recycle because they cause severe environmental damage when improbably disposed of. Many different types of toys contain small batteries, and unfortunately, these often end up in household waste, at the expense of the environment.

TOP-TOY - Fully Charged

We sell batteries under our own brand in our stores and they are certified with the Swan-label, which ensures they are among the least environmentally damaging batteries on the market, that quality and functionality are at least as good as other batteries and that user's health has been taken into account. We prioritise to sell swan-label batteries despite lower profits.

We perform battery performance tests for products where the battery lifetime is critical, ensuring higher battery efficiency for toys in use and standby.

Retail Packaging

As other large-scale retailers, in cooperation with their suppliers, have contributed to packaging reduction over time; we are in the process of identifying how to best design packaging to reduce waste. We are also looking into how we can emphasise the importance of using certified materials towards our suppliers that produce retail packaging.

Ending the Journey

Our toy journey has come to an end. You have seen how our two products have been developed, knocked around and dropped, shipped across the world and how they entered children's playrooms.

The value chain reflects our business; it helps us identify where we can improve our business operations and be more efficient in terms of protecting the environment, human and labour rights as well as fighting corruption and safeguarding children's vulnerability concerning product safety.

We perform better in some areas of our value chain than in others; we are continuously finding ways of bettering our performance in all areas discussed throughout the toy journey. All our different stakeholders expect that we perform exceptionally in the particular areas of interest to them, however, we have to prioritise which sustainability issues are more pressing relative to others.

The assessment of how to prioritise our work is based on research such as our materiality assessment. In addition, we enter into dialog with our key stakeholders to hear their opinions and take these into consideration when prioritising our work and efforts. As always, we welcome any constructive feedback and ideas for improvement of our work.



DANSPILO® Safari School Board Game

Raw Materials:
Cardboard and plastics

Agegroup: **4 +**

Carried Since
October 2010

Items sold 2010/11:
7,575



KIDS-WOOD® Baby Walker

Raw Materials:
Rubberwood

Agegroup: **1 +**

Carried Since
June 2005

Items sold 2010/11:
4,330



Throughout the journey we illustrate a strong tradition for sustainability at TOP-TOY, particularly with issues related to product safety, factory conditions and employee health and safety. We are recognised for our efforts and we are proud of our progress but we know there is still work to be done.

Linking financial growth to sustainability

In recent years, we have made the transformation from working with sustainability as isolated issues to developing a long term vision for the TOP-TOY Group. The long term vision includes a complete integration of sustainability into our business, creating clear links between financial growth and sustainability performance.

Looking Back

The history of our company reveals a transformation from a local toy store to an international player in the global toys industry. Some of the decisive years for our success were the early eighties, where we doubled the number of our stores; we doubled that number again in the nineties. The introduction of our megastores further drove our success forward.

In terms of sustainability performance, we have made significant investments in product quality assurance and factory social and ethical compliance from our office in Hong Kong.

We started to align our operations more strategically towards sustainability in 2009 when we allocated a fulltime resource to drive TOP-TOY's sustainability agenda forward. The same year TOP-TOY joined the United Nations Global Compact and hereby made a commitment to work to promote human and labour rights, to develop good environmental practices and to participate in the fight against corruption.

We also expanded our scope, for sustainability, when we bought selected assets of the wholesaler K.E. Mathiasen (KEM) in 2009. KEM is currently being integrated and aligned to our existing product quality and factory compliance standards.

Looking to the Future

In the years to come, we will continue the transformation of integrating activities into a consolidated vision and strategy by constantly monitoring stakeholder concerns and material issues that arise in the toys industry. One of the first steps is to expand our Factory Compliance Programme to all our suppliers. Here we can draw on our expertise from working with factory compliance in Hong Kong for more than ten years.

In the short term, we will continue our focus on meeting expectations of customers, consumers, employees and the organisations we are currently involved with. These expectations, in terms of sustainability, are mainly related to human and labour rights, marketing, and the environment which are directly influenced by TOP-TOY's operations.

In the long term, it is our goal to increasingly collaborate with stakeholders to address broader issues, within TOP-TOY's sphere of influence, such as environment and climate change, improving health and safety, fighting corruption and labour rights. We are looking into working with external experts on these issues to ensure that TOP-TOY meets its stakeholder's expectations.

Keeping our Promise

Throughout the toy journey, we have made references to goals and promises related to sustainability at TOP-TOY, these are important to make because they help us drive change towards sustainability. The goals and promises are related to the sixth aspects which have been defined as material for TOP-TOY throughout the materiality assessment conducted in November 2010.

GET AN OVERVIEW

If you would like to get an overview of TOP-TOY's expansion and our sustainability key events over time, you can find a timeline on page 31.

If you would like more information about our materiality assessment and how it was conducted, you can find this on page 7. Here you can also find a materiality map.

You can find more information about our sustainability goals on our website. Here you can also see our goals set in 2009/2010. See top-toy.com/sustainability.

ASPECT	ISSUE	OUR GOALS
Factory Compliance Factory compliance includes many aspects of workers rights including human and labour rights. Working proactively to prevent the abuse of the workers rights include adapting a business planning schedule accommodating increased production lead time. An increased production lead time allows factories to better plan production and human resources.	Lead Time Human and Labour Rights	Roll-out our supplier evaluation programme to cover all of the TOP-TOY Group.
Communication Communication to parents must be open and honest, if a company want to be perceived as transparent in its operations. Additionally, any uncertainty as to the ethics of marketing towards children and other issues can be addressed in a constructive dialogue with relevant stakeholders.	Communication Transparency Marketing towards Children	Improve our reporting performance and report on relevant and critical issues. Develop a whistle-blower system to uncover any unethical behaviour in TOP-TOY. Collect data systematically allowing for increased transparency. Provide access to increased sustainability information on our communication platforms such as the TOP-TOY, BR and TOYS"R"US websites.
Employees Employee well-being is a core element in securing motivated and loyal staff. Working systematically with job satisfaction is part of securing a good working environment. In addition a well defined employee Code of Conduct defining the expected behaviour for employees is reducing the likelihood of unintended misconduct.	Work Environment Business Integrity	Continue implementing Employeeship in our Group. Develop a Code of Conduct and supporting policies.
Product Responsibility Product responsibility addresses whether legislation, rules and laws are followed in regards to product safety. Additionally, it addresses whether a toy adds value to a child's development and positive childhood experience. Eco-labelled products address customer's demand for environmentally friendly products made from organic material and sustainably harvested wood.	Product Safety Eco-Labelled Products Educational Value	Establish a baseline for current quantities of certified wood used in our products in order to set future targets for quantity of certified wood for our wooden product lines.
Environment and Climate Change All business operations have an impact on the environment. This includes energy consumption and the use of packaging material for retail and transportation packaging.	Environment and Climate Change	Find alternative, more environmentally friendly packaging options. Establishing a baseline for energy consumption across TOP-TOY.
Market Position Market position concerns aspects related to competition or the lack thereof and related laws such as the European Competition Law.	Competition	Train employees in anti-trust issues.



WE ARE THE TOP-TOY GROUP

OUR EMPLOYEES

CONCLUSION

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TOP-TOY is a family-owned and family-operated business – we sell toys and other product to children. The TOP-TOY journey started in the 1950s and today we run 290 BR and TOYS“R”US stores, as well as wholesale operations through which we supply a diverse range of products to children of all ages.

QR CODE



Watch one of our Managing Directors, Lars Gjørup explain the vision for TOP-TOY.

At TOP-TOY, we have set up structures to support our operations. These include a retail division, a wholesale division, a buying division and two distribution centres. Management at the group level takes place from the head office near Copenhagen in Denmark and is supported by local operations in the countries of operation.

TOP-TOY is led by our Managing Directors Peter and Lars Gjørup – who are third generation of the Gjørup-family.

Our Retail Division

The retail division is operated from the head office. The heart of the retail division is our two retail channels BR and TOYS“R”US.

We own the BR retail stores which cover Northern Europe including, Denmark, Sweden, Norway, Finland and Northern Germany. We also have BR on the Faroe Islands, operated under a franchise agreement.

We also own our megastores where we sell toys under the TOYS“R”US license, for which TOP-TOY holds a long term franchise agreement for the Nordic Countries (Denmark, Sweden, Norway, Finland and Iceland).

From our head office, we manage all sales, marketing and merchandising activities in close collaboration with retail country managers.

Our Wholesale Division

The wholesale division - K.E. Mathiasen A/S (KEM) - is operated from Aarhus in Denmark. KEM is a brand house and from the main office in Aarhus, we service a wide range of retail channels (approximately 4,800 stores) through local sales operations and show rooms in Denmark, Sweden, Norway and Finland.

KEM has a division, K.E. Leisure, which sells licensed lifestyle products for children such as apparel, home furnishing, melamine tableware, watches, lamps and sweets.

Our Buying Division

The buying division for the TOP-TOY Group is operated from the main office in Hong Kong, as well as from two offices in Denmark and one in Germany. The buying offices serve both our retail and wholesale divisions and manage all product suppliers. Each buying office is responsible for a selected group of product suppliers.

Product management is handled by dedicated teams in each office which are responsible for sourcing, designing, order processing, safety and quality control, as well as factory compliance.

Our Distribution Centres

We own and operate two distribution centres in Denmark (Greve near Copenhagen and Brabrand near Aarhus respectively). The distribution centres service all our stores and all our wholesale customers in the six countries of operation.

We also work an external warehouse to package and send orders for customers that purchase products from our webshops.

TOP-TOY is characterised by dedicated employees: in our stores, in our sales and administration offices and in our distribution centres. We want our employees to think of TOP-TOY as a good place to work, and we aim to shape an organisational culture inspired by the spirit of fun which children exemplify in playing with our toys. We believe that fun, enjoyment and a focus on performance are essential components in creating a good place to work.

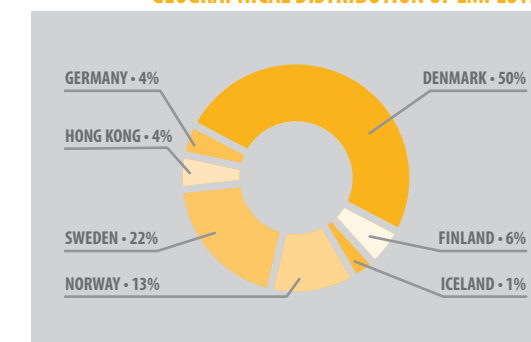
TOP-TOY employed 6,113 people during the financial period 2010/2011. Not surprisingly, the toy industry's peak season is Christmas, which means that we need a significant number of extra people to be able to manage the spike in demand, therefore, a large number of our employees only work part time or hold temporary contracts. In order to gain a meaningful understanding of how many people TOP-TOY employs, we have calculated the head-count into 2,261 fulltime positions.

Out of the 6,113 people TOP-TOY employed during 2010/11 18% were employed on full time contracts, whereas 82% had part time contracts. TOP-TOY take great responsibility in offering young people an opportunity to get a job combining practical and theoretical aspects, and that is why we in 2010/11 employed approximately 130 trainees counting for 2% of all employees in TOP-TOY.

TOP-TOY's employees are in general young people. More than half of all people we employed during 2010/11 were below 25 years old. The majority of our employees are women, who counts for 69% of the workforce based on head-counts.

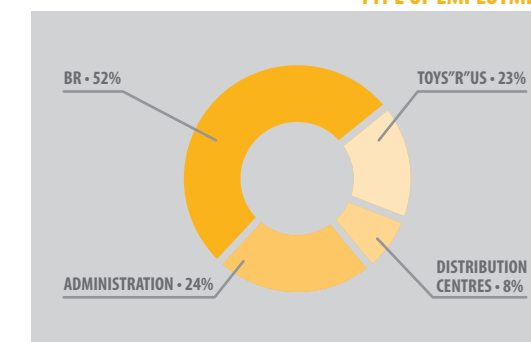
Looking into the different types of jobs that our employees perform in TOP-TOY we will see that the vast majority of our employees work in our stores – 52% in our BR stores and 23% in our TOYS“R”US stores. 17% work in administrative jobs in Copenhagen, Aarhus and Hong Kong, as well as in our local offices and KEM's sales offices in Denmark, Norway, Sweden and Finland. 8% of TOP-TOY's employees work in our two distribution centres.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES



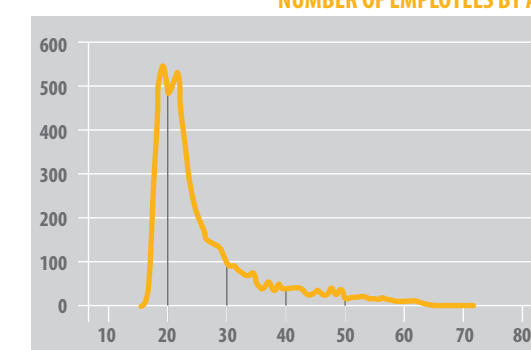
NOTE: Based on full time positions

TYPE OF EMPLOYMENT



NOTE: Administration includes sales managers and sales representatives in KEM. All numbers are based on full time positions.

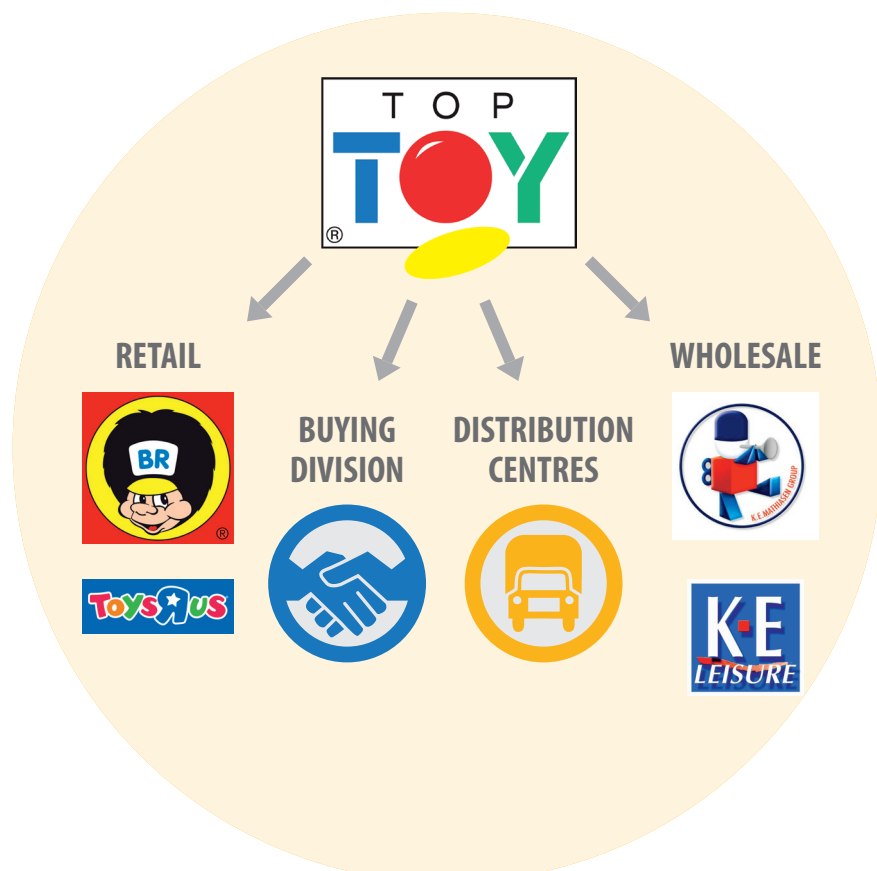
NUMBER OF EMPLOYEES BY AGE



NOTE: Based on full time positions

MEET A TOP-TOY EMPLOYEE

The most likely TOP-TOY employee to meet is a female, who works in a BR store in Denmark. She is about 20 years old, she has a part time contract and has worked in the company for about 1 year.





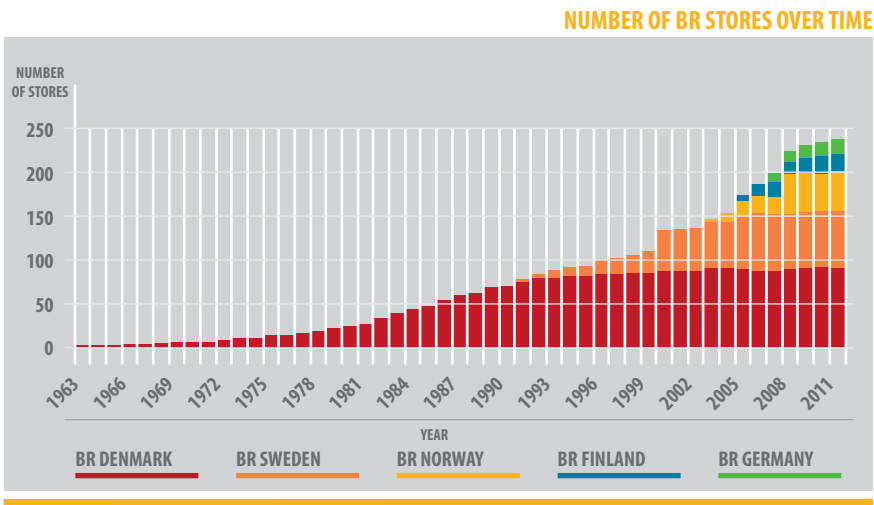
RETAIL - BR TOYS

BR is a well-established chain of toy stores, counting 237 individual store locations spread across the Nordic countries including 16 in Northern Germany. Additionally, we have recently opened four webshops. All stores bring educational fun and entertainment into children's lives by offering safe products of high quality.



	BR STORES ON JUNE 30, 2011	EMPLOYEES CALCULATED IN FULL TIME POSITIONS 2010/11	REVENUE IN MILLION DKK (EXCLUDING VAT) 2010/11
Denmark	91	494	699
Sweden	65	327	573
Norway	45	172	318
Finland	20	84	128
Germany	16	84	91
BR total	237	1,161	1,809

NOTE: TOP-TOY also have four BR webshops



The Early Days

BR came to life in Denmark, which still forms the home base of BR's owner, TOP-TOY. With more than 90 stores across the country, BR is well-represented in the Danish market. In fact, there probably is not a child in the country that does not grow up without knowing the BR Mascot as the "chap" selling all those great toys.

All over the Nordic Region

Sweden was the second country in the Nordics where TOP-TOY opened its BR stores "BR-Leksaker". In 1991, the first store was opened in Malmö, today we operate 65 stores in Sweden reflecting new stores and the acquired "Stor och Liten" toy store chain.

In 2003, the first store "BR-Leker" in Norway was opened in Haugesund and today we have 45 stores in Norway reflecting new stores and the acquired "Edwis" toy stores.

Just a few years later, in 2005, BR was established in Finland with the opening of four "BR-Lelut" stores in October that year. The chain-store's formula for success was re-anchored, and today BR has 20 stores in Finland.

Crossing Borders

In September 2007, TOP-TOY acquired the German toy chain "Salzmann" which became "BR-Spielwaren". With the opening of eleven stores in Flensburg and Hamburg, BR entered a new and large market. Crossing borders and moving into unfamiliar grounds has been an exciting and positive experience for the company. Today there are 16 BR stores in Northern Germany.



RETAIL - TOYS"R"US

CONCLUSION

9
2

TOYS"R"US is a popular chain of megastores where we sell a large selection of products to children. The stores are known for their broad range of products and competitive prices while focusing on excellent customer service. TOP-TOY has 47 TOYS"R"US stores, spread across Denmark, Sweden, Norway, Finland and Iceland.

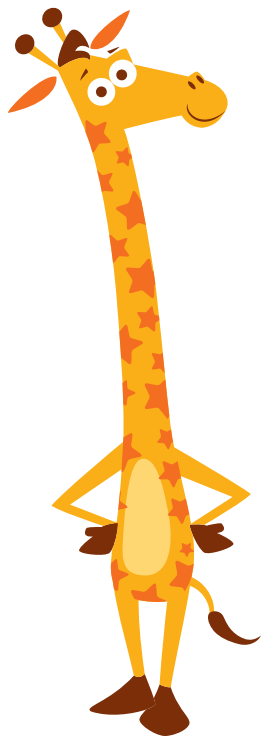
TOP-TOY Introduces First Danish Megastore

TOP-TOY's first megastore was called "SUPERLEG" and opened in Taastrup, Denmark in 1987. It was a brand new and totally different sales concept for the Nordic region. In 1996, TOP-TOY entered into a franchise agreement with TOYS"R"US Inc. in which we would convert our nine "SUPERLEG" stores to TOYS"R"US stores. Today TOP-TOY holds the exclusive license to operate TOYS"R"US stores in the Nordic region and operates 47 stores across the Nordic countries.

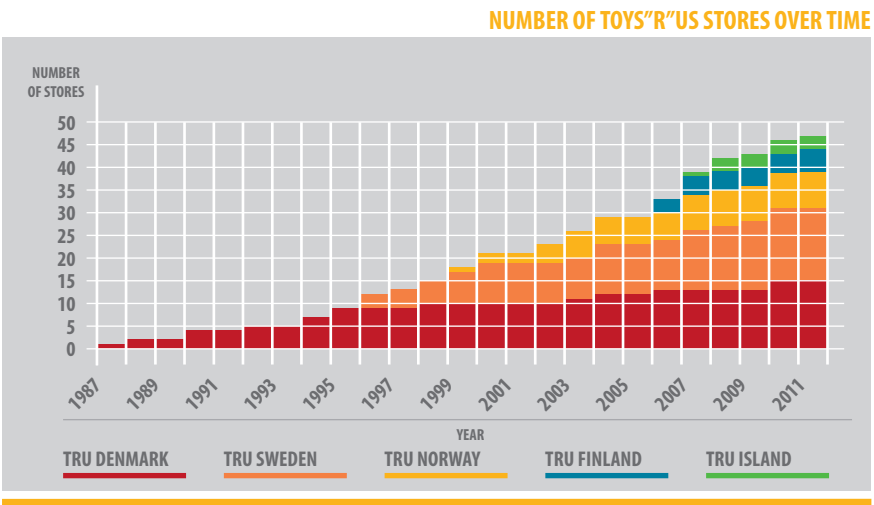
All over the Nordic Region

Under its initial agreement with the US owner of the TOYS"R"US brand in 1996, TOP-TOY took over the existing TOYS"R"US stores in Sweden, and expanded the business to include stores in Norway, beginning with Oslo, in 1999.

In 2006, TOP-TOY expanded its business and opened its first TOYS"R"US store in Jyväskylä, Finland. Today we have five megastores in Finland. Just a year later, in 2007, TOP-TOY continued its expansion and opened its first TOYS"R"US store in Reykjavik, Iceland. Today we have three stores on Iceland.



	TOYS"R"US STORES ON JUNE 30, 2011	EMPLOYEES CALCULATED IN FULL TIME POSITIONS 2010/11	REVENUE IN MILLION DKK (EXCLUDING VAT) 2010/11
Denmark	15	198	479
Sweden	16	150	467
Norway	8	100	305
Finland	5	44	99
Iceland	3	26	48
TRU total	47	518	1,398



A stylized 3D character with a blue head, a red body, and blue limbs, holding a megaphone. The character is positioned on the left side of the slide, facing right. The head is a solid blue sphere. The body is a red cube. The limbs are blue, with the right arm extended forward holding a silver megaphone. The left leg is bent at the knee. The character is standing on a blue rectangular base.

THE HISTORY OF TOP-TOY'S SUSTAINABILITY WORK

MARKET EXPANSION

1963	1963	• First BR-store opens in Denmark
1987	1987	• First Superleg opens in Denmark
1988	1988	• Celebrating 25 years anniversary with 62 BR-stores in Denmark
1991	1991	• First BR-store opens in Sweden
1992	1992	• Hong Kong buying office established
1993	1993	
1995	1995	• Exclusive license to operate TOYS"R"US stores in the Nordic region. Superleg is turned into TOYS"R"US
1996	1996	• Take over of existing TOYS"R"US stores in Sweden
1997	1997	
1998	1998	
1999	1999	• First TOYS"R"US store opens in Norway
2000	2000	
2001	2001	
2003	2003	• First BR-store opens in Norway
2005	2005	• First BR-store opens in Finland
2006	2006	• First TOYS"R"US store opens in Finland
2007	2007	• First BR-store opens in Germany • First TOYS"R"US store opens in Iceland
2009	2009	• K.E. Mathiasen joins the Group
2010	2010	
2011	2011	

SUSTAINABILITY KEY EVENTS

- Quality Assurance Manager position established
- Bad publicity in Danish media kick-starts internal processes for establishing a factory compliance process
- In-depth study of factories reveal:
 - Lack of control of chemical substances
 - Lack of system for controlling social and ethical conditions
- Actions based on study from 1998:
 - Better planned social and ethical audits
 - First supplier "Code of Conduct" launched
 - Reduction of number of suppliers
 - Focus on long term supplier relationships
- Supplier and factory database created to track performance history
- Supplier's Manual issued to all major suppliers
- Factory Compliance Manager Position established
- TOP-TOY signs up to ICTI CARE Process
- Group Sustainability Manager position established in Hong Kong
- New Factory Social and Ethical Compliance Policy secures structured grading and assessment of suppliers and factories
- Revised supplier Code of Conduct communicated to all suppliers and factories
- TOP-TOY joins the United Nations Global Compact
- First Sustainability Report is published
- Group Sustainability Manager Position relocated to Headquarters in Denmark
- Sustainability Coordinator position established
- Factory Compliance Standards replaces supplier Code of Conduct
- Second Sustainability Report is published



Scope and Legal Notices

This report focuses on the financial year covering July 1 2010 to June 30 2011.

Throughout the report references are made to the TOP-TOY Group, this covers TOP-TOY A/S, TOP-TOY (Hong Kong) Ltd., K.E. Mathiasen A/S (KEM) and TOP-TOY Ejendomme A/S. K.E. Leisure is a part of KEM. Leksam and Norstar are registered trademarks of KEM. The TOP-TOY Group is not a legal entity but refers to the legal entity TOP-TOY Holding A/S, which owns the above mentioned subsidiaries.

TOP-TOY is a registered trademark of TOP-TOY (Hong Kong) Ltd. KIDS-WOOD, PLAY2LEARN, BEL-LINO and FLEXI-TRAX is a registered trademark of TOP-TOY A/S. DANSPIL is a registered trademark of KEM. All other marks referred to in this report are the property of their respective owners.

TOYS"R"US, the TOYS"R"US & Star design and the Giraffe design are registered trademarks of Geoffrey, LLC. TOP-TOY A/S is a licensee of Geofrey, LLC.

Reporting Framework

The report lives up to the criteria of the UN Global Compact including the commitment to issue an annual Communication on Progress (COP) report, a public disclosure to stakeholders made in implementing the 10 principles of the UN Global Compact.

This report also lives up to the legal requirement for certain Danish companies to disclose whether they work with sustainability and if so what policies have been developed related to sustainability, how those policies have been implemented and an impact assessment of related actions.

In the future, we will align our goals to the Global Reporting Initiative (GRI) Indicators. We do not work with GRI consistently yet, but we are preparing to for our future sustainability reports. Where relevant, we indicate, which GRI Indicators are associated to our work.

Materiality

The issues covered in this report are identified as material for TOP-TOY by our key stakeholders. See page 7 for more information on our latest materiality assessment.

Data

This report is based on quantitative and qualitative data collected from internal systems and key persons responsible for the operations. Some of the data presented has been consolidated for the first time. To the best of TOP-TOY's knowledge the data presented is accurate and reflects TOP-TOY's progress, including actions we have realised and objectives achieved in the financial year.

Statements and data presented throughout the report have been verified for correctness by responsible managers so as to ensure that the report reflects accurately on TOP-TOY's performance.

The management of our supplier base is divided between our office in Hong Kong and our offices in Europe. Some of the data presented in the report only covers products sourced from suppliers managed by the office in Hong Kong. This includes factory compliance data, product safety data and data regarding wooden toys. In 2010/11 our office in Hong Kong sourced approximately 50% of our products in terms of value.

Limitations

Sustainability Reporting is a new skill at TOP-TOY and we have yet to finalise data collection and verification systems. Therefore, we are less data driven than we want to be; to that effect we are in the process of developing a reliable reporting platform in order to collect, verify and compare data over time. We have yet to consolidate the data collection processes for our wholesale division KEM, which was acquired in 2009.

SELECTED DATA WITH CROSS REFERENCE TO UN GLOBAL COMPACT AND GRI

UN GLOBAL COMPACT	GLOBAL REPORTING INITIATIVE		TYPE OF DATA	PAGE
Human Rights Principle 1 and 2	HR 2	Percentage of significant suppliers and contractors that underwent screening on human rights and actions taken.	Quantitative data on factory certifications.	15
			Quantitative data on supplier and factories.	13
	LA 7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	Number of store and warehouse employees with reported injuries in Denmark, including injuries by category.	17
Labour Principles 3, 4, 5 and 6	LR 6	Operations identified as having significant risk for incidents of child labour and measures to contribute to eliminate child labour.	Description of how to handle Zero-tolerance issues in the supply chain.	15
			Quantitative data on handling of Zero-tolerance issues.	15
	LA 1	Total workforce by employment type, employment contract, and region.	Overview of employee head count and equivalent fulltime positions including contract type, employee category, gender, age and seniority.	27
	LA 2	Total number and rate of employee turnover broken down by age group, gender, and region.		
The Environment Principle 7, 8 and 9	EN 2	Percentage of materials used that are recycled input materials.	Quantitative data on certified tree or rubberwood used for wooden toys sold by TOP-TOY.	11
	PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Five year overview of recalls affecting toys sold by TOP-TOY.	18
			Description of required labelling.	11
	PR 3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Quantitative data on product safety.	21
Anti-Corruption Principle 10	SO 4	Actions taken in response to incidents of corruption.	Description of actions taken if corruption is identified.	13
No specific link to the UN Global Compact	EC 1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Quantitative data on financial performance.	9
	PR 6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and Sponsorship.	Description of marketing practices related to children.	18





For more information on our Sustainability work
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TOP-TOY CORE VALUES

Business Sense

Build long-term relationships
Strive for the best products
Find the best price

TOP-TOY CORE VALUES

Responsibility

Share knowledge & help each other
Be accountable for our actions
Develop long-term stakeholder relations

TOP-TOY CORE VALUES

Family Tree

Be part of a global family
Share the same goals
Be considerate and respectful

TOP-TOY CORE VALUES

Top Performance

Be professional in our actions
Strive for best practices
Be better than yesterday

TOP-TOY CORE VALUES

Toy Fun

Generate a happy environment
Create job satisfaction
Encourage and appreciate