



TOYA S.A. Capital Group

Consolidated financial statements

for the year ended 31 December 2013

TOYA S.A. Capital Group

Consolidated financial statements for the financial year ended 31 December 2013
(amounts are expressed in PLN thousand, unless specified otherwise)

Consolidated statements of financial position

		31 December 2013	31 December 2012
ASSETS	Note		
Non-current assets			
Property, plant and equipment	8	17,637	16,558
Intangible assets	9	1,491	898
Goodwill	7, 10	651	-
Equity-accounted investments in jointly-controlled entities		-	1,479
Trade and other receivables	11	4,092	3,912
Deferred income tax assets	29	1,530	1,294
		25,401	24,141
Current assets			
Inventory	12	91,144	93,643
Trade and other receivables	13	42,221	31,089
Income tax receivables		-	9
Cash and cash equivalents	14	5,021	4,213
		138,386	128,954
Total assets		163,787	153,095
EQUITY AND LIABILITIES			
Equity per shareholders of the parent company			
Share capital	15	7,540	7,521
Share premium		24,722	24,078
Other comprehensive income		(657)	(242)
Other reserve capital	16	1,333	1,853
Retained earnings	17	86,119	71,391
		119,057	104,601
Equity attributable to non-controlling interests	7	1,974	-
Total equity		121,031	104,601
Long-term liabilities			
Liabilities from employee benefits		164	139
		164	139
Short-term liabilities			
Trade and other payables	19	32,460	18,787
Liabilities from employee benefits	20	2,054	464
Liabilities from loans, borrowings and other debt instruments	18	7,286	27,738
Liabilities from finance leases		-	154
Liabilities from current income tax	29	512	977
Provisions	23	280	235
		42,592	48,355
Total liabilities		42,756	48,494
Total equity and liabilities		163,787	153,095

Notes constitute an integral part of these consolidated financial statements.

TOYA S.A. Capital Group

Consolidated financial statements for the financial year ended 31 December 2013
(amounts are expressed in PLN thousand, unless specified otherwise)

Consolidated statement of profit or loss and other comprehensive income

	Note	12 months ended 31 December	
		2013	2012
Revenue from sales of goods and materials	24	242,710	201,247
Cost of products, goods and materials sold	25	(159,452)	(134,463)
Gross sales profit		83,258	66,784
Selling costs	25	(39,263)	(27,481)
Administrative expenses	25	(11,841)	(11,478)
Other operating revenue	27	1,240	720
Other operating expenses	27	(403)	(2,511)
Operating profit		32,991	26,034
Financial revenue	28	196	37
Financial expenses	28	(1,087)	(3,391)
Share in profits/losses of jointly-controlled entities		-	(241)
Profit before tax		32,100	22,439
Income tax	29	(6,434)	(4,796)
Net profit		25,666	17,643
<i>Items that cannot be transferred to profit or loss:</i>			
Currency translation differences		(405)	(537)
<i>Items that can be transferred to profit or loss:</i>			
Actuarial gains or losses		(6)	-
Income tax on other comprehensive income		1	-
Other net comprehensive income		(410)	(537)
Net comprehensive income for the financial year		25,256	17,106
Net profit for the period attributable to shareholders of the parent company			
Shareholders of the company		25,284	17,643
Non-controlling interests		382	-
Comprehensive income for the reporting period attributable to:			
Shareholders of the company		24,869	17,106
Non-controlling interests		387	-
Other comprehensive income attributable to:			
Shareholders of the company		(415)	(537)
Non-controlling interests		5	-
Basic/diluted earnings per share	30	0.34	0.24

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TOYA S.A. Capital Group

 Consolidated financial statements for the financial year ended 31 December 2013
 (amounts are expressed in PLN thousand, unless specified otherwise)

Consolidated statement of changes in equity

	Attributable to shareholders of the parent company					Total equity per shareholders of the parent company	Equity attributable to non-controlling interests	Total equity
	Share capital	Share premium	Other comprehensive income	Other reserve capital	Retained earnings			
As at 1 January 2013	7,521	24,078	(242)	1,853	71,391	104,601	-	104,601
Net profit	-	-	-	-	25,284	25,284	382	25,666
<i>Other comprehensive income</i>								
Actuarial gains or losses	-	-	(6)	-	-	(6)	-	(6)
Income tax on other comprehensive income	-	-	1	-	-	1	-	1
Currency translation differences	-	-	(410)	-	-	(410)	5	(405)
Total comprehensive income	-	-	(415)	-	25,284	24,869	387	25,256
Transactions with owners								
Transactions with on-controlling interests – purchase of shares in the entity	-	-	-	-	-	-	1,587	1,587
Payment of dividend	-	-	-	-	(10,556)	(10,556)	-	(10,556)
Issue of shares	19	644	-	(644)	-	19	-	19
Share option scheme	-	-	-	124	-	124	-	124
Total transactions with owners	19	644	-	(520)	(10,556)	(10,413)	1,587	(8,826)
As at 31 December 2013	7,540	24,722	(657)	1,333	86,119	119,057	1,974	121,031
As at 1 January 2012	7,484	22,907	295	1,175	53,748	85,609	-	85,609
Net profit	-	-	-	-	17,643	17,643	-	17,643
Currency translation differences	-	-	(537)	-	-	(537)	-	(537)
Total comprehensive income	-	-	(537)	-	17,643	17,106	-	17,106
Transactions with owners								
Issue of shares	37	1,171	-	(1,171)	-	37	-	37
Share option scheme	-	-	-	1,849	-	1,849	-	1,849
Total transactions with owners	37	1,171	-	678	-	1,886	-	1,886
As at 31 December 2012	7,521	24,078	(242)	1,853	71,391	104,601	-	104,601

Notes constitute an integral part of these consolidated financial statements.

TOYA S.A. Capital Group

Consolidated financial statements for the financial year ended 31 December 2013
(amounts are expressed in PLN thousand, unless specified otherwise)

Consolidated cash flow statement

	12 months ended 31 December	
	2013	2012
Cash flows from operating activities		
Profit before tax	32,100	22,439
Adjustments for:		
Amortisation and depreciation	2,233	1,711
Net interest	892	3,353
Profit/Loss on investing activities	(261)	(28)
Share in the losses/profits of jointly-controlled entities	(414)	241
Foreign exchange gains/losses	32	(252)
Valuation of share options	124	1,849
Changes in balance sheet items:		
Change in trade and other receivables	(6,879)	4,614
Change in inventories	10,736	3,239
Change in provisions	30	6
Change in trade and other payables	3,361	(4,612)
Change in employee benefit liabilities	1,503	117
Income tax paid	(6,945)	(7,826)
Net cash from operating activities	36,512	24,851
Cash flows from investment activities		
Sale of property, plant and equipment	310	40
Purchases of property, plant and equipment and intangible assets	(2,697)	(2,395)
Interest received	18	37
Cash and cash equivalents received as part of the business combination with Yato China	2,578	-
Net cash from investing activities	209	(2,318)
Cash flows from financial activities		
Proceeds from loans and borrowings	-	12,098
Repayments of loans and borrowings	(24,042)	(31,109)
Repayment of liabilities arising from finance leases	(154)	(154)
Interest paid on loans and borrowings	(1,145)	(2,766)
Interests paid on leases	(19)	(19)
Proceeds from shares issues	18	37
Dividends paid	(10,556)	-
Net cash from financing activities	(35,898)	(21,913)
Change in cash and cash equivalents	823	620
Cash and cash equivalents at the beginning of the period	4,213	3,731
Exchange gains/(losses) on measurement of cash and cash equivalents	(15)	(138)
Cash and cash equivalents at the end of the period	5,021	4,213

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TOYA S.A. Capital Group

Consolidated financial statements for the financial year ended 31 December 2013
(amounts are expressed in PLN thousand, unless specified otherwise)

Accounting policy and other explanatory notes

1. General information

TOYA S.A. (the "Company" or the "Parent Company") is a joint stock company established under the Commercial Companies Code. The Company has its registered office in Wrocław at ul. Sołtysowicka 13/15.

The Company is a successor of the civil law partnership "TOYA IMPORT-EKSPORT" with its registered office in Wrocław, whose partners, given the scale of the business and its rapid development, resolved to transfer the business in 1999 to a newly established joint stock company TOYA S.A. with its registered office in Wrocław.

The Company was incorporated by virtue of a Notarial Deed of 17 November 1999 drawn up by Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No 5945/99). Next, pursuant to a court decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, under entry No RHB 9053. By virtue of a decision of 5 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, entered the Company into the Register of Entrepreneurs under entry No KRS 0000066712.

As at 31 December 2013, TOYA S.A. operates one branch – in Nadarzyn.

The Company's Statistical Identification Number (REGON) is 932093253, the Nadarzyn Branch has been assigned the Statistical Identification Number (REGON): 932093253-00031.

The core business activities of TOYA S.A. include import and distribution of industrial goods, including primarily hand and power tools for professional and DIY use. The Company distributes goods manufactured and supplied mainly by companies located in China. For many years, the Company has been implementing its strategy of expanding into international markets. It focuses primarily on Central, Southern, and Eastern Europe (Romania, Hungary, Czech Republic, Germany, the Balkan States, Russia, Lithuania, Ukraine, Belarus, Moldova). In 2003, a subsidiary, TOYA Romania S.A., was established, whose business includes sales of hand and power tools in Romania. This company offers the same products and brands as those offered by the Company in Poland. In 2013, the company Yato Tools (Shanghai) Co. Ltd., located in China was included in the group of entities subject to full consolidation. The entity deals in the distribution of YATO brand tools and power tools in China and in certain other foreign markets not supported by the Parent Company.

The duration of the Parent Company is unlimited.

As at 31 December 2013, joint control of the company is exercised by: Jan Szmidt, Romuald Szałagan, Tomasz Koprowski, Piotr Wojciechowski, Beata Szmidt, Wioletta Koprowska, Beata Szałagan, Elżbieta Wojciechowska and Maria Szmidt. Joint control is exercised based on an agreement entered into on 31 August 2010 by the following shareholders: Jan Szmidt, Romuald Szałagan and Tomasz Koprowski, joined on 6 April 2011 by Piotr Wojciechowski and on 9 August 2011 by Beata Szmidt, Wioletta Koprowska, Beata Szałagan and Elżbieta Wojciechowska. Maria Szmidt is in implied agreement due to family ties. Under this agreement, the parties undertook to cooperate on all matters concerning the Company, including to agree their positions submitted to the Company's governing bodies, and to unanimously vote on resolutions adopted by the Company's General Shareholders Meeting. On 6 December 2013, Piotr Wojciechowski and Elżbieta Wojciechowska submitted notifications on the withdrawal from the agreement on 30-day notice, i.e. effective on 5 January 2014.

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2. Group structure

As at 31 December 2013, the Group comprised the following entities:

Entity name	Registered office	Business profile	Type of equity link	% of shares and votes held	Date of assuming control	Method of consolidation as at the end of the reporting period
TOYA S.A.	Wrocław, Poland	Distribution of hand and power tools	Parent Company	Not applicable	Not applicable	Full consolidation method
Toya Romania S.A.	Bucharest, Romania	Distribution of hand and power tools	Subsidiary	99.99	November 2003	Full consolidation method
Yato Tools (Shanghai) Co., Ltd *	Shanghai, China,	Distribution of hand and power tools	Subsidiary	* 75.00	January 2013	Full consolidation method

* In June 2008, the Company and Saame Tools (Shanghai) Import & Export Co., Ltd China established a joint venture under the name Yato China Trading Co., Ltd. The Company acquired 51% of the shares in the share capital, the remaining 49% was acquired by Saame Tools (Shanghai) Import & Export Co., Ltd China. On 2 January 2013, TOYA S.A. increased the share capital in Yato China Co., Ltd. As a result of this transaction, the Company increased its share in Yato China from 51% to 75%. At the same time, changes were introduced to Yato China's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato China's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato China. In April 2013, the name of the company was changed to Yato Tools (Shanghai) Co., Ltd. (hereinafter: Yato Tools).

On 19 June 2013, the company Toya Golf & Country Club Sp. z o.o. was deleted from the court register as a result of liquidation. Parent Entity held 100% shares in the company – the company did not conduct an active business.

3. Summary of significant accounting policies

The most significant accounting principles applied for the drawing up of these consolidated financial statements have been presented below. Those principles were applied in all periods presented in a continuous way, unless stated otherwise.

3.1 Basis of preparation

These consolidated financial statements of the Group for the financial year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board, as adopted by the European Union ("EU").

These consolidated financial statements have been prepared in accordance with IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which were issued and in effect as at the reporting date i.e. 31 December 2013.

The policies described below have been consistently applied to all the periods presented, except for changes following from the application of new or amended IFRS to the extent prospective application was required.

These consolidated financial statements have been prepared in accordance with the historical cost convention.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of significant accounting estimates. It also requires the Management Board of the Parent Company to exercise judgement in the process of applying the accounting policies adopted by the Group. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Approval of the financial statements

These consolidated financial statements were approved for publication and signed by the Management Board on 2 April 2014.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of approval of these consolidated financial statements, no facts or circumstances are known that would indicate any threat to the Group companies continuing as going concerns.

Effect of new or amended standards and interpretations on the Group's consolidated financial statements

These consolidated financial statements have been prepared on the basis of the EU IFRS issued and effective as at the reporting date, i.e. 31 December 2013.

The EU IFRS comprise all International Accounting Standards, International Financial Reporting Standards and related Interpretations, excluding Standards and Interpretations awaiting endorsement by the European Union.

a) New standards, interpretations and amendments to existing standards effective in 2013

The following new and revised standards and interpretations, which became effective on 1 January 2013, were applied for the first time in these consolidated financial statements:

• **“Presentation of items of other comprehensive income” – amendments to IAS 1**

Amendments to IAS 1 “Presentation of financial statements” concerning presentation of components of other comprehensive income were published by the International Accounting Standards Board in June 2011 and are valid for annual periods starting on or after 1 July 2012.

The amendments require that entities divide items presented under other comprehensive income into two groups on the basis of whether in the future they may be included in the financial result. Additionally, the title of statements on total income was changed to “statement of profit or loss and other comprehensive income”.

As a result of amendments to IAS 1, two categories were separated in other comprehensive income: (a) other comprehensive income that may be reclassified to profit or loss after specific conditions are met and (b) other comprehensive income that will not be included in profit or loss. The name of the consolidated statements of comprehensive income has been changed to consolidated statement of profit or loss and other comprehensive income in accordance with the new terminology introduced by IAS 1.

• **Amendments to IAS 19 “Employee benefits”**

Amendments to IAS 19 “Employee benefits” were published by the International Accounting Standards Board in June 2011 and are valid for annual periods starting on or after 1 January 2013.

The amendments introduce new requirements with regard to recognition and measurement of the costs of specific benefit schemes and termination benefits, and they amend the required disclosures concerning all employee benefits.

The Group has applied amendments to IAS 19 introduced from 1 January 2013. The introduced changes related to recognition of actuarial gains and losses from valuation of post-employment benefit plan (the defined benefit plan) in the other comprehensive income and not in the profit and loss account. The application of the standard in the interim condensed consolidated financial statement as at 31 December 2013 resulted in the recognition of actuarial losses in the amount of PLN 6 thousand in other comprehensive income. Actuarial losses in the comparative period amounted to PLN 19 thousand. The comparative data was not restated due to immaterial impact on the financial statements.

The following standards and amendments effective from 1 January 2013 had no significant influence on the interim condensed consolidated financial statement:

- “Disclosure of information – offsetting financial assets and financial liabilities – amendments to IFRS 7,
- IFRS 13 “Fair value measurement”,
- “Recovery of underlying assets” – amendments to IAS 12 – “Income tax”,
- Annual improvements resulting from IFRS review, cycle 2009–2011,
- Severe hyperinflation and withdrawal of agreed dates for first-time adopters of IFRS – Amendments to IFRS 1.

The following standards and amendments effective from 1 January 2013 do not apply to Group operations:

- “Government loans” – Amendments to IFRS 1,
- IFRIC 20 “Stripping costs in the production phase of a surface mine”.

b) New standards, interpretations and amendments, which are not yet effective and have not previously been applied by the Company

The following new standards, interpretations and amendments have been published and are effective for reporting periods beginning on or after 1 January 2014:

- **IFRS 9 “Financial Instruments Phase 1: Classification and measurement”**

IFRS 9 published by the International Accounting Standards Board on 12 November 2009 replaces those parts of IAS 39 which refer to the classification and measurement of financial assets. In October 2010, IFRS 9 was supplemented by problems of classification and measurement of financial liabilities. In November 2013, further amendments were introduced and a part referring to hedge accounting was issued. In accordance with recent amendments, also the deadline for mandatory standard implementation was deleted; therefore, its application is voluntary.

The standard introduces one model providing for only two categories of classification of financial assets: measured at fair value and measured at amortised cost. The classification is performed as at the initial recognition and depends on the financial instrument management model adopted by the entity, as well as the characteristics of contractual cash flow from those instruments.

Most of the IAS 39 requirements with regard to classification and measurement of financial liabilities have been moved to IFRS 9 in an unchanged form. The key change is the requirement imposed on entities – to publish changes of own credit risk from financial liabilities earmarked for fair value measurement by the financial result in other total income.

In the area of hedge accounting, the objective of the amendments is to align hedge accounting to risk management practices better. This standard allows for the implementation of requirements of IFRS 9 or to continue applying hedge accounting under IAS 39, due to the fact that it does not cover macro hedging.

As at the date of drawing up these consolidated financial statements, IFRS 9 has not yet been approved by the European Union. The Group intends to apply IFRS 9 as of the date of entry into force established by the EU.

The Group is currently assessing the impact of these amendments on the financial statements.

- **IFRS 10 “Consolidated financial statements”**

IFRS 10 was published by the International Accounting Standards Board in May 2011 and is valid in the European Union for annual periods starting on or after 1 January 2014.

The new standard replaces guidelines concerning control and consolidation contained in IAS 27 “Consolidated and separate financial statements” and in SIC interpretation 12 “Consolidation – special purpose entities”. IFRS 10 changes the definition of control in such a way that the same control determination criteria are in force for all entities. The changed definition is accompanied by extensive guidelines concerning application.

The Group will apply IFRS 10 as of 1 January 2014.

IFRS 10 will have no effect on the assessment of control held in subsidiaries of the Capital Group.

- **IFRS 11 “Joint arrangements”**

IFRS 11 was published by the International Accounting Standards Board in May 2011 and is valid in the European Union for annual periods starting on or after 1 January 2014.

The new standard replaces IAS 31 “Interests in joint ventures” and interpretation SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. Changes in definitions restricted the number of joint ventures to two: joint operations and joint ventures. At the same time, the previous possibility of selecting proportionate consolidation in relation entities under joint control was eliminated. All venturers are currently obliged to recognise them under the equity method.

The Group will apply IFRS 11 as of 1 January 2014.

IFRS 11 will have no impact on the consolidated financial statements of the Group.

- **IFRS 12 “Disclosure of interests in other entities”**

IFRS 12 was published by the International Accounting Standards Board in May 2011 and is valid in the European Union for annual periods starting on or after 1 January 2014.

The new standard concerns entities with interests in a subsidiary, joint arrangement (joint operation or joint venture), associates or unconsolidated structured entity. The standard replaces disclosure requirements contained currently in “IAS 27 Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures”. IFRS 12 requires that entities disclose information which will help users of financial statements to assess the nature, risk and financial consequences of investments in subsidiaries, associates, joint arrangements and unconsolidated structured entities. For that purpose, the new standard imposes the requirement to disclose information concerning a number of areas, including significant evaluations and assumptions adopted when determining whether an entity has control or joint control of, or significant influence over, another entity; extensive information about the importance of non-controlling entities in the group’s activities and cash flows; summary financial information about subsidiary Groups with considerable non-controlling interests, as well as detailed information about shares in unconsolidated structured entities.

The Group will apply IFRS 12 as of 1 January 2014.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Amended IAS 27 “Separate financial statements”**

Amended IAS 27 “Separate Financial Statements” was published by the International Accounting Standards Board in May 2011 and is valid in the European Union for annual periods starting on or after 1 January 2014.

IAS 27 was amended in relation to the publication of IFRS 10 “Consolidated financial statements”. The purpose of the amended IAS 27 is to determine requirements for disclosure and presentation of investments in subsidiaries, jointly controlled entities and associates when an entity presents separate financial statements. The guidelines on the control and consolidated financial statements were replaced by IFRS 10.

The Group will apply the amended IAS 27 from 1 January 2014.

Amendments to IAS 27 will have no material impact on the consolidated financial statements.

- **Amended IAS 28 “Investments in associates and joint ventures”**

Amended IAS 28 “Investments in Associates and Joint Ventures” was published by the International Accounting Standards Board in May 2011 and is valid in the European Union for annual periods starting on or after 1 January 2014.

Amendments to IAS 28 resulted from the IASB on joint arrangements. The Board decided to include the principles concerning the recognition of joint arrangements under the equity method in IAS 28 because that method applied both to joint ventures and associates. With this exception, other guidelines remained unchanged.

The Group will apply the amended IAS 28 from 1 January 2014.

The amended IAS 28 will have no impact on the consolidated financial statements of the Group.

- **Offsetting financial assets and financial liabilities – amendments to IAS 32**

Amendments to IAS 32 “Financial instruments: presentation” concerning the offsetting of financial assets and liabilities were published by the International Accounting Standards Board in December 2011 and are valid for annual periods starting on or after 1 January 2014.

The amendments introduce additional explanations to the application of IAS 32 in order to clarify inconsistencies encountered during the application of some offsetting criteria. They include clarification what the term “has a legally enforceable right to set off the amounts” means as well as that certain mechanisms of gross settlement may be treated as net settlement where appropriate conditions have been met.

The Group will apply the amendments to IAS 32 as of 1 January 2014.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Amendments to the transitional provisions to IFRS 10, IFRS 11, IFRS 12**

The International Accounting Standards Board published in June 2012 amendments to the transitional provisions to IFRS 10, IFRS 11 and IFRS 12. The amendments will be effective for annual periods beginning on 1 January 2014 or earlier – if the standards that are their basis (IFRS 10, 11 or 12) have been used at an earlier date.

The amendments clarify the transitional provisions for IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess whether they have the control on the first day of the annual period for which IFRS 10 was applied for the first time and if the conclusions from such an assessment differ from the conclusions from IAS 27 and SIC 12, the comparative information should be restated unless it would be impractical. The amendments also introduce additional transitional measures in the application of IFRS 10, IFRS 11 and IFRS 12, by limiting the obligation to present adjusted comparative data only to data for the immediately preceding reporting period. In addition, these changes abolish the requirement to present comparative information for the disclosures relating to unconsolidated structured entities for periods prior to the period of application of IFRS 12 for the first time.

The Group will apply the amendments to the transitional provisions as of 1 January 2014.

Those amendments will have no impact on the consolidated financial statements of the Group.

- **Investment Entities – amendments to IFRS 10, IFRS 12 and IAS 27**

Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities” were published by the International Accounting Standards Board in October 2012. They apply to annual periods beginning on or after 1 January 2014.

The amendments introduce the definition of an investment entity in IFRS 10. Such entities will be required to report their subsidiaries at fair value through profit or loss and consolidate only those subsidiaries that provide to them services related to the investing activities of the company. IFRS 12 was also amended due to the introduction of new disclosures on investment entities.

The Group will apply the above amendments as of 1 January 2014.

These amendments do not apply to the Group’s activities.

- **IFRIC 21 “Levies”**

IFRIC 21 was published by the International Accounting Standards Board in May 2013 and is valid for annual periods starting on or after 1 January 2014.

The interpretation clarifies the accounting recognition of obligations to levies that are not income taxes. Obligating event is an event defined in the law that triggers the payment of the levy. The mere fact that an entity will continue to operate in the next period, or draws up a report in accordance with the going concern principle, does not create an obligation to recognise a liability. The same principles for liability recognition apply to annual and interim reports. The application of the interpretation to liabilities arising from emission rights is optional.

As at the date of these consolidated financial statements, IFRIC 21 has not yet been approved by the European Union. The Group will apply IFRIC 21 as of the date of entry into force adopted by the EU.

The interpretation will have no material impact on the consolidated financial statements of the Group.

- **Disclosures of the recoverable amount for non-financial assets – Amendments to IAS 36**

Amendments to IAS 36 “Impairment of Non-Financial Assets” concerning disclosures of the recoverable amount were published by the International Accounting Standards Board in May 2013. They apply to annual periods beginning on or after 1 January 2014.

The amendments eliminate the requirement to disclose the recoverable amount where the cash-generating unit contains goodwill or intangible assets with indefinite useful life and there was no impairment.

The Group will apply the amendments to IAS 36 as of 1 January 2014.

The Group is currently assessing the impact of these amendments on the consolidated financial statements.

- **Novation of derivatives and continuing hedge accounting – amendments to IAS 39**

Amendments to IAS 39 “Financial instruments” concerning hedge accounting were published by the International Accounting Standards Board in June 2013 and are valid for annual periods starting on or after 1 January 2014.

The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. the parties agreed to replace the original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

The Group will apply the amendments to IAS 39 as of 1 January 2014.

Those amendments will have no material impact on the consolidated financial statements.

- **Defined Benefit Plans: Employee Contributions – Amendments to IAS 19**

Amendments to IAS 19 “Employee benefits” were published by the International Accounting Standards Board in November 2013 and are valid for annual periods starting on or after 1 June 2014.

The amendment allows entities to recognise employee contributions as a reduction in the employment costs in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

As at the date of these consolidated financial statements, the amendments to IAS 19 were not yet approved by the European Union. The Group will apply the amendments to IAS 19 as of the date adopted by the EU.

Those amendments will have no material impact on the consolidated financial statements.

- **Improvements to IFRSs 2010–2012**

In December 2013, the International Accounting Standards Board issued “Improvements to IFRSs 2010–2012” which consist of improvements to 7 standards. Improvements contain changes in the presentation, recognition and valuation, as well as terminological and editing changes. The improvements are effective mainly for annual periods beginning on 1 July 2014

As at the date of these consolidated financial statements, the Improvements to IFRS were not yet approved by the European Union. The Group will apply the above Improvements to IFRS as of the date adopted by the EU.

The Group is currently assessing the impact of these Improvements on the consolidated financial statements.

- **Improvements to IFRSs 2011–2013**

In December 2013, the International Accounting Standards Board issued “Improvements to IFRSs 2011–2013” which consist of improvements to 4 standards. Improvements contain changes in the presentation, recognition and valuation, as well as terminological and editing changes. The improvements are effective for annual periods beginning on 1 July 2014.

As at the date of these consolidated financial statements, the Improvements to IFRS were not yet approved by the European Union. The Group will apply the above Improvements to IFRS as of the date adopted by the EU.

The Group is currently assessing the impact of these Improvements on the consolidated financial statements.

In these consolidated financial statement neither standard nor interpretations was early adopted or adopted before EU approval.

3.2 Consolidation

Subsidiaries

Subsidiaries comprise all entities with respect to which the Group is authorised to govern the financial and operating policies, which generally accompanies the control of the majority of the overall voting rights in their decision-making bodies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group. They are no longer consolidated once the control ceases.

The acquisition of subsidiaries by the Group is accounted for with the use of purchase method.

The cost of an acquisition is measured as the fair value of the assets transferred, financial instruments issued and liabilities incurred or assumed at the date of exchange, plus liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are recognised in the consolidated profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each acquisition, the Group recognises non-controlling interests in the acquiree at their fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Any excess of the consideration transferred, the value of non-controlling interests in the acquiree and the fair value of any previously held equity interest in the acquiree as at the acquisition date over the fair value of net identifiable assets acquired is recorded as goodwill. If that amount is lower than the fair value of net assets of the acquiree, the difference is recognised directly in consolidated profit or loss.

Revenue and costs, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries were changed to ensure consistency with the accounting policies applied by the Group.

Interests in jointly-controlled entities

Interests in jointly controlled entities are accounted for using the equity method. The Group's investment in jointly-controlled entities includes goodwill as at the acquisition date.

The Group's share in the profit or loss of jointly-controlled entities from the acquisition date is recognised in profit or loss, and its share in other comprehensive income from the acquisition date – in other comprehensive income. When the Group's share of a jointly-controlled entity's losses becomes equal to or higher than its interest in the entity, the Group no longer recognises further losses, unless it has assumed liabilities or made payments on behalf of the jointly-controlled entity.

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Unrealised gains on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's proportionate interests in those entities. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred.

Where necessary, the accounting policies used by jointly-controlled entities were changed to ensure consistency with the accounting policies applied by the Group.

Investments in jointly-controlled entities are tested for impairment whenever there is indication of impairment or indication that any previously recognised impairment loss is no longer required or has decreased.

3.3 Segment reporting

Information on operating segments is presented on the same basis as that used for internal reporting to the parent company's Management Board, which is responsible for the allocation of resources and assessment of the segments' results. Amounts presented in the internal reporting process are measured using the same policies as those followed in these consolidated financial statements prepared in accordance with the IFRS.

3.4 Valuation of items denominated in foreign currencies

Functional currency

Items included in the financial statements of individual Group companies are measured in the currency of the primary economic environment in which a given company operates (the "functional currency"). The consolidated financial statements are presented in the Polish zloty, which is the functional currency of the Parent Company and the presentation currency of the Group.

Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency according to the exchange rate applicable on the transaction date. Any currency exchange gains or losses arising on settlement of such transactions or on accounting measurement of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Monetary assets and liabilities expressed in foreign currencies are translated as at the reporting period end date using the average market rate effective for the given currency for that date.

Non-monetary assets and liabilities carried at historical cost in a foreign currency are translated using the average market rate effective for the transaction date. Non-monetary items of the statement of financial position expressed in foreign currencies which are carried at fair values are translated using the average market exchange rate effective for the fair value measurement date.

Foreign currency items of the statement of financial position were translated using the following exchange rates:

Currency	31 December 2013	31 December 2012
EUR 1	4.1472	4.0882
USD 1	3.0120	3.0996
RON 1	0.9262	0.9197
CNY 1	0.4976	0.4975

Translation of the Group companies' and of jointly-controlled entities' data

Financial results and items of the statement of financial position of all the Group companies and jointly-controlled entities, none of which conducts operations in a hyperinflationary economy, whose functional currencies differ from the currency of presentation, are translated into the presentation currency in the following manner:

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- in each presented statement of financial position, assets and liabilities are translated using the average market exchange rate quoted by the National Bank of Poland for the last day in the reporting period;
- revenue and expenses are translated using exchange rates determined as the arithmetic average of the average market exchange rates effective for the last day in each month of the financial year and
- any currency exchange differences resulting from such translation are recognised in other comprehensive income.

Items of the statement of financial position have been translated from the functional currency into the presentation currency using the following exchange rates:

Currency	31 December 2013	31 December 2012
RON 1	0.9262	0.9197
CNY 1	0.4976	0.4975

Financial results have been translated using the following exchange rates:

Currency	31 December 2013	31 December 2012
RON 1	0.9543	0.9377
CNY 1	0.5153	0.5126

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate on the final day of the reporting period.

3.5 Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less accumulated depreciation and potential accumulated impairment.

Acquisition cost comprises the price for which a given asset was purchased (i.e. amount due to the seller, net of any deductible taxes: VAT and excise duty), public charges (in the case of imports) and expenditure directly attributable to the acquisition of the asset and its adaptation for its intended use, including the costs of transport, loading and unloading. Rebates, discounts as well as other similar concessions and recoveries decrease the asset acquisition cost.

Production cost of a tangible fixed asset or a tangible fixed asset under construction includes all the expenses incurred by the Group during its construction, assembly, adaptation or improvement, incurred until the date on which the asset became available for use, including any non-deductible VAT and excise duties.

Any subsequent expenditure on replacement of parts of items of property, plant and equipment is capitalised if it can be measured reliably and it is probable that the Group will derive economic benefits associated with the replaced items. Repair and maintenance costs are charged to profit or loss as incurred.

Except for land and tangible non-current assets under construction, all items of property, plant and equipment are depreciated over their estimated useful lives using the straight-line method, taking into account the residual value, if material. The following groups are depreciated using the following depreciation rates:

Buildings and structures	3% to 6%
Plant and equipment	5% to 50%
Vehicles	8% to 50%
Other tangible fixed asset	10% to 100%

Correctness of the applied useful lives, depreciation methods and residual values (except where insignificant) is reviewed by the Group on an annual basis. Any changes are presented as changes in

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accounting estimates and their effect is taken to profit or loss in the period when the estimate changes and in subsequent periods.

Significant components of property, plant and equipment are depreciated based on their estimated useful lives.

Any gains or losses on the disposal or liquidation of items of property, plant and equipment are determined as the difference between the revenue from the sale and the carrying amount of the items, and recognised in profit or loss.

Tangible non-current assets under construction are stated at cost or at the amount of the aggregate expenses directly associated with their production, less impairment. The cost of borrowings contracted to finance tangible non-current assets under construction increases their value.

3.6 Leases

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased asset, are recognised in the consolidated statement of financial position at commencement of the lease term at the lower of the fair value of the asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in a way to produce a constant rate of interest on the remaining balance of the liability. The finance charge is recognised in profit or loss.

Tangible non-current assets used under finance lease agreements are depreciated over the shorter of their estimated useful life or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments and subsequent lease instalments are recognised as expenses and charged to profit or loss over the lease term on a straight-line basis.

3.7 Intangible assets

Intangible assets are stated at acquisition or production cost less accumulated amortisation and impairment.

Any subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits to be generated by the asset. Other expenditures are taken to profit or loss as incurred.

The period and method of amortisation of intangible assets are reviewed at the end of each financial year. Any changes are recognised as changes in accounting estimates, and their effect is charged to profit or loss in the period in which the amortisation rates are changed and in subsequent periods.

Amortisation is calculated over the estimated useful life of intangible assets, using the straight line method. The amortisation rates applied to intangible assets are as follows:

Trademarks	20%
Licences and software	5% to 50%

The Group carries out research and development activities pertaining to the construction and development of the functionality of an on-line store platform.

An intangible asset arising from development activities is recognised when the entity can demonstrate:

- that it is able, from a technical point of view, to complete the intangible asset so that it can be sold or used,
- that it intends to complete the intangible asset as well as to use it or sell it,
- that it is able to use or sell the intangible asset,
- the manner in which the intangible asset will generate probable future economic benefits,

- e) the availability of adequate technical, financial and other resources to complete development and to use or sell the intangible asset,
- f) the ability to measure reliably the expenditure during the development that can be attributed to the intangible asset.

Until the end of development work, capitalised development costs are recognised as intangible assets under development and are not amortised. Expenditure on research activities is recognised as an expense when incurred.

3.8 Goodwill

Goodwill is not amortised, but it is tested for impairment annually or more frequently if there is any indication of impairment.

As at the acquisition date, the acquired goodwill is allocated to each of the cash-generating units that will benefit from the synergies of the business combination, not larger than an operating segment. The accounting policies applicable to goodwill impairment testing are presented in note 3.10.

3.9 Impairment on non-financial non-current assets

As at the end of each reporting period, the Group assesses whether there is any evidence that any of its non-financial non-current assets may be impaired. If the Group finds that there is such evidence, or if the Group is required to perform annual impairment tests (in the case of goodwill), the Group estimates the recoverable amount of the given asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is equal to the higher of the asset's or cash-generating unit's fair value less costs to sell or its value in use. The recoverable amount is determined for individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the asset is impaired and an impairment loss is recognised up to the established recoverable amount. The impairment loss is allocated in the following order: first, the carrying amount of goodwill is reduced, and then the carrying amounts of other assets of the cash-generating unit are reduced pro rata. Impairment losses related to assets are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at the end of each reporting period, the Group assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset (other than goodwill) or cash-generating unit is no longer necessary or should be reduced. If such evidence exists, the Group measures the recoverable amount of the given asset or cash-generating unit.

3.10 Borrowing costs

Borrowing costs that are directly attributable to acquisition or production of assets which take a substantial period of time to become available for their intended use, are capitalised as part of the cost of tangible non-current assets or intangible assets, as appropriate, until such assets become available for their intended use.

3.11 Financial Assets

Upon initial recognition, financial assets are measured at fair value of the consideration given plus transaction cost, with the exception of financial assets at fair value through profit or loss in the case of which the transaction cost is charged to profit or loss. Purchases and sales of financial instruments are recognised as at the date of the transaction.

Financial assets are derecognised when the rights to receive cash flows from these assets have expired or have been transferred and substantially all risks and rewards incidental to ownership of such assets have been transferred. If there has been no transfer of substantially all the risks and rewards of the asset, the asset is derecognised when the Company loses control over the asset.

Financial instruments are classified into one of the following four categories and recognised in the following manner:

Financial assets at fair value through profit or loss

This category includes two sub-categories:

- financial assets held for trading, and
- financial assets designated as assets at fair value through profit or loss on initial recognition.

An asset is classified in this category if it was acquired primarily for the purpose of selling it in the near future or if it was assigned to this category by the Management Board.

Financial assets held to maturity

Financial assets held to maturity are measured at amortised cost using effective interest rate.

Loans and receivables

This category primarily includes loans granted and trade receivables.

Loans and receivables are measured at amortised cost determined using effective interest rate (in the case of current receivables, given that the discount effect would be insignificant due to short maturities, the amortised cost is assumed as equal to the initially invoiced amounts).

Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value and any unrealised revaluation gains/losses are recognised in other comprehensive income.

The fair value of financial instruments for which an active market exists is determined by reference to the prices quoted on that market as at the end of the reporting period. If no quoted market price is available, the fair value is estimated based on a market price quoted for a similar instrument or based on projected cash flows.

Except for financial assets at fair value through profit or loss, all financial assets are tested for impairment as at the end of the reporting period.

As at 31 December 2013 and 31 December 2012, all financial assets held by the Group were classified as "loans and receivables".

3.12 Impairment of financial assets

An impairment loss on a financial asset is recognised when there is objective evidence of its impairment, which may have an adverse effect on the amount of future cash flows attributable to the asset. Significant objective evidence includes: taking legal action against a debtor, serious financial problems of a debtor, or significant past due payments.

Impairment of financial assets carried at amortised cost is measured as the difference between the carrying amount of an asset and the present value of future cash flows discounted using the initial effective interest rate. Carrying amounts of individual financial assets of material unit value are reviewed as at the end of each reporting period in order to check whether there is any indication of impairment. Other financial assets are assigned to groups of assets with similar credit risk and tested for impairment collectively.

Impairment losses are reversed if a subsequent increase in the recoverable amount can be objectively attributed to an event occurring after the date when impairment was recognised. Impairment losses on doubtful receivables are measured based on an analysis of historical data on collectability of receivables, including the aged structures of receivables, as well as information from the legal department concerning receivables with respect to which court proceedings have been instigated (bankruptcies, liquidations, arrangements, claims with respect to which a court payment order is sought). In particular, impairment losses are recognised in respect of the following types of receivables:

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- receivables in an enforced debt collection process – 100% of the amount of such receivables,
- receivables which are past due for more than 180 days – 50% of the amount of such receivables,
- receivables which are past due for more than one year – 100% of the amount of such receivables.

Impairment losses on receivables are charged to other expenses or to financial costs, as appropriate – depending on the type of the receivable in respect of which impairment is recognised. Impairment losses on previously accrued interest are recognised in financial costs.

3.13 Inventory

Inventory includes materials and goods for resale (hand and power tools).

Inventory is measured at the costs of acquisition not higher than net realisable value.

Net realisable value is equal to the estimated selling price of an item of inventory less any costs of completion and costs necessary to make the sale.

Impairment losses on inventory are recognised in cost of sales.

Inventory decrease is measured based on average prices, i.e. determined as weighted average prices of individual goods for resale.

An impairment loss on inventory of goods for resale (tools and power tools) is recognised in particular if the quantitative inventory consumption in a given year is lower than 33% of the total purchases and the year opening balance for a given item, as the estimated average period in which individual goods for resale are sold is 3 years. In the case of goods for resale, if the balance of any particular inventory item at the year's end exceeds the estimated consumption of this inventory item over the next two years, a relevant impairment is recognised.

3.14 Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position include cash at bank and in hand as well as highly liquid current financial assets whose original maturity does not exceed three months and which are readily convertible into specific cash amounts and subject to insignificant risk of fluctuation in fair value.

3.15 Equity

Equity is disclosed in the accounting records divided into categories, in accordance with the rules set forth in applicable laws and the provisions of the Company's Articles of Association.

The particular categories of equity are:

- share capital of the Company – stated at its par value as specified in the Company's Articles of Association and entered in the court register,
- Share premium is stated in the proceeds from the issue of shares in the amount exceeding the par value of shares, less transactions costs related to public share issue,
- reserve capital is created in relation to the Parent Company's share based benefits for the members of the Parent Company's Supervisory Board and Management Board and key employees of the Parent Company. This capital is stated in fair value of granted share options,
- other comprehensive income include currency translation differences and actuarial profits and losses arising from the actuarial valuation of provisions for pensions and related benefits,
- retained earnings – comprising profit/(loss) distributions, undistributed profit/(loss), and net profit/(loss) for the reporting period to which given financial statements relate.

Transaction cost related to the public share issue is taken to equity and reduces the share premium account as at the share issue date.

3.16 Bank loan liabilities

Bank loans are initially recognised at fair value less transaction cost. Following initial recognition, bank loans are measured at amortised cost, using the effective interest method.

3.17 Trade payables

Trade payables are initially recognised at fair value, and subsequently, where the discount effect is material, they are measured at amortised cost using the effective interest method.

3.18 Current and deferred income tax

Mandatory decreases of profit include current and deferred income tax.

Current tax

Current tax expense is calculated based on the taxable profit for the given reporting period. Tax expense is calculated based on tax rates applicable during the fiscal year in question.

Deferred tax

Deferred tax assets and liabilities are determined based on temporary differences between the accounting and tax values of assets and liabilities.

Deferred tax assets are recognised only if it is probable that the Group will have future taxable profits allowing for utilisation of the temporary differences and deduction of the tax losses. Deferred tax assets are determined as the amount of income tax recoverable in the future in respect of deductible temporary differences which will reduce future income tax base and any deductible tax loss, determined in accordance with the prudence principle.

The amount of deferred tax assets and liabilities is determined using income tax rates which will be effective when a deferred tax asset is utilised or a deferred tax liability arises.

Deferred tax assets and liabilities have been offset at the level of individual Group members, as at this level the criteria of IAS 12 "Income taxes" with respect to offsetting deferred tax assets against deferred tax liabilities were met

A deferred tax liability is recognised for temporary differences associated with investments in subsidiaries and jointly-controlled entities, except where the Group controls the reversal of such temporary differences and it is probable the differences will not reverse in the foreseeable future.

3.19 Liabilities from employee benefits

Post-employment benefit plan – the defined contribution plan

The Company participates in the national post-employment benefit plan by paying an appropriate percentage of an employee's gross pay as a contribution to the Social Security Institution (ZUS). This plan is a defined contribution plan. The contributions are expensed as paid.

Post-employment benefit plan – the defined benefit plan (retirement severance pays) and other benefits

In accordance with the applicable remuneration systems and rules, employees of the Group companies are entitled to death benefits and retirement severance pays. Death benefits are one-off benefits paid to an employee's family following the employee's death. Retirement severance pays are one-off benefits paid when an employee retires. The plan is fully financed by the Group. The amount of a retirement severance pay or death benefit depends on the length of employment and average remuneration of a given employee. The Group accrues for future retirement severance pay and death benefit obligations in order to attribute costs to the periods to which they relate.

The present value of such obligations is determined by an independent actuary using the projected unit credit method. Accrued liabilities are equal to the discounted future payments, taking into account the employee turnover, and relate to the period until the end of the reporting period. Demographic information and information on staff turnover are based on historical information. Actuarial gains and losses are recognised in profit or loss, except for actuarial gains and losses recognised in other comprehensive income.

3.20 Provisions

Provisions are created when the Company has a present obligation (legal or constructive) resulting from past events, it is probable that the discharge of this obligation will result in an outflow of economic benefits, and the obligation can be measured reliably.

A provision is recognised as a reliable estimate of the amount required to settle the existing obligation, made as at the end of the reporting period taking into account the risks and uncertainties associated with the obligation.

In particular, a provision is created for the expected returns and complaints. The Group's historical data and past experience show that returns and complaints are generally made within three months of the date of sale. Therefore, the provision for returns and complaints is created as 0.5% of the revenue for the most recent quarter preceding the end of the given reporting period.

3.21 Recognition of revenue

Revenue is recognised at fair value of consideration received or receivable, net of VAT, returns, rebates and discounts. Revenue is recognised to the extent it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenues from sales of goods

Revenue from sales of goods for resale is recognised if the significant risks and rewards of the ownership of goods for resale have been transferred to the buyer, i.e. upon their release from the Group's warehouse.

Interest income

Interest income is recognised using the effective interest rate method.

3.22 Dividends

The obligation to pay dividends is recognised when the shareholders' right to receive such dividends is approved.

3.23 Non-current assets (Disposal group) classified as held for distribution

Non-current assets (a disposal group) are classified as held for distribution if the entity intends to deliver the asset (or a disposal group) to its owners. This is the case when assets are available for immediate delivery in their present condition, and their delivery is highly probable (i.e. an action has been initiated to deliver the assets and is expected to be completed within a year from the classification date; actions required to complete the delivery of assets indicate that significant changes concerning the delivery of assets or its abandonment are unlikely).

Non-current assets (or a disposal group) classified as held for distribution are measured at the lower of their carrying amount or fair value less distribution costs.

4. Material accounting estimates and judgements

Estimates and judgements are verified on an ongoing basis. Estimates and judgements used during the preparation of the consolidated financial statements are based on historical experience as well as analyses and expectations of future events which, to the best knowledge of the Management Board of the Parent Company, are believed to be reasonable under the circumstances.

Material accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the actual results. The estimates and assumptions that involve a significant risk of the necessity to make a material adjustment to the carrying amounts of assets and liabilities during the current or following financial year are outlined below.

Employee options

The Group measures the benefits due to the members of the Management Board and its key employees participating in the Incentive Scheme launched in 2011, based on share options. Details of the scheme are described in note 14.2. The total cost of the scheme was determined on the basis of fair value of granted options. The fair value of options does not include the impact of non-market conditions connected with the increase of the consolidated net profit of the TOYA S.A. Capital Group; this condition is, however, included in the assumptions concerning the expected number of options to which the participants are to be entitled. As at 31 December 2011, the non-market condition for 2011 had been met and the first tranche of the scheme was realised (for details see note 13). As at 31 December 2012, the condition regarding the increase in profit and the rate level had not been met. Due to the failure to meet the condition regarding the level of profit and based on a resolution of the Supervisory Board not to grant any options as part of the second tranche of the Scheme, the estimate of the number of options acquired under the part of the Scheme dependent on this condition has been revised and the total cost of PLN 592 thousand resulting from the valuation of options granted as part of the second tranche (2012) under that part of the Incentive Scheme has been reversed in the current year. With regard to the part of the Scheme concerning the fulfilment of the profit increase condition for subsequent years (2013–2014), the second tranche options for which rights have not been acquired may be carried forward by the Supervisory Board to the subsequent years of the Scheme, in keeping with the adopted rules of the Scheme. The Management Board estimates that due to good results for 2013 it can be assumed that tranches for 2013–2014 will be implemented; therefore, the costs of the Scheme in the part related to the increase in profit for 2013 and 2014 have been estimated on the assumption that the rights to all the options granted to eligible individuals will be acquired in the subsequent years of the Scheme. The assumptions concerning the expected number of shares for which rights have been acquired will be revised at the end of the next reporting period, and the possible impact of the revision of the original estimates will be presented in the profit or loss.

Useful lives and depreciation rates for property, plant and equipment

The Group's Management Board determines estimated useful lives and depreciation rates for property, plant and equipment. The estimates are based on the projected useful lives for individual assets. The estimates may change materially as a result of new technological solutions emerging on the market, plans of the Parent Company's Management Board, or intensity of use. The Management Board increases or decreases a depreciation rate for a given asset if its useful life proves shorter or longer, respectively, than expected, and revalues technologically obsolete assets, and assets which are not of strategic importance and whose use has been discontinued. Property, plant and equipment value and depreciation are described in note 7.

If the actual useful lives of property, plant and equipment had been by 10% shorter than the Management Board's estimates, the carrying amount of property, plant and equipment would have been lower by PLN 231 thousand as at 31 December 2013, and PLN 207 thousand as at 31 December 2012.

Provisions and impairment write-downs

As at each end of a reporting period, the Management Board of the Parent Company makes material estimates of provisions and impairment write-downs:

- provisions for guarantees and complaints – estimated level of the ratio used to perform calculations in accordance with the policy described in note 3.20; This ratio was determined on the basis of historical costs and claims and is verified on a regular basis through reference with actually incurred costs; for details on the amount of the provision, see note 23,
- impairment write-downs on inventory – estimated average period during which the product is sold, and beyond which a write-down is created in accordance with the policy described in note 3.13; for details on the amount of the write-down, see note 12,
- impairment write-downs on receivables – estimated amount of the write-down created for individual maturity brackets in accordance with the policy described in note 3.12; the values are determined on the basis of a historic analysis of recoverability of past due receivables; for details on the amount of the write-down, see note 13.

5. Financial risk management

5.1 Financial risk factors

The Group's business activities expose it to a number of various financial risks, such as market risk (including foreign exchange risk and the risk of fair value or cash flow changes as a result of interest rate movements), credit risk and liquidity risk. The Group's overall risk management programme is designed to mitigate the potential effect of risk on the Group's financial performance. The Group does not use derivatives to hedge against certain risks.

The Management Board defines overall risk management rules as well as the policy for specific areas such as credit risk or investing liquidity surpluses.

5.2 Market risk

Foreign exchange risk

The Group purchases significant amounts of goods from foreign suppliers, located primarily in China, at prices denominated in foreign currencies, particularly in CNY and USD. As at 31 December 2013, trade payables in USD represented 66% of the total trade payables and trade payables in CNY represent 32% of total trade payables (as at 31 December 2012 – payables in USD represented 75% of that balance).

The Group may use EUR and USD denominated credit facilities available under executed credit facility agreements. As at 31 December 2013, the Group also has a loan denominated in CNY, amounting to PLN 3,334 thousand, resulting from the acquisition of Yato Tools. As at 31 December 2012, the Group had no loan liabilities denominated in foreign currencies.

As at 31 December 2013, cash in foreign currencies (USD and EUR) represented 52% of the total cash and cash in CNY represented 29% of total cash (as at 31 December 2012 – cash in USD and EUR represented 73% of the total balance).

33% of the Group's sales revenue is generated from exports, at prices denominated in foreign currencies, mainly in USD and CNY. As at 31 December 2013, trade receivables in USD represented 9% of the total

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trade receivables (16% as at 31 December 2012). Moreover, as at 31 December 2013, 12% of trade receivables are expressed in CNY, due to sales on the local market in China.

There is a risk that future fluctuations of exchange rates may have a negative or positive effect on the Group's financial performance. To date, the Group has not made extensive use of derivative financial instruments to hedge against the results of future changes in exchange rates.

If the zloty appreciated/depreciated by 10% against the dollar (all other conditions being equal), the profit before income tax for 2013 would rise/drop by approximately PLN 1,203 thousand mainly due to the measurement of USD denominated trade receivables (rise/drop by approximately PLN 312 thousand in 2012 mainly due to the measurement of USD denominated trade payables).

If the zloty appreciated/depreciated by 10% against the euro (all other conditions being equal), the profit before income tax for 2013 would drop/rise by approximately PLN 86 thousand (in 2012 by approximately PLN 153 thousand) mainly due to the measurement of EUR denominated trade receivables.

Risk of interest rate changes affecting cash flows and fair values

Apart from short-term bank deposits (note 14) disclosed under "Cash and cash equivalents", as at 31 December 2013 and 31 December 2012 the Group held no other interest-bearing assets.

The Group's policy envisages the use of bank loans bearing interest at variable rates. This exposes the Group to the risk of interest rate changes affecting its cash flows. As at 31 December 2013, all liabilities under bank loans bear interest at variable rates (which was also the case as at 31 December 2012).

The Group monitors its exposure to the risk of interest rate changes affecting its cash flows and fair values. The Group runs simulations of various scenarios, taking into consideration refinancing, roll-over of the existing positions, and alternative financing. The Group uses the scenarios to assess the impact of a change in interest rates on its financial performance. Simulations are run for bank deposits and liabilities, which represent the largest items exposed to interest rate risk.

The sensitivity analysis of the Group's cash flows to interest rate risk was prepared for financial instruments based on variable interest rates. The financial instruments held by the Group were linked to WIBOR rates. The impact of interest rate fluctuations on the financial result was calculated as the product of liability balances and the assumed WIBOR variance.

	+20 basis points		-20 basis points	
	Effect on profit before income tax	Effect on net profit and equity	Effect on profit before income tax	Effect on net profit and equity
Financial liabilities				
Variable interest rate loans	(15)	(12)	15	12
Total for 2013	(15)	(12)	15	12

	+20 basis points		-20 basis points	
	Effect on profit before income tax	Effect on net profit and equity	Effect on profit before income tax	Effect on net profit and equity
Financial liabilities				
Variable interest rate loans	(55)	(45)	55	45
Total for 2012	(55)	(45)	55	45

The Group does not use derivatives to hedge against the risk of interest rate changes affecting its cash flows and fair values.

5.3 Credit risk

Credit risk is managed at the Group level. It arises mainly from bank deposits, loans granted, purchased bonds and credit exposures to customers, including trade receivables due.

Credit risk relating to bank deposits is considered by the Management Board as low as the Group cooperates with renowned financial institutions which enjoy premium credit ratings (Raiffeisen Bank Polska S.A., Citi Bank Handlowy and BNP Paribas Bank Polska S.A.).

Credit risk relating to credit exposures to customers is considered by the Management Board as low. The Group sells its products to 2 key customer groups: retail chains and wholesale customers (including wholesalers, distributors and authorised retail stores). The Group sells its products on Polish and foreign markets – notably countries in China, Central, Southern and Eastern Europe, (Romania, Hungary, the Czech Republic, Germany, the Balkan States, Russia, Ukraine, Belarus, Moldova), as well as Arab countries, South Africa, Angola and Thailand.

The table below presents the Group's sales structure by customer group and market:

	2013	2012
Local markets – wholesale market (*)	46%	46%
Local markets – chains (*)	20%	21%
Export sales	33%	33%
Other sales	1%	-
Total	100%	100%

(*) local markets mean sales in those countries, where the Group has its entities, i.e. in Poland, Romania and China

As regards sales to retail chains, the Group sells its products to the largest chains in Poland. Credit exposures in this customer group are rather evenly distributed, except for 2 key retail chains in Poland which jointly account for approximately 55% of sales made through this particular channel. Credit risk exposure to retail chains is considered by the Group as low as most of them are reliable and financially transparent customers with an established market position and a sound payment history. One exception in 2013 was the company Nomi S.A. which is one of the most important network customers. At the request of that company, on 11 December 2013, the District Court in Kielce issued a decision on the bankruptcy of NOMI S.A. and indicated that the bankruptcy proceedings will be open to arrangements. At the same time, the Court decided to leave the administration of the assets to the bankrupt and set a deadline for submitting claims for 2 months from the date of announcement, i.e. to 21 March 2014. In March 2014, the Parent Company submitted the required documents to the court. On the basis of its best knowledge as at the date of preparation of the report, the Group created a write-down for that event on the receivables of that entity in the amount of PLN 90 thousand. This write-down is subject to change, in particular in the event the arrangement is not approved by the Court.

In the area of wholesale distribution, the Group has established cooperation with 9 authorised distributors, a few dozen wholesalers across the country and authorised retail stores. The wholesale channel was slightly unconcentrated in 2013 as a result of the acquisition of Yato Tools (Shanghai) Co. Ltd. In 2013, 75% of sales in this group was executed to approx. 84 customers while in 2012, 26 customers were responsible for 62% of sales. The Group pursues a policy of reducing credit exposures to wholesale customers with the use of a credit limit mechanism. The limits are set for each customer based on a detailed assessment of its financial performance, market position, payment discipline and the overall situation in the sector. The utilisation of credit limits is monitored on a regular basis. A transaction exceeding the credit limit granted may only be executed upon the authorisation by the sales director.

The Group mitigates its credit risk by having trade receivables insured in a renowned insurance company. The insurance covers receivables from the customers of the parent company. As at 31 December 2012, 71% of trade receivables were insured (59% as at 31 December 2012). The increased share of insured receivables in total receivables results from extending of the insurance cover to a larger group of customers. In some cases, credit limits are awarded to the Group's customers on the basis of the ratings prepared based on the insurer's data. Under the insurance contract, the deductible is typical for such contracts.

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The maturity structure of receivables and details on past due receivables are presented in note 13.

The credit quality of financial assets not being either past due or impaired can be estimated by reference to external credit ratings or to historical information on the counterparty's defaults. Cash is held in banks with ratings not lower than A- (Fitch rating). With respect to trade receivables, the Group does not have external ratings but monitors counterparty payment delays on-going basis. Receivables which as at 31 December 2013 were not past due and did not suffer impairment come from customer that settle their receivables to the Group on the due date or with a slight delay.

The maximum credit risk exposure is approximately equal to the book value of trade receivables, net of receivables insured and cash and cash equivalents. As at 31 December 2013, the maximum credit risk exposure is PLN 17,380 thousand (31 December 2012: PLN 18,940 thousand).

5.4 Liquidity risk

The Management Board of the Parent Company believes that the Group's liquidity is secured for the foreseeable future. The Group follows a prudent liquidity risk management policy, which focuses on maintaining an adequate level of cash and securing the ability to use the credit facilities. The management monitors the level of current liabilities and current assets, as well as current cash flows of the Group.

Key items analysed for the purpose of monitoring of the liquidity risk are as follows:

	31 December 2013	31 December 2012
Current assets	138,386	128,954
Current liabilities	42,592	48,355
	2013	2012
Cash flow from operating activities	36,512	24,851

The table below presents financial liabilities of the Group by maturities, which are determined based on contractual future payment dates, uniform for each group of liabilities. The figures presented below represent undiscounted contractual cash flows.

	Up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Loans	7,286	-	-	-	7,286
Trade and other payables	31,971	-	-	-	31,971
As at 31 December 2013	39,257	-	-	-	39,257
Loans	29,114	-	-	-	29,114
Trade and other payables	18,542	-	-	-	18,542
Liabilities from finance leases	173	-	-	-	173
As at 31 December 2012	47,829	-	-	-	47,829

5.5 Capital Management

The Management Board of the Parent Company defines capital as the Group's equity. The equity held by the Parent Company meets the requirements provided for in the Polish Commercial Companies Code. There are no other capital requirements imposed by external regulations.

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The Group's capital management activities are aimed at protecting the Group's ability to continue its operations so as to ensure a return on investment for the shareholders and benefits for other interested parties, as well as maintenance of the optimum capital structure to lower the cost of capital.

The Group also follows a rule that non-current assets are to be fully financed by equity.

	31 December 2013	31 December 2012
Non-current assets	25,401	24,141
Equity	119,057	104,601

In the period covered by these consolidated financial statements, the Group implemented the above objective.

5.6 Fair value measurement

The book value of financial assets and liabilities is similar to their fair value. For disclosure purposes, the fair value of financial assets and liabilities is estimated by discounting future contractual cash flows with market interest rate currently available to the Group for similar financial instruments (level 3).

6. Financial Instruments

As at 31 December 2013	Financial Assets	Other financial liabilities
	Loans and receivables	Liabilities measured at amortised cost
Trade receivables	40,901	
Cash	5,021	
Trade and other payables		31,971
Credits and loans		7,286
Liabilities from finance leases		0
	45,922	39,257
As at 31 December 2012	Financial Assets	Other financial liabilities
	Loans and receivables	Liabilities measured at amortised cost
Trade receivables	31,929	-
Cash	4,213	-
Trade and other payables	-	18,542
Credits and loans	-	27,738
Liabilities from finance leases	-	154
TOTAL	36,142	46,434

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Revenue and expense relating to financial assets or financial liabilities not measured at fair value though profit or loss:

2013:

	Financial Assets	Financial liabilities
Interest income	196	-
Interest expenses	-	(1 052)
Profits on exchange differences	-	623
Losses on exchange differences	(384)	(34)
Establishment of impairment write-downs	(500)	-
Reversal of impairment write-downs	324	-
Total net profit / (loss)	(364)	(463)

2012:

	Financial Assets	Financial liabilities
Interest income	37	-
Interest expenses	(560)	(2 831)
Profits on exchange differences	1,583	-
Losses on exchange differences	(1 283)	(762)
Establishment of impairment write-downs	(94)	-
Reversal of impairment write-downs	490	-
Total net profit / (loss)	173	(3 593)

7. Acquisition of a subsidiary – Yato Tools (Shanghai) Co., Ltd.

On 2 January 2013, TOYA S.A. acquired new equity interest in the company Yato Tools (Shanghai) Co., Ltd. (formerly: Yato China Trading Co. Ltd., hereinafter: Yato Tools). As a result of this transaction, the Company increased its share in Yato Tools from 51% to 75%. At the same time, changes were introduced to Yato Tools's Articles of Association, whereby TOYA S.A. gained the right to nominate the majority of members of Yato Tools's Management Board. As a result, on 2 January 2013, TOYA S.A. took control over Yato Tools and as of that day, the entity became fully consolidated.

The purpose of taking control over Yato Tools was to make better use of the potential of the local Chinese market, Asian markets and other markets where Yato Tools is present. It was also one of the issue objectives of the initial public offering.

The control takeover price was PLN 3,944 thousand, including:

- cash in the amount of PLN 62 thousand for a minority shareholder
- cash allocated to the increase in capital of Yato Tools, in the amount of PLN 3,882 thousand.

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The fair values of acquired assets and liabilities are the following (amounts converted from CNY to PLN at the average NBP rate of the day of taking over the control):

ASSETS	
Non-current assets	
Property, plant and equipment	1,215
Intangible assets	41
Deferred income tax assets	240
	<hr/>
	1,496
Current assets	
Inventory	8,237
Trade and other receivables	4,255
Cash and cash equivalents	6,522
	<hr/>
	19,014
Total assets	<hr/> <hr/>
	20,510
Short-term liabilities	
Trade and other payables	10,312
Liabilities from employee benefits	106
Liabilities from loans, borrowings and other debt instruments	3,667
Liabilities from current income tax	58
Provisions	15
	<hr/>
Total liabilities	<hr/>
	14,158
Net assets	<hr/> <hr/>
	6,352

The fair value of acquired receivables amounted to PLN 4,255 thousand, and the gross contractual amounts receivable amount to PLN 4,417 thousand. Contractual cash flows that are unlikely to be obtained amount to PLN 162 thousand.

Following the acquisition of control of Yato Tools, the previously held equity interest of 51% was measured at fair value. In addition, exchange differences arising from the valuation of the foreign entity accumulated in equity were recognised in profit or loss. A total profit of PLN 414 thousand was recognised in accordance with IFRS 3 and presented in other operating income.

Following the acquisition of control, the goodwill of the company (expressed in CNY) was determined using the proportionate method in accordance with IFRS 3. After translation at the rate prevailing as at the date of acquisition of control, the goodwill of the company was PLN 643 thousand, as per the table below:

Fair value of amount paid, including:	3,944
– payment for a minority shareholder (without acquisition of additional interest)	62
– payment towards the increase in capital in order to increase the share from 51% to 75%	3,882
Fair value of previously held interest	1,463
	<hr/>
TOTAL	<hr/> <hr/>
	5,407
Share in assets (75%)	4,764
	<hr/>
Goodwill	<hr/> <hr/>
	643

Notes constitute an integral part of these consolidated financial statements.

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The goodwill amounting to PLN 643 thousand is attributed to the acquired customer base and economies of the scale expected to the combination of activities of Yato Tools with activities of the Group.

The value of non-controlling interests was determined based on the proportionate share in the net assets of the acquired entity and amounted to PLN 1,587 thousand.

Below there are provided the amounts of revenue and profit or loss of Yato China since the acquisition date included in the consolidated statement of comprehensive income for the reporting period (after consolidation adjustments relating to intercompany transactions):

Sales revenue	24,946
Gross profit	9,460
Operating profit	1,351
Profit before tax	1,066
Net profit	865

Due to the fact that the acquisition took place in the beginning of the reporting period, i.e. 2 January 2013, all revenue and profits of acquired entity in 2013 are included in the consolidated statement of comprehensive income.

Below is the basic data from the statement of financial position of Yato Tools as at 31 December 2013 (in PLN '000):

Non-current assets	
Property, plant and equipment	1,402
Deferred income tax assets	213
Total non-current assets	1,615
Current assets	
Inventory	8,830
Trade and other receivables	9,979
Cash and cash equivalents	2,638
Total current assets	21,447
Total assets	23,062
Short-term liabilities	15,247

8. Property, plant and equipment

	31 December 2013	31 December 2012
Land	2,907	2,907
Buildings and structures	9,743	10,108
Plant and equipment	740	798
Vehicles	1,180	962
Other	2,782	1,751
Total	17,352	16,526
Property, plant and equipment under construction	285	32
Total property, plant and equipment	17,637	16,558

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Changes in property, plant and equipment by type

	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Construction in progress	Total
<u>Initial value</u>							
As at 1 January 2013	2,907	12,125	3,389	4,082	6,086	32	28,621
Acquisition of a subsidiary	-	-	79	436	699	-	1,214
Increases	-	-	266	291	1,152	1,644	3,353
Decreases	-	-	(54)	(1,546)	(24)	(1,383)	(3,007)
Currency translation differences	-	-	5	15	6	(8)	18
As at 31 December 2013	2,907	12,125	3,685	3,278	7,919	285	30,199
As at 1 January 2012	2,907	11,713	3,207	3,968	5,226	13	27,034
Increases	-	412	309	430	895	1,092	3,138
Decreases	-	-	(98)	(216)	(19)	(1,073)	(1,406)
Currency translation differences	-	-	(29)	(100)	(16)	-	(145)
As at 31 December 2012	2,907	12,125	3,389	4,082	6,086	32	28,621
<u>Amortisation</u>							
As at 1 January 2013	-	2,017	2,591	3,120	4,335	-	12,063
Increases	-	365	407	474	829	-	2,075
Decreases	-	-	(54)	(1,497)	(23)	-	(1,574)
Currency translation differences	-	-	1	1	(4)	-	(2)
As at 31 December 2013	-	2,382	2,945	2,098	5,137	-	12,562
As at 1 January 2012	-	1,655	2,385	2,913	3,947	-	10,900
Increases	-	362	325	463	419	-	1,569
Decreases	-	-	(98)	(205)	(19)	-	(322)
Currency translation differences	-	-	(21)	(51)	(12)	-	(84)
As at 31 December 2012	-	2,017	2,591	3,120	4,335	-	12,063
<u>Carrying amount</u>							
As at 31 December 2013	2,907	9,743	740	1,180	2,782	285	17,637
As at 31 December 2012	2,907	10,108	798	962	1,751	32	16,558

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As at 31 December 2012, the Group held a server under finance lease – for detailed information – see note 19. As at 31 December 2013, the lease agreement had expired, and the server was purchased in accordance with the right set out in the lease agreement.

As at 31 December 2013, the Group used a warehouse in Nadarzyn and 53 cars under an operating lease agreement (note 22).

Apart from the property, plant and equipment serving as security in respect of working capital facilities (note 18), there are no restrictions on the use of property, plant and equipment held by the Group.

For contractual commitments to purchase tangible non-current assets, see note 33.

In 2012, a legal defect was revealed in a contribution in kind which Toya Development Sp. z o.o. Spółka Komandytowa (formerly: Spółka Komandytowo-Akcyjna) received on 6 April 2011 from the Parent Company, which at the time acted as its general partner. The contribution was an organisationally separated and financially organised part of the TOYA S.A. enterprise – the Branch in Kryniczno, which draws up its separate financial statements under the relevant accounting regulations. In the financial statements prepared as at 31 December 2010 and until 6 April 2011, the branch was presented as a Disposal group held for distribution. One of the components of the Disposal group held for distribution was the ownership of a property constituting a plot of land with a carrying amount of PLN 4 thousand and expenditure on the fixing of devices worth PLN 2,270 thousand on the said plot.

The legal defect revealed in 2012 stemmed from the fact that as at 6 April 2011 the Parent Company was not the owner of the said property, as by virtue of a decision of the Head of Wisznia Mała Municipality dated 7 May 2007, the plot of land in question became property of Trzebnicki Powiat. Therefore, there has been no effective transfer of ownership of the property described above or of the expenditure associated therewith.

In connection with the spin-off of the Disposal group, the plot along with the expenditure has been removed from the Group's books as at 6 April 2011, as detailed in the consolidated financial statements as at 31 December 2011. However, since there has been no effective transfer of ownership and the Parent Company formally is not the owner of the plot due to expropriation, the Parent Company is entitled to make claims against the Powiat for expropriation of the said property and the expenditure incurred in relation therewith. As a result of the disclosed legal defect of the contribution, the property along with the expenditure is recognised as at 31 December 2013 and 31 December 2012 in the off-balance-sheet records of the Group, as it does not meet the definition of a Company's asset and, therefore, it is not included in the table of changes in property plant and equipment presented on the previous page.

By way of compensation for the damage resulting from the property's legal defect, the Parent Company is obliged to pay to Toya Development Sp. z o.o. S.K. a compensation equivalent to the amount of compensation obtained from the Trzebnicki Powiat. The right to compensation will arise in the amount of the compensation obtained by TOYA S.A., providing that such compensation is obtained. Consequently, as at 31 December 2013 and 31 December 2012, the Group had a contingent receivable from the Trzebnicki Powiat and the matching, equivalent liability towards Toya Development Sp. z o.o. S.K. – see also note 30.

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9. Intangible assets

	31 December 2013	31 December 2012
Concessions and patents, including:	530	398
– software	530	398
Total	530	398
Intangible assets under development	961	500
Total intangible assets	1,491	898

Changes in intangible assets

	Software	Intangible assets under development	Total
<u>Initial value</u>			
As at 1 January 2013	1,120	500	1,620
Acquisition of a subsidiary	40	-	40
Increases	250	461	711
Currency translation differences	4	-	4
As at 31 December 2013	1,414	961	2,375
As at 1 January 2012	1,127	95	1,222
Increases	-	405	405
Currency translation differences	(7)	-	(7)
As at 31 December 2012	1,120	500	1,620
<u>Amortisation</u>			
As at 1 January 2013	722	-	722
Increases	158	-	158
Decreases	4	-	4
Currency translation differences	-	-	-
As at 31 December 2013	884	-	884
As at 1 January 2012	585	-	585
Increases	142	-	142
Currency translation differences	(5)	-	(5)
As at 31 December 2012	722	-	722
<u>Carrying amount</u>			
As at 31 December 2013	530	961	1,491
As at 31 December 2012	398	500	898

There are no material intangible assets produced internally by the Group.

Intangible assets under development include works related to the construction and development of the functionality of an on-line store at www.toya24.pl and the expenditure incurred for the implementation of the supply module in the SAP system, the SAP CRM module and Business Object software.

No security interests in the intangible assets have been created. For information on commitments to purchase intangible assets, see note 33.

10. Goodwill

Goodwill amounting to PLN 651 thousand includes only the goodwill resulting from the acquisitions of Yato Tools – see note 7 for details. Changes in the value of goodwill during 2013 are presented in the table below:

	<u>Yato Tools (Shanghai) Co. Ltd.</u>
As at 1 January 2013	-
Acquisition of the entity	643
Foreign exchange differences	8
As at 31 December 2013	651

Impairment test for goodwill

The Management Board reviews the business performance by geographic areas (locations of subsidiaries) and distribution channels. The main geographic areas identified include Poland and European countries (except Romania), Romania (subsidiary in Romania), as well as China and non-European foreign markets (subsidiary in China). In all these areas, the Group conducts activities in various distribution channels. Goodwill is analysed by the Management Board at the geographic areas level. The above goodwill is allocated to the subsidiary in China.

The recoverable amount of the cash-generating unit has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the tool industry in which the cash-generating unit operates.

The key assumptions used for value-in-use calculations in 2013 are as follows:

- compound annual rate of growth of sales revenue – 2%
- rate of growth after the forecast period – 0.5%
- weighted average cost of capital (discount rate) – 7.6%

The annual rate of growth of sales revenue was used as the key assumption. The volume of sales in each period is the main driver for revenue and costs. The compound annual rate of growth of sales revenue is based on past performance. The long term growth rates used were estimated on a very conservative level. The discount rates used are pre-tax and reflect specific risks relating to that market.

The recoverable amount calculated based on value in use, under the above assumptions, exceeded carrying value by approx. PLN 20 million. The following changes in key assumptions would remove this excess (the impact of each assumption was estimated under the assumption that other assumptions remain unchanged):

- the compound annual rate of growth of sales revenue reaching a negative value of (31%)
- the rate of growth after the forecast period reaching a negative value of (18.5%)
- discount rate increasing to 30.5%

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11. Trade receivables and other long-term receivables

	31 December 2013	31 December 2012
Trade receivables from related parties	1,869	1,869
Trade receivables from third parties	4	-
Other receivables from related parties	2,250	2,250
Other receivables from third parties	122	120
Accruals and deferred income related to the perpetual usufruct right	230	233
Total other receivables	4,475	4,472
Discount of long-term receivables	(383)	(560)
Total net receivables	4,092	3,912

Pursuant to an agreement signed on 29 November 2012 with a related entity, the repayment date for an account receivable of PLN 4,119 thousand (including PLN 1,869 thousand of trade receivables and PLN 2,250 thousand of remuneration for withdrawal from the position of a general partner in Toya Development Sp. z o.o. S.K.), was set to 31 December 2015. On account of the postponed repayment date, the receivables have been valued at amortised cost, using the interest rate of 4.99% estimated on the basis of the average cost of a loan obtained by the Parent Company as at that date. The corresponding discount value of PLN 560 thousand has been recognised in finance costs.

The Group purchased the right of perpetual usufruct from other entities. Perpetual usufruct fees included in the financial result amounted to PLN 20 thousand both in 2012 and in 2013.

Total amounts of future minimum lease payments and perpetual usufruct right fees amount to:

	31 December 2013	31 December 2012
up to 1 year	20	20
1–3 years	40	40
3–5 years	40	40
more than 5 years	1,460	1,480
Total	1,560	1,580

Liabilities due to the perpetual usufruct of land not included in the consolidated statement of financial position of the Group were estimated based on annual rates resulting from administrative decisions and the remaining time of using the land covered by the right.

12. Inventory

	31 December 2013	31 December 2012
Materials	522	234
Goods	92,708	95,792
Revaluation write-down	(2 086)	(2 383)
Total inventory	91,144	93,643

The table below presents changes in impairment write-downs of inventory:

2013	2012
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As at 1 January	2,383	2,360
Increase	-	23
Reversal/utilisation	(297)	-
As at 31 December	2,086	2,383

Due to acquisition of Yato Tools, the value of inventory of the Group increased by PLN 9,090 thousand as per date of the taking the control, i.e. 2 January 2013.

Write-downs on inventory made in the financial year as well as utilisation and reversal of write-downs made in previous years were recorded in the financial result and presented as cost of sales. The reversal of write-downs resulted from the decrease in the value of inventory which, in accordance with the Company's policy, should be written down. The decrease in value resulted mainly from sales.

For security created over inventory, see note 18.

13. Trade receivables and other receivables

Trade and other receivables comprise the following items:

	31 December 2013	31 December 2012
Trade receivables from related parties	-	86
Trade receivables from third parties	40,350	31,497
Total trade receivables	40,350	31,583
Taxes, customs duties and social security receivable	1,279	62
Other receivables from third parties	918	81
Accruals and deferred income	818	632
Total gross receivables	43,365	32,358
Impairment write-downs of doubtful receivables	(1,144)	(1,269)
Total net receivables	42,221	31,089

Due to acquisition of Yato China Co., Ltd, the gross value of receivables of the Group as per date of the taking the control, i.e. 2 January 2013, increased by PLN 4,417 thousand.

As at 31 December 2013, trade receivables in the amount of PLN 8,530 thousand (31 December 2012: PLN 9,871 thousand) were past due, of which trade receivables of PLN 5,799 thousand were past due but not impaired (31 December 2012: PLN 8,602 thousand).

The table below presents the ageing structure of receivables which are past due but not impaired:

	31 December 2013	31 December 2012
Overdue period:		
from 1 to 180 days	5,799	8,515
from 181 to 360 days	-	84
more than 360 days	-	3
Total	5,799	8,602

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The table below presents changes in impairment write-downs of trade receivables:

	2013	2012
As at 1 January	1,269	1,714
Increase	500	94
Reversal	(324)	(490)
Utilisation	(303)	-
Currency translation differences	2	(49)
As at 31 December	1,144	1,269

Recognition and reversal of impairment write-downs of receivables was recorded in: "Selling costs".

As at 31 December 2013, receivables for which impairment write-downs were recorded individually amounted to PLN 416 thousand (31 December 2012: PLN 445 thousand). Impairment of those receivables is related to taking the receivables to court. Moreover, this amount includes a write-down on receivables from Nomi S.A., in the amount of PLN 90 thousand. At the request of that company, on 11 December 2013, the District Court in Kielce issued a decision on the bankruptcy of NOMI S.A. and indicated that the bankruptcy proceedings will be open to arrangements. The write-down in the amount of PLN 90 thousand was created by the Company on the basis of its best knowledge as at the date of preparation of the financial statements. This write-down is subject to change, in particular, in the event the arrangement is not approved by the Court.

For security created over receivables, see note 18.

14. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash in hand and at bank	5,019	3,929
Bank deposits	-	282
Cash equivalents	2	2
Total cash and cash equivalents	5,021	4,213

Short-term deposits are placed at banks for periods of up to several days; most frequently, these are overnight deposits.

Apart from cash disclosed in the consolidated statement on financial position, the company has a separate bank account for the funds of the Company Social Benefits Fund (ZFŚS) which are presented under other receivables in their net amount together with liabilities towards the ZFŚS and receivables under loans granted, amounting to PLN 21 thousand as at 31 December 2013 and PLN 7 thousand as at 31 December 2012. As at 31 December 2013, these funds amounted to PLN 22 thousand (PLN 34 thousand as at 31 December 2012). The Parent Company may use these funds only in the manner provided for by the law with regard to the ZFŚS resources.

Apart from the ZFŚS resources, as at 31 December 2013 and 31 December 2012, the Group did not have any cash of limited disposability.

Due to acquisition of Yato China Co., Ltd the value of cash and cash equivalents of the Group increased by PLN 2,578 thousands as per date of the taking the control, i.e. 2 January 2013. This amount represents the net cash and cash equivalents (i.e. the amount of cash and cash equivalents in Yato China as per date of the acquisition decreased by the amount of cash contribution for the increase of share capital in the amount of PLN 3,944 thousand). The amount of acquired cash and cash equivalents acquired as part of the business combination has been presented in the consolidated statement of cash flow in cash flows from investing activity.

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Reconciliation of changes in balance sheet items as shown in the consolidated statement of financial position and in the consolidated statement of cash flows:

12 months ended 31 December 2013	Adjustments					Change in statement of cash flows
	Balance sheet change	Discount of long-term receivables	Acquisition of Yato Tools	Measurement of cash in foreign currencies	actuarial gains and losses recognised in comprehensive income	
Change in trade and other receivables	(11,312)	178	4,255	-	-	(6,879)
Change in inventories	2,499	-	8,237	-	-	10,736
Change in provisions	45	-	(15)	-	-	30
Change in trade and other payables	13,673	-	(10,312)	-	-	3,361
Change in employee benefit obligations	1,615	-	(106)	-	(6)	1,503
Change in cash and cash equivalents	808	-	-	15	-	823

Adjustments relating to the acquisition of Yato China relate to acquired assets and liabilities valued at the date of the taking the control, i.e. 2 January 2013.

12 months ended 31 December 2012	Adjustments			Change in statement of cash flows
	Balance sheet change	Discount of long-term receivables	Measurement of cash in foreign currencies	
Change in trade and other receivables	5,174	(560)	-	4,614
Change in inventories	3,239	-	-	3,239
Change in provisions	6	-	-	6
Change in trade and other payables	(4,612)	-	-	(4,612)
Change in employee benefit obligations	117	-	-	117
Change in cash and cash equivalents	482	-	138	620

Notes constitute an integral part of these consolidated financial statements.

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15. Share capital

As at 31 December 2013, the share capital amounted to PLN 7,540,237.50 and comprised 75,402,375 shares with a par value of PLN 0.1 each. All of the shares are paid up.

As at 31 December 2012, the share capital amounted to PLN 7,521 thousand and comprised 75,213,589 shares with a par value of PLN 0.1 each.

The table below presents the ownership structure and percentage stakes held in the Company as at 31 December 2013 and as at the date of signing these consolidated financial statements:

Name	Status	Series of shares	Number of shares	Type of shares	Par value per share (PLN)	Par value of the shares (PLN)	Structure (%)
Jan Szmidt	natural person	A	28,170,647	ordinary bearer	0.1	2,817,064.70	37.4%
Tomasz Koprowski	natural person	A	14,644,030	ordinary bearer	0.1	1,464,403.00	19.4%
Romuald Szałagan	natural person	A	10,938,874	ordinary bearer	0.1	1,093,887.40	14.5%
Generali OFE(*)	legal person	C	6,038,147	ordinary bearer	0.1	603,814.70	8.0%
Piotr Wojciechowski	natural person	B	5,044,878	ordinary bearer	0.1	504,487.80	6.7%
Other – share below 5%	not applicable	C, D, E, F	10,565,799	ordinary bearer	0.1	1,056,579.90	14.0%
TOTAL:			75,402,375			7,540,237.50	100%

(*) status according to information held by TOYA S.A. as at the dividend record date for 2012, i.e. 11 July 2013

In 2013, the share capital was increased by PLN 18,878.60 through the issue of 188,786 ordinary shares, as a result of the adoption of a resolution by the Management Board of the Parent Company on 18 February 2013, concerning an increase of the share capital through the issue of series F shares within the authorised capital and a resolution concerning the exclusion of subscription right for new shares by existing shareholders.

The aim of the share capital increase was to offer the shares to the Members of the Parent Company's Supervisory Board as part of a private subscription. Persons entitled to subscribe for series F shares were exclusively the Supervisory Board Members listed in Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning the remuneration of the Company's Supervisory Board or entities indicated by them, if the subscription right is transferred by an entitled Member of the Supervisory Board under the terms of the aforementioned resolution in writing.

On 17 April 2013, the capital increase was registered with the National Court Register.

16. Reserve capital

Reserve capital in the Group is created in connection with the remuneration based on shares under IFRS 2.

16.1 Share options for the Supervisory Board

By virtue of Resolution No 10, the Annual General Shareholders' Meeting of 23 May 2011 approved the rules of remuneration of the Supervisory Board members. Pursuant to the approved scheme, three members of the Supervisory Board appointed by the Shareholders' Meeting on 14 February 2011 are entitled to remuneration in the form of shares in the Group's parent entity for serving as members of the Supervisory Board during a three-year term (2011–2013). Pursuant to the Articles of Association of TOYA S.A., the term of office of the Supervisory Board lasts three years from the date

of appointment and expires no later than on the day of the General Shareholders' Meeting which approves the financial statements for the last full financial year of the term of office.

Pursuant to the adopted scheme:

- a) Three members of the Supervisory Board (Piotr Mondalski, Dariusz Górka and Grzegorz Maciąg) will receive payment in the form of a right to acquire the Company shares in an aggregate number equal to 0.75% of all the Company shares registered on the date when the offer to acquire the share is made, of which Piotr Mondalski will have the right to acquire 0.35% of such shares, whereas Dariusz Górka and Grzegorz Maciąg will each have the right to acquire 0.2% of the shares. The shares will be acquired in three tranches, with the first and second tranches already executed (see note 12). The subsequent tranche will be realised between 1 December 2013 and 30 April 2014. If the offered shares are not acquired by the eligible persons as stated above, they will be offered to these Members of the Supervisory Board in subsequent tranches. The entitled members of the Supervisory Board may indicate another entity to acquire the shares.
- b) The four other members of the Supervisory Board (who are the Company shareholders) will not be entitled to any remuneration for serving as members of the Supervisory Board.
- c) The Management Board will offer the shares to the Supervisory Board members at par value (i.e. PLN 0.1).
- d) Each of the Supervisory Board members may decide to collect their remuneration in cash, up to the maximum amount of PLN 7 thousand a month. If a Supervisory Board member decides to collect a portion of their remuneration in cash, the number of shares offered to them by the Management Board will be reduced accordingly.

The total cost of the scheme was determined on the basis of the fair value of granted options and amounted to PLN 1,916 thousand as at the grant date, and as at 31 December 2013, following a revision of the number of shares which the eligible members of the Supervisory Board are entitled to acquire, the aggregate estimate value of the scheme is PLN 1,924 thousand. In January 2013, members of the Supervisory Board decided to receive PLN 7 thousand in cash, in accordance with their right described in paragraph (d) above. As a result, the total value of the Scheme has been proportionally divided starting from February 2013 that is from the first month of payments in cash. In 2013, the amount of PLN 245 thousand was recognised in administrative costs (out of which PLN 14 thousand increased reserve capital and 231 thousand was paid in cash), and in the same period of 2012 the amount of PLN 613 thousand was recognised in costs. The carrying value of the scheme included in the reserve capital as at 31 December 2013 amounts to PLN 359 thousand (PLN 988 thousand as at 31 December 2012).

The total cost is recognised over the vesting period, i.e. from 14 February 2011 (date of appointment of participating members of the Supervisory Board by the General Shareholders' Meeting, in accordance with IFRS 2 par. IG4) until 13 February 2014.

As each participating member of the Supervisory Board has an option to settle the transaction in cash or in shares of the Parent Company, the remuneration scheme is a compound financial instrument consisting of both equity and debt component.

The scheme has been valued by external actuary using the Monte-Carlo simulation and analytical models. This method is the extension of Black-Scholes-Merton model.

The basic assumptions used for the purposes of the valuation were as follows:

- the share price at the grant date – PLN 3.8 per share,
- dividend for 2011 and 2012 at the same level as in 2010, i.e. PLN 0.14 per share.
- risk-free interest rate was determined based on yield on zero-coupon government bonds with a remaining term close to the expected term of settlement of each tranche of the scheme (4.52%, 4.67% and 5.14% respectively),
- volatility of shares has been set to average level of 40%.

The weighted average fair value was PLN 3.4 per option.

The table below presents changes in the number of existing share options under the Supervisory Board members remuneration scheme (in thousands). Prices of execution of all options amounted to PLN 0.1/item

	2013	2012
as at 1 January	376	561
Update of an estimate concerning the granted number (*)	1	3
Executed	(189)	(188)
As at 31 December	188	376

(*) the update of an estimate of the granted number results from the adopted calculation formula for the granted number based on the number of all Company shares registered on the date when the offer to acquire the shares is made

Out of the overall number of 188 thousand options as at 31 December 2013, all are to be exercised by 30 June 2014 (as at 31 December 2012, out of 376 thousand to be exercised, 189 fell for 2013). Due to the fact that in January 2013 eligible members of the Supervisory Board decided to receive a remuneration of PLN 7 thousand in cash (in accordance with their right described in paragraph (d) above), the number of finally offered shares in 2014 will be decreases accordingly.

Options exercised in 2013 caused the issue of 188,786 series F ordinary bearer shares (2012: 187,842 series E shares) with par value of PLN 0.10 and issue price of PLN 0.10 per share (both in 2013 and in 2012).

Issued share options at the end of the year have an exercise price of PLN 0.1 and expire on 30 June 2014.

16.2 Arrangements concerning employees' participation in the Company's share capital

A management incentive scheme has been introduced in the Parent Company to create incentive mechanisms which ensure long-term growth of the Parent Company's value and a steady increase of net profit, as well as stabilisation of the management staff. Based on Resolution No 2 of the Extraordinary General Shareholders' Meeting of 8 February 2011 on adopting the rules of the incentive scheme for the Parent Company's management staff and key employees, TOYA S.A., the Parent Company, launched an incentive scheme which will be implemented over four consecutive financial years: 2011–2014. On 23 May 2011, by virtue of its Resolution No 11, the Annual General Shareholders' Meeting introduced a number of amendments to the aforementioned resolution. The incentive scheme is addressed to members of the Management Board and key employees of the Parent Company, indicated annually by the Supervisory Board. Under the scheme, its participants will be entitled to acquire in aggregate up to 2,243,430 Series A registered subscription warrants

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carrying the right to acquire Series D ordinary bearer shares in the Parent Company with a par value of PLN 0.10 per share and an aggregate par value of PLN 224 thousand.

On 8 November 2011, the Supervisory Board approved conditions and Rules for the Incentive Scheme together with the detailed list of Eligible Persons and number of share options available for each person. The total number of shares issued as part of the incentive scheme will not exceed 2,243,430. The eligible persons will have the right to acquire no more than: 18% of shares for 2011, 25% of shares for 2012, 27% of shares for 2013 and 30% of shares for 2014.

At the end of a given year of the scheme, its participants will be granted the right to acquire the shares, provided that the Group achieves specific parameters and objectives. The objectives and parameters which the Group is required to attain were set forth by the Supervisory Board in its resolution of 24 May 2011 and in the Rules for the Incentive Scheme. These conditions include:

- growth of the Group's consolidated net profit for the financial years 2011–2014 by at least 22% per annum. Upon fulfilment of this condition, eligible persons would be granted the right to acquire 100% of shares under the incentive scheme for year 2011 and 75% of the shares under the incentive scheme for years 2012–2014;
- the average price of shares of TOYA S.A. from the last 40 exchange sessions in the year remaining in such a relation to WIG as at year-end in each two subsequent years of the Scheme that the percentage increase or decrease of the Parent Company's average share price in relation to the percentage increase or decrease in WIG will be accordingly higher or lower by at least one percentage point in favour of the Parent Company's share price. Upon fulfilment of this condition, eligible persons will be granted the right to acquire 25% of the shares under the incentive scheme for years 2012–2014;
- failure to fulfil any of the above conditions in a given year does not rule out the possibility to acquire shares if the conditions are met at the end of the term of the scheme.

According to the Supervisory Board Resolution dated 8 November 2011, later amended by Resolution of 29 May 2012, as at 31 December 2013, there are 22 participants of the scheme who may be granted a total of 778,768 share options in total.

The scheme has been valued by external actuary using the Monte-Carlo simulation and analytical models. This method is the extension of Black-Scholes-Merton model. The basic assumptions used for the purposes of the valuation were as follows:

	1st pool of eligible individuals	2nd pool of eligible individuals
Date of granting	1 December 2011	1 June 2012
Share price at the grant date (PLN)	2.85	2.1
Option exercise price (PLN)	0.1	0.1
Basis for determining the risk-free interest rate (*)	Yield on government bonds with closing dates in April 2016 and October 2015 (5.04% and 4.89% respectively)	Yield on government bonds with closing dates in April 2016 and October 2015 (4.95% and 4.54% respectively)
Share price volatility	40%	45%

(*) the risk-free interest rate was determined based on yield on fixed interest rate government bonds.

The weighted average fair value was PLN 2.15 per option for the 1st pool of eligible individuals and PLN 1.52 for the 2nd pool of eligible individuals.

The total cost of the scheme was determined on the basis of the fair value of granted options and was estimated at PLN 2,617 thousand for both pools as at the grant date.

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As at 31 December 2013, the Company made an estimation regarding the number of options granted to eligible persons, and thus updated the estimated valuation of the scheme, which as at 31 December 2013 is PLN 1,939 thousand. The change of the estimated valuation resulted from the lack of exercise of the 2nd tranche of the scheme due to the non-fulfilment of conditions. In 2013, the amount of PLN 109 thousand was recognised in costs (out of which the recognised cost of the 3rd and 4th tranches of the scheme in the amount of PLN 701 thousand and the reverse cost of the 2nd tranche in the amount of PLN 592 thousand), and in the same period of 2012 the amount of PLN 1,236 thousand was recognised in costs. The carrying value of the scheme included in the reserve capital as at 31 December 2013 amounts to PLN 974 thousand (PLN 865 thousand as at 31 December 2012).

The total cost is recognised over the vesting period, i.e. from 1 December 2011 for the first pool of eligible individuals and from 1 June 2012 for the 2nd pool of eligible individuals (dates of signing agreements with participating persons) until 30 June 2015.

The table below presents changes in the number of existing share options under the Incentive Scheme (in items). Prices of execution of all options amounted to PLN 0.1/item.

	<u>2013</u>	<u>2012</u>
As at 1 January	1,110	1,050
Granted	-	279
Redeemed (*)	(332)	(30)
Executed	-	(189)
As at 31 December	778	1,110

(*) redemption in 2013 is related with the adoption of the Resolution of the Supervisory Board on not granting shares in the 2nd tranche of the program due to non-fulfilment of the condition of increased profit and share price for 2012, and in 2012 the redemption resulted from the departure from the Company of persons participating in the Scheme.

Out of 778 thousand options issued as at 31 December 2013 and 1,110 thousand issued as at 31 December 2012, no options could be exercised as at that day (the vesting period has not elapsed for them). In 2013, options granted in the 2nd tranche of the scheme were redeemed due to the non-fulfilment of the conditions of the Scheme. Options exercised in 2012 caused the issue of 188,947 series D ordinary bearer shares with par value of PLN 0.10 and issue price of PLN 0.10 per share.

Issued share options at the end of the year have an exercise price of PLN 0.1. The expiry date of the rights to shares has not been set. The table below presents the number of options according to their dates of granting and vesting:

Granting rights	Vesting rights	Share options (in thousands) as at 31 December 2013	Share options (in thousands) as at 31 December 2012
1 December 2011	30 June 2013	-	255
1 December 2011	30 June 2014	275	275
1 December 2011	30 June 2015	306	306
1 June 2012	30 June 2013	-	77
1 June 2012	30 June 2014	91	91
1 June 2012	30 June 2015	106	106
		778	1,110

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17. Retained earnings and dividend per share

In line with the provisions of the Commercial Companies Code, retained earnings are used to create statutory reserve funds, to which at least 8% of the profit generated in a given financial year is transferred until the statutory reserve funds reach at least one-third of the share capital, i.e. in case of the Parent Company – PLN 2,513 thousand as at 31 December 2013 (and PLN 2,507 thousand as at 31 December 2012). These statutory reserve funds are exempt from distribution among shareholders and may only be used to cover losses. As at 31 December 2013 and 31 December 2012, the statutory reserve funds exempt from distribution amounted to PLN 4,372 thousand.

The remaining portion of the retained earnings, in the amount of PLN 81,747 thousand as at 31 December 2013, represents accumulated profit from previous years, of which PLN 77,242 thousand represent the accumulated profit of the Parent Company and may be allocated to the payment of dividend.

On 25 June 2013, the Parent Company's General Shareholders' Meeting approved the financial statements of TOYA S.A. for 2012, and resolved to distribute the profit earned by the company in 2012 in the amount of PLN 16,965 by allocating:

- PLN 10,556 thousand for payment of dividend,
- PLN 6,409 thousand to the supplementary capital.

Dividend was paid on 24 July 2013.

Dividend per share:

	12 months ended 31 December	
	2013	2012
Dividend paid	10,556	-
Weighted average number of ordinary shares ('000)	75,378	75,038
Dividend per share (PLN)	0.14	-

18. Liabilities under loans, borrowings and other debt instruments

	31 December	31 December
	2013	2012
Bank loan liabilities, of which	7,286	27,738
– long-term	-	-
– short-term	7,286	27,738

Changes in loans, borrowings and bonds are presented in the table below:

	Bank loans
As at 1 January 2012	46,692
Loans taken	12,098
Interest for the period (note 28)	2,823
Interest repaid	(2 766)
Repayment of principal	(31 109)
As at 31 December 2012	27,738
Increase in loan due to the acquisition of a subsidiary	3,667
Interest for the period (note 28)	1,011
Interest repaid	(1 145)
Repayment of principal	(24 039)
Currency translation differences	54
As at 31 December 2013	7,286

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Description of loan agreements:

Object and value of agreement	Bank / person acquiring the bonds / granting the borrowing	Loan amount as per agreement as at 31 December 2013	Amount outstanding as at 31 December 2013	Amount outstanding as at 31 December 2012	Current interest rate	Date of expiry	Post-balance-sheet events
1. Debt limit facility agreement No CRD/L/11381/02 of 2 October 2002 (with the option to be used in PLN, USD and EUR)	Raiffeisen Bank Polska S.A. with its registered office in Warsaw	20,000	1,171	2,897	WIBOR 1M + bank's margin EURIBOR/LIBOR 1M + bank's margin	5 March 2015	Reduction of margin (note 35.2)
2. Overdraft facility agreement No BDK/KR-RB/000054601/0641/10 of 22 December 2010	Bank Citi Handlowy with its registered office in Warsaw	25,000	1,704	12,678	WIBOR 1M + bank's margin	19 December 2014	
3. Multi-purpose credit line agreement No WAR/4060/12/102/CB of 26 September 2012	BNP Paribas Bank Polska S.A. with its registered office in Warsaw	35,000	1,077	12,163	WIBOR 3M + bank's margin	24 September 2014	
4. Loan agreement of 20 December 2012 (*)	Citybank (China) Co.Ltd., branch in Shanghai	4,518	3,334	-	8.03%	20 November 2014	
Total liabilities, of which:		84,518	7,286	27,738			
– short-term portion		84,518	7,286	27,738			
– long-term portion		-	-	-			

(*) the amount of credit limit is denominated in CNY and was translated to PLN according to the average NBP rate as at 31 December 2013

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The bank margins relating to the loans listed above do not exceed 1%.

The table below presents security for repayment of the loans:

Type of security	31 December	31 December
	2013	2012
Mortgage	84,730	81,849
Transfer of title to inventory	51,759	57,794
Assignments of claims	31,998	23,235
Total restricted assets	168,487	162,878

The value of mortgage securities was determined as a sum of securities established for individual banks, in the amounts required by the banks (in the amount resulting from the value of the secured liability or in the amount resulting from the appraisal made by a real estate appraiser for the bank's needs). The book value of mortgaged assets was PLN 12,650 thousand as at 31 December 2013 (PLN 13,015 thousand as at 31 December 2012). The values of other types of security were determined at the carrying amounts of the assets provided as security as at 31 December 2013 and 31 December 2012.

The securities apply throughout the term of loan agreements. The Parent entity has limited abilities to dispose of the mortgaged assets – the sale of such assets requires a consent of the bank. In the event of securities established over inventory, the Parent Company may freely dispose of the assets, providing that they will be replaced by a security of the same type and in the same quantity, with minimum values defined in individual agreements with banks amounting to PLN 55.5 million. In the case of assignments of trade receivables, the Parent Company is obliged to refrain from any legal or actual actions resulting in restrictions on the Parent Company's ability to dispose of these receivables. In addition, the Parent Company has undertaken not to provide loans or guarantees to third parties without the prior consent of the bank throughout the term of the loan.

Effective interest rate for loans

The effective interest rates are close to the nominal interest rates calculated in line with the terms of the agreements described above.

Defaults under loan agreements

As at 31 December 2013, the Group did not default on its debt repayment obligations or on any other of its obligations under loan agreements in a manner which would result in an acceleration of debt repayment.

Loan agreements require the borrower to maintain its capitalisation ratio at an agreed level throughout the lending period. If this requirement is not met, the bank has the right to terminate the agreements.

The Group has good relationships with banks, and in its activity to date it had no problems with renewal of bank loans. Based on this, the Management Board believes that the risk resulting from short-term debt is not significant.

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19. Trade and other payables

	31 December 2013	31 December 2012
Trade payables to related parties	18	278
Trade payables to third parties	30,932	17,197
Total trade payables	30,950	17,475
Tax liabilities	649	245
Accruals and deferred income	756	989
Other payables to third parties	105	78
Total other current payables	1,510	1,312
Total	32,460	18,787

20. Liabilities from employee benefits

	31 December 2013	31 December 2012
Provisions for retirement benefits and disability pensions, and for death benefits	164	139
Liabilities from employee benefits – non-current portion	164	139
Provisions for retirement benefits and disability pensions, and for death benefits	10	5
Taxes and social security contributions payable	140	0
Payroll liabilities	1,331	79
Unused holidays	573	380
Liabilities from employee benefits – current portion	2,054	464

The Company pays retirement benefits, disability pensions and death benefits in accordance with the Labour Code, i.e. in the amount of a one month's remuneration. The amount of provision for retirement benefits, disability pensions and death benefits as at 31 December 2013 and 2012 was estimated by an actuary. The basic assumptions were as follows:

	31 December 2013	31 December 2012
Discount rate (risk-free rate)	4.20%	3.70%
Growth rate of remunerations	1.50%	1.50%

Assumptions concerning future mortality are determined based on statistics published by the Central Statistical Office.

The statement of actuarial gains and losses is presented below.

	2013	2012
current value of liability as at 1 January	144	112
current service cost	19	15
net interest on net liability	5	6
actuarial gains or losses	6	19
past service cost	-	(8)
current value of liability as at 31 December	174	144

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Total expenses recognised in profit or loss in respect of future employee benefits amounted to PLN 24 thousand in 2013 and PLN 32 thousand in 2012 and were recognised in administrative expenses. Actuarial losses incurred in 2013 amounted to PLN 6 thousand and were recognised in other comprehensive income.

Sensitivity analysis of liability under defined benefits (retirement benefits, disability pensions and death benefits) to changes in main weighted estimates as at 31 December 2013 are as follows:

Assumption	Changes in the assumption	Change of liability value due to increase in assumption	Change of liability value due to decrease in assumption
Technical discount rate	1%	(19)	23
Salary rise in the Company	1%	24	(20)
Turnover ratio	1%	(9)	10

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The table below contains the profile of the forecast cash flows in the coming years, by relevant benefits. These values take into account the nominal amounts paid out and their probability.

name of benefit	1st year	2nd year	3rd year	4th year	5th year	6th year (and further)
retirement benefit	3,362	6,436	-	10,098	-	487,584
disability pension	2,824	2,623	2,454	2,271	2,151	28,728
death benefit	6,036	6,815	7,742	8,800	9,565	396,017
total	12,222	15,874	10,196	21,169	11,716	912,329

21. Finance lease – the Group as a lessee

	31 December 2013	31 December 2012
Minimum lease payments		
payable up to 1 year	-	173
payable between 2 and 5 years	-	-
Total	-	173
Future interest expenses	-	(19)
Finance lease liabilities	-	154
of which:		
payable up to 1 year	-	154
payable between 2 and 5 years	-	-

Until 30 December 2013, the Group leased a server under finance lease, under an agreement dated 30 December 2010. The net amount of the lease liability as at the date of the agreement was PLN 462

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thousand. The agreement was executed for a period of 36 months and terminated as at 31 December 2013. Monthly lease payments amounted to PLN 14 thousand. Upon the expiry of the agreement, the Company bought out the server in accordance with the right set out in the agreement, for the buyout amount of 1% of the financing amount, i.e. PLN 5 thousand. The terms and conditions of the agreement were not different from terms and conditions typical to this type of agreements.

22. Operating lease – the Group as a lessee

The Group uses a warehouse in Nadarzyn and a car park in Wrocław, and since 2012 also passenger cars, under non-cancellable operating lease agreements. Moreover, the Group uses land in Wrocław, under the perpetual usufruct of land (for detailed information see note 11).

The costs incurred in connection with the operating leases are presented in the table below:

	12 months ended 31 December	
	2013	2012
Costs incurred under warehouse lease agreements	2,196	2,086
Costs incurred under car park lease agreements	16	16
Costs incurred under car lease agreements	426	2
Total	2,638	2,104

The warehouse leasing costs presented in the table above include the rent and service charges and the distribution of the rebate received at the beginning of the term of the lease agreement throughout its duration. (*) The warehouse is leased under a ten-year lease agreement of 17 July 2006. On 29 March 2011, the Company signed an annexe amending the lease rent, according to which the Company had the right to a reduced rent for 9 months starting from 29 January 2012. This deduction was proportionately distributed to the whole remaining lease period.

Total amounts of future minimum lease payments for the warehouse in Nadarzyn are as follows:

	31 December	31 December
	2013	2012
up to 1 year	1,724	1,708
1–3 years	3,449	3,416
3–5 years	144	1,850
more than 5 years	-	-
Total	5,317	6,974

In October 2012, the Company entered into a general passenger car lease agreement. As at 31 December 2013, 53 passenger cars had been provided for use under the agreement (including 6 in 2012). The agreements were concluded for a period of 48 months.

The aggregate future minimum lease payments under the car leases are as follows:

	31 December	31 December
	2013	2012
up to 1 year	413	55
1–3 years	894	110
3–5 years	-	53
more than 5 years	-	-
Total	1,307	218

After the end of the lease term, the Company has the option to purchase the cars. The purchase price is in average one third of the net value of the cars as at the date of the agreement.

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23. Provisions

	Provisions for guarantee repairs and returns	Other provisions	TOTAL
As at 1 January 2013	225	10	235
Provisions created upon the acquisition of a subsidiary	15	-	15
Provision created	272	-	272
Provision used	(240)	-	(240)
Currency translation differences	(2)	-	(2)
As at 31 December 2013	270	10	280
Short-term as at 31 December 2013	270	10	280
As at 1 January 2012	229	-	217
Provision created	225	10	235
Provision used	(229)	-	(229)
As at 31 December 2012	225	10	235
Short-term as at 31 December 2012	225	10	235

The provision for guarantee repairs is created in accordance with the policy described in note 2.19. The obligation of the Company to incur the costs of guarantee repairs results from general provisions on surety and guarantee granted to certain product groups. It is to be used within less than 12 months, and the amount is estimated on the basis of historical costs of guarantee repairs borne; thus, the uncertainty towards its value should not have a material impact on the Company's future result.

24. Sales revenue

	12 months ended 31 December	
	2013	2012
Sales revenue		
Sales of services	620	349
Sales of goods and materials for resale	242,090	200,898
Total sales revenue	242,710	201,247

25. Costs by type and cost of goods and materials sold

	12 months ended 31 December	
	2013	2012
Amortisation and depreciation	2,233	1,711
Material and energy consumption	2,748	2,740
Third-party services	13,919	12,121
Taxes and fees	1,165	884
Costs of employee benefits	21,154	17,185
Other costs by type	9,885	4,318
The value of goods and materials sold	159,452	134,463
Total costs by type and value of goods sold	210,556	173,422
Selling costs	39,263	27,481
Administrative expenses	11,841	11,478
Cost of products, goods and materials sold	159,452	134,463
Total	210,556	173,422

R&D expenditures recognised as costs during the period amounted to PLN 210 thousand and included costs incurred by the Parent Company within the created Product Development Centre, primarily payroll.

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26. Costs of employee benefits

	12 months ended 31 December	
	2013	2012
Payroll	17,301	12,652
Costs of share options	124	1,849
Cost of social insurance	3,365	2,449
Cost of other employee benefits	364	235
Total cost of employee benefits	21,154	17,185

27. Other operating revenue and expenses

	12 months ended 31 December	
	2013	2012
Gains on sale of property, plant and equipment	261	28
Net currency exchange gains related to operating activities	243	-
Revenues from other sales	180	268
Compensations received under automobile insurance agreements or from business partners	49	71
Revenue from settlement of the acquisition of a subsidiary	414	-
Liquidation of a subsidiary	5	-
Notes – settlements with suppliers	-	110
Written-off liabilities	-	184
Other operating revenue	88	59
Total other operating revenue	1,240	720

	12 months ended 31 December	
	2013	2012
Surplus of FX losses over FX gains on operating activities	39	2,044
Cost of other sales	151	309
Penalties and fines paid	41	24
Court and debt recovery fees	21	13
Interest paid to the state budget and to counterparties	11	2
Write-off of overpayments / advances to suppliers	19	-
Write-off of receivables	13	77
Other	108	42
Total other operating expenses	403	2,511

28. Financial revenue and expenses

	12 months ended 31 December	
	2013	2012
Interest on cash in bank accounts	18	37
Other interest	178	-
Total financial revenue	196	37

	12 months ended 31 December	
	2013	2012
Interest and commissions on loans and borrowings	1,052	2,812
Other interest	-	560
Interest on finance lease liabilities	19	19
Other financial costs	16	-
Total financial expenses	1,087	3,391

Notes constitute an integral part of these consolidated financial statements.

29. Income tax
Tax expense

The reporting periods presented in these financial statements cover the following tax periods:

- from 1 January 2013 to 31 December 2013,
- from 1 January 2012 to 31 December 2012,

	12 months ended 31 December	
	2013	2012
Current tax	6,456	5,349
Deferred tax	(22)	(553)
Total income tax	6,434	4,796

The following corporate income tax rates were applicable in all the presented periods: 19% in the Parent Company, 16% in subsidiary in Romania and 25% in subsidiary in China.

Reconciliation of the theoretical tax on the pre-tax profit and the statutory tax rate with the income tax expense recognised in profit or loss is presented in the table below:

	12 months ended 31 December	
	2013	2012
Profit before tax	32,100	22,439
Tax rate applicable in the period	19%	19%
Tax calculated at the applicable tax rate	6,099	4,263
Tax effect of the following items:		
- measurement for jointly-controlled entities using the equity method – Yato China	-	46
- permanent tax differences – revenue	(157)	(28)
- permanent tax differences – costs	328	588
- temporary tax differences for which no asset was created	16	(71)
- adjustment of deferred tax from previous years	168	-
- difference between tax rates applicable in other countries (in Romania: 16%, in China: 25%)	(21)	(34)
- other	1	32
Income tax recognised in profit or loss	6,434	4,796

The provisions on VAT, CIT, PIT or social security contributions frequently change, often resulting in the absence of any established regulations or legal precedents for reference. The regulations in effect tend to be unclear, thus leading to differences in opinions as to legal interpretation of fiscal regulations, both between state authorities themselves and between state authorities and entrepreneurs. Tax declarations and other settlements (e.g. customs or foreign exchange) can be audited by authorities which are authorised to impose high fines, and the additional liabilities arising from such audits have to be paid including high interest. In the light of the above, the tax risk in Poland is higher than usual tax risk in countries with better-developed tax systems. In Poland, there are no formal procedures for the determination of the final amount of tax due. Tax declarations can be audited over a period of five years. Therefore, the amounts disclosed in the financial statements may change at a later date, following final determination of their amount by the competent tax authorities.

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Deferred income tax

	As at 31 December 2013			As at 1 January 2013	Acquisition of a subsidiary (*)	Recognised in profit or loss / equity
	Assets	Liabilities	Net	Net		
Non-current assets						
Property, plant and equipment	-	53	(53)	(10)	-	(43)
Trade receivables and other receivables	73	44	29	62	-	(33)
Current assets						
Inventory	588	-	588	593	213	(218)
Trade receivables and other receivables	407	41	366	193	-	173
Cash and cash equivalents	1	-	1	1	-	-
Long-term liabilities						
Trade and other payables	265	-	265	261	-	4
Liabilities from employee benefits	292	-	292	99	-	193
Liabilities from loans and borrowings	1	-	1	23	-	(22)
Liabilities from finance leases	-	-	-	29	-	(29)
Provisions	41	-	41	43	-	(2)
Total assets and liabilities	1,668	138	1,530	1,294	213	23
Total deferred income tax, including	1,668	138	1,530	1,294	213	23
– recognised in profit or loss						22
– recognised in equity						1

(*) This column includes deferred tax recognised due to the fair value measurement of net assets acquired as a result of taking control over Yato Tools. This tax was taken into account in the calculation of the goodwill. Included in the goodwill due to the acquisition of a subsidiary.

Of the above-reported value of deferred tax asset, the amount of PLN 678 thousand concerns items that the Parent Company expects to realise over a period exceeding 12 months. There are no temporary differences related to investments in subsidiaries for which a deferred tax provision should be created.

	As at 31 December 2012			As at 1 January 2012	Recognised in profit or loss/equity
	Assets	Liabilities	Net	Net	
Non-current assets					
Property, plant and equipment	-	10	(10)	(32)	22
Trade receivables and other receivables	106	44	62	-	62
Current assets					
Inventory	593	-	593	498	95
Trade receivables and other receivables	193	-	193	103	90
Cash and cash equivalents	1	-	1	(3)	4
Long-term liabilities					
Trade and other payables	261	-	261	39	222
Liabilities from employee benefits	99	-	99	80	19
Liabilities from loans and borrowings	23	-	23	12	11
Liabilities from finance leases	29	-	29	-	29
Provisions	43	-	43	44	(1)
Total assets and liabilities	1,348	54	1,294	741	553
Total deferred income tax, including	1,348	54	1,294	741	553
– income tax recognised in profit or loss					553
– recognised in equity					-

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30. Earnings per share

	12 months ended 31 December	
	2013	2012
Net profit	25,666	17,643
Weighted average number of ordinary shares ('000)	75,378	75,038
Basic earnings per share (PLN)	0.34	0.24
Diluted net profit	25,666	17,643
Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000)	75,378	75,038
<u>Dilution impact:</u>		
<i>Share options</i>	301	287
Adjusted weighted average number of ordinary shares used for calculating diluted earnings per share ('000)	75,679	75,325
Diluted earnings per share (PLN)	0.34	0.24

Basic earnings per share were calculated by dividing the net profit by the weighted average number of ordinary shares during the period.

The Company has one potential dilutive instrument: share options granted to Supervisory Board members, Management Board members and key employees, described in note 16.1. In 2013 and 2012, share options did not have material impact on the diluted earnings per share.

31. Guarantees granted, contingent assets and liabilities

No	Counterparty	Type of guarantee	Subject matter and value	Date of expiry
1	Citi Handlowy	Guarantee of payment for the lease of warehouses in Nadarzyn	Bank guarantee of EUR 233,885 thousand	28 February 2014

On 29 November 2012, the Parent Company and TOYA Development Sp. z o.o. Spółka Komandytowo-Akcyjna concluded an agreement concerning a legal defect of the real property which was contributed in kind on 6 April 2011 pursuant to Resolution No 1 of the Extraordinary General Shareholders' Meeting of TOYA Development SKA by TOYA S.A., which at that time was the company's general partner. The real property in question comprises land with the expenditure incurred thereon. The contributed real property had a legal defect, i.e. on 6 April 2011, TOYA S.A. was not its owner since, pursuant to a decision of the Head of Wisznia Mała Municipality of 7 May 2007, this plot of land became the property of Trzebnicki Powiat on 8 June 2007. TOYA S.A. is entitled to pursue claims against Trzebnicki Powiat due to expropriation of the abovementioned real property and the expenditure incurred thereon. Had the legal defect of the in-kind contribution not existed and had the transfer of ownership of the real property been effective, TOYA Development Sp. z o.o. SKA would be entitled to the claims of TOYA S.A. Thus, by way of compensation for the damage resulting from the property's legal defect, TOYA S.A. has undertaken to pay TOYA Development SKA compensation equal to the compensation obtained from the Trzebnicki Powiat. The right to compensation will arise provided that TOYA S.A. receives compensation from the Trzebnicki Powiat and in the amount obtained from the Trzebnicki Powiat. As at 31 December 2013, the contingent liability includes compensation due to the incurred expenditure, whose revaluated value is estimated at net PLN 2.5 million. At the same time, as at 31 December 2013, the Parent Company has a contingent asset due to compensation for the incurred expenditure from the Trzebnicki Powiat in the same amount, i.e. approx. net of PLN 2.5 million. On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Powiat for the repayment of the disputed amount. Currently, the case is pending for the appointment by the Court of the date of the first hearing.

32. Transactions with related entities

In 2013 and 2012, the Group effected transactions with the following related parties:

- Yato Tools (Shanghai) Co., Ltd. (formerly: Yato China Trading Co., Ltd.) – jointly– controlled entity from 1 January 2013
- Toya Development Sp. z o.o. – entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Golf Telecom Sp. z o.o. SKA – an entity jointly controlled by the shareholders jointly controlling TOYA S.A.,
- Grzegorz Pinkosz – President of the Management Board of the Parent Company – member of key management personnel,
- Dariusz Hajek – Vice-President of the Management Board of the Parent Company – key management personnel,
- Jan Szmidt – jointly-controlling shareholder, Vice-President of the Supervisory Board – key management personnel,
- Tomasz Koprowski – jointly-controlling shareholder, Member of the Supervisory Board – key management personnel,
- Romuald Szałagan – jointly-controlling shareholder, Member of the Supervisory Board – key management personnel,
- Piotr Wojciechowski – jointly-controlling shareholder, Member of the Supervisory Board – key management personnel,
- Piotr Mondalski – President of the Supervisory Board – key management personnel,
- Grzegorz Maciąg – Member of the Supervisory Board – key management personnel,
- Dariusz Górka – Member of the Supervisory Board – key management personnel.

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	Trade and other receivables	Loans advanced and bonds acquired	Trade and other payables	Revenues from sales of goods	Purchase of goods and services	Remuneration for work	Financial costs – interest	Financial revenue – interest	Dividend paid	Exercised options (*)
	31.12.2013			1.01.2013 - 31.12.2013						
Entities jointly controlled by controlling shareholders	4,119	-	-	38	717	-	-	178	-	-
Key management personnel	-	-	-	-	-	631	-	-	8,286	644
Total	4,119	-	-	38	717	631	-	178	8,286	644
	31.12.2012			1.01.2012 - 31.12.2012						
Jointly-controlled entities	86	-	-	111	11,614	-	-	-	-	-
Entities jointly controlled by controlling shareholders	4,119	-	278	215	163	-	560	-	-	-
Key management personnel	-	-	-	-	-	400	-	-	-	899
Total	4,205	-	278	326	11,777	400	560	-	-	899

* Value of exercised options in 2013 includes the value of options for the members of the Supervisory Board in accordance with the payroll regulations of the Supervisory Board described in note 14.1 to the financial statements, totalling PLN 644 thousand according to the valuation of the actuary, and in 2012 the amount of PLN 899 thousand includes options for members of the Supervisory Board in the amount of PLN 665 thousand (including one eligible member of the Supervisory Board exercising their right to designate another entity to acquire the shares), and the value of options granted to and exercised by the members of the Management Board participating in the Incentive Scheme described in note 14.2 to the financial statements, totalling PLN 234 thousand.

Related party transactions are entered into on arm's length terms in the course of the Group's day-to-day operations.

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In the years ended 31 December 2013 and 31 December 2012, no receivables from related parties were written down.

Receivables from an entity jointly-controlled by the shareholders controlling the Parent Company (for details see note 11) were subject to an agreement under which the repayment was deferred until 31 December 2013. As a result, the amount of PLN 560 thousand due to the measurement of these receivables was recognised in 2012 and revenue of PLN 178 thousand was recognised due to the expansion of discount in 2013.

Balances due to transactions with related entities are not secured.

Information on remuneration and benefits of key management personnel, and on transactions executed with such personnel

The Management Board and the Supervisory Board of the Parent Company comprise the key management personnel of the Group.

The remuneration and benefits paid or payable to the Company's key management personnel are as follows:

	<u>2013</u>	<u>2012</u>
Remunerations and benefits under employment contracts – Management Board	400	400
Costs due to defined contribution plans (ZUS costs borne by the Company)	26	26
Remunerations for posts held – Supervisory Board	231	-
Costs due to share options – Supervisory Board (*)	14	613
Costs due to share options – Management Board (**)	272	523

(*) costs recognised in profit or loss in 2012 and 2013, respectively, resulting from the valuation of options according to the assumptions described in note 16.1 less remuneration due to post held on the basis of the decision to pay remuneration in accordance with the payroll regulations of the Supervisory Board

(**) costs recognised in profit or loss in 2012 and 2013, respectively, resulting from the valuation of options according to the assumptions described in note 16.2, taking into account the cost of the 2nd and 4th tranches of the scheme and the reversal of cost of the 2nd tranche in relation with not granting options in the 2nd tranche due to non-fulfilment of the conditions of the Scheme for 2012

Apart from the transactions mentioned above and in the table on the previous page, the Group did not execute any transactions with the key management personnel.

33. Future contractual commitments

As at 31 December 2013, the Group is not a party to any agreement under which it would be obliged to purchase non-current assets.

As at 31 December 2013, the Parent Company had 2 agreements for works on the implementation on the supply module in SAP and the on-line store platform, which will constitute intangible assets. the total value of liabilities not included in the statement of financial position and resulting from the agreements signed before the balance sheet date will amount approximately PLN 130 thousand.

34. Operating segments

Identification of operating and reporting segments

The Management Board of the Parent Company makes decisions related to the Company's operations from the perspective of distribution channels and geographical coverage.

The Group specifies four operating and reporting segments for its activities:
trading area – sales on local markets (Poland, Romania and China) to retail networks,
trading area – sales on local markets (Poland, Romania and China) – wholesale market,
trading area – exports,
trading area – other sales,

As part of the retail networks segment, the Group cooperates with large retail networks throughout Poland and Romania. Wholesale on the all markets where Group holds its entities is conducted through a network of wholesalers, authorised retail stores and sales representatives. Foreign markets are supported using sales department of the Parent Company and subsidiary, Yato Tools (Shanghai) Co., Ltd. Other sales include sales to entities in the advertising branch and sales conducted in public tenders. Advertising branch segment is under development since 2012, whereas sales in public tenders is being developed starting from 2013. As at 31 December 2013, these segments did not meet separate reporting criteria and are as a result presented as other trading activity.

Data analysed by the Management Board of the parent company for segment description is consistent with the data disclosed in the statement of comprehensive income.

The Group did not record revenue from sale to a single external customer exceeding 10% of total sales revenue.

As at 31 December 2013, the Company's assets amounted to PLN 163,787 thousand, and the Parent Company's liabilities amounted to PLN 42,756 thousand and were related only to trading activities. The Management Board of the Parent Company does not examine the assets of the Group for each segment separately.

The Parent Company has no non-current assets located abroad, although such assets are held by the subsidiaries. The value of property, plant and equipment located in Romania as at 31 December 2013 is PLN 623 thousand and located in China is PLN 1,402 thousand.

The most important geographic export directions of the Group are:

	Sales revenue	Share in export sales
Russia	18,449	23%
Baltic countries	11,484	14%
Ukraine	9,049	11%

Sales on local market in Poland amounted to PLN 132,274 thousand, in Romania – PLN 17,240 thousand and in China – 12,329 thousand.

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12 months ended 31 December 2013	<i>Trading – EXPORTS</i>	<i>Trading - WHOLESALE MARKET</i>	<i>Trading - RETAIL NETWORKS</i>	<i>Trading - OTHER</i>	Total
Revenue from sales of goods and materials					
Sales to external customers	80,932	112,804	47,628	1,346	242,710
Total segment revenues	80,932	112,804	47,628	1,346	242,710
Cost of products, goods and materials sold					
Sales to external customers	(53,438)	(69,533)	(35,566)	(915)	(159,452)
Cost of products, goods and materials sold – total	(53,438)	(69,533)	(35,566)	(915)	(159,452)
Gross margin	27,494	43,271	12,062	431	83,258
Gross margin	34%	38%	25%	32%	34%
Gross profit					83,258
Selling costs					(39,263)
Administrative expenses					(11,841)
Other operating revenue					1,240
Other operating expenses					(403)
Operating profit					32,991
Financial revenue					196
Financial expenses					(1,087)
Profit before tax					32,100
Income tax					(6,434)
Net profit					25,666
<hr/>					
12 months ended 31 December 2012	<i>Trading – EXPORTS</i>	<i>Trading - WHOLESALE E MARKET</i>	<i>Trading - RETAIL NETWORKS</i>	<i>Trading - OTHER</i>	Total
Revenue from sales of goods and materials					
Sales to external customers	65,707	92,138	43,098	304	201,247
Total segment revenues	65,707	92,138	43,098	304	201,247
Cost of products, goods and materials sold					
Sales to external customers	(45,395)	(57,367)	(31,508)	(193)	(134,463)
Cost of products, goods and materials sold – total	(45,395)	(57,367)	(31,508)	(193)	(134,463)
Gross margin	20,312	34,771	11,590	111	66,784
Gross margin	31%	38%	27%	37%	33%
Gross profit					66,784
Selling costs					(27,481)
Administrative expenses					(11,478)
Other operating revenue					720
Other operating expenses					(2,511)
Operating profit					26,034
Financial revenue					37
Financial expenses					(3,391)
Share in losses of jointly-controlled entities					(241)
Profit before tax					22,439
Income tax					(4,796)
Net profit					17,643

Notes constitute an integral part of these consolidated financial statements.

35. Material events subsequent to the end of reporting period

35.1 Disputes

On 24 January 2014, TOYA S.A. filed a lawsuit in the Regional Court in Wrocław against the Trzebnicki Powiat for the repayment of the disputed amount, described in note 31. Currently, the case is pending for the appointment by the Court of the date of the first hearing.

35.2 Annexe to a significant agreement

On 24 February 2014, TOYA S.A. and Raiffeisen Bank Polska S.A. with its registered office in Warsaw concluded Annexe No 21 to the Debt Limit Facility Agreement No CRD/L/11381/02 of 2 October 2002. On the basis of the annexe, the agreement was extended until 5 March 2015.

Loan margin was reduced in comparison with prior conditions.

35.3 Resolution on share increase

On 27 March 2014, the Management Board of TOYA S.A. adopted a resolution concerning an increase of the share capital by issuing G series shares within authorised capital and a resolution concerning the exclusion of subscription right for new G series shares by existing shareholders.

The share capital will be increased from PLN 7,540,237.50 to PLN 7,553,621, i.e. by PLN 13,383.50, by way of issue of 133,835 ordinary bearer series G shares.

The aim of the share capital increase is to offer the shares to the Members of the Parent Company's Supervisory Board as part of a private subscription. Persons entitled to subscribe for series G shares will be exclusively the Parent Company Supervisory Board Members listed in Resolution No 10 of the Ordinary General Shareholders' Meeting dated 23 May 2011 concerning repealing Resolution No 12 of the Extraordinary General Shareholders' Meeting of TOYA S.A. with its registered office in Wrocław of 14 February 2011 and concerning the remuneration of the Company's Supervisory Board. The right to subscribe for the shares may be transferred by an eligible Member of the Supervisory Board to a third party or parties indicated to the Parent Company in writing.

30 June 2014 is the deadline for exercising the right to subscribe for series G shares and concluding an agreement on subscription for these shares.

Grzegorz Pinkosz
President of the Management
Board

Dariusz Hajek
Vice-President of the
Management Board

Iwona Banik
Person responsible for
bookkeeping

Wrocław, 2 April 2014