



DIRECTORS' REPORT ON THE OPERATIONS OF  
TOYA S.A. AND THE CAPITAL GROUP TOYA S.A.  
IN THE FIRST HALF OF 2022



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## **1. PROFILE OF THE PARENT COMPANY**

### **1.1 General Information – Toya S.A.**

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

TOYA S.A. was formed on the basis of a Notarial Deed drawn up on 17 November 1999 by the Notary Public Jolanta Ołpińska in the Notarial Office in Wrocław (Rep. A No 5945/99). Pursuant to a decision of 3 December 1999, the Company was entered in the Commercial Register maintained by the District Court for Wrocław-Fabryczna, 6th Commercial Division, with the reference number RHB 9053. By virtue of a decision of 4 December 2001, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, decided to enter the Parent Company in the Register of Entrepreneurs, with the reference number KRS 0000066712. The entry in the Register took place on 5 December 2001.

The duration of the Company is unlimited.

As at the date of submission of the annual report, the Parent Company has 1 branch located outside the registered office, in Nadarzyn.

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 Group distributes goods manufactured and supplied mainly by companies located in China. For many years, the Group has been implementing its strategy of expanding onto international markets. It focuses primarily on Central, Southern and Eastern Europe (Russia, Romania, Ukraine, Lithuania, Hungary, the Czech Republic, Germany, Belarus and the Balkan States).

### **1.2 Management Board and Supervisory Board**

In the period from 1 January 2021 to 26 January 2022, the Management Board was composed of the following members:

- Grzegorz Pinkosz President of the Management Board;
- Maciej Lubnauer Vice-President of the Management Board.

On 27 January 2022, the Supervisory Board appointed Mr. Robert Borys to act as the Vice-President of the Management Board. From that date and until the date of approval of this report for publication, the Management Board was composed of the following members:

- Grzegorz Pinkosz President of the Management Board;
- Maciej Lubnauer Vice-President of the Management Board;
- Robert Borys Vice-President of the Management Board.

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In the first half of 2022 and as of the date of approval of this report for publication, the Supervisory Board of the Company was composed of the following members:

- Piotr Mondalski President of the Supervisory Board;
- Jan Szmidt Vice-President of the Supervisory Board;
- Dariusz Górka Member of the Supervisory Board;
- Michał Kobus Member of the Supervisory Board;
- Grzegorz Maciąg Member of the Supervisory Board;
- Wojciech Bartłomiej Papierak Member of the Supervisory Board;
- Beata Szmidt Member of the Supervisory Board.

### 1.3 Share capital

As at 30 June 2022, the share capital of the Parent Company amounted to PLN 7,504,222.60 and comprises 75,042,226 shares with a par value of PLN 0.1 each.

In the first half of 2022, there were no changes in share capital.

### 1.4 Shareholders structure and indication of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the general meeting

According to information possessed by TOYA S.A., the Parent Company's ownership structure as of 30 June 2022 was as follows:

| Name                   | Status         | Number of shares  | Type of shares  | Par value per share (PLN) | Par value of the shares (PLN) | Structure (%)  |
|------------------------|----------------|-------------------|-----------------|---------------------------|-------------------------------|----------------|
| Jan Szmidt             | natural person | 28,170,647        | ordinary bearer | 0.1                       | 2,817,064.70                  | 37.54%         |
| Romuald Szałagan       | natural person | 9,652,290         | ordinary bearer | 0.1                       | 965,229.00                    | 12.86%         |
| Generali OFE           | natural person | 5,001,147         | ordinary bearer | 0.1                       | 500,114.70                    | 6.66%          |
| Norges Bank            | natural person | 3,836,056         | ordinary bearer | 0.1                       | 383,605.60                    | 5.11%          |
| Other – share below 5% | not applicable | 28,382,086        | ordinary bearer | 0.1                       | 2,838,208.60                  | 37.83%         |
| <b>TOTAL</b>           |                | <b>75,042,226</b> |                 |                           | <b>7,504,222.60</b>           | <b>100.00%</b> |

On 4 July 2022, the Company received a notification from the shareholder of Norges Bank about the transaction, which resulted in a decrease in the shareholder's share in the share capital of TOYA S.A. down to 3,336,531, which constituted 4.45% of the share capital, therefore, as at the publication date of the report for the first half of 2022, the shareholding structure of the Parent Company, according to the information possessed by TOYA S.A. was as follows:

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| Name                   | Status         | Number of shares  | Type of shares  | Par value per share (PLN) | Par value of the shares (PLN) | Structure (%)  |
|------------------------|----------------|-------------------|-----------------|---------------------------|-------------------------------|----------------|
| Jan Szmidt             | natural person | 28,170,647        | ordinary bearer | 0.1                       | 2,817,064.70                  | 37.54%         |
| Romuald Szałagan       | natural person | 9,652,290         | ordinary bearer | 0.1                       | 965,229.00                    | 12.86%         |
| Generali OFE           | natural person | 5,001,147         | ordinary bearer | 0.1                       | 500,114.70                    | 6.66%          |
| Other – share below 5% | not applicable | 32,218,142        | ordinary bearer | 0.1                       | 3,221,814                     | 42.94%         |
| <b>TOTAL</b>           |                | <b>75,042,226</b> |                 |                           | <b>7,504,222.60</b>           | <b>100.00%</b> |

### 1.5 Shares held by managers and supervisors

#### 1.5.1 Shares held by members of the Management Board

The number of shares as at the date of submitting the report and changes in the shares held by the Management Board Members from the date of submitting the last report (quarterly report for the 1st quarter of 2022 published on 11 May 2022), in accordance with the information possessed by the Company is presented in the table below:

|                  | According to information possessed<br>as of 11 May 2022 | Increases /<br>Decreases | According to information possessed<br>as of 25 August 2022 |
|------------------|---|--------------------------|--|
| Grzegorz Pinkosz | 146,812   | -                        | 146,812  |
| Maciej Lubnauer  | 61,831  | -                        | 61,831   |
| <b>TOTAL</b>     | <b>208,643</b>  | <b>-</b>                 | <b>208,643</b>   |

#### 1.5.2 Shares held by members of the Supervisory Board

The number of shares as at the date of submitting the consolidated semi-annual report and changes in the shares held by the Supervisory Board Members from the date of submitting the last report (quarterly report for the 1st quarter of 2022 published on 11 May 2022), in accordance with the information possessed by the Company is presented in the table below:

|                 | According to information possessed<br>as of 11 May 2022 | Increases / Decreases | According to information possessed<br>as of 25 August 2022 |
|-----------------|---|-----------------------|--|
| Jan Szmidt      | 28,170,647  | -                     | 28,170,647   |
| Beata Szmidt    | 3,239,253   | -                     | 3,239,253  |
| Grzegorz Maciąg | 5,275   | -                     | 5,275  |
| <b>TOTAL</b>    | <b>31,415,175</b>                                       | <b>-</b>              | <b>31,415,175</b>  |

#### 1.5.3 Share option plans

There are no share option plans in the Company and in the Group.

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## 2. ORGANIZATIONAL STRUCTURE OF THE CAPITAL GROUP AND ITS CHANGES

As at the date of approval of the consolidated semi-annual report for publication, the Group consists of the following entities:

| Entity name                     | Registered office  | Business profile                      | Type of equity link | % of shares and votes held | Link establishment date | Method of Consolidation as at the end of the reporting period |
|---------------------------------|--------------------|---------------------------------------|---------------------|----------------------------|-------------------------|---|
| TOYA S.A.                       | Wrocław, Poland    | Distribution of tools and power tools | Parent Company      | Not applicable             | Not applicable          | Full consolidation method                                     |
| Toya Romania S.A.               | Bucharest, Romania | Distribution of tools and power tools | Subsidiary          | 99.99                      | November 2003           | Full consolidation method                                     |
| Yato Tools (Shanghai) Co., Ltd. | Shanghai, China    | Distribution of tools and power tools | Subsidiary          | 100.00                     | January 2013            | Full consolidation method                                     |
| Yato Tools (Jiaxing) Co., Ltd.  | Baibu, China       | Distribution of tools and power tools | Subsidiary          | 100.00                     | December 2019           | Full consolidation method                                     |

In the first half of 2022, there were no changes in the organizational structure of the TOYA S.A. Capital Group.

## 3. POSITION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF FULFILLING PREVIOUSLY PUBLISHED FORECASTS

The Management Board of Toya S.A. did not publish forecasts of the Company's or the Group's results for 2022.

## 4. DESCRIPTION OF THE MOST IMPORTANT EVENTS DURING THE FIRST HALF OF 2022, SIGNIFICANT ACHIEVEMENTS OR FAILURES

### 4.1 Registration of increase in the share capital of a subsidiary and contribution to the share capital of Yato Tools (Jiaxing) Co. Ltd.

On 17 January 2022, an increase in the share capital of the subsidiary - Yato Tools (Jiaxing) Co., Ltd. - from the amount of USD 8,000 thousand up to the amount of USD 12,500 thousand - was registered in the Chinese register of entrepreneurs. After acquiring additional shares, the Company holds 100% of shares in the subsidiary with a total nominal value of USD 12,500 thousand.

On 21 January 2022, the Company paid USD 1 million (PLN 3,983 thousand) on account of the above-mentioned capital increase.

#### **4.2 Appointment of a Member of the Management Board**

On 27 January 2022, the Supervisory Board appointed Mr. Robert Borys to the position of the Vice-President of the Management Board.

#### **4.3 Annex to a significant contract**

On 16 February 2022, TOYA S.A. concluded the Annex no. 1 to the Non-Revolving Credit Agreement no. WAR/8833/20/327/CB of 14 September 2020 with BNP Paribas Bank Polska Spółka Akcyjna with its registered office in Warsaw. The loan amount was increased to the amount of PLN 40,000 thousand and the repayment period was extended to 31 March 2024.

#### **4.4 Impact of the war between Ukraine and Russia on the Group's operations**

The Group has been present on the markets of Eastern Europe for a long time, in particular in Ukraine, Belarus and Russia. Despite its long presence on these markets, the Group did not have any assets there, and transactions with local customers were short-term. The Russian-Ukrainian conflict that began with military actions on 24 March 2022 disrupted trade relations on these markets, which resulted in a temporary freezing of relations with some customers.

It should be emphasized that the Group complies with all sanctions imposed by the European Union, Poland and governments of other countries on entities, persons and goods specified in the relevant legal acts. The Group has implemented appropriate procedures in this regard. However, the implemented procedures and the need to verify and comply with all economic sanctions slow down the trade with customers from these markets, which is, however, independent of the Group. This may impact trading with customers in these markets.

#### **4.5 Transactions in major blocks of shares**

On 31 March 2022, the shareholder Norges Bank concluded transactions which resulted in a reduction of its share in the share capital of TOYA S.A. up to 3,745,158 shares, which constituted 4.99% of share in the Company's share capital.

#### **4.6 Annex to a significant agreement**

TOYA S.A. announces that on 12 April 2022, it concluded annex no. 4 to Overdraft Agreement no. 09/030/19/Z/VV with mBank S.A. with its registered office in Warsaw.

Pursuant to this annex, the amount of credit to be used increased to PLN 60,000 thousand.

The remaining terms of the Agreement do not differ from those commonly used for this type of agreements.



#### **4.7 Annex to a significant agreement**

The Management Board of TOYA S.A. announces that on 12 April 2022 TOYA S.A. and Bank Handlowy S.A., with its registered office in Warsaw, concluded annex no. 19 to the Overdraft Agreement no. BDK/KR-RB/000054601/0641/10.

Pursuant to this annex, the amount of credit to be used was increased to PLN 50,000 thousand and an additional collateral for repayment of credit granted in the form of a registered pledge on the Company's current assets in the amount of PLN 10,000 thousand was established.

The remaining terms and conditions of the Agreement do not differ from those commonly used for this type of agreements.

#### **4.8 Transactions in major blocks of shares**

On 4 May 2022, the Company received a notification from the shareholder Norges Bank about the transaction, which resulted in an increase in the shareholder's share in the share capital of TOYA S.A. up to 3,836,056 shares, which constituted 5.11% of share in the Company's share capital.

#### **4.9 Annex to a significant agreement**

On 26 May 2022 TOYA S.A. and Bank Handlowy S.A. with its registered office in Warsaw concluded annex no. 20 to the Overdraft Agreement no. BDK/KR-RB/000054601/0641/10.

Pursuant to this annex, the amount of credit to be used was increased to PLN 70,000 thousand and the amount of additional security of credit repayment in the form of a registered pledge on the Company's current assets was increased to PLN 30,000 thousand.

The remaining conditions of the Agreement do not differ from those commonly used for this type of agreements.

#### **4.10 Annex to a significant agreement**

On 21 June 2022 TOYA S.A. concluded Annex no. 2 to the non-revolving credit agreement no. WAR/8833/20/327/CB of 14 September 2020 with BNP Paribas Bank Polska Spółka Akcyjna with its registered office in Warsaw. Pursuant to the Annex:

- (a) credit duration shall end on 30 September 2024. The repayment of the principal shall be made in equal capital instalments after the date on which the period for disbursement of the credit has expired;
- b) credit disbursement period shall be extended until 31 December 2022;
- c) grace period for repayment of the credit has been established until 31 December 2022.

Other terms and conditions of the Agreement remain unchanged and do not deviate from the conditions generally applied in such agreements.

#### **4.11 Resolutions adopted by the Extraordinary General Meeting of Shareholders on 28 June 2022**

On 28 June 2022, the General Meeting of Shareholders of Toya S.A. approved the financial statements of TOYA S.A. for 2021 and consolidated financial statements of TOYA S.A. Group for 2021, and also decided to transfer the profit of TOYA S.A. for 2021 in the amount of PLN 63,243 thousand to reserve capital.

#### **4.12 Information on the possible impact of the Covid-19 coronavirus on the Group's operations**

In connection with the continuous monitoring of the risk related to the threat caused by the COVID-19 coronavirus and its possible impact on the smooth operating activity of TOYA S.A. and the Group, the Company informs that the changing epidemiological situation within the territory of the People's Republic of China can hinder the timely completion of the TOYA S.A. Group's central warehouse under construction in China. The project is carried out by Yato Tools (Jiaxing) Co. Ltd. Moreover, the current epidemiological situation, if prolonged, can give rise to additional implications in terms of temporary disruption to the supply chain. In the Company's opinion, the aforementioned events should not have a significant impact on the financial and operational situation of Toya S.A. However, it should be borne in mind that the situation is volatile and restrictions introduced by subsequent legislative changes, decisions of local authorities and other unforeseen factors beyond the Group's control, depending on their duration and intensity, can affect the Company's operations and financial position.

### **5. DESCRIPTION OF FACTORS AND EVENTS, INCLUDING THOSE OF UNUSUAL NATURE, WHICH HAVE A SIGNIFICANT IMPACT ON THE CONDENSED STAND-ALONE AND CONSOLIDATED FINANCIAL STATEMENTS**

#### **5.1 Comment on the financial results achieved BY Toya S.A.**

##### **Revenue and profitability of TOYA S.A. (PLN '000).**

|                    | <b>6 month period ended June 30</b> |             |
|--------------------|-------------------------------------|-------------|
|                    | <b>2022</b>                         | <b>2021</b> |
| Sales revenue      | 290,954                             | 282,880     |
| Gross sales profit | 82,200                              | 82,663      |
| Operating profit   | 37,140                              | 44,104      |
| Profit before tax  | 33,803                              | 43,722      |
| Net profit         | 27,212                              | 35,326      |

In the first half of 2022, sales revenue amounted to PLN 290,954 thousand and exceeded the level of revenue achieved in the first half of 2021 by 2.9%. A slight decrease in gross profit on sales by PLN 463 thousand in the analysed period in 2022, as compared to the similar period in 2021, was mainly due to higher cost of purchasing goods, which did not fully translate into selling prices. The increase in sales was recorded in all channels in Poland - in the traditional channel (by PLN 6,889 thousand, i.e. by 6%), in retail chains (by PLN 6,587 thousand, i.e. by 17%) and in online sales (by PLN 2,704 thousand, i.e. by 11%). The export channel recorded a decrease in sales by PLN 8,106 thousand, i.e. by 8%, which was largely due to Russia's aggression against Ukraine, as a result of which revenues with Ukraine, Russia and Belarus fell by PLN 7,260 thousand as compared to the same period in 2021.

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Operating profit was lower by PLN 6,964 thousand as compared to the first half of 2021, which was mainly due to higher costs of external services (mainly costs of storage in external warehouses) and an increase in the costs of materials and energy used.

The Company increased its exposure to short-term bank loans compared to the first half of 2021. As a result of increasing WIBOR base rates, the cost of interest on loans in the first half of 2022 amounted to PLN 3,018 thousand, as compared to PLN 69 thousand in the same period of the previous year.

Net profit in the first half of 2022 decreased by PLN 8,114 thousand, i.e. by 23% as compared to the first six months of 2021, to the level of PLN 27,212 thousand.

**Profitability ratios**

|                         | 6 month period ended June 30 |       |
|-------------------------|------------------------------|-------|
|                         | 2022                         | 2021  |
| Sales profit margin     | 28.3%                        | 29.2% |
| Operating profit margin | 12.8%                        | 15.6% |
| Pre-tax profit margin   | 11.6%                        | 15.5% |
| Net profit margin       | 9.4%                         | 12.5% |

Key:

Sales profit margin – the ratio of gross profit to sales revenue

Operating profit margin – the ratio of operating profit to sales revenue

Pre-tax profit margin – the ratio of pre-tax profit to sales revenue

Net profit margin – the ratio of net profit to sales revenue

For TOYA S.A., the sales profit margin is the key indicator of the Company's market competitiveness and has a decisive impact on its financial position. Analysis of this ratio for the first half of 2022 shows that the sales profit margin in this period slightly decreased to the level of 28.3%, mainly as a result of higher purchase costs of goods, which did not fully translate into selling prices. It should be noted that this profitability remains high.

**Cash flows of the Company (PLN '000)**

|  | 6 month period ended June 30 |          |
|--|------------------------------|----------|
|  | 2022                         | 2021     |
| Cash flows from operating activities                     | (40,694)                     | 58,117   |
| Cash flows from investment activities                    | (6,618)                      | (4,502)  |
| Cash flows from financial activities                     | 47,817                       | (26,732) |
| <b>Change in net cash</b>                                | 505                          | 26,883   |
| Cash and cash equivalents at the beginning of the period | 1,229                        | 584      |
| Cash and cash equivalents at the end of the period       | 1,746                        | 27,539   |

In the first 6 months of 2022, the Company disclosed negative cash flows from operating activities in the amount of PLN 40,694 thousand, which was caused by increased purchases of commercial goods.

In the first half of 2022, the Company made a payment to the share capital of Yato Tools (Jiaxing) Co. Ltd. in the amount of PLN 3,983 thousand. Apart from that, the Company did not conduct any significant investment activities. The funds

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spent during this period were mainly related to the purchase of computer hardware and product photography equipment.

In the analysed 6-month period of 2022, the Company generated positive cash flows from financing activities mainly due to an increase in its loan debt to the level of PLN 151,540 thousand, i.e. by PLN 54,587 thousand, as compared to 31 December 2021.

TOYA S.A. liquidity in the analysed period was at the appropriate level. The net working capital of the Company was positive, covering the demand resulting from the amount of realized revenues from sales. The Company did not finance tangible fixed assets with short-term liabilities and was able to pay its short-term liabilities on time.

### Liquidity ratios

|               | 30.06.2022 | 30.06.2021 |
|---------------|------------|------------|
| Current ratio | 1.95       | 2.48       |
| Quick ratio   | 0.28       | 0.77       |

Key:

Current ratio – the ratio of current assets to short-term liabilities

Quick ratio – the ratio of current assets less inventories to short-term liabilities

The current liquidity ratio decreased compared to the corresponding period of 2021, mainly as a result of high stocks at warehouses. The quick ratio decreased mainly due to a lower balance of cash in bank accounts. Both indicators are still at a good level.

## 5.2 Structure of TOYA S.A. assets and liabilities

The structure of assets of TOYA S.A. (PLN '000)

|                                       | 30.06.2022     | 31.12.2021     |
|---------------------------------------|----------------|----------------|
| <b>Non-current assets, including:</b> | <b>111,129</b> | <b>89,523</b>  |
| Property, plant and equipment         | 18,281         | 17,419         |
| Intangible assets                     | 3,548          | 3,189          |
| Right-of-use assets                   | 16,181         | 14,121         |
| Investments in subsidiaries           | 70,803         | 52,984         |
| <b>Current assets, including:</b>     | <b>390,197</b> | <b>320,391</b> |
| Inventory                             | 333,341        | 285,560        |
| Trade and other receivables           | 55,110         | 33,602         |
| <b>Total assets</b>                   | <b>501,326</b> | <b>409,914</b> |

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**% asset structure of TOYA S.A.**

|  | <b>30.06.2022</b> | <b>31.12.2021</b> |
|--|-------------------|-------------------|
| Non-current assets / Assets            | 22%               | 22%               |
| Property, plant and equipment / Assets | 4%                | 4%                |
| Intangible assets / Assets             | 1%                | 1%                |
| Right-of-use assets / Assets           | 3%                | 3%                |
| Investments in subsidiaries / Assets   | 14%               | 13%               |
| Current assets / Assets                | 78%               | 78%               |
| Inventory / Assets                     | 66%               | 70%               |
| Trade and other receivables / Assets   | 11%               | 8%                |

**The structure of equity and liabilities of TOYA S.A. (PLN '000)**

|  | <b>30.06.2022</b> | <b>31.12.2021</b> |
|--|-------------------|-------------------|
| Equity                                 | 272,548           | 245,336           |
| Long-term liabilities                  | 28,230            | 17,411            |
| Short-term liabilities, including:     | 200,548           | 147,167           |
| Short term trade and other liabilities | 37,547            | 38,805            |
| <b>Total equity and liabilities</b>    | <b>501,326</b>    | <b>409,914</b>    |

**% equity and liability structure of TOYA S.A.**

|   | <b>30.06.2022</b> | <b>31.12.2021</b> |
|---|-------------------|-------------------|
| Equity / Equity and liabilities                 | 54%               | 60%               |
| Short-term liabilities / Equity and liabilities | 40%               | 36%               |
| Long-term liabilities / Equity and liabilities  | 6%                | 4%                |
| Short-term liabilities / Liabilities            | 88%               | 89%               |
| Long-term liabilities / Liabilities             | 12%               | 11%               |

**Ratios of return on equity, assets and current assets**

|                          | 6 month period ended June 30 |      |
|--------------------------|------------------------------|------|
|                          | 2022                         | 2021 |
| Return on assets (ROA)   | 5%                           | 11%  |
| Return on equity (ROE)   | 10%                          | 16%  |
| Return on current assets | 7%                           | 15%  |

**Key:**

Return on assets (ROA) – the ratio of net profit to total assets as at the end of the period

Equity ratio (ROE) – the ratio of net profit to equity as at the end of the period

Return on current assets – the ratio of net profit to current assets as at the end of the period

As at 30 June 2022, the Company's property, plant and equipment constitute 4% of total assets. Property, plant and equipment comprise primarily land, buildings and structures necessary for the Company's commercial activity. A significant item of non-current assets are also the right-of-use assets, which account for 3% of total assets (3% as at 31 December 2021).

The structure of TOYA S.A.'s current assets, which as at 30 June 2022 account for 78% of total assets, is dominated by inventories and trade and other receivables, which is typical for type of business activity conducted by TOYA S.A. Both these items together account for over 99% of current assets as at 30 June 2022 and 31 December 2021.

**Equity structure and debt ratios**

|   | 30.06.2022 | 31.12.2021 |
|---|------------|------------|
| Total debt ratio  | 46%        | 40%        |
| Equity debt ratio   | 84%        | 67%        |
| Long-term debt ratio  | 6%         | 4%         |
| Short-term debt ratio   | 40%        | 36%        |
| The ratio of coverage of non-current assets with equity and long-term liabilities | 271%       | 293%       |

**Key:**

Total debt ratio – the ratio of long- and short-term liabilities to total equity and liabilities

Debt to equity ratio – the ratio of long- and short-term liabilities to equity

Long-term debt ratio – the ratio of long-term liabilities to total equity and liabilities

Short-term debt ratio – the ratio of short-term liabilities to total equity and liabilities

The ratio of coverage of non-current assets with equity and long-term liabilities – the ratio of total equity and long-term liabilities to non-current assets

As at 30 June 2022, retained earnings totalling PLN 229,247 thousand were the main item in the equity of TOYA S.A. The Company's share capital as at 30 June 2022 amounted to PLN 7,504 thousand.

The main sources of financing operating activities, in particular current assets, include equity and short-term financing – primarily from bank loans and trade credit. As at 30 June 2022, TOYA S.A. financed 54% of its operations from equity. As at that date, the Company had short-term liabilities due to loans in the amount of PLN 132,708 thousand and long-term in the amount of PLN 18,832 thousand.

**TOYA S.A. management effectiveness ratios**

|                                     | For the 6-month period ended<br>30 June 2022 | For the 6-month period ended 30<br>June 2021 |
|-------------------------------------|--|--|
| Inventories turnover period (days)  | 206  | 105  |
| Receivables inflow period (days)    | 34   | 29   |
| Liabilities repayment period (days) | 23   | 25   |

**Key:**

Inventories turnover period (days) – the ratio of inventories as at the end of the period, multiplied by 180 days, to revenue from sales

Receivables inflow period (days) – the ratio of short-term trade and other receivables as at the end of the period, multiplied by 180 days, to revenue from sales

Liabilities repayment period (days) – the ratio of trade and other liabilities as at the end of the period, multiplied by 180 days, to revenue from sales

In the first half of 2022, the liabilities repayment period was shorter than the receivables collection period. This means that the Company granted a longer trade credit to recipients than it received from suppliers itself. Such a situation means an increase in the demand for working capital, which is typical for the industry in which the Company conducts its commercial activities. Moreover, the period of inventory turnover was extended, which resulted from significant commodity purchases aimed at improving the availability of goods for end customers.

**5.3 Commentary on the financial results achieved by TOYA Group**

**Revenue and profitability of TOYA S.A. GROUP (PLN '000).**

|                    | 6 month period ended June 30 |         |
|--------------------|------------------------------|---------|
|                    | 2022                         | 2021    |
| Sales revenue      | 367,832                      | 342,719 |
| Gross sales profit | 121,915                      | 116,428 |
| Operating profit   | 51,993                       | 53,469  |
| Profit before tax  | 48,376                       | 52,751  |
| Net profit         | 38,369                       | 42,188  |

In the first half of 2022, sales revenues amounted to PLN 367,832 thousand and were higher by 7.3% than the revenues achieved in the first half of 2021. Gross profit on sales in the analysed period of 2022, was higher by PLN 5,487 thousand (i.e. 4.7%), as compared to the corresponding period of 2021, which was mainly caused by a higher level of sales in subsidiaries.

The largest increase in sales, by PLN 11,258 thousand (6.8%) was recorded in the traditional sales channel, of which PLN 6,889 thousand relates to Poland and PLN 5,908 thousand relates to Romania, with a slight decrease in sales on the local market in China. A significant increase was also achieved in the retail chains channel - by PLN 7,476 thousand, i.e. by 20.8%, mainly in Poland. In the export channel, the Group recorded an increase by PLN 3,111 thousand, which was due to the increase in export revenues in subsidiaries in China by PLN 14,732 thousand (mainly in Africa and Asia) with a simultaneous decrease in export revenues to unrelated entities of the Parent Company by PLN 11,617 thousand (mainly Ukraine and Germany). An important factor influencing the level of sales was the high, constant availability of goods for sale in Poland. Russia's aggression towards Ukraine inhibited sales on eastern markets, which was compensated, at the Group level, by the expansion of subsidiaries to the markets of Asia and Africa.

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Operating profit was lower by PLN 1,476 thousand as compared to the first half of 2021, which was mainly due to higher costs of external services (mainly costs of storage in external warehouses) and an increase in the costs of materials and energy used. The net profit in the first half of 2022 decreased by PLN 3,819 thousand, i.e. by 9.1% as compared to the first six months of 2021, to the level of PLN 38,369 thousand.

The Group increased its exposure to short-term bank loans as compared to the first half of 2021. As a result of increasing WIBOR base rates, the cost of interest on loans in the first half of 2022 amounted to PLN 3,018 thousand as compared to PLN 69 thousand in the same period of the previous year.

**Profitability ratios.**

|                         | 6 month period ended June 30 |       |
|-------------------------|------------------------------|-------|
|                         | 2022                         | 2021  |
| Sales profit margin     | 33,1%                        | 34,0% |
| Operating profit margin | 14,1%                        | 15,6% |
| Pre-tax profit margin   | 13,2%                        | 15,4% |
| Net profit margin       | 10,4%                        | 12,3% |

Key:

- Sales profit margin – the ratio of gross profit to sales revenue
- Operating profit margin – the ratio of operating profit to sales revenue
- Pre-tax profit margin — the ratio of pre-tax profit to sales revenue
- Net profit margin — the ratio of net profit to sales revenue

The profitability of sales is a basic indicator of market competitiveness for TOYA S.A. and has a decisive influence on its financial situation. The analysis of this indicator for the first half of 2022 shows, that the return on sales has slightly decreased, to the level of 33.1%, mainly as a result of higher costs of purchasing goods, which did not fully translate into selling prices. It should be noted that the profitability remains high.

**Cash flows of the Group (PLN '000)**

|   | 6 month period ended June 30 |               |
|---|------------------------------|---------------|
|   | 2022                         | 2021          |
| Cash flows from operating activities                          | (33,319)                     | 71,596        |
| Cash flows from investment activities                         | (9,017)                      | (11,761)      |
| Cash flows from financial activities                          | 45,992                       | (28,392)      |
| <b>Net change in cash before foreign exchange differences</b> | <b>3,656</b>                 | <b>31,443</b> |
| Cash and cash equivalents at the beginning of the period      | 38,855                       | 33,961        |
| Cash and cash equivalents at the end of the period            | 43,392                       | 65,282        |

In the first 6 months of 2022, the Group disclosed negative cash flows from operating activities, which amounted to PLN 33,319 thousand and was mainly caused by the increase in the balance of inventories as compared to 31 December 2021.



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Investment expenditures in the first half of 2022 amounted to PLN 9,017 thousand and mainly related to expenditure on the construction of a new warehouse in China.

In the analysed 6-month period of 2022, the Group generated positive cash flows from financing activities, mainly due to an increase in its loan debt to the level of PLN 151,540 thousand, i.e. by PLN 54,587 thousand, as compared to 31 December 2021.

Liquidity of TOYA S.A. Capital Group in the analysed period was at the appropriate level. The Group's net working capital was positive, covering the demand resulting from the amount of generated sales revenues. The Group did not finance property, plant and equipment with short-term liabilities and was able to pay its short-term liabilities on time.

### Liquidity ratios

|               | 30.06.2022 | 30.06.2021 |
|---------------|------------|------------|
| Current ratio | 1.88       | 2.30       |
| Quick ratio   | 0.54       | 0.98       |

Key:

Current ratio – the ratio of current assets to short-term liabilities

Quick ratio – the ratio of current assets less inventories to short-term liabilities

The current liquidity ratio decreased as compared to the corresponding period of 2021, mainly as a result of high stocks at warehouses. The quick ratio decreased mainly as a result of a lower balance of cash in bank accounts. Both indicators are still at a good level.

### 5.4 Structure of the TOYA S.A. Group's assets and liabilities

#### The structure of assets of TOYA S.A. Capital Group (PLN '000)

|                                       | 30.06.2022     | 31.12.2021     |
|---------------------------------------|----------------|----------------|
| <b>Non-current assets, including:</b> | <b>100,437</b> | <b>85,540</b>  |
| Property, plant and equipment         | 56,523         | 45,090         |
| Intangible assets                     | 4,459          | 3,899          |
| Right-of-use assets                   | 32,962         | 31,188         |
| <b>Current assets, including:</b>     | <b>590,839</b> | <b>516,820</b> |
| Inventory                             | 437,771        | 369,256        |
| Trade and other receivables           | 109,676        | 108,709        |
| <b>Total assets</b>                   | <b>691,276</b> | <b>602,360</b> |

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**% asset structure of TOYA S.A. Capital Group**

|  | <b>30.06.2022</b> | <b>31.12.2021</b> |
|--|-------------------|-------------------|
| <b>Non-current assets / Assets</b>     | 15%               | 14%               |
| Property, plant and equipment / Assets | 8%                | 7%                |
| Intangible assets / Assets             | 1%                | 1%                |
| Right-of-use assets / Assets           | 5%                | 5%                |
| <b>Current assets / Assets</b>         | 85%               | 86%               |
| Inventory / Assets                     | 63%               | 61%               |
| Trade and other receivables / Assets   | 16%               | 18%               |

**The structure of equity and liabilities of TOYA S.A. Capital Group (PLN '000)**

|  | <b>30.06.2022</b> | <b>31.12.2021</b> |
|--|-------------------|-------------------|
| Equity                                 | 345,215           | 300,678           |
| Long-term liabilities                  | 41,141            | 29,513            |
| Short-term liabilities, including:     | 304,920           | 272,169           |
| Short-term trade and other liabilities | 149,687           | 156,068           |
| <b>Total equity and liabilities</b>    | <b>691,276</b>    | <b>602,360</b>    |

**% equity and liability structure of TOYA S.A. Capital Group**

|   | <b>30.06.2022</b> | <b>31.12.2021</b> |
|---|-------------------|-------------------|
| Equity / Equity and liabilities                 | 50%               | 50%               |
| Short-term liabilities / Equity and liabilities | 44%               | 45%               |
| Long-term liabilities / Equity and liabilities  | 6%                | 5%                |
| Short-term liabilities / Liabilities            | 88%               | 90%               |
| Long-term liabilities / Liabilities             | 12%               | 10%               |

**Ratios of return on equity, assets and current assets**

|  | <b>6 month period ended June 30</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2022</b>                         | <b>2021</b> |
| Return on assets (ROA)   | 6%                                  | 9%          |
| Return on equity attributable to shareholders of the Parent<br>Company ROE | 11%                                 | 16%         |
| Return on current assets   | 6%                                  | 11%         |

Key:

Return on assets (ROA) – the ratio of net profit to total assets as at the end of the period

Equity ratio (ROE) – the ratio of net profit to equity as at the end of the period

Return on current assets – the ratio of net profit to current assets as at the end of the period

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Property, plant and equipment are the largest item of non-current assets, accounting for 8% of total assets (7% as at 31 December 2021). Property, plant and equipment include mainly land, buildings and structures necessary for the Group's commercial activities, in particular the new warehouse in Yato Jiaixng Co. Ltd., which will start operating in 2022.

Right-of-use assets are also a significant item, accounting for 5% of non-current assets. This item includes mainly assets resulting from lease of warehouses in Poland, Romania and China, perpetual usufruct of land, as well as computer equipment and car lease agreements in the Parent Company.

The structure of the current assets of the TOYA S.A. Capital Group, which as at 30 June 2022 account for 85% of total assets, is dominated by inventories and trade and other receivables, which is typical for the type of activities conducted by TOYA S.A. and its Capital Group. Both these items together account for 93% of total current assets as at 30 June 2022 (92% as at 31 December 2021).

### Equity structure and debt ratios

|   | 30.06.2022 | 31.12.2021 |
|---|------------|------------|
| Total debt ratio  | 50%        | 50%        |
| Equity debt ratio   | 100%       | 100%       |
| Long-term debt ratio  | 6%         | 5%         |
| Short-term debt ratio   | 44%        | 45%        |
| The ratio of coverage of non-current assets with equity and long-term liabilities | 348%       | 369%       |

Key:

Total debt ratio – the ratio of long- and short-term liabilities to total equity and liabilities

Equity debt ratio – the ratio of long- and short-term liabilities to equity

Long-term debt ratio – the ratio of long-term liabilities to total equity and liabilities

Short-term debt ratio – the ratio of short-term liabilities to total equity and liabilities

The ratio of coverage of non-current assets with equity and long-term liabilities – the ratio of total equity and long-term liabilities to non-current assets

As at 30 June 2022, retained earnings in the amount of PLN 284,863 thousand was the main item of the Group's equity attributable to the shareholders of the Parent Company. Share capital of TOYA S.A. as at 30 June 2022 amounted to PLN 7,504 thousand.

The main sources of financing of operating activities, in particular current assets, are equity, as well as short-term financing - bank loans and trade credit. As at 30 June 2022, the Group financed 50% of its operations with equity. As at that date, the Group had short-term liabilities due to loans in the amount of PLN 132,708 thousand and long-term in the amount of PLN 18,832 thousand.

### Group management effectiveness ratios

|                                     | For the 6-month period ended<br>30 June 2022 | For the 6-month period ended 30<br>June 2021 |
|-------------------------------------|--|--|
| Inventories turnover period (days)  | 214  | 115  |
| Receivables inflow period (days)    | 54   | 51   |
| Liabilities repayment period (days) | 73   | 62   |

Key:

Inventories turnover period (days) – the ratio of inventories as at the end of the period, multiplied by 180 days, to revenue from sales

Receivables inflow period (days) – the ratio of short-term trade and other receivables as at the end of the period, multiplied by 180 days, to revenue from sales

Liabilities repayment period (days) – the ratio of trade and other liabilities as at the end of the period, multiplied by 180 days, to revenue from sales

In the first half of 2022, the liabilities repayment period was longer than the receivables collection period. It is influenced by a higher share of sales with shorter payment terms. In addition, the inventory turnover period was extended, which resulted from higher purchases of goods in order to ensure high availability of goods for the end customer.

## **5.5 Assessment of the Company's and Group's ability to meet their obligations**

At present, there are no events that, in the opinion of the Management Board, may adversely affect the ability of the Parent and the Group to meet their obligations.

## **6. DESCRIPTION OF BASIC RISKS, THREATS AND FACTORS WHICH WILL AFFECT THE RESULTS ACHIEVED IN THE NEXT HALF YEAR**

### **6.1 Basic risks and threats**

#### **Macroeconomic situation**

The Group is present in the markets in different parts of the world, although most of its customers operate in Poland. Because of the link between the Polish economy with the global economy system and because of the extensive activities carried out outside the local market, the global economic situation has an impact on the volume of sales to the Group's customers. The destabilisation of the political situation in some of the local regions may temporarily reduce the Group's expansion in foreign markets and force it to look for new customers.

The Parent Company notices the deterioration of the macroeconomic environment in which the Group operates. It is related to the increased inflation in Poland, the Euro zone and other developed countries of the world, as well as the dynamics of the increase in prices of the most important energy carriers, manufacturing goods and services. This is related both to the attempt to balance the world economy after the COVID-19 pandemic as well as to the military conflict between Russia and Ukraine.

The situation on the Asian market, associated with the current GDP growth of local countries, also affects the financial standing of the Group due to the fact that the Group buys goods mainly from manufacturers operating in this region. This is related to the prices of purchased goods, terms of trade, the terms of order, as well as the logistics system between Asia and Europe.

#### **Competition**

The Polish market for distribution of industrial goods, which is the Group's main field of operation, is relatively highly dispersed in spite of the presence of several market leaders. Entities currently competing with the Group continue to take actions to intensify their development through aggressive pricing policy aimed at current, target or potential customers. Such actions may have a negative impact on the Group's financial standing, because further expansion of

the market may be slowed down, become difficult or even impossible. The Group shall be monitoring the market and its environment, taking various measures in order to maintain and develop competitive advantage.

### **Changes in currency markets**

The Group's strict link with foreign suppliers and settlements made primarily in USD make the Group's financial results sensitive to changes in FX rates. The Group carefully monitors the currency situation in global markets and the trends occurring therein, and updates the prices of its goods on a periodical basis. Therefore, the margins can be subject to periodical fluctuations.

It should, however, be stressed that due to the fact that a substantial part of the Group's sales revenue is earned through the export channel based on prices set in foreign currencies, the Group is, to a certain extent, secured against sudden movements in exchange rates. However, this security is not complete and not sufficient, as a result of which FX fluctuations may have negative impact on the financial performance.

### **Interest rate movements**

The Group makes use of external capital funding. An increase in interest rates on the financial market could have negative influence on the servicing costs of funding and could decrease the Group's profitability since the Parent Company entered into loan agreements with floating interest rates in PLN.

To minimise this risk, the Parent Company runs simulations of various scenarios in order to choose the optimal funding sources, taking into consideration refinancing, roll-over of the existing positions, alternative financing and mid-term tendencies on the debt market.

### **Interpretation and application of legal regulations**

Changes in legislation and diverse interpretations of the law impede the Group's operations. Changes in legislation, in particular in tax, customs, labour and social insurance law and introduction of new burdens, may have negative consequences for the Group's activity. Frequent changes in the interpretation of the tax law and lack of uniform practices of fiscal authorities and courts in the application of tax legislation, are particularly burdensome. This may involve the risk of third-party claims and proceedings of various state authorities. Moreover, because of their complexity and inconsistent taxation practices, interpretations are often the subject of disputes with tax authorities. The Group exercises due care to ensure that these transactions are compliant with legislation – in particular with the tax law. In spite of that, the risk of third-party claims, possible disputes with tax authorities or proceedings of various state authorities cannot be ruled out. Such claims, disputes or proceedings, as well as cases when fiscal authorities or courts and the Group adopt different interpretations of tax regulations and different tax qualification of events and transactions in which the Parent Company participated, may have adverse impact on the Group's financial performance.

However, it should be noted that the Group takes measures to mitigate the effects of changes in law. The Parent Company uses external services of renowned law and tax firms, which facilitate its current operations.

## Supply chain

The Group purchases goods from suppliers located in various parts of the world, mainly in Asia. Purchased goods are transported by sea. Such a supply chain exposes the Group to the risk that any adverse events concerning i.e. means of production and transport, labour, infrastructure, natural events and phenomena, can disrupt the supply chain. The Group reduces this risk by cooperating with many contractors who are additionally based in various regions in many countries. However, in case of event with extensive geographical outreach, the above strategy may not be sufficient.

### 6.2 Factors influencing the result in the next six months

The Group attaches great importance to the quality of customer service. One of key elements is to ensure that the Group's products offer is fully available to every customer, regardless of the circumstances. To support these goals, the Group constantly improves its logistics processes, maintains good relationship with suppliers, taking into account the need to minimize delivery costs. The Group intends to conduct a wide development program focused on various areas. The program is aimed at strengthening the market position, looking for new, attractive opportunities for expansion in the broadly understood market of industrial products, and strengthening the Group's position as a reliable partner for our clients. The most important activities that the Group will undertake in order to implement the program are:

- Developing the capital group  
The Capital Group is constantly developing. The subsidiaries achieved good financial results in 2022, showing on the one hand that the existing policy of supporting them brings good results, and on the other hand that, having good organizational and financial support, they are ready for continue development. The subsidiary Yato Tools (Jiaxing) with headquarters in Baibu Town, a town in the Zhejiang Province of the People's Republic of China, located within the economic zone, is in the process of building the Group's central warehouse in China. This warehouse, which is the central warehouse for the Capital Group in China, will be a buffer between independent suppliers and the Group's customers. This is the Group's response to a clearly noticeable global trend related to the faster growing e-commerce, at the expense of other sales channels, which increases the pressure on the speed and flexibility of deliveries. The warehouse was operationally launched in July 2022, however, full operational capacity will be achieved within a few months, as it requires the installation of modern warehouse automation.

The Parent Company also conducts analytical work aimed at optimizing logistics processes on the local market. In particular, it is aimed to equip the currently used warehouses with modern warehouse automation increasing the efficiency of e-commerce process management.

- Developing the export channel  
The war between Russia, Belarus and Ukraine has an impact on sales in the export channel. Sales to customers based in these countries accounted for approximately 9% of the Company's total sales. The Group is closely monitoring the developments in these countries. The detailed position of the Group on the war conflict can be found in point 4.4.

Regardless of the situation referred to above, the Group will strengthen its position on the other markets where it is present. This applies to markets where Toya S.A. has traditionally been present for many years, such as Hungary and the Czech Republic, but also the Balkans, where the Group has so far been less visible.

The group will also aim to strengthen its position outside Europe, in the African, Asian and South and Central American markets. In these markets, the Chinese subsidiary Yato Tools (Jiaxing) will develop sales and attract new customers. Support for the foreign expansion of this entity will be the development of logistics processes based on a newly built warehouse equipped with modern infrastructure.

- Effective products management

The good financial results of the Group and its constant development would not be possible without the constant expansion of the product offer. This process is carried out, inter alia, by strengthening and constantly developing the team of Product Managers who have a very wide knowledge of the product, techniques for shaping its image, who know the habits of customers and emerging trends. As a result, the Group introduces several hundred new products to its offer every year and extends the product lines, updates and refreshes the offer.

This process will be continued in the coming quarters. Modern IT technology will support this development.

- Capital investments

The Company continues to monitor the market in search of an attractive acquisition target, which would be an added value for the Group.

The situation associated with the occurrence of the COVID-19 pandemic in Poland, Europe and other regions of the world may have an impact on the development of the Group's operations and financial results in the near future, may limit or even prevent intensive development of the Group. Due to the very dynamic development of the pandemic, its nature and geographical diversity of the Group companies, the impact on financial results cannot be reliably estimated as at the date of publication of the financial statements.

## **7. DISPUTES**

As at 30 June 2022, TOYA S.A. is not a party to significant proceedings pending before a court, a body competent for arbitration proceedings or a public administration body.

## **8. RELATED PARTY TRANSACTIONS**

Related party transactions are entered into on the arm's length basis in the course of the Group's day-to-day operations. These transactions have been presented in note 25 to the condensed interim consolidated financial statements and note 26 of the condensed interim stand-alone financial statements.

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**9. GUARANTEES GRANTED AND RECEIVED**

| No | Counterparty                                      | Type of guarantee  | Subject matter and value   | Date of expiry   |
|----|---|--|--|------------------|
| 1  | Bank Handlowy w Warszawie S.A.                    | Guarantee of payment for the lease of warehouses in Nadarzyn | Bank guarantee in the amount of EUR 439,133  | 28 February 2023 |
| 2  | Sopockie Towarzystwo Ubezpieczeń ERGO Hestia S.A. | Contract on granting a customs debt guarantee                | The security for repayment of custom debts, taxes and other fees associated with goods released into free circulation based on customs declaration, in the amount of PLN 270,000 | 31 December 2022 |
| 3  | BRD Groupe Societe Generale                       | Guarantee of payment for warehouse rental in Bucharest       | Bank guarantee in the amount of EUR 232,686 (*)  | 3 August 2022    |

(\*) after 30 June 2022. the guarantee was extended until 3 August 2023 and the value was increased to EUR 246,355

On 12 June 2019, TOYA S.A. granted a guarantee of payment of liabilities arising from warehouse and office rental agreement by Toya Romania S.A. to the landlord up to the amount of EUR 115 thousand. The lease agreement was concluded on 8 February 2019 and covers a period of 10 years, with the option of changing this period. The warranty expires 3 months after the date of termination of the lease.

Apart from the above-mentioned guarantee, neither the Parent Company nor its subsidiaries have granted any significant sureties for a credit or loan or granted any guarantees in total to a single entity or subsidiary.

**10. CONTINGENT ASSETS AND LIABILITIES**

As at 30 June 2022, the Group had no significant contingent liabilities or contingent assets.

**11. INFORMATION ON SIGNIFICANT EVENTS AFTER 30 JUNE 2022****11.1 Transactions in major blocks of shares**

On 4 July 2022, the Company received a notification from the shareholder Norges Bank about the transaction, which resulted in decrease in the shareholder's share in the share capital of TOYA S.A. down to 3,336,531 shares, which constituted 4.45% of share in the Company's share capital.



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**11.2 Contribution to the share capital of Yato Tools (Jiaxing) Co. Ltd.**

On 23 August 2022, the Company made a payment of USD 1,300 thousand (PLN 6,165 thousand) for the share capital of Yato Tools (Jiaxing) Co. Ltd., which reduced the liability for the purchase of shares disclosed as of 30 June 2022.

Management Board of Toya S.A.

| <b>Date</b>    | <b>Name and surname</b> | <b>Position</b>                        | <b>Signature</b> |
|----------------|-------------------------|--|------------------|
| 25 August 2022 | Grzegorz Pinkosz        | President of the Management Board      |                  |
| 25 August 2022 | Maciej Lubnauer         | Vice-President of the Management Board |                  |
| 25 August 2022 | Robert Borys            | Vice-President of the Management Board |                  |