TOMY

Dream Energy

Dream

Annual Report 2004

CONTENTS

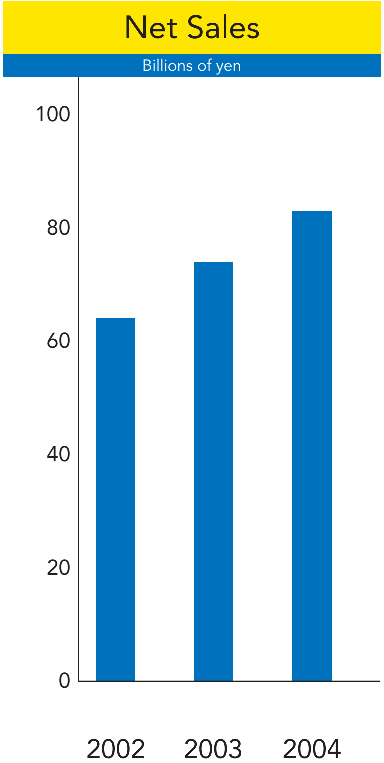
FORWARD-LOOKING STATEMENTS

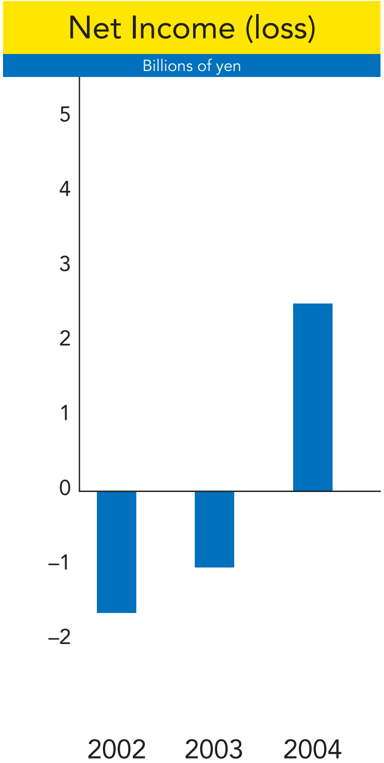
This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of TOMY Company, Ltd. and its subsidiaries. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Company and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected.

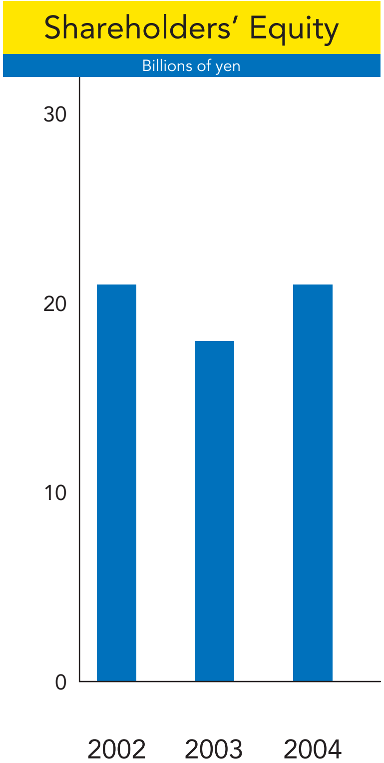
FINANCIAL HIGHLIGHTS

	Millions of yen			Thousands of U.S. dollars (Note)
	2002	2003	2004	2004
For the Year:				
Net sales	¥64,440	¥73,777	¥82,520	$780,775
Operating income (loss)	(941)	1,155	6,036	57,118
Net income (loss)	(1,601)	(1,388)	2,502	23,671
At Year-End:				
Total assets	¥54,434	¥57,150	¥47,568	$450,073
Shareholders' equity	20,541	18,478	20,838	197,161
Per Share of Common Stock (Yen and U.S. dollars):				
Net income (loss) (basic)	¥ (78.40)	¥ (70.45)	¥114.52	$ 1.08
Cash dividends, applicable to the year	20.00	–	10.00	0.09
Return on equity (ROE)	–%	–%	12.73%	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥105.69 to US$1, the approximate rate of exchange at March 31, 2004.







A MESSAGE FROM THE CEO

Kantaro Tomiyama *President & CEO*

TOMY's Vision

My new vision for TOMY is for us to "Offer a new concept of play to remain a competitive toy company in the 21st century." Specifically, against a backdrop of changes in consumer needs and our operating environment, as well as the emergence of new technologies, "offering a new concept of play" means working to respond to these developments through a repeated learning process, to create more unique products that thrill and excite our customers. The second part of our corporate vision, our goal "remain a competitive toy company in the 21st century," embodies our desire to become a toy company that resonates with 21st century society. This basically means expanding and redefining the concept of toys to encourage people from all walks of life and a wider age group to take part in play, thereby creating more value.

TOMY's Corporate Philosophy

Since our founding in 1924, I think TOMY has consistently sought to fulfill its corporate philosophy. This will remain a key part of what we are about as a company. Our corporate philosophy is made up of two elements: "Excite the global market with quality products," which means spreading the TOMY approach into international markets through high-quality products founded on innovative and perceptive thinking; and secondly, ensuring "Our sincerity and hard work will profit others and underpin our sense of achievement." Essentially, this means encouraging every employee to improve our products and originate new ideas on a daily basis.

Fiscal 2003: A Marked Improvement in Top- and Bottom-Line Performance

In fiscal 2003, ended March 31, 2004, we implemented a number of priority initiatives centered on reducing costs, with the express goal of driving a turnaround in profitability and the earnings capabilities of TOMY. In parallel with these efforts, we worked to restore the financial health of the Company by streamlining the balance sheet, improving cash flows and taking other steps. In addition, we carried out aggressive business restructuring to strengthen TOMY's profit structure, including the full-scale roll out of a strategic business unit system comprising four business units aimed at reinforcing Groupwide management. This system increases operating flexibility at business units, but also anchors them to a common corporate philosophy and vision. In the second half of fiscal 2003, we set up a fifth business unit, the Contents Business Strategy Division. Since its establishment, this business unit has aimed to create new content and maximize potential demand for content held by TOMY businesses. This includes using key licensed content such as Disney and POKÉMON to their full potential, and increasing business opportunities by carrying out product planning and development for the TOMY Group and its partners. In the peripheral toy business, which is seen as the key to future growth, we worked to strengthen our presence in the game software and digital field by acquiring the rights to popular game characters.

TOMY also continued to aggressively market original new products both in Japan and overseas based on our Micro-Entertainment concept. Due to these efforts, TOMY posted an 11.9% increase in net sales year on year, to ¥82,520 million, while our raft of priority initiatives and structural reforms led to an improvement in the cost of sales and a reduction in selling, general and administrative (SG&A) expenses. This resulted in a significant rebound in operating income, which surged 5.2 times year on year, to ¥6,036 million. However, we booked an extraordinary loss of ¥1,000 million for expenses related to the voluntary recall of the *Magnum Patrailor* due to safety issues. Consequently, net income was held to ¥2,502 million, compared to a net loss of ¥1,388 million in fiscal 2002.

Medium-Term Management Plan

As a result of our priority initiatives, aimed first and foremost at driving a turnaround in TOMY's earnings capabilities, and structural reforms, I believe we have made real progress in strengthening our operating structure. Building on this momentum, we have formulated a new three-year medium-term management plan. Started in April 2004, this plan is designed to propel the TOMY Group to the next stage of growth.

Underpinned by our corporate vision—"Offer a new concept of play to remain a competitive toy company in the 21st century"—this plan aims to realize profitable growth by expanding sales, enhancing earnings capabilities and boosting efficiency. The plan's targets for fiscal 2006, ending March 2007, are consolidated net sales of ¥100.0 billion, and ordinary income of ¥8.0 billion. In order to secure the necessary funds to help us reach the targets in our medium-term management plan, TOMY issued ¥7.0 billion in unsecured convertible bonds in June 2004. These funds will support our efforts to realize the overriding goal of the plan—profitable growth.

"Strategy" in terms of functional and business strategy is the keyword of our latest management plan. If the Group can work together over the medium-term by strategically channeling resources into key areas such as international markets, content, and products that appeal to a broader age group, I believe we can successfully raise efficiency to further raise the pace of TOMY's profitable growth.

By "offering a new concept of play to remain a competitive toy company in the 21st century," the TOMY Group is striving to satisfy customers, provide opportunities for employees, realize the ambitions of shareholders, and play a part in enriching society. In this way, underpinned by our corporate philosophy, I believe we can raise the satisfaction of our shareholders, customers, employees, and society as a whole and create win-win relationships with all these stakeholders that will maximize the corporate value of the TOMY Group. We ask for your ongoing support as a vital part of this process.

July 2004

Kantaro Tomiyama
President & CEO

TOMY'S MEDIUM-TERM MANAGEMENT PLAN

Medium-Term Management Policy

❑ Create new business units

Cultivate business units capable of creating new earnings streams alongside products like *Tomica* and *PLARAIL*; consistently develop new business units that generate annual sales of between ¥3.0 billion and ¥5.0 billion.

❑ Create new markets through business units targeting non-age-specific demand

Establish a new Ageless-Age business team to create ¥3.0 billion businesses. Channel management resources (personnel, assets, funds and information) into marketing these new businesses fields.

❑ Succeed in the Content Business

Strengthen TOMY's Content Business by upgrading existing content assets, creating original new content, acquiring new popular characters and securing our intellectual property rights.

Rapidly utilize enhanced common content across the Group to recoup business investments by leveraging the Group's collective strengths.

❑ Succeed in the Disney Business

Utilize all licensed categories to further grow the Disney Business.

❑ Expand sales in North America and move into China

In North America, establish and expand product categories to achieve net sales in fiscal 2007 of $100 million. In fiscal 2004, TOMY also plans to set up an office in Shanghai, China, a promising future toy market, to serve as its marketing base in the country.

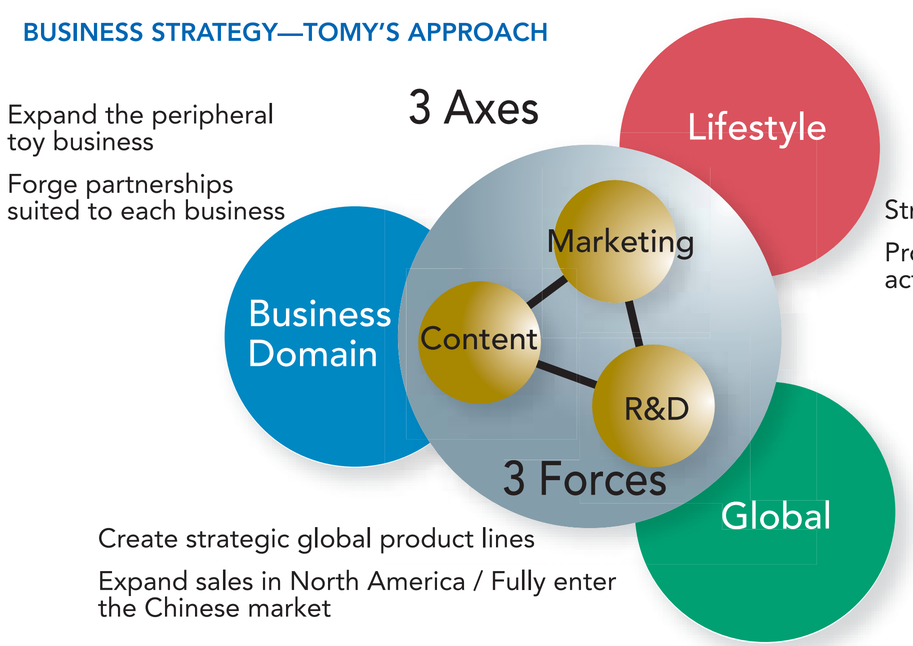
Business Strategy

Framing its strategy in terms of three axes and three forces, TOMY will strengthen its business in pursuit of profitable growth.

3 Axes: Lifestyle, Business Domain and Global

3 Forces: Marketing, Content and R&D

BUSINESS STRATEGY—TOMY'S APPROACH



❑ Developing the lifestyle axis

Utilize best practices from the success of the *Nohohon Swinging Dwarves* business to develop the Ageless-Age concept and its products based on a lifestyle perspective.

❑ Developing the business domain axis

The Contents Business Strategy Division will enhance and leverage TOMY's content to expand the peripheral toy business. Also, TOMY will select optimal partners with strengths that match the characteristics of each of its businesses.

❑ Developing the global axis

The International Business Division will leverage TOMY's strengths in product development to identify global market needs. Using this information, it will develop strategic global product lines capable of generating sales and driving profits worldwide.

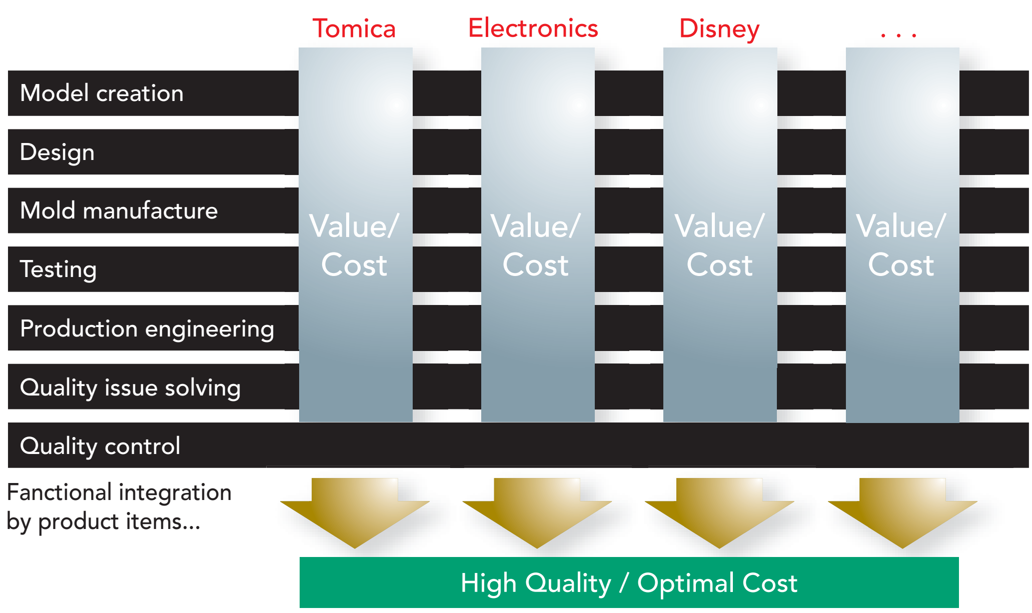
Operational Strategies

❑ Development strategy

In conjunction with efforts to build up a reservoir of internal intellectual property assets, TOMY will rebuild its product planning and development network anchored by mutually beneficial partnerships. In this way, TOMY will strengthen both its product planning and development network and its internal development capabilities. TOMY will also work to enhance information sharing, using valuable customer feedback in quality control, improvements to product safety and marketing activities.

OPERATIONAL STRATEGY—DEVELOPMENT STRATEGY

Creation of a function-based lateral management and responsibility system for each product group



❑ Production strategy

TOMY Development Center, Inc., a TOMY subsidiary, will be responsible for overseeing technologies, production activities, improving quality and safety, and building a more cost-effective operating structure. TOMY (Thailand) Ltd. will work to ensure its factory operates at world-leading efficiency levels and produces toys that engender customer peace of mind. TOMY (Hong Kong) Ltd. will be transformed into the TOMY Group's integrated procurement office with a respective increase in functions, and the TOMY engineering center in Shenzhen, China, will accumulate technologies in the field to use in production activities. Overseeing this structure will be the TOMY Development Center, which will integrate technology, production and procurement functions.

❑ Sales and retail strategy

TOMY will create a framework that ensures its products are always on store shelves so that the TOMY message reaches its target consumers. This will mean making sales areas more appealing and responding to changes in the retail market by reinforcing our direct sales system for large retail stores, expanding existing sales channels and developing new products for emerging sales channels.

In marketing initiatives, TOMY will establish a marketing strategy committee that cuts cross-organizational boundaries to formulate and implement a Groupwide toy-focused marketing policy and retail strategy that can respond flexibly to changes in the market place. TOMY will also implement clear regional strategies for wholesalers and build closer relationships with leading nationwide wholesalers.

❑ Distribution strategy

TOMY will work to reduce distribution costs by strengthening supply chain management (SCM) and integrating the management of overseas and domestic distribution operations.

❑ Finance strategy

TOMY is aiming to optimize its capital structure, streamline its balance sheet and reduce financial risk. In the first area, the objective will be to raise TOMY's ratings by increasing the shareholders' equity ratio to at least 50%. In the second area, TOMY will increase asset efficiency to achieve ROA of at least 10%. And in the third area, TOMY will work to optimize Groupwide fund management and exchange rate risk.

Guided by the above strategies, we will continue to drive forward reform to take TOMY to the next stage of growth.

GROUP NETWORK

EUROPE

The European toy market is the world's second largest after North America. In 1982, we established TOMY UK Ltd. to oversee sales activities in all European countries other than France and Belgium. Proud of its position as a leading player in the U.K. toy market, TOMY UK is now moving into other market segments, supported by its powerful presence in the baby and preschooler toy market.

TOMY France S.A.R.L., established in 1985, is responsible for marketing TOMY products in France and Belgium.

In the year under review, *MicroBabies*, the next product based on TOMY's Micro-Entertainment concept after *MiCROPETS* launched in the previous fiscal year, supported sales. Going forward, both these companies will work to put integrated operational functions on a surer footing as they seek to win a greater share of the European toy market.

EAST AND SOUTHEAST ASIA

Asia is home to our first overseas manufacturing base, TOMY (Hong Kong) Ltd., established in 1970. Since then, the company has worked to share technological and quality-control capabilities with other toy manufacturers in the region, enabling it to provide superior products the world over. Highlighting the superior quality of its products, the company has been awarded ISO 9001 certification. It has also attained ISO 14001 certification for environmental management.

In addition to supplying products to TOMY Group companies, TOMY (Hong Kong) is also working to grow sales of mainstay products such as *Tomica*, *PLARAIL* and *ZOIDS*, independently developed products, and Disney-themed toys to external customers in East and Southeast Asia.

Established in 1987, TOMY (Thailand) Ltd. today employs over 1,000 employees at its own factory in Thailand. Together with its Hong Kong counterpart, the company plays an important role as a manufacturing center for the TOMY Group. TOMY (Thailand) has obtained ISO 9002 certification, and places a constant focus on reducing costs and enhancing manufacturing efficiency. Based on these efforts, the company is aiming to boost factory efficiency to world-leading levels and create highly safe products.

In fiscal 2004, TOMY will also establish an office in Shanghai, China, a promising future toy market, to act as its marketing base in the country.

NORTH AMERICA

TOMY has been active in North America, the world's largest toy market, since 1973. In 1998, TOMY disbanded its local sales subsidiary to set up TOMY Corporation. Initially, this company was primarily mandated to provide sales support for TOMY Group products to major toy retailers in the United States, such as Wal-Mart and Toys "R" Us, and to gather information on the North American market.

In the previous fiscal year, the Company also began full-scale sales activities aimed at raising the visibility of TOMY products in the region. Following on from *MiCROPETS* in fiscal 2002, TOMY Corporation launched *MicroBabies* in the year under review, ahead of scheduled launches in the Japanese and European markets. These toys and *THOMAS Motor Road & Rail* drove sales significantly higher, helping to support a sustained and strong increase in earnings.

In 1999, TOMY established TOMY Yujin Corporation, a vehicle to market capsule toys in North America. Although sales of capsule toys are still relatively small, sales are growing steadily as we gradually increase the number of capsule toy dispensers at leading retailers such as Wal-Mart. We have great hopes for these products going forward.


TOMY UK Ltd.


TOMY France S.A.R.L.


TOMY (Hong Kong) Ltd.


TOMY (Thailand) Ltd.


TOMY Corporation

CORPORATE GOVERNANCE
—BASIC POLICIES AND INITIATIVES

BASIC POLICIES

Firmly committed to our corporate vision of "offering a new concept of play to remain a competitive toy company in the 21st century," we are building a management framework capable of objective and rapid decision making to help us implement our medium-term management plan. At the same time, as a listed company, we believe it is important to reinforce oversight functions and increase management transparency to satisfy the demands of shareholders and capital markets. Toward that goal, we have established a corporate governance system comprising the Board of Directors, which manages the Company on behalf of shareholders, and a board of auditors to supervise the actions of the Board. To increase transparency, we present business reports at the annual general meeting of shareholders and promote greater communication with shareholders. TOMY also conducts an ongoing investor relations program designed to facilitate better communication with the markets. Investor opinions gleaned from these activities are reflected in the management of the Company.

INITIATIVES

❑ Corporate governance framework

In June 2000, we reformed the Board of Directors and introduced a corporate executive officer system. The Board of Directors sets policy and strategies on key Group management issues, and makes decisions on important business activities and oversees operations. In principle, the Board meets at least once a month in order to maintain management responsiveness. TOMY's executive management committee also meets at least once a month to ensure the smooth running of the parent company and its subsidiaries. The Board of Directors comprises eight directors, two of them outside directors. Elected by shareholders, they are responsible for making management decisions, supervising business activities and passing resolutions required by the Commercial Code of Japan. Outside directors monitor operations primarily from the standpoint of protecting shareholder interests. Corporate executive officers are in charge of the day-to-day running of their respective business units under the supervision of the board of directors and in accordance with its policies and strategies. TOMY has adopted the Company with auditors system. Auditors, including outside auditors (a lawyer and a certified public accountant), closely monitor the decisions and actions of the Board of Directors, thus strengthening the oversight functions of the Company. Moreover, TOMY has set up a financial advisory committee of specialists, including an outside director and auditor, to provide advice to the Board of Directors. The committee advises the Board on important management issues and monitors operations from the perspective of asset management.

❑ Corporate governance initiatives and progress in fiscal 2003

Compliance with laws and regulations is a matter of course at TOMY. In February 2004, TOMY launched the compliance project. This project has two aims: to build a compliance system that ensures adherence with strict standards of company ethics and internal rules, and to enforce a code of conduct consistent with our principles and vision. Through this project, we will promote a shared corporate philosophy and vision, clearly define a Groupwide code of conduct and rules of behavior, and enhance information transparency throughout the Company.

TOMY has worked relentlessly to ensure the safety of its products by strictly enforcing industry and in-house rules at all stages of the product cycle—from planning and development to manufacturing and marketing. Shocked by the *Magnum Patrailor* incident, we reformed our organizational structure on February 21, 2004, establishing the Safety and Environmental Assurance Division to strengthen our risk management system. This new office is revising our product safety standards from the standpoint of total safety. Based on new standards, the office will assess safety at all stages of the product cycle—from development through to the finished product—and assess potential risks, implementing remedial measures where necessary. During the year, we also established a Safety and Quality Information Management Team to compile, analyze and publish product safety and quality data by product. All these initiatives are aimed at providing our customers with even safer, higher quality products.

BOARD OF DIRECTORS


President & CEO
Kantaro Tomiyama


Senior Managing Director
Chief Domestic Operating Officer
Shiryo Okuaki


Managing Director
Chief Financial Officer
Toshiki Miura


Managing Director
Chief International Operating Officer
Isamu Takahashi


Board Director
Senior Executive Officer
Head of Toy Business Division
Shigeki Yanagisawa


Board Director
Chief Engineering Officer
Saburo Okada


Board Director
Yasuyuki Watanabe


Board Director
Haruyuki Niimi


Corporate Auditor
Mitsuo Matsuba


Corporate Auditor
Toshi Yoshinari


Corporate Auditor
Tsunekazu Umeda

(As of June 26, 2004)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

	Millions of yen					Thousands of U.S. dollars (Note)
	2000	2001	2002	2003	2004	2004
For the Year:						
Net sales	¥ 96,816	¥ 89,972	¥ 64,440	¥ 73,777	¥ 82,520	$780,775
Operating income (loss)	8,827	5,760	(941)	1,155	6,036	57,118
Income (loss) before income taxes	8,083	5,622	(1,743)	(1,150)	4,165	39,412
Net income (loss)	4,604	3,490	(1,601)	(1,388)	2,502	23,671
At Year-End:						
Total assets	¥ 60,381	¥ 60,447	¥ 54,434	¥ 57,150	¥ 47,568	$450,073
Shareholders' equity (Note 13)	21,031	22,441	20,541	18,478	20,838	197,161
Return on equity	25.62%	16.06%	–%	–%	12.73%	
Number of shares issued at year-end	13,612,866	20,419,299	20,419,299	20,419,299	20,419,299	
Per Share of Common Stock (Yen and U.S. dollars):						
Net income (loss) (Note 15)						
Basic	¥ 340.63	¥ 170.94	¥ (78.40)	¥ (70.45)	¥ 114.52	$ 1.08
Diluted	310.53	152.39	–	–	–	–
Shareholders' equity (Note 13)	1,544.93	1,099.01	1,006.06	902.71	1,012.90	9.58
Cash dividends, applicable to the year (Note 14)	30.00	30.00	20.00	–	10.00	0.09

Note: U.S.dollar figures have been translated from yen, for convenience only, at the rate of ¥105.69 to US$1, the approximate rate of exchange at March 31, 2004.

FINANCIAL REVIEW

NET SALES

In fiscal 2003, ended March 31, 2004, the Japanese economy was characterized by a gentle recovery in personal consumption. Improving corporate profitability and rising exports helped boost capital investment, while the employment and personal income situation improved in the second half. However, the toy sector as a whole remained sluggish due to the falling birthrate, increasingly diversified patterns of play and an absence of a hit product to fuel growth.

In response to this challenging operating environment, and guided by our Micro-Entertainment concept, we promoted sales of new TOMY-developed products in Japan and through our overseas sales subsidiaries. Positioning our Disney Business as our core business, we also marshaled the Group's resources to aggressively promote Disney products. As part of the strategy for our peripheral toy business, an area that holds the key to TOMY's future growth, we strengthened our presence in the digital entertainment field, including game software, by obtaining rights to popular animation characters.

As a result of the above efforts, consolidated net sales increased 11.9% to ¥82,520 million.

SEGMENT INFORMATION

Toy

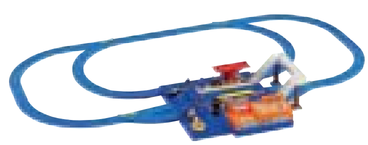
Toy sales remained strong as we upgraded the lineup in our mainstay Tomica and PLARAIL lines and revamped sales areas. Standout performers included new products such as *Fun Fun Highway* in the Tomica World range, and *Announce Station* in PLARAIL. Sales of Disney character toys also rose significantly, underpinned by strong demand for the *Princess Series*. Other products, including baby toys and a range of new products across the Group, such as stuffed toys launched by subsidiary HeartLand Co., Ltd., combined to maintain the strong pace of sales growth. Following the TOMY-developed *MiCROPETS*, launched in line with our Micro-Entertainment concept, we rolled out *Finger Pets Chicks* in Japan and *MicroBabies* in the U.S. and Europe during the year under review. Both these products proved popular and contributed significantly to sales. Game software, featuring the popular *NARUTO* character, also played a large part in boosting sales. As well as offering interesting game play, this game software was promoted aggressively through a tie-up with Nintendo Co., Ltd., a company with a powerful distribution network. In the year under review, POKÉMON-related products

Finger Pets Chicks

Me-mail Shot

Fun Fun Highway

POKÉMON AG Encyclopedia
©Nintendo·Creatures·GAME FREAK·TV Tokyo·ShoPro·JR Kikaku
©Pokémon

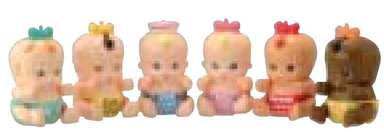


Announce Station

Princess Magical Stick
Cinderella Blue Dress
©Disney

NARUTO
Ninjutuzenkai! Saikyoninja daikesshu
© 岸本斉史 スコット／集英社·テレビ東京·ぴえろ ©2003 TOMY ▼

NARUTO ▲
Gekito Ninja taisen
© 岸本斉史 スコット／集英社·テレビ東京·ぴえろ ©2003 TOMY



MicroBabies

also found a new lease of life in the game software field, particularly *POKÉMON AG Encyclopedia*. Thanks to a successful media-mix strategy rolled out with our partners, centered on movies, POKÉMON-related products made a major contribution to sales in fiscal 2003. *Me-mail shot*, a new camera-equipped product in the long-seller *Me-mail series* was also well received. Elsewhere, subsidiary Yujin Company, Ltd. reported strong sales of capsule toys, particularly Disney and POKÉMON-themed products.

Thanks to a robust performance by all the above products, net sales in the Toy Segment grew 11.7% year on year to ¥79,984 million.

Others

Net sales in this segment rose 16.9% to ¥2,536 million, reflecting higher POKÉMON-related revenues.

COST OF SALES

Although the cost of sales rose ¥2,996 million to ¥50,940 million, in line with the increase in net sales, the cost of sales ratio declined 3.3 percentage points to 61.7%, benefiting from cost reduction initiatives and changes in the product mix.

SG&A EXPENSES

SG&A expenses increased 3.5% or ¥866 million, to ¥25,544 million. However, SG&A expenses as a percentage of net sales declined 2.4 percentage points to 31.0%, reflecting the benefits of TOMY's priority initiatives.

OPERATING INCOME

The Toy Business posted a substantial increase in operating income from ¥2,458 million in the previous year to ¥7,026 million in the year under review. Operating income in Others increased 3.2% to ¥423 million. Higher gross profit, improvement in the cost of sales ratio, and a lower SG&A expenses ratio led to a ¥4,881 million increase in consolidated operating income.

NET INCOME

Net income before income taxes was ¥4,165 million, against a net loss of ¥1,150 million in the previous fiscal year. After the deduction of income taxes, net income totaled ¥2,502 million, and net income per share was ¥114.52.

FINANCIAL CONDITION

As of March 31, 2004, total assets stood at ¥47,568 million, 16.8% lower than at the end of the previous year. This primarily reflected the use of cash and cash equivalents and the sale of marketable securities for the redemption of convertible bonds. Investments and other assets declined 32.4%, to ¥2,681 million. This was largely because of a decline in deferred income tax—non-current, a result of the lower net loss carried forward from the end of the fiscal year due to the marked recovery in earnings. Total liabilities decreased 31.5% to ¥26,463 million, due in large part to the redemption of convertible unsecured bonds and the repayment of short-term borrowings.

CASH FLOWS

Net cash provided by operating activities rose sharply, while investing activities generated a net cash inflow. Financing activities posted negative cash flow. As a result, consolidated cash and cash equivalents at the end of the fiscal year totaled ¥15,349 million, ¥6,164 million lower than at the end of the previous fiscal year.

The main components of cash flows and factors affecting cash flows in the current fiscal year were as follows.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities was ¥6,142 million, mainly due to a significant ¥5,315 million increase in income before income taxes.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash provided by investing activities was ¥1,449 million. This primarily resulted from proceeds from sales of marketable and investment securities.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was ¥13,563 million, largely reflecting redemption of the convertible unsecured bonds totaling ¥9,965 million.

TWO-YEAR CASH FLOW/INCOME AND EXPENSES SUMMARY

Cash Flows	Millions of yen		% Change
	FY2004	FY2003	(%)
Operating cash flows	¥ 6,142	¥ 3,079	99.5%
Investing cash flows	1,449	(2,745)	–
Financing cash flows	(13,563)	5,597	–
Cash and cash equivalents at end of year	¥ 15,349	¥21,513	(28.7)%

Income and Expenses	Millions of yen		% Change
	FY2004	FY2003	(%)
Net sales	¥82,520	¥73,777	11.9%
Cost of sales	50,940	47,944	6.2
Cost of sales ratio (%)	61.7	65.0	(3.3)
Gross profit	31,580	25,833	22.2
Gross profit margin (%)	38.3	35.0	3.3
SG&A expenses	25,544	24,678	3.5
SG&A expense ratio (%)	31.0	33.4	(2.4)
Operating income	6,036	1,155	422.6
Operating income margin	7.3	1.6	5.7
Net income (loss)	2,502	(1,388)	–
Net income margin (%)	3.0	(1.9)	4.9

FACTORS AFFECTING FINANCIAL POSITION AND OPERATING RESULTS

(1) Foreign exchange risk

TOMY operates globally, with overseas sales accounting for 25.7% of consolidated net sales in the year under review. TOMY also has significant overseas manufacturing operations, particularly in China and Thailand. Although the Company uses forward exchange contracts to reduce its exposure to foreign exchange risk, fluctuations in foreign exchange rates may impact on TOMY's financial position and operating results.

(2) Impact of hit products

The Company's core Toy Business tends to be affected by the success or failure of certain individual products and characters. To become less reliant on specific products and characters, the TOMY Group is expanding its product lineup and simultaneously promoting several different characters. However, the unexpected popularity of a specific product or character—or the loss of that popularity—may impact on the Company's financial position and operating results.

(3) Seasonal fluctuations

Given the nature of TOMY's core Toy Business, segment profit tends to increase toward December, the peak Christmas sales period. To balance out income over the year, TOMY continually introduces appealing products during off-peak periods. However, the Company expects seasonal fluctuations in earnings to be the norm for the foreseeable future.

(4) Major customers

Toys "R" US-Japan, Ltd. is the Group's major customer, accounting for over 10% of sales. To reduce dependence on any specific customer, TOMY is working to expand its customer base by diversifying marketing channels. However, dramatic changes in business relationships have the potential to impact on the Company's financial position and operating results.

(5) Voluntary recalls

In February 2004, TOMY voluntarily recalled the *Tomica Magnum Patrailor* due to customer complaints about injuries. Consequently, for the year ended March 31, 2004, TOMY booked an extraordinary loss of ¥1,000 million for expenses related to this voluntary recall. The Company may also have to bear additional costs. TOMY plans to implement a stricter product safety policy to prevent similar product recalls. However, future product recalls may affect the Company's financial position and operating results.

OUTLOOK

Despite a challenging industry and market environment, the TOMY Group will aggressively implement a forward-looking growth strategy in the fiscal year to March 31, 2005, underpinned by investment in R&D, advertising and sales promotion, and product moulds.

We plan to boost sales of the flagship Tomica and PLARAIL lines by reviewing product planning and marketing strategies. This will go hand in hand with a revamp of TOMY sales areas, primarily focusing on display equipment. We also anticipate higher sales of Disney products as we expand the range of toy categories we offer, strengthen marketing channels through U-Ace Company, Ltd., a distribution subsidiary, and develop products that play to the strengths of the Disney brand. *ZOIDS* are also slated for growth through marketplace revitalization using the related TV animation series and efforts to win new customers. We also aim to ensure the continued popularity of the POKÉMON brand by pursuing a media-mix strategy centered on collaborative movie production. In game software, our focus will be on developing new titles themed around *NARUTO*, a highly popular comic and TV animation character. We aim to continue marketing new game software titles through Nintendo's powerful distribution network. In the coming year, we plan to launch *Microids*, the next offering in our line of Micro-Entertainment products after *MicroBabies*, as well as a raft of new toys using groundbreaking technologies that we plan to aggressively launch in the U.S., and then other global markets. One of these products is called *Lights Alive*, which lets children write words and draw pictures that glow in the dark.

We are projecting net sales of ¥85,500 million in fiscal 2004, an increase of 3.6% year on year.

Despite continuing efforts to pare back unit costs, we expect the cost of sales ratio to edge up marginally in view of economic uncertainties such as exchange rate fluctuations. SG&A expenses are also likely to be higher as advertising and sales promotion costs and R&D expenses all rise as we follow the growth strategies described earlier. We are projecting operating income of ¥4,900 million, down 18.8% from the previous fiscal year, and net income of ¥2,400 million, a slight decline of 4.0%.

The above projections are based on information available to management as of August 17, 2004. As such, these forecasts entail risks and uncertainties. Actual results may differ materially from these projections.

BASIC POLICY ON DISTRIBUTION OF EARNINGS

TOMY believes that sharing profits with shareholders is one of its most important management duties. The Company's policy is to retain sufficient earnings to strengthen its operating base while raising profitability and, based on the premise of continuing to pay a stable dividend, to strive to return earnings to shareholders in line with operating results.

Retained earnings are used to steadily develop new businesses and expand existing businesses.

In accordance with the above policies, TOMY declared a full-year dividend of ¥10.0 per common share for the fiscal year ended March 31, 2004.

CONSOLIDATED BALANCE SHEETS

TOMY COMPANY, LTD. AND SUBSIDIARIES
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2004	2003	2004
Current Assets:			
Cash and cash equivalents	¥ 15,349	¥ 21,513	$ 145,229
Marketable securities (Note 3)	565	3,344	5,343
Trade notes and accounts receivable	10,134	9,949	95,889
Less allowance for doubtful receivables	(256)	(217)	(2,425)
Inventories (Note 5)	5,521	5,207	52,238
Deferred income taxes—current (Note 12)	1,455	1,260	13,769
Other	3,838	3,261	36,310
	36,606	44,317	346,353
Property, Plant and Equipment, at Cost:			
Land (Notes 7 and 16)	3,412	3,411	32,283
Buildings and structures (Note 7)	6,594	6,629	62,396
Machinery and equipment	21,701	20,810	205,330
Construction in progress	36	63	341
	31,743	30,913	300,350
Less accumulated depreciation	(23,462)	(22,047)	(221,993)
	8,281	8,866	78,357
Investments and Other Assets:			
Investment securities (Note 3)	997	1,179	9,429
Investment in unconsolidated subsidiaries and affiliates	219	101	2,072
Lease deposits and other	945	1,112	8,939
Deferred income taxes—non-current (Note 12)	520	1,575	4,923
	2,681	3,967	25,363
Total Assets	¥ 47,568	¥ 57,150	$ 450,073

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Current Liabilities:			
Short-term borrowings (Note 6)	¥ 4,407	¥ 9,119	$ 41,698
Current portion of long-term debt (Note 7)	551	10,298	5,210
Trade notes and accounts payable	3,731	4,236	35,303
Other payables	3,801	4,120	35,960
Accrued expenses	2,868	1,700	27,139
Accrued income taxes	329	313	3,113
Other	2,353	932	22,267
	18,040	30,718	170,690
Long-Term Liabilities:			
Long-term debt, less current portion (Note 7)	5,698	4,865	53,912
Severance and retirement allowances (Note 10):			
Employees	1,080	972	10,216
Directors	436	399	4,131
Deferred income taxes for revaluation of land (Notes 12 and 16)	18	18	167
Other	1,191	1,635	11,269
	8,423	7,889	79,695
Total liabilities	26,463	38,607	250,385
Minority Interests:	267	65	2,527
Commitments and Contingent Liabilities (Note 17)			
Shareholders' Equity (Note 13):			
Common stock, no par			
Authorized 60,000,000 shares			
Issued 20,419,299 shares at March, 2004 and 2003	2,990	2,990	28,290
Additional paid-in capital	2,936	2,936	27,781
Retained earnings	16,533	14,078	156,433
Revaluation reserve for land, net of tax (Note 16)	26	26	246
Net unrealized holding gains (losses) on securities	135	(118)	1,279
Foreign currency translation adjustments	(1,770)	(1,426)	(16,752)
	20,850	18,486	197,277
Less treasury stock, at cost			
8,763 shares at March 31, 2004 and 5,993 shares at March 31, 2003	(12)	(8)	(116)
Total shareholders' equity	20,838	18,478	197,161
Total Liabilities and Shareholders' Equity	¥47,568	¥57,150	$450,073

CONSOLIDATED STATEMENTS OF OPERATIONS

TOMY COMPANY, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net Sales	¥82,520	¥73,777	$780,775
Cost of Sales	50,940	47,944	481,975
Gross profit	31,580	25,833	298,800
Selling, General and Administrative Expenses	25,544	24,678	241,682
Operating income	6,036	1,155	57,118
Other Income (Expenses):			
Interest and dividend income	42	99	401
Interest expense	(286)	(280)	(2,701)
Gain on sale of fixed assets	2	10	22
Loss on disposal of plant and equipment	(33)	(83)	(308)
Cash discounts	(173)	(211)	(1,642)
Impairment loss on investment securities	(19)	(458)	(178)
Foreign exchange loss, net	(223)	(663)	(2,116)
Loss on voluntary recall of products	(1,000)	–	(9,462)
Special early retirement benefit	–	(355)	–
Other, net	(181)	(364)	(1,722)
	(1,871)	(2,305)	(17,706)
Income (Loss) before Income Taxes	4,165	(1,150)	39,412
Provision for Income Taxes—current	840	737	7,948
—deferred	777	(532)	7,351
Minority Interest in Subsidiaries	46	33	442
Net Income (Loss)	¥ 2,502	¥ (1,388)	$ 23,671
Per Share of Common Stock:			
Net income (loss) (Note 15):			
Basic	¥114.52	¥ (70.45)	$ 1.08
Diluted	–	–	–
Cash dividends, applicable to the year (Note 14)	10.00	–	0.09

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TOMY COMPANY, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen (Note 13)					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net gains and losses not recognized in the statements of operations	Total
Balance at March 31, 2002	¥ 2,990	¥ 2,936	¥ 15,606	¥ (3)	¥ (988)	¥ 20,541
Revaluation reserve for land, net of tax					1	1
Unrealized holding losses on securities arising during the period					(69)	(69)
Foreign currency translation adjustments					(462)	(462)
Net loss			(1,388)			(1,388)
Dividends declared			(102)			(102)
Bonuses paid to directors & corporate auditors			(31)			(31)
Equity in subsidiaries included in consolidation at beginning of year			(7)			(7)
Treasury stock				(5)		(5)
Balance at March 31, 2003	¥ 2,990	¥ 2,936	¥ 14,078	¥ (8)	¥ (1,518)	¥ 18,478
Unrealized holding gains on securities arising during the period					253	253
Foreign currency translation adjustments					(344)	(344)
Net income			2,502			2,502
Bonuses paid to directors & corporate auditors			(47)			(47)
Treasury stock				(4)		(4)
Balance at March 31, 2004	¥ 2,990	¥ 2,936	¥ 16,533	¥ (12)	¥ (1,609)	¥ 20,838

	Thousands of U.S. dollars (Note 1 and 13)					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net gains and losses not recognized in the statements of operations	Total
Balance at March 31, 2003	$28,290	$27,781	$133,203	$ (77)	$(14,366)	$174,831
Unrealized holding gains on securities arising during the period					2,399	2,399
Foreign currency translation adjustments					(3,260)	(3,260)
Net income			23,671			23,671
Bonuses paid to directors & corporate auditors			(441)			(441)
Treasury stock				(39)		(39)
Balance at March 31, 2004	$28,290	$27,781	$156,433	$(116)	$(15,227)	$197,161

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TOMY COMPANY, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥ 4,165	¥ (1,150)	$ 39,412
Depreciation and amortization	2,256	2,373	21,347
Interest and dividend income	(42)	(99)	(401)
Interest expense	286	280	2,701
Decrease (increase) in trade notes and accounts receivable	(555)	1,124	(5,257)
Decrease (increase) in inventories	(314)	97	(2,969)
Increase in prepaid expenses	214	582	2,023
Decrease in trade notes and accounts payable	(350)	(103)	(3,307)
Other, net	1,570	741	14,859
Sub total	7,230	3,845	68,408
Interest and dividend received	44	95	415
Interest paid	(282)	(289)	(2,669)
Income tax paid	(850)	(572)	(8,042)
Net cash provided by operating activities	6,142	3,079	58,112
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(1,715)	(2,219)	(16,223)
Purchase of marketable and investment securities	(1,685)	(2,038)	(15,943)
Proceeds from sales of marketable and investment securities	4,982	1,793	47,133
Other, net	(133)	(281)	(1,260)
Net cash provided by (used in) investing activities	1,449	(2,745)	13,707
Cash Flows from Financing Activities:			
Proceeds from (Repayment of) short-term borrowings, net	(4,749)	2,022	(44,937)
Repayment of long-term debt	(349)	(1,130)	(3,306)
Proceeds from long-term debt	1,400	4,800	13,246
Redemption of the convertible unsecured bonds	(9,965)	–	(94,285)
Dividends paid	(3)	(109)	(30)
Other, net	103	14	986
Net cash provided by (used in) financing activities	(13,563)	5,597	(128,326)
Effect of Exchange Rate on Cash and Cash Equivalents	(192)	(236)	(1,813)
Net Increase (Decrease) in Cash and Cash Equivalents	(6,164)	5,695	(58,320)
Cash and Cash Equivalents at Beginning of Period	21,513	15,790	203,549
Net Increase in Cash and Cash Equivalents due to Change in Consolidated Subsidiaries (Note 4)	–	28	–
Cash and Cash Equivalents at End of Period	¥ 15,349	¥21,513	$ 145,229

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOMY COMPANY, LTD. AND SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tomy Company, Ltd., ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. $1. These translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements of the Company and its consolidated subsidiaries ("the Group") include Tomy Company, Ltd., and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to exercise significant management control. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheets and statements of operations, respectively. Material intercompany balances, transactions and profits have been eliminated in the consolidation. Differences between the cost and the underlying net equity of investments in subsidiaries are amortized on a straight-line basis over a five-year period.

Investment in a 20%-50% owned affiliate is accounted for by the equity method and is included in investment in unconsolidated subsidiaries and affiliates in the accompanying consolidated balance sheets. The Company's equity in earnings of those affiliates is not material and, accordingly, is included in other income (expenses) in the accompanying consolidated statements of operations.

(b) Foreign Currency Translation

All current and long-term monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates in effect at the balance sheet date. Foreign exchange gain/loss on transactions is recognized in the consolidated statement of operations.

The financial statements of the overseas consolidated subsidiaries and affiliates are translated into Japanese yen at the rates of exchange in effect at the year-end for all assets and liabilities, at the average rates for income and expense accounts and at historical rates for shareholders' equity. Differences arising from translation are presented as "Foreign currency translation adjustments" in a separate component of shareholders' equity of the accompanying consolidated balance sheets.

(c) Marketable Securities and Investment Securities

Securities owned by the Group have been classified into two categories—held-to-maturity securities and available-for-sale securities in accordance with the accounting standard for financial instruments. Under this standard, held-to-maturity debt securities are either amortized or accumulated to face value on a straight-line method. Marketable securities classified as available-for-sale securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as available-for-sale securities are carried at cost. Under this accounting standard, if the fair value of the marketable securities classified as available-for-sale securities has declined significantly, such securities are written down to fair value thus establishing a new cost basis. The amount of each devaluation is charged to income as an impairment loss unless the fair value is deemed to be recoverable.

(d) Inventories

The Company and its consolidated domestic subsidiaries:

Inventories are mainly stated at cost determined by the average method.

Foreign consolidated subsidiaries:

Inventories are mainly stated at the lower of cost (first-in, first-out method) or market.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is principally computed using the following methods over their estimated useful lives:

Buildings:	3–65 years
Machinery and equipment:	2–20 years

The Company and its consolidated domestic subsidiaries:

Declining-balance method except for buildings acquired after April 1, 1998, which are computed by the straight-line method.

Foreign consolidated subsidiaries:

Straight-line method

In the year ended March 31, 2004, the Company did not early-adopt the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The adoption of the new standard is mandatory for periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

(f) Software

Software costs included in "lease deposits and other" are amortized over the estimated useful life (5 years) by the straight-line method.

(g) Research and Development

Expenditure relating to research and development activities has been charged to income as incurred.

(h) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. For the Group, the amount of the allowance is determined based on (1) past write-off experience and (2) an estimated amount for probable specific doubtful accounts based on a review of the collectibility of the individual receivables.

(i) Provision for Future Sales Returns

Provision has been made for future losses on sales returns of products after the end of the current fiscal year. The Company posted an estimated loss for the current fiscal year calculated based on the past sales returns. This provision has been included in the item Other under Current Liabilities in the Consolidated Balance Sheets.

(j) Provision for Voluntary Recall of Products

Provision has been made for the costs of voluntary recall of products based on the estimated loss at the end of the current fiscal year. The Company posted a rational estimated loss recognized as necessary in the consolidated results for the end of the current fiscal year. This provision has been included in the item Other under Current Liabilities in the Consolidated Balance Sheets.

(k) Employees' Severance and Retirement Benefits

The Company and certain subsidiaries provide two types of post-employment benefits plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

Effective April 1, 2000, in accordance with the accounting standard "Opinion on Settling Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998, the Group provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

The excess of the projected benefit obligation over the fair value of plan assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥222 million. The net transition obligation has been recognized in expense in equal amounts over 5 years commencing with the year ended March 31, 2001. Unrecognized actuarial net gains or losses are amortized over 5 years on a straight-line basis commencing from the succeeding period.

Severance and retirement allowance for directors and corporate auditors are recorded at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. These amounts are paid subject to the approval of the shareholders in accordance with the code.

(l) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for as operating leases.

(m) Derivative Transactions and Hedge Accounting

The Group states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

(n) Income Taxes

The income taxes are provided based on income for financial reporting purposes.

Deferred income taxes are calculated using the asset and liability method and reflect the estimated tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and tax loss carryforwards. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax assets and liabilities reflects the tax consequences that would result from the manner in which the Company expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

(o) Appropriation of Retained Earnings

Under the Code, retained earnings with respect to a given financial period are appropriated by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations.

Cash dividends and bonuses to directors and corporate auditors are recorded in the year in which a proposed appropriation is approved at the general meeting of shareholders.

(p) Consolidated Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

3. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities as of March 31, 2004 and 2003, consisted of the following:

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2004 and 2003:

Available-for-sale securities

	Millions of yen					
	2004			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Type						
Equity securities	¥583	¥810	¥227	¥ 79	¥ 124	¥ 45
Others	–	–	–	100	101	1
Total	¥583	¥810	¥227	¥ 179	¥ 225	¥ 46
Securities with book values not exceeding acquisition costs						
Type						
Equity securities	¥ 1	¥ 1	¥ (0)	¥ 651	¥ 494	¥(157)
Others	–	–	–	366	361	(5)
Total	¥ 1	¥ 1	¥ (0)	¥1,017	¥ 855	¥(162)
Total	¥584	¥811	¥227	¥1,196	¥1,080	¥(116)

Available-for-sale securities

	Thousands of U.S. dollars		
	2004		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs			
Type			
Equity securities	$5,519	$7,665	$2,146
Others	–	–	–
Total	$5,519	$7,665	$2,146
Securities with book values not exceeding acquisition costs			
Type			
Equity securities	$ 6	$ 4	$ (2)
Others	–	–	–
Total	$ 6	$ 4	$ (2)
Total	$5,525	$7,669	$2,144

An impairment loss of ¥19 million (US$178 thousand) was recognized for available-for-sale securities in year ended March 31, 2004.

B. The following tables summarize book values of securities with no available fair values as of March 31, 2004 and 2003:

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Book value		
Type			
Discounted receivables	¥ 65	¥ 65	$ 615
Commercial paper	500	1,269	4,728
Euroyen bond	–	700	–
Total	¥565	¥2,034	$5,343

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Book value		
Type			
Non-listed equity securities	¥186	¥ 100	$1,760
Others	–	1,309	–
Total	¥186	¥1,409	$1,760

C. Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen				
2004	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Held-to-maturity debt securities:					
Discounted receivables	¥ 65	–	–	–	¥ 65
Commercial paper	500	–	–	–	500
Others	–	–	–	–	–
Total	¥565	–	–	–	¥565

	Millions of yen				
2003	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Held-to-maturity debt securities:					
Discounted receivables	¥ 65	–	–	–	¥ 65
Commercial paper	1,269	–	–	–	1,269
Others	700	–	–	–	700
Total	¥2,034	–	–	–	¥2,034

	Thousands of U.S. dollars				
2004	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Held-to-maturity debt securities:					
Discounted receivables	$ 615	–	–	–	$ 615
Commercial paper	4,728	–	–	–	4,728
Others	–	–	–	–	–
Total	$5,343	–	–	–	$5,343

D. Available-for-sale securities sold in the year ended March 31, 2004 amounted to ¥2,008 million ($19,001 thousand) and the related gains and losses amounted to ¥18 million ($170 thousand) and ¥5 million ($50 thousand), respectively.

Available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥2,878 million ($27,235 thousand) and the related gains and losses amounted to ¥62 million ($588 thousand) and ¥121 million ($1,143 thousand), respectively.

4. NOTES TO CASH FLOW STATEMENT

Assets and liabilities of a subsidiary, which was newly consolidated during the year ended March 31, 2003 due to an increase in significance, are as follows:

HeartLand Company, Ltd.

(At April 1, 2002)

	Millions of yen	Thousands of U.S. dollars
Current Assets	¥42	$399
Non-current Assets	15	144
Current Liabilities	18	168
Non-current Liabilities	–	–

5. INVENTORIES

Inventories as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods	¥4,573	¥4,404	$43,265
Work-in-process raw materials and supplies stock	948	803	8,973
Total	¥5,521	¥5,207	$52,238

6. SHORT-TERM BORROWINGS

Short-term borrowings principally represent notes payable and bank overdrafts to banks due generally within one year. Weighted average interest rates on short-term borrowings excluding the current portion of long-term debt were 1.2% and 1.7% as of March 31, 2004 and 2003, respectively.

7. LONG-TERM DEBT

Long-term debt as of March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Bonds:			
0.58% unsecured bonds, payable in yen, due 2008	¥1,200	¥ 1,200	$11,354
0.49% unsecured bonds, payable in yen, due 2008	800	–	7,570
Convertible bonds:			
0.25% convertible unsecured bonds, payable in yen, due 2003	–	9,965	–
Loans payable:			
1.08% to 3.67% secured loans from banks, due 2005 through 2010	4,249	3,998	40,198
	6,249	15,163	59,122
Less—Current portion	(551)	(10,298)	(5,210)
Total	¥5,698	¥ 4,865	$53,912

Short-term borrowings and long-term debt, aggregating ¥2,750 million ($26,019 thousand), were collateralized by land and buildings with a net book value of ¥3,511 million ($33,227 thousand).

The annual maturities of long-term debt as of March 31, 2004, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 551	$ 5,210
2006	602	5,700
2007	1,926	18,223
2008	2,048	19,373
From 2009	1,122	10,616
Total	¥6,249	$59,122

To efficiently procure working capital, the Company has entered into loan commitment agreements with four banks. Based on these contracts, the unused portion of the Company's commitment was ¥5,000 million ($47,308,000) amounting to ¥5,000 million ($47,308,000) as of March 31, 2004.

8. STOCK OPTION PLAN

(1) At the annual meeting of shareholders held on June 29, 2000, the Company's directors and certain employees were granted options in the amount of 406,000 shares to purchase a maximum of 10,000 common shares of the Company, per individual. The option exercise price is ¥3,621 per share. The options are exercisable between July 1, 2002 and June 30, 2006.
(2) At the annual meeting of shareholders held on June 28, 2001, the Company's directors and certain employees were granted options in the amount of 553,000 shares to purchase a maximum of 10,000 common shares of the Company, per individual. The option exercise price is ¥2,661 per share. The options are exercisable between July 1, 2003 and June 30, 2007.
(3) At the annual meeting of shareholders held on June 26, 2003, the Company's directors and certain employees were granted options in the amount of 400,000 shares to purchase a maximum of 10,000 common shares of the Company, per individual. The option exercise price is ¥1,441 per share. The options are exercisable between July 1, 2005 and June 30, 2009.
(4) At the annual meeting of shareholders held on June 25, 2004, a stock option plan and a grant of options to the Company's directors, directors of certain subsidiaries and certain employees in the amount of 400,000 shares were approved. The plan provides for the granting of stock options having an exercise price calculated by multiplying by 1.03 the average of the closing prices applicable to ordinary transactions of shares of the Company on the Tokyo Stock Exchange on all days for the month immediately preceding the month in which the date of the grant falls, provided that the exercise price shall not be less than the closing price of the shares of the Company on the Tokyo Stock Exchange at the date of the grant. The options are exercisable between July 1, 2006 and June 30, 2010.
(5) On September 13, 2001, the Company issued unsecured bonds with warrants in the amount of ¥553 million ($5,235 thousand). The Company purchased all of the warrants and distributed them to the certain subsidiaries' directors. The warrants' exercise price is ¥2,660 per share.

9. DERIVATIVE TRANSACTIONS

(1) Information on derivatives

① Policy

The Group selectively enters into forward exchange, option and swap contracts to manage the market risks associated with fluctuations in foreign exchange rates or interest rates. The Group does not hold or issue derivative finance instruments for speculative purposes.

② Purpose

The Group operates internationally, giving rise to significant exposure to market risks from changes in interest and foreign exchange rates. The Group uses derivative financial instruments to mitigate those risks.

③ Risk

Hedging foreign currency risk

The Group uses forward exchange contracts and options to mitigate its exposure to foreign currency risks. Changes in the market value of a forward contract that qualifies as a hedge and any gains and losses on early termination of such a forward contract are deferred and included in the measurement of the hedged items. Market value changes in derivative financial instruments that do not qualify as hedges are recognized currently in the consolidated statements of operations.

Hedging interest rate risk

The Group uses interest rate options and interest rate swaps to mitigate its exposure to interest rate risks. When contracts qualify as hedges, the accounting for the financial instruments is symmetrical to the accounting for the hedged items. Accordingly, changes in the fair value of options are included in the profit and loss in the same period as the gains and losses arising from the related hedged items and are recorded as an adjustment to the interest income or expense related to the designated hedged asset or liability.

Credit risk

The counterparties to forward exchange contracts are major financial institutions. The Group is exposed to credit loss in the event of non-performance by these counterparties. The Group, however, does not have significant exposure to any individual counterparties and does not anticipate non-performance by any counterparty.

④ Hedging instruments and items covered by hedges:

Hedging instruments: Foreign exchange forward contracts, foreign exchange options, interest rate swaps, and currency swap contracts

Items covered by hedges: Assets and liabilities in foreign currencies, and borrowings

(2) Information on market value of derivative instruments

In the years ended March 31, 2004, and 2003, as all derivative instruments used by the Group qualify as a hedge, the market value of these derivative instruments are not required to be presented under the current accounting standard.

10. RETIREMENT BENEFITS

Employees' severance and pension benefits

The liabilities and expenses for severance and retirement benefits are determined based on the actuarial calculations.

The liabilities for severance and retirement benefits included in the consolidated balance sheet as of March 31, 2004 and 2003 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥1,408	¥1,429	$13,310
Unrecognized actuarial differences	(138)	(67)	(1,302)
Less fair value of pension assets	(161)	(333)	(1,521)
Less unrecognized net transition obligation	(29)	(57)	(271)
Liability for severance and retirement benefits	¥1,080	¥ 972	$10,216

Severance and retirement benefit expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs-benefits incurred during the year	¥129	¥425	$1,225
Interest costs on projected benefit obligation	25	45	232
Expected return on plan assets	(3)	(15)	(33)
Amortization of actuarial differences	6	25	60
Amortization of net transition obligation	28	76	271
Temporary extra retirement pay	–	355	–
Severance and retirement benefit expenses	¥185	¥911	$1,755

Assumptions and methods used to calculate projected benefit obligations are as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected return on plan assets	2.5%	4.0%
Amortization of actuarial differences	5 years	5 years
Amortization of net transition obligation	5 years	5 years

11. FINANCE LEASES

(1) As if capitalized amounts of acquisition cost, accumulated depreciation, and net book value of leased assets under finance leases at March 31, 2004 and 2003, were as follows:

	Millions of yen		
As of March 31, 2004	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥809	¥270	¥539
Total	¥809	¥270	¥539

	Millions of yen		
As of March 31, 2003	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥491	¥271	¥220
Total	¥491	¥271	¥220

	Thousands of U.S. dollars		
As of March 31, 2004	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$7,651	$2,555	$5,096
Total	$7,651	$2,555	$5,096

(2) Minimum payments under the leases with noncancelable terms in excess of one year as of March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥237	¥ 83	$2,243
Over one year	302	137	2,853
Total	¥539	¥220	$5,096

12. INCOME TAXES

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax, inhabitants' tax and business tax.

The reconciliation between the effective tax rate and the statutory tax rate is as follows:

	2004	2003
Statutory tax rate	42.0%	(42.0)%
Expenses not deductible for tax purpose	1.4	4.3
Foreign tax credit	(2.8)	10.6
Dividend received deduction from affiliates	2.1	5.6
Valuation allowance recognized	(4.1)	40.3
Difference in statutory tax rates of subsidiaries outside Japan	(0.9)	(11.5)
Elimination of unrealized gains	(1.6)	2.5
Adjustment of deferred tax assets by tax rate alteration	0.9	8.5
Others	1.8	(0.6)
Effective tax rate	38.8%	17.7%

Significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets by type of temporary differences			
Revaluation losses on inventories	¥ 142	¥ 275	$ 1,340
Allowance for doubtful receivables	56	71	529
Accrued enterprise tax	30	37	285
Allowance for bonus	463	114	4,382
Severance and retirement allowances for employees	400	321	3,783
Severance and retirement allowances for directors	159	153	1,506
Elimination of unrealized gains on inventory	94	52	890
Tax loss carryforward	838	2,350	7,932
Depreciation and amortization	136	86	1,285
Impairment loss on investment securities	215	255	2,032
Others	805	632	7,623
Deferred tax assets	¥ 3,338	¥ 4,346	$31,587
Valuation allowance	¥(1,045)	¥(1,236)	$ (9,888)
Total deferred tax assets	¥ 2,293	¥ 3,110	$21,699
Deferred tax liabilities by type of temporary differences			
Reserve for tangible assets	¥ (192)	¥ (194)	$ (1,821)
Adjustment for subsidiaries' retained earnings	(10)	(45)	(95)
Revaluation of land	(18)	(18)	(167)
Others	(116)	(36)	(1,091)
Deferred tax liabilities	¥ (336)	¥ (293)	$ (3,174)
Net deferred tax assets	¥ 1,957	¥ 2,817	$18,525

13. SHAREHOLDERS' EQUITY

Under the Code, the entire amount of the issue price of shares is required to be accounted for as capital, although the Company may, by resolution of the board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Code provides, as amended effective October 1, 2001, that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remain equal to or exceed 25% of common stock, they are available for distribution by the resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Semi-annual cash dividends may be declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each fiscal or interim six-month period. In accordance with the Code, the declaration of these dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal or interim six-month periods.

14. DIVIDENDS PER SHARE

In accordance with the Code, dividends which are payable to shareholders of record at the end of a fiscal year are subsequently approved by shareholders, and accordingly the declaration of these dividends is not reflected in the financial statements at such fiscal year-end.

The Board proposed a dividend of ¥10 ($0.09) per share for the 2004 fiscal year at the annual meeting of shareholders held on June 25, 2004.

15. PER SHARE DATA

Basic net income per share is based on the weighted average number of shares of common stock and common stock equivalents.

Since all warrants outstanding were anti-dilutive, diluted net income per share was not presented at March 31, 2004.

Diluted net income per share for the year ended March 31, 2003 was not presented as the Group had net losses in this period.

16. REVALUATION RESERVE FOR LAND

Pursuant to Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998, the Company recorded its owned land used for business at the fair value of ¥3,044 million (the original book value was ¥3,001 million) as of March 31, 2002, and related net unrealized gain net of income taxes was credited to "Revaluation reserve for land, net of tax" in the equity section and the applicable income tax portion was reported as "Deferred income taxes for revaluation of land" in liabilities and net of applicable income taxes were reported as "Revaluation reserve for land, net of tax" in shareholders' equity. According to the Law, the Company is not permitted to revalue the land at any time, even in the case that the fair value of the land declines. The fair value of the land revaluated was ¥374 million lower than its book value as of March 31, 2004.

17. COMMITMENTS AND CONTINGENT LIABILITIES

The Company entered into an exclusive distribution agreement with Hasbro, Inc. for the sale of licensed products in Japan. The agreement contains provisions for the payment of guaranteed or minimum royalty amounts from 1999 to 2008.

The Company entered into a comprehensive licensing agreement in December 2000 with Walt Disney International Japan, Inc. that makes the Company the master licensee of Disney brand products in Japan.

As of March 31, 2004, the Company and certain consolidated subsidiaries were contingently liable for discounted notes receivable with banks of ¥440 million ($4,161 thousand).

18. SEGMENT INFORMATION

(1) Business Segment Information

The Group operates principally in the toy manufacturing and marketing business.

2004	Millions of yen				
	Toy	Others	Total	Eliminations	Consolidated
Net sales:					
Sales to customers	¥79,984	¥2,536	¥82,520	¥ –	¥82,520
Inter-segment sales	22	2,616	2,638	(2,638)	–
Total	80,006	5,152	85,158	(2,638)	82,520
Operating expenses	72,980	4,729	77,709	(1,225)	76,484
Operating income	7,026	423	7,449	(1,413)	6,036
Total assets	31,626	4,435	36,061	11,507	47,568
Depreciation	2,091	98	2,189	67	2,256
Capital expenditures	1,644	43	1,687	28	1,715

2003	Millions of yen				
	Toy	Others	Total	Eliminations	Consolidated
Net sales:					
Sales to customers	¥71,608	¥2,169	¥73,777	¥ –	¥73,777
Inter-segment sales	44	2,644	2,688	(2,688)	–
Total	71,652	4,813	76,465	(2,688)	73,777
Operating expenses	69,194	4,403	73,597	(975)	72,622
Operating income	2,458	410	2,868	(1,713)	1,155
Total assets	30,216	4,402	34,618	22,532	57,150
Depreciation	2,182	120	2,302	71	2,373
Capital expenditures	2,191	58	2,249	24	2,273

2004	Thousands of U.S. dollars				
	Toy	Others	Total	Eliminations	Consolidated
Net sales:					
Sales to customers	$756,783	$23,992	$780,775	$ –	$780,775
Inter-segment sales	210	24,750	24,960	(24,960)	–
Total	756,993	48,742	805,735	(24,960)	780,775
Operating expenses	690,514	44,740	735,254	(11,597)	723,657
Operating income	66,479	4,002	70,481	(13,363)	57,118
Total assets	299,235	41,959	341,194	108,879	450,073
Depreciation	19,787	926	20,713	634	21,347
Capital expenditures	15,550	411	15,961	262	16,223

Others consisted of businesses related to delivery and warehouse services and other operations.

Unallocatable operating expenses consist principally of the administrative expenses of the Company. The unallocatable operating expenses included in eliminations as of March 31, 2004 and 2003, were ¥1,551 million ($14,676 thousand) and ¥1,875 million ($17,741 thousand), respectively.

Eliminations of total assets include corporate assets that are principally cash, time deposits, marketable securities, investment securities and certain other assets of the Administration Division. The corporate assets as of March 31, 2004 and 2003, were ¥12,517 million ($118,429 thousand) and ¥23,650 million ($223,767 thousand), respectively.

(2) Operations by Geographic Area

Sales and operating income are attributed to countries based on location of business assets.

	Millions of yen						
2004	Japan	Europe	Asia	Others	Total	Eliminations	Consolidated
Net sales:							
Sales to customers	¥62,294	¥12,761	¥ 3,068	¥4,397	¥82,520	¥ –	¥82,520
Inter-segment sales	4,101	40	12,221	1	16,363	(16,363)	–
Total	66,395	12,801	15,289	4,398	98,883	(16,363)	82,520
Operating expenses	59,235	12,432	15,295	4,381	91,343	(14,859)	76,484
Operating income (loss)	7,160	369	(6)	17	7,540	(1,504)	6,036
Total assets	28,523	5,118	4,973	1,104	39,718	7,850	47,568

	Millions of yen						
2003	Japan	Europe	Asia	Others	Total	Eliminations	Consolidated
Net sales:							
Sales to customers	¥52,834	¥13,671	¥ 3,201	¥4,071	¥73,777	¥ –	¥73,777
Inter-segment sales	4,068	11	14,170	–	18,249	(18,249)	–
Total	56,902	13,682	17,371	4,071	92,026	(18,249)	73,777
Operating expenses	54,941	13,324	16,755	3,953	88,973	(16,351)	72,622
Operating income	1,961	358	616	118	3,053	(1,898)	1,155
Total assets	23,954	5,680	5,749	1,357	36,740	20,410	57,150

	Thousands of U.S. dollars						
2004	Japan	Europe	Asia	Others	Total	Eliminations	Consolidated
Net sales:							
Sales to customers	$589,402	$120,740	$ 29,024	$41,609	$780,775	$ –	$780,775
Inter-segment sales	38,798	380	115,638	8	154,824	(154,824)	–
Total	628,200	121,120	144,662	41,617	935,599	(154,824)	780,775
Operating expenses	560,455	117,627	144,721	41,452	864,255	(140,598)	723,657
Operating income (loss)	67,745	3,493	(59)	165	71,344	(14,226)	57,118
Total assets	269,879	48,421	47,050	10,446	375,796	74,277	450,073

Operations in Europe are located primarily in the United Kingdom and France.

Operations in Asia are located primarily in Hong Kong and Thailand. Others comprise operations in North America and elsewhere.

Unallocatable operating expenses consist principally of the administrative expenses of the Company. The unallocatable operating expenses included in eliminations as of March 31, 2004 and 2003, were ¥1,551 million ($14,676 thousand) and ¥1,875 million ($17,741 thousand), respectively.

Eliminations of total assets include corporate assets that are principally cash, time deposits, marketable securities, investment securities and certain other assets of the Administration Division. The corporate assets as of March 31, 2004 and 2003, were ¥12,517 million ($118,429 thousand) and ¥23,650 million ($223,767 thousand), respectively.

Overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2004 and 2003, are presented as follows:

	Millions of yen					
	2004			2003		
	Europe	Others	Total	Europe	Others	Total
Overseas sales	¥13,376	¥7,872	¥21,248	¥15,524	¥7,557	¥23,081
Consolidated sales	–	–	82,520	–	–	73,777
Overseas sales ratio	16.2%	9.5%	25.7%	21.0%	10.3%	31.3%

	Thousands of U.S. dollars		
	2004		
	Europe	Others	Total
Overseas sales	$126,558	$74,483	$201,041
Consolidated sales	–	–	780,775
Overseas sales ratio	16.2%	9.5%	25.7%

Overseas sales consist of export sales by the Company and sales by consolidated foreign subsidiaries.

19. SUBSEQUENT EVENTS

Based on a resolution adopted at the Board of Directors' meeting held on May 26, 2004, the Company issued convertible bonds due 2009 in the amount of ¥7,000 million ($66,231thousand). The issue price was 100% of the face value. There will be no interest payment, and the bond will be redeemed on March 31, 2009 at 100% of the face value. The subscription right is provided for free. When the right is exercised, an amount equivalent to the bond face value must be paid in. The right can be exercised between August 2, 2004 and March 31, 2009 at the conversion price of ¥1,882 per share. Neither collateral nor a guarantee was provided for the bond issue.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Tomy Company, Ltd.:

We have audited the accompanying consolidated balance sheets of Tomy Company, Ltd. (a Japanese corporation) and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tomy Company, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 25, 2004

SUBSIDIARY COMPANIES

TOY PRODUCTS

<Japan>

Yujin Company, Ltd.*[1]
U-Ace Company, Ltd.
TOMY Direct Company, Ltd.
TOMY TEC Company, Ltd.
TOMY Development Center, Inc.
HeartLand Co., Ltd.*[1]
GLOW-TEC INTERNATIONAL Company, Ltd.*[1]
TOMY Link Company, Ltd.*[1]
U-MATE Company, Ltd.

<Overseas>

TOMY UK Ltd.
TOMY France S.A.R.L.
TOMY Yujin Europe Ltd.*[3]
TOMY Corporation
TOMY Yujin Corporation
YUJIN MICOTT KOREA CO., LTD.*[1,4]
TOMY (Hong Kong) Ltd.
TOMY (Thailand) Ltd.

OTHERS

TOMY Ryutu Service Company, Ltd.
TOMY Kohsan Company, Ltd.
Play Kingdom Company, Ltd.*[2]
TOMY System Design Company, Ltd.
TOMY GENERAL SERVICE Co., Ltd.

Notes:

1. All the above subsidiaries are wholly owned, except: Yujin Company, Ltd. (88.6%), HeartLand Co., Ltd. (70.0%), GLOW-TEC INTERNATIONAL Company, Ltd. (85.0%), TOMY Link Company, Ltd. (70.0%), and YUJIN MICOTT KOREA CO., LTD. (67.5%). Figures in brackets indicate the voting rights of TOMY Company, Ltd.
2. Play Kingdom Company, Ltd. was dissolved on March 31, 2004.
3. TOMY Yujin Europe Ltd. is a non-consolidated subsidiary.
4. YUJIN MICOTT KOREA CO., LTD. is an equity method non-consolidated subsidiary.

(As of March 31, 2004)

CORPORATE DATA

Company Name:
TOMY Company, Ltd.

Head Office:
9-10 Tateishi 7-chome,
Katsushika-ku,
Tokyo 124-8511, Japan

Incorporated:
January 17, 1953
(founded in 1924)

Common Stock:
¥2,990 million

Number of Shareholders:
17,722

Number of Shares Issued:
20,419,299 shares

Securities Traded:
Tokyo Stock Exchange, 1st Section

Number of Employees:
277
(consolidated basis: 2,058)

Branch Offices:
Tokyo, Osaka, Nagoya

Independent Auditors:
KPMG AZSA & Co.

Transfer Agent:
The Chuo Mitsui Trust & Banking Company, Limited

(As of March 31, 2004)

TOMY

Dream Energy

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