

# Notes to Consolidated Financial Statements

TOMY Company, Ltd. and its consolidated subsidiaries  
For the fiscal year ended March 31, 2012

## 1. Basis of Presenting the Consolidated Financial Statements

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

The financial information set out herein is an English translation of the audited Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Changes in Net Assets, Consolidated Statements of Cash Flows and the Financial Notes, which were prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and related regulations and in conformity with the accounting principles and practices generally accepted in Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOMY Company, Ltd. (the "Company") is incorporated and operates.

## 2. Scope of Consolidation

The consolidated financial statements as of March 31, 2012 include the accounts of the Company and 45 significant subsidiaries (together, the "Group").

### (1) Number of consolidated subsidiaries: 45

Names of significant consolidated subsidiaries are as follows:

TOMY TEC Co., Ltd.	TOYS UNION Co., Ltd.
U-ACE Company, Ltd.	TOMY Holdings, Inc.
KIDDY LAND Co., Ltd.	TOMY International, Inc.
T-ARTS Company, Ltd.	TOMY (Hong Kong) Ltd.

As a result of acquisition of all shares in TOMY Holdings, Inc. (former RC2 Corporation) in the fiscal year ended March 31, 2012, its consolidated financial statements include TOMY Holdings, Inc. and its 20 subsidiaries (including Racing Champions Worldwide Limited).

The company names have been changed from RC2 Corporation to TOMY Holdings, Inc. and from Learning Curve Brands, Inc. to TOMY International, Inc., respectively.

### (2) Number of unconsolidated subsidiaries: 4

### (3) Number of affiliates which are accounted for by the equity method: nil

### (4) Number of affiliates which are not accounted for by the equity method: 4

## 3. Significant Accounting Policies

### (1) Important assets

#### a. Investment securities

##### Held-to-maturity securities:

Held-to-maturity securities are stated at amortized cost using the straight-line method.

##### Available-for-sale securities:

Securities with quoted market values  
Securities with quoted market values are stated at fair value on the consolidated closing date. (Net unrealized gains and losses on available-for-sale securities are reported directly to net assets. The costs of these securities are calculated based on the moving-average cost method.)

##### Securities without quoted market values

Securities without quoted market values are stated on a cost basis using the moving-average cost method.

In addition, equity investments in business investment and other associations are based on the most recent financial statements available to management with adjustments made to investment securities for gains or losses from investment in anonymous associations attributable to the Company and net unrealized gains or losses in available-for-sale securities included in gains or losses in business investment and other association and unrealized gains or losses of other securities.

#### b. Derivatives

Derivative financial instruments are stated at fair value.

#### c. Inventories

The Company and domestic consolidated subsidiaries:  
Inventory is stated principally at cost, cost being determined by the gross average method. (The balance sheets amounts are determined by writing down the book value according to the decrease in profitability.) The inventory of certain subsidiaries, however, is stated at cost, cost being determined by the retail inventory method. (The balance sheets amounts are determined by writing down the book value according to the decrease in profitability.)

#### Foreign consolidated subsidiaries:

The inventory of foreign consolidated subsidiaries is stated at the lower of cost or market using the first-in, first-out method.

## (2) Depreciation

### a. Property, plant and equipment (excluding lease assets)

The Company and domestic consolidated subsidiaries:

Depreciation of property, plant and equipment (excluding lease assets) is calculated by the declining-balance method. (However, depreciation of buildings (excluding structures), acquired on or after April 1, 1998, is calculated by the straight-line method.)

Estimated useful lives of principal assets are presented as follows:

Buildings	2 to 65 years
Tools, furniture and fixtures	2 to 20 years

#### Foreign consolidated subsidiaries:

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of each asset.

### b. Intangible assets (excluding lease assets)

Amortization of intangible assets (excluding lease assets) is calculated by the straight-line method.

In addition, amortization of internal-use software is calculated by the straight-line method over the useful life of the asset estimated by the Company (within five years).

### c. Lease assets

Depreciation of lease assets is calculated using the straight-line method with the lease periods as their useful lives and no residual value. Finance leases that do not involve the transfer of ownership of leased property to the lessee and for which the commencement date of the lease transaction is prior to March 31, 2008 are accounted for in the same manner as ordinary rental transactions.

## (3) Deferred assets

### Bond issuance cost

Amortization of bond issuance cost is calculated by the straight-line method based on the bond redemption period.

## (4) Provisions

### a. Allowance for doubtful accounts

Allowance for doubtful accounts is provided for monetary receivables as of the end of the consolidated fiscal year on the historical bad-debts rate for normal receivables, and the amount deemed necessary to cover individual accounts estimated to be uncollectible.

### b. Provision for directors' bonuses

#### The Company and domestic consolidated subsidiaries:

The Company and domestic consolidated subsidiaries provide for directors' bonus payments at an estimated amount to be paid for during the consolidated fiscal year.

### c. Provision for retirement benefits

The Company provides for retirement benefits for employees based on the calculated amount of retirement benefit obligations and accrued pension assets as of the end of the consolidated fiscal year. Prior service costs are amortized in the consolidated fiscal year in which they occur by the straight-line method over the periods which are shorter than the average remaining years of service (five years) of eligible employees. Actuarial gains or losses are amortized in the consolidated fiscal year following the consolidated fiscal year in which the gain or loss is recognized primarily by the straight-line method over the periods which are shorter than the average remaining years of service (five years) of the eligible employees.

### d. Provision for directors' retirement benefits

Consolidated subsidiaries provide for accrued directors' retirement benefits at an estimated amount deemed necessary as of the end of the consolidated fiscal year according to internal regulations.

### e. Provision for sales returns

Consolidated subsidiaries provide for losses due to sales returns after the end of the consolidated fiscal year to an estimated amount deemed necessary based on past sales return data.

### f. Allowance for recall

The Company provides for an allowance for the voluntary recall of products to an amount that is reasonably estimated and deemed as necessary as of the end of the consolidated fiscal year.

### g. Allowance for investment loss

The Company provides for an allowance for investment loss relating to investments

in affiliated companies to an amount deemed necessary after taking into account subject assets and other details.

## (5) Translation of foreign currencies into Japanese yen

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing as of the consolidated account settlement date. The resulting transaction gains or losses are included in the determination of net income. Assets and liabilities of foreign and other subsidiaries are translated into Japanese yen based on the exchange rates prevailing as of the consolidated account settlement date. Revenue and expenses of foreign and other subsidiaries are translated into Japanese yen based on the average exchange rates over the term. Differences arising from such translations are included in both foreign currency translation adjustment and minority interests in the net assets section of the balance sheets.

## (6) Hedge

### a. Methods of hedge accounting

In principle, deferred hedge accounting has been adopted. Interest rate swap transactions that qualify for special treatment are accounted for by the special accounting method.

### b. Hedging instruments and hedged items

#### Hedging instruments:

- Forward exchange contracts
- Currency options
- Currency swaps
- Interest rate swaps

#### Hedging items:

- Monetary assets and liabilities denominated in foreign currencies
- Forecasted transactions denominated in foreign currencies
- Variable interest rate debt

### c. Hedging policy

Hedging with a certain range is undertaken to mitigate foreign exchange and interest rate volatility risks.

### d. Methods of assessing hedging effectiveness

Steps are taken to assess the hedging effectiveness of hedging instruments and hedged items. However, details of hedging effectiveness are omitted in those instances where there is a high correlation between hedging instruments and related hedged items with respect to important terms and conditions including principal, interest rate and term.

## (7) Goodwill

Goodwill and negative goodwill are amortized using the straight-line method over a period of five to 20 years. For immaterial amounts, goodwill and negative goodwill are charged in full to income at the time they occur.

## (8) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows include cash on hand, readily available deposits and short-term investments with original maturities not exceeding three months, which are highly liquid and virtually risk-free with respect to change of value.

## (9) Other

### Accounting methods for consumption and other taxes

Consumption taxes are excluded from items in the consolidated financial statements.

## (10) Recently adopted accounting pronouncements

Accounting Changes and Error Corrections—From the beginning of the fiscal year that begins on or after April 1, 2011, the Accounting Standards Board of Japan ("ASBJ") Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections" are applied.

## 4. Notes to Consolidated Balance Sheets

### (1) Land revaluation

In accordance with the Law Concerning Land Revaluation (Law No. 34 promulgated on March 31, 1998 and last revised on March 31, 2001) land used for business activities was revalued on March 31, 2002.

Pursuant to the partial revision of the Law Concerning Land Revaluation (Law No. 24 promulgated on March 31, 1999), the income tax effect of the difference between the book value and the revalued amount has been presented under liabilities as deferred tax liabilities for land revaluation, and the amount of deduction has been presented under net assets as revaluation reserve for land.

### Revaluation method

Under Article 2, Paragraph 4 of the Ordinance Implementing the Law Concerning Land Revaluation (Article 119 of the 1998 Cabinet Order promulgated on March 31, 1998), the land price for revaluation was determined based on the official notice prices assessed and published by the Chief Officer of the National Tax Administration, as provided for by Article 16 of the Law Concerning Public Notification of Land Prices. The appropriate adjustments were made to reflect these official notice prices.

Date of revaluation..... March 31, 2002

The fair value of land used for business activities after revaluation as of the end of the period was below the book value of land used for business activities after revaluation by ¥743 million in 2012 and ¥699 million in 2011 respectively.

## (2) Assets pledged as collateral and collateralized liabilities

Assets pledged as collateral and the relevant liabilities are presented as follows:

### a. Assets pledged as collateral

	Millions of yen	
	2012	2011
Time deposits	¥102	¥ 410
Buildings and structures	100	203
Land	334	444
Investment securities	184	272
Total	¥722	¥1,330

### b. Liabilities for which the above assets are pledged as collateral

	Millions of yen	
	2012	2011
Notes and accounts payable —trade	¥1,874	¥1,417
Short-term loans payable	—	1,000
Current portion of long-term loans payable	87	114
Accounts payable—other	0	0
Long-term loans payable	—	337
Total	¥1,962	¥2,869

## (3) Assets relating to unconsolidated subsidiaries and affiliated companies

	Millions of yen	
	2012	2011
Investment securities (shares)	¥57	¥57

## (4) Goodwill and negative goodwill are presented as offsetting items.

	Millions of yen	
	2012	2011
Goodwill	¥23,465	¥ 652
Negative goodwill	(76)	(467)
After offset	¥23,388	¥ 185

## (5) The Company has entered into an agreement with four banks under which it will be provided with a commitment line of credit. This initiative was undertaken to ensure the efficient procurement of working capital. The unused balance under this commitment line of credit is as follows:

	Millions of yen	
	2012	2011
Total commitment line of credit	¥5,000	¥5,000
Amount drawn (used)	—	—
Amount unused	¥5,000	¥5,000

## 5. Notes to Consolidated Statements of Income

### (1) Research and development (R&D) expenses are included in selling, general and administrative (SG&A) expenses and manufacturing costs as follows:

	Millions of yen	
	2012	2011
	¥2,722	¥ 2,205

(2) Breakdown of gain on sales of noncurrent assets is presented as follows:

	Millions of yen	
	2012	2011
Buildings and structures	¥ 17	¥ 2
Machinery, equipment and vehicles	10	21
Tools, furniture and fixtures	55	1
Land	41	2
Total	¥124	¥27

(3) Breakdown of loss on sales of noncurrent assets is presented as follows:

	Millions of yen	
	2012	2011
Buildings and structures	¥14	¥ —
Machinery, equipment and vehicles	2	0
Tools, furniture and fixtures	44	6
Land	—	731
Total	¥60	¥737

(4) Breakdown of loss on retirement of noncurrent assets is presented as follows:

	Millions of yen	
	2012	2011
Buildings and structures	¥ 34	¥151
Machinery, equipment and vehicles	447	—
Tools, furniture and fixtures	66	69
Intangible assets	7	54
Total	¥556	¥275

The effect of losses on retirement of fixed assets suffered by flood damage in Thailand is included, which is presented in "loss on disaster" for the year ended March 31, 2012 in the consolidated statements of income.

(5) Impairment loss

The Group reported an impairment loss in connection with the following asset groups:

2012				Millions of yen
Application	Type	Location	Impairment loss	
Retail stores included in assets used in business activities	Building and structures; tools, furniture and fixtures; other	Maikata, Osaka Prefecture; Fukuoka, Fukuoka Prefecture; Kyoto, Kyoto Prefecture		¥37
Assets for business	Software	Chiyoda-ku, Tokyo		¥83
Idle assets	Land	Shimotsuga-gun, Tochigi Prefecture		¥ 8

2011				Millions of yen
Application	Type	Location	Impairment loss	
Retail stores included in assets used in business activities	Buildings and structures; tools, furniture and fixtures; other	Yokohama, Kanagawa Prefecture; Hamamatsu, Shizuoka Prefecture; other		¥45
Assets for business	Buildings and structures	Tamura-gun, Fukushima Prefecture		¥52
Idle assets	Buildings and structures; land	Shimotsuga-gun, Tochigi Prefecture; Fukuoka, Fukuoka Prefecture		¥22

Assets used for business activities are grouped according to their connection with each business and according to each individual property with respect to stores and assets for lease. For idle assets, the smallest units are the individual properties themselves.

With respect to the aforementioned stores used for business activities as well as software, the Group continues to incur operating losses. At the same time, estimated future cash flows fall below the book values of each asset. Accordingly, book values have been written down to their recoverable amounts with the amount of write-down (impairment loss) totaling ¥121 million in 2012 and ¥120 million in 2011 recorded as an extraordinary loss.

Furthermore, recoverable values of retail stores and software were measured as nil using their net sales values. The above idle land is written down by ¥8 million as extraordinary loss due to continuous decrease of market price to recoverable value. The recoverable value is measured by net sale values, which are calculated by reasonably reconcile land tax assessment.

(6) Inventories

The balance of inventories is the amount after writing down the book value in line with the decline in profitability. The loss on valuation of inventories amounting to ¥449 million in 2012 and gain on reversal of valuation loss amounting to ¥269 million in 2011 are included in cost of sales.

6. Notes to Consolidated Statements of Comprehensive Income

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments, including amounts attributable to minority interests, are as follows:

		Millions of yen
		2012
Net unrealized gains and losses on securities:		
Amount arising during the year		¥ (93)
Reclassification adjustments for gains and losses realized in net income		430
Before-tax amount		337
Tax (expense) or benefit		(86)
Net-of-tax amount		250
Net gains and losses on derivative instruments:		
Amount arising during the year		(344)
Reclassification adjustments for gains and losses realized in net income		973
Before-tax amount		629
Tax (expense) or benefit		(215)
Net-of-tax amount		413
Land revaluation:		
Tax (expense) or benefit		75
Foreign currency translation adjustments:		
Amount arising during the year		(848)
Total other comprehensive loss		¥(108)

7. Notes to Consolidated Statements of Cash Flows

The details of assets and liabilities of newly consolidated subsidiaries by acquisition of the TI Group at the end of the year.

		Millions of yen
		2012
Current assets		¥ 23,645
Fixed assets and other assets		23,435
Goodwill		23,108
Current liabilities		(9,099)
Non-current liabilities		(19,846)
Foreign currency translation adjustment		650
Minority interests		(287)
Purchase amounts of shares		41,607
Cash and cash equivalents of TI Group		8,027
Net: expenditure for acquisition of TI Group		¥ 33,579

8. Lease Transactions

Finance lease transactions (lessees' accounting)

Finance leases that do not involve the transfer of ownership of leased property to the lessee

Lease assets

Property, plant and equipment  
Mainly molds for manufacturing use in the toy business

9. Financial Instruments

Matters relating to the status of financial instruments

Approach toward financial instruments

In addition to borrowing from banks, the Group issues bonds and bonds with subscription rights to shares to fund the essential requirements of mainly its toy business operations. At the same time, the Group invests temporary surplus funds in safe and secure financial assets. The Group utilizes derivatives to offset the risk of interest rate fluctuation with respect to its borrowings as well as the risk of foreign currency exchange rate fluctuation at the time of claim and obligation settlement. The Group does not use derivatives for speculative purposes.

10. Short-Term Investment Securities

(1) Available-for-sale securities

2012					Millions of yen
	Type	Carrying value	Acquisition cost	Difference	
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥1,478	¥1,072	¥406	
	(2) Bonds	—	—	—	
	(3) Other	—	—	—	
	Subtotal	¥1,478	¥1,072	¥406	
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥ 276	¥ 364	¥ (87)	
	(2) Bonds	—	—	—	
	(3) Other	—	—	—	
	Subtotal	¥ 276	¥ 364	¥ (87)	
	Total	¥1,755	¥1,436	¥318	

2011					Millions of yen
	Type	Carrying value	Acquisition cost	Difference	
Securities whose carrying value exceeds their acquisition cost	(1) Stock	¥ 751	¥ 427	¥ 323	
	(2) Bonds	—	—	—	
	(3) Other	—	—	—	
	Subtotal	¥ 751	¥ 427	¥ 323	
Securities whose carrying value does not exceed their acquisition cost	(1) Stock	¥1,370	¥1,712	¥(342)	
	(2) Bonds	—	—	—	
	(3) Other	—	—	—	
	Subtotal	¥1,370	¥1,712	¥(342)	
	Total	¥2,121	¥2,140	¥ (19)	

Note: Short-term investment securities with no market value for which it is deemed difficult to measure a fair value and accordingly carried at their acquisition cost not included in available-for-sale securities in the table above are presented as follows:

Millions of yen		
	2012	2011
Carrying value		
Unlisted stocks	¥762	¥775

(2) Short-term investment securities for which an impairment loss was recognized

Acquisition cost data presented in the table is the book value after recognizing an impairment loss. An impairment loss was recognized and loss on valuation of investment securities recorded totaling ¥482 million (representing ¥468 million of marketable stock and ¥13 million of non-marketable stock applicable to available-for-sale securities) in 2012 and ¥565 million (representing ¥47 million of marketable stock and ¥517 million of non-marketable stock applicable to available-for-sale securities) in 2011.

With respect to impairment losses, in the event that the fair value as of the end of the period falls by 50% or more of the acquisition cost, the total amount is recorded as an impairment loss. In the event that the fair value as of the end of the period falls by between 30% and 50% of the acquisition cost, an amount deemed necessary is recognized as an impairment loss taking into consideration collectability.

11. Derivative Transactions

(1) Derivative transactions for which hedge accounting has not been adopted

Not applicable

(2) Derivative transactions for which hedge accounting has been adopted

Contract amounts or amounts equivalent to the principal identified in each contract as of the consolidated account settlement date by hedge accounting method are presented as follows:

a. Currency-related transactions

2012						Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value	
Appropriation treatment	Forward foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts payable, other)	¥10,495	¥1,183	¥ 151	

2011						Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value	
Appropriation treatment	Forward foreign exchange contracts: Buy: USD	Foreign currency denominated claims and obligation (accounts, receivable, accounts payable, other)	¥14,559	¥2,943	¥(672)	
	Sterling pound		32	—	(1)	
	EUR		29	—	(1)	
	Thai baht		1,100	—	5	
	Sell: USD		623	—	23	
Deferral hedge accounting	Currency option transactions Buy: USD		33,260	—	92	
Total			¥49,604	¥2,943	¥(553)	

Note: Calculation method for fair value  
Fair value is calculated based on the fair value identified by the financial institution counterparty.

b. Interest-related transactions

2012						Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value	
Special treatment	Interest rate swap transactions Pay fixed / receive floating	Current portion of long-term loans payable	¥ 75	—	(Note)	
Deferred hedge accounting	Interest rate swap transactions Pay fixed / receive floating	Long-term loans payable	¥7,336	¥6,602	¥(79)	

2011						Millions of yen
Method of hedge accounting	Type of transaction	Major hedged items	Contract amount	Contract amount exceeding one year	Fair value	
Special treatment	Interest rate swap transactions Pay fixed / receive floating	Long-term loans payable	¥175	¥175	(Note)	

Note: The fair value of interest rate swaps which are accounted for using the special treatment is included in that of the corresponding hedged long-term loans payable.

12. Retirement Benefits

(1) Overview of retirement benefit plans adopted

The Company and its certain domestic consolidated subsidiaries maintain employees' pension fund and retirement lump sum plans as defined benefit plans. Certain consolidated subsidiaries have adopted defined contribution pension plans.

(2) Amounts of retirement benefit obligation

Millions of yen		
	2012	2011
Retirement benefit obligation	¥(5,001)	¥(3,004)
Pension assets	1,526	339
Unfunded retirement benefit obligation	(3,474)	(2,664)
Unrecognized actuarial gain or loss	276	159
Unrealized prior service cost	250	—
Provision for retirement benefits	(2,947)	(2,504)

The Company and domestic consolidated subsidiaries have adopted a comprehensively established employees' pension fund. The amount of pension assets has not been included in the aforementioned data because of the difficulty in reasonably calculating the amount corresponding to the own contributions.

In addition, the simplified method has been adopted to calculate the retirement benefit obligation at consolidated subsidiaries.

### (3) Matters relating to multiple business proprietor plans

#### a. Matters relating to the status of overall plan reserves

2012				Millions of yen			
	Tokyo Jitsugyo Kosei Nenkin Kikin	EAST JAPAN PLASTIC INDUSTRY Pension Fund	Other				
Pension assets	¥126,402	¥ 74,859	¥169,594				
Amount of calculated pension financing benefit obligation	187,829	109,730	201,770				
Difference	(61,427)	(34,870)	(32,176)				

  

2011				Millions of yen			
	Tokyo Jitsugyo Kosei Nenkin Kikin	EAST JAPAN PLASTIC INDUSTRY Pension Fund	Other				
Pension assets	¥136,596	¥ 77,362	¥167,029				
Amount of calculated pension financing benefit obligation	191,928	112,083	196,877				
Difference	(55,331)	(34,721)	(29,848)				

#### b. The Group's premium contribution ratio as a proportion of the overall plan

	2012	2011
Tokyo Jitsugyo Kosei Nenkin Kikin	4.90%	4.66%
EAST JAPAN PLASTIC INDUSTRY Pension Fund	1.82%	1.82%
Other	0.29%	0.27%

### (4) Retirement benefit expense

Millions of yen		
	2012	2011
Retirement benefit expense	¥644	¥488
Service cost	497	425
Interest cost	107	31
Expected return on plan assets	(78)	(8)
Amortization of actuarial gain or loss	55	39
Amortization of unrealized prior service cost	62	—

Note: Employee pension fund is not included. Retirement benefit expenses of consolidated subsidiaries that have adopted the simplified method are recorded as service cost.

### (5) Assumptions used in accounting for retirement benefit obligations

Attribution of retirement benefit obligation: the straight-line method over the estimated years of service of the eligible employee.

	2012	2011
Discount rate	2.0-4.96%	2.0%
Expected rate of return on plan assets	2.5-6.61%	2.5%
Amortization period of actuarial gain or loss	5 years	5 years
Amortization period of unrecognized prior service cost	5 years	—

### 13. Stock Options

#### (1) The account and the amount of stock options charged as expenses for the fiscal year ended March 31

Millions of yen		
	2012	2011
Selling, general and administrative expenses	¥187	¥179

#### (2) The amount of stock options charged as income due to their forfeiture resulting from non-use

Millions of yen		
	2012	2011
Extraordinary income	¥2	¥0

### 14. Income Taxes

#### (1) Significant components of deferred tax assets and liabilities

Millions of yen		
	2012	2011
Deferred tax assets:		
Loss on valuation of inventories	¥ 565	¥ 577
Allowance for doubtful accounts	446	406
Income taxes payable	32	17
Accrued bonuses	537	663
Provision for retirement benefits	1,063	993
Provision for directors' retirement benefits	91	248
Retirement of unrealized inventory profit	276	24
Loss carryforwards	5,929	9,977
Depreciation and amortization	406	334
Loss on valuation of investment securities	1,764	1,849
Impairment loss	140	164
Other	1,023	1,222
Total gross deferred tax assets	12,279	16,479
Valuation allowance	(5,473)	(6,955)
Total deferred tax assets	¥ 6,805	¥ 9,523

Millions of yen		
	2012	2011
Deferred tax liabilities:		
Reserve for advanced depreciation of noncurrent assets	¥ (121)	¥ (130)
Valuation difference on available-for-sale securities	(113)	(27)
Other	(5,622)	(176)
Deferred tax liabilities for land revaluation	(553)	(632)
Total deferred tax liabilities	(6,411)	(966)
Net deferred tax assets	¥ 393	¥8,557

Note: Net deferred tax assets are included in the following accounts in the consolidated balance sheets:

Millions of yen		
	2012	2011
Current assets — Deferred tax assets	¥ 3,165	¥3,606
Noncurrent assets — Deferred tax assets	2,774	5,586
Current liabilities — Other	—	(2)
Noncurrent liabilities — Deferred tax liabilities	(4,992)	(0)
Noncurrent liabilities — Deferred tax liabilities for land revaluation	¥ (553)	¥ (632)

#### (2) The reconciliation between the effective tax rates reflected in the consolidated financial statements and the statutory tax rate is summarized as follows:

	2012	2011
Statutory tax rate of the Company (Reconciliation)	40.5 %	40.5 %
Permanent nondeductible expenses such as entertainment expenses	5.2 %	3.5 %
Nondeductible income such as dividends received	(3.4)%	(3.3)%
Increase (decrease) in valuation allowance	15.9 %	(56.5)%
Inhabitants' tax lump-sum payments	0.2 %	0.7 %
Effect of enacted changes in tax laws and rates on Japanese tax	(4.2)%	— %
Other	(0.8)%	0.2 %
Effective tax rates after adoption of tax-effect accounting	53.4 %	(15.0)%

### 15. Tax Rate Change in Japan

On December 2, 2011, "Act on the Partial Revision of the Income tax Act for the Establishment of a Taxation System Responding to Structural Transformation of Economy and Society" (Act No.114 of 2011) and "Act on Special Measures for Securing Financial Resources Needed to Implement Measures to Recover from the Great East Japan Earthquake" (Act No.117 of 2011) were issued. By these acts, the corporate tax rate will be changed from the fiscal year beginning on and after April 1, 2012. As a consequence, effective statutory tax rate, which is used to calculate deferred tax assets and liabilities, will be as follows, depending when the temporary difference will reverse.

Until March 31, 2012:	40.5%
From April 1, 2012 to March 31, 2015:	38.01%
On and after April 1, 2015:	35.64%

This tax rate change has decreased net deferred tax assets ¥337 million, increased income taxes deferred ¥352 million, increased unrealized gain on available-for-sale securities ¥12 million and increased deferred gains and losses on hedges ¥2 million for the year ended March 31, 2012.

### 16. Business Combination

#### (1) Overview of business combination

##### a. Name and business activities

Name: RC2 Corporation

Business activities: Planning, manufacturing and distribution of toys and infant products

##### b. Reason for business combination

- Establishment of strong sales network for global market
- Strengthening of global development of both brands
- Strengthening of development and production systems
- Acquisition of global human resource and organization systems

##### c. Date of business combination

April 29, 2011

##### d. Legal status of business combination

Acquisition of shares in cash

##### e. Name of post-business combination

RC2 Corporation (currently TOMY Holdings, Inc.)

##### f. Ownership after acquisition: 100%

##### g. Basis of decision of acquired company

The Company acquired the shares in RC2 Corporation (currently TOMY Holdings, Inc.) by contribution in cash through its US subsidiary, Galaxy Dream Corporation.

#### (2) Period which acquired company is included in the consolidated financial statements

From April 29, 2011 to March 31, 2012

#### (3) Acquisition cost and details of acquired company

Acquisition price: US\$ 612 million

Direct cost for acquisition: US\$ 37 million

Acquisition cost: US\$ 650 million

#### (4) Goodwill

##### a. Amounts occurred: US\$ 286 million

##### b. Reason for occurrence

Mainly integration synergy by incorporation of RC2 Corporation (currently TOMY Holdings, Inc.) as subsidiary and expected excess earning power by expanding overseas sales, etc.

##### c. Amortization

Amortization is calculated based on straight line method over 20 years.

##### d. Details of assets acquired and liabilities assumed

	Millions of US\$
Current assets	\$284
Fixed assets and other assets	559
Total assets	844
Current liabilities	109
Non-current liabilities	238
Total liabilities	\$348

### 17. Segment Information

#### (1) Net sales by geographic segment

2012						Millions of yen					
	Japan	North America	Europe	Asia & Oceania	Total						
Net sales											
Sales to outside customers	¥144,665	¥23,216	¥11,661	¥ 7,721	¥187,265						
Intersegment sales and transfers	1,205	165	4	29,305	30,679						
Total	¥145,870	¥23,381	¥11,665	¥37,027	¥217,944						
Segment income (loss)	12,795	(134)	(133)	1,776	14,304						
Segment assets	52,047	37,180	6,779	12,443	108,451						
Other items											
Depreciation	3,404	1,754	84	177	5,421						
Amortization of goodwill	190	37	—	—	228						
Increase in property, plant and equipment as well as intangible assets	1,729	686	225	627	3,269						

2011						Millions of yen					
	Japan	North America	Europe	Asia	Total						
Net sales											
Sales to outside customers	¥143,863	¥665	¥8,704	¥6,257	¥159,490						
Intersegment sales and transfers	1,126	7	6	23,147	24,288						
Total	¥144,989	¥673	¥8,710	¥29,404	¥183,778						
Segment income (loss)	12,522	1	(205)	1,259	13,578						
Segment assets	55,622	170	3,286	8,958	68,037						
Other items											
Depreciation	3,383	17	39	109	3,549						
Amortization of goodwill	195	—	—	—	195						
Increase in property, plant and equipment as well as intangible assets	2,981	5	265	103	3,355						

Note: Geographic segment has been classified by where group companies are located.

The amount of liabilities by segment is determined by the Board of Directors meeting as appropriate, but is not disclosed periodically. "Asia" as segment name is changed to "Asia & Oceania" because of new consolidated subsidiaries.

#### (2) Net sales by market

Millions of yen						
	Japan	North America	Europe	Asia & Oceania	Other	Total
2012	¥119,515	¥37,605	¥17,198	¥10,627	¥2,319	¥187,265
2011	128,110	9,790	11,455	9,060	1,083	159,490

Note: The above regions reflect the locations of the TOMY entities that record the sales.

### 18. Per Share Information

Millions of yen		
The fiscal year ended March 31	2012	2011
Net assets per share	¥525.46	¥501.54
Earnings per share	39.09	94.85
Earnings per diluted share	32.27	78.26

Note: Earnings per share and earnings per diluted share are calculated on the following basis.

Millions of yen		
The fiscal year ended March 31	2012	2011
Earnings per share		
Net income	¥3,679	¥8,929
Amount not applicable to shareholders of common stock	—	—
Net income applicable to common stock	¥3,679	¥8,929
Average number of shares for the period (thousand shares)	94,137	94,139
Earnings per diluted share		
Net income adjustment amount	¥3	¥3
(Of which is interest expense after deducting the amount equivalent to tax)	(3)	(3)
Increase in the number of common stock (thousand shares)	20,009	20,009
Overview of diluted stock is not included in calculations for earnings per diluted share due to the absence of stock with a potential dilutive effect.		
New share subscription rights	10	6
Number of diluted stock (thousand shares)	6,262	4,685