TOMY
Dream Energy

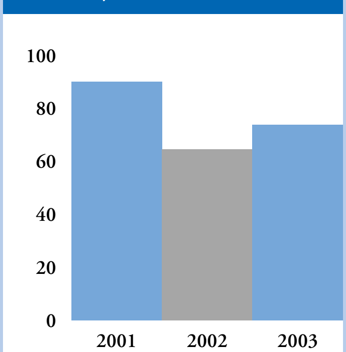
TOMY Company, Ltd.
Annual Report 2003

FINANCIAL HIGHLIGHTS

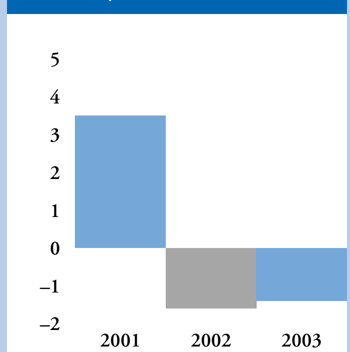
	Millions of yen			Thousands of U.S. dollars
	2001	2002	**2003**	**2003**
For the Year:				
Net sales	¥89,972	¥64,440	**¥73,777**	**$613,783**
Operating income (loss)	5,760	(941)	**1,155**	**9,608**
Net income (loss)	3,490	(1,601)	**(1,388)**	**(11,543)**
At Year-End:				
Total assets	¥60,447	¥54,434	**¥57,150**	**$475,461**
Shareholders' equity	22,441	20,541	**18,478**	**153,726**
Per Share of Common Stock (Yen and U.S. dollars)**:**				
Net income (loss) (basic)	¥170.94	¥ (78.40)	**¥(70.45)**	**$ (0.59)**
Cash dividends	30.00	20.00	**–**	
Return on equity (ROE)	16.06%	–%	**–%**	

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥120.20 to US$1, the approximate rate of exchange at March 31, 2003.

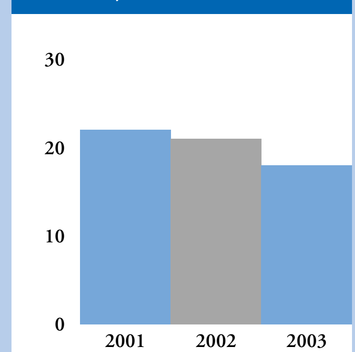
NET SALES
(Billions of yen)



NET INCOME
(Billions of yen)



SHAREHOLDERS' EQUITY
(Billions of yen)



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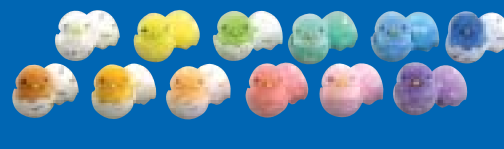
FORWARD-LOOKING STATEMENTS

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.



MESSAGE FROM MANAGEMENT

A YEAR OF ECONOMIC UNCERTAINTY

In fiscal 2002, ended March 31, 2003, there were signs that the Japanese economy started bottoming out in the first quarter of the year, with strength returning to some manufacturing and export sectors. However, any hopes of a full-scale recovery were disappointed by sluggish public expenditure, continuing weakness in the employment market, falling incomes and anemic consumer spending. These factors combined with accelerating deflation, falling stock markets and the tense situation in Iraq to create added uncertainty about the direction of the economy.

Despite some notable successes in the video game software market, the Japanese toy industry as a whole lacked energy during the year, mainly due to a small number of any standout hit products.

BACK ON THE ROAD TO PROFITABILITY

In this climate we continued to drive forward initiatives aimed at restructuring under-performing subsidiaries and refocusing our corporate stance on manufacturing and retailing. In the latter, steps taken in the past year included integrating the TOMY Group's product development functions, streamlining administrative and support divisions, and shifting more personnel from back-office areas to frontline operations. In the second half of the year, we carried out management reform aimed at achieving a fundamental reengineering of our earnings structure, necessitated by hard realities faced by the Company. This included pruning the workforce at TOMY Company through the implementation of an early retirement program and reassignments to TOMY Group subsidiaries.

On an operational level, we worked to build up momentum in our Disney Business, which includes group companies and a network of companies awarded sublicenses by TOMY. And based on our micro-entertainment concept, we successfully developed and launched the new MiCROPETS range of miniature toys, which combine charm and intelligence in an engaging design. These products are now being marketed on a global scale. In capsule toys, and in candy toys, a market we entered in the previous period as part of efforts to expand sales in the peripheral toy business, we broadened our product lineup and expanded sales channels to set us apart from rival companies and increase market share.

These efforts paid off with a 14.5% increase in net sales to ¥73,777 million (US$614 million), while gross profit rose as the cost of sales ratio remained largely unchanged from the previous period.

An increase in advertising expenses related to aggressive efforts to boost sales, as well as higher personnel costs, resulted in a slight rise in selling, general and administrative (SG&A) expenses, but this was more than covered by the increase in gross profit. As a result, TOMY posted operating income of ¥1,155 million (US$10 million), reversing an operating loss of ¥941 million in fiscal 2001. Loss before income taxes was ¥1,150 million (US$10 million) narrowing the loss before income taxes of ¥1,743 million posted in the previous year. Bottom line profitability was affected by the booking of extraordinary losses for impairment losses on investment securities and additional retirement payments related to the implementation of the early retirement program. Consequently the Company recorded a net loss of ¥1,388 million (US$12 million), although this was an improvement of 13.3% on the previous period's net loss of ¥1,601 million.

FURTHER STEPS ON THE PATH TO TOMY'S RENAISSANCE

As we moved into the second half of the fiscal year we were faced with some hard realities. Prompted by our own earnings forecasts that projected an unprofitable full-year performance, we took action to rectify the main cause—a deterioration in our earnings structure. We immediately established a Business Restructuring Promotion Division to initiate reforms aimed at realizing TOMY's renaissance. These reforms were underpinned by the fundamental

goals of achieving a rebound in trust in TOMY and renewed commitment to profit-oriented management. This formed the basis for a number of concrete actions outlined below.

Launching Priority Initiatives

We launched a number of priority initiatives aimed at adjusting the composition of our product lineup by shifting resources to high-growth, high-income product segments, and at reducing the cost of sales through cuts in manufacturing costs and improved inventory management. As I mentioned above, we also implemented an early retirement program, designed to pare back personnel costs from fiscal 2003 onwards. Actions to reduce other SG&A costs included reassessing expenses related to distribution, advertising and R&D.

Introducing the Strategic Business Unit System

In the year under review, we integrated the new toy and peripheral toy businesses, including products such as candy toys and baby toys, into what we call the Frontier Business. This move is aimed at driving higher growth by cultivating new sales channels and broadening the target market for these products. This Frontier Business will work in conjunction with two other strategic business units in the domestic market: the Toy Business and the Disney Business. Overseas operations will be the responsibility of the International Business, our fourth and final strategic business unit. The heads of these units, each with extensive knowledge of the nature of their respective operating environments, have been given enhanced powers to control day-to-day operations. This has created a more flexible and rapid decision-making framework.

Enhancing Product Planning and Development Capabilities

At TOMY, our long-term objective has been to create a portfolio of highly original "only-from-TOMY" products. Commitment to this goal remains unwavering, but our means of achieving it is changing—we have now established independent product development divisions at every strategic business unit to enhance our product planning and development capabilities. This means, for example, that global product development will now be the responsibility of the International Business, mandated to create original, global strategic products using unique materials, technology and mechanisms. We believe this will result in a stronger product development organization, capable of enhancing profitability across the entire TOMY Group by meeting the real needs of both children and our wider target market. In a related step, we reorganized TOMY partner companies responsible for product development based on their level of contribution. This was aimed at further strengthening our relationships with these companies and generating greater mutual benefit. In conjunction with this reorganization, we also strengthened development support capabilities by integrating certain functions carried out by the TOMY Development Center, Inc. and the TOMY engineering center in Shenzhen, China. At the same time, quality assurance and control functions have been transferred to the TOMY Development Center to create a Group reservoir of quality excellence. This integration will ultimately be key to enhancing efficiency and boosting earnings as these two centers work in partnership to reduce lead times, provide technical support for product planning and development, and enhance product quality through technological innovation.

Finding Further Efficiency Improvements

Finding further cost and efficiency savings has been a long-term issue for TOMY, not just one of the priority initiatives I talked about earlier. In fact, successively reducing the cost of sales and SG&A expenses has, and will

continue to be, a key element of our management policy. Improving the efficiency of consolidated management and strengthening our earnings structure will also be important issues for the Company going forward. More specifically, in addition to the establishment of criteria for product manufacturing costs at each business, we are working to reduce our manufacturing cost base even further by strengthening cost management functions through closer cooperation with the TOMY Development Center and the engineering center in Shenzhen. And in order to bring common Group back-office functions such as customer services under one roof, we have established TOMY GENERAL SERVICES Co., Ltd., which is already up and running. This center will be an important tool in improving operating efficiency, and ultimately reducing SG&A expenses.

Strengthening Group Management

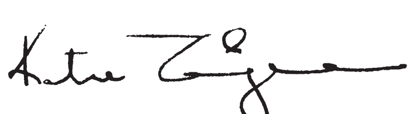
In the year under review, most of our existing consolidated subsidiaries posted an increase in earnings. This was achieved on the back of initiatives launched in fiscal 2002 aimed at expanding our business domains and enhancing group management. Changes included a shift in the operational stance of TOMY Direct Company, Ltd., to exclusively focus on strengthening business cooperation with Hasbro, Inc. of the United States. Other steps saw the creation of two new joint ventures: GLOW-TEC INTERNATIONAL Company, Ltd., to design and launch life-style products and toys using electric luminescence (EL) technology, and TOMY Link Company, Ltd., to plan and develop business projects related to Disney Resorts and Stores.

FUTURE STRATEGIES

In the Toy Business, we aim to build a firm business platform by reenergizing our lineup of flagship, original products such as Tomica and Pla-rail to ensure a steady stream of income from existing products. This will go hand in hand with efforts to leverage Group synergies as we seek to grow the key Disney Business into a reliable source of mainstay products. Disney characters are already being used by TOMY in the candy toy market, part of our Frontier Business, and by subsidiaries in the capsule toy, life-style products and other markets. Going forward, we plan to realize further growth and cultivate new markets for the Frontier Business by clearly identifying consumer targets and leveraging our expertise in the toy industry. In the International Business, our micro-entertainment concept will remain paramount as we strive to create the next global toy product to follow on from the success of MiCROPETS.

Supported by the above initiatives, aimed at renewing our commitment to profit-oriented management through a fundamental strengthening of the Company's corporate structure, everyone at TOMY is working to realize a recovery in performance and trust. We ask for your ongoing support as an integral part of this process.

June 2003



Kantaro Tomiyama
President & CEO

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President & CEO

GROUP NETWORK

TOMY UK Ltd.

TOMY France S.A.R.L.

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 UK toy market, TOMY UK is now moving into other market segments such as capsule toys, supported by its powerful base 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 past year, both companies staged a recovery, helped by sales of MiCROPETS and other products. Going forward, these companies will work to bed down recently integrated marketing and management functions as they seek to win a greater share of the European toy market.

TOMY (Thailand) Ltd.

TOMY (Hong Kong) Ltd.

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 earned ISO 9001 certification. It has also attained ISO 14001 certification for environmental management. Looking ahead, the company will work to grow external Group sales of mainstay products to East and Southeast Asia, primarily Tomica and Pla-rail, as well as independently developed products, and also focus on expanding sales of Disney themed toys.

Established in 1987, TOMY (Thailand) Ltd. today employs over 1,000 employees at its own factory in the country. 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.

TOMY Corporation
TOMY Yujin Corporation

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. From the year under review, however, the company also began full-scale sales activities aimed at raising the visibility of TOMY products in the region. As a first step in this direction, TOMY Corporation launched one of TOMY's new global toy products, MiCROPETS, in June 2002, ahead of scheduled launches in the Japanese and European markets. Sales of MiCROPETS and other toys made a substantial contribution to the company's earnings during fiscal 2002. In 1999, TOMY joined forces with group subsidiary Yujin Company, Ltd. to form TOMY Yujin Corporation, a vehicle to market capsule toys in North America. Although sales of capsule toys are still relatively small, we have great hopes for these products as we gradually increase the number of capsule toy dispensers at leading store chains.

FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars (Note 2)
	1999	2000	2001	2002	**2003**	**2003**
For the Year:						
Net sales	¥ 78,218	¥ 96,816	¥ 89,972	¥ 64,440	**¥73,777**	**$613,783**
Operating income (loss)	6,502	8,827	5,760	(941)	**1,155**	**9,608**
Income (loss) before income taxes	5,532	8,083	5,622	(1,743)	**(1,150)**	**(9,571)**
Net income (loss)	3,119	4,604	3,490	(1,601)	**(1,388)**	**(11,543)**
At Year-End:						
Total assets	¥ 43,714	¥ 60,381	¥ 60,447	¥ 54,434	**¥57,150**	**$475,461**
Shareholders' equity	14,915	21,031	22,441	20,541	**18,478**	**153,726**
Return on equity	25.92%	25.62%	16.06%	–%	**–%**	
Number of shares issued at year-end	11,100,000	13,612,866	20,419,299	20,419,299	**20,419,299**	
Per Share of Common Stock (Yen and U.S. dollars)**:**						
Net income (loss)						
Basic	¥ 285.24	¥ 340.63	¥ 170.94	¥ (78.40)	**¥ (70.45)**	**$ (0.59)**
Diluted	283.68	310.53	152.39	–	**–**	**–**
Shareholders' equity	1,343.73	1,544.93	1,099.01	1,006.06	**902.71**	**7.51**
Cash dividends, applicable to the year	25.00	30.00	30.00	20.00	**–**	**–**

Note: U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥120.20 to US$1, the approximate rate of exchange at March 31, 2003.

FINANCIAL REVIEW

NET SALES

In the fiscal year ended March 31, 2003, some sectors of the Japanese economy began to show signs of a turnaround in the first half of the year. However, a broad-based recovery remained a distant prospect due to persistently weak consumer spending and a number of other factors. These combined with spiraling deflation, slumping stock markets and growing geopolitical tension over Iraq to create a climate of uncertainty.

In this environment, the TOMY Group implemented organizational reforms and reorganized underperforming subsidiaries. These actions were geared toward placing more emphasis on manufacturing activities and strengthening sales. Prompted by hard realities faced by the Company in the latter half of the year, the decision was made to carry out a fundamental review of TOMY's earnings structure, a vital element of management reform. This included implementing an early retirement program and reassigning personnel to TOMY Group subsidiaries.

On an operational level, we worked to put the Disney Business on an even keel. Meanwhile, based on our micro-entertainment concept, we developed and launched the new MiCROPETS range of miniature toys, and rolled out a related marketing campaign targeting major global toy markets. In the capsule toy and candy toy categories, we sought to set ourselves apart from competitors and grab market share by broadening the product lineup and expanding sales channels.

As a result of the above efforts, consolidated net sales increased 14.5% year on year to ¥73,777 million.

SEGMENT INFORMATION

Toy

Disney character toys, now gaining real momentum, posted a significant increase in sales thanks to a more extensive lineup of products, including stuffed toys. We used Disney and other characters to actively develop a diverse and exciting range of candy and capsule toys to maintain sales growth. Other standout performers for the Company were STAR WARS-related products, on the back of the release of Episode II-Attack of the Clones, our series of sticker-making products for young girls, such as home-use photo sticker devices and, relaxation toys including the *nohohon-zoku* series.

Overseas, a combination of intelligent functions and charm made the MiCROPETS range a winner in the U.S. market. MiCROPETS made a significant contribution to both overseas and domestic sales, following their launch in the U.S. and subsequently in Japan and Europe. Sales of ZOIDS were also strong, thanks to an alliance with Hasbro, Inc. and synergies with a related TV animation series.

Robust performances from the above products drove net sales 17.9% higher year on year to ¥71,608 million.

Others

Due to our withdrawal from the OEM production of instant cameras, net sales in this segment fell 41.1% to ¥2,169 million.

COST OF SALES

Although cost of sales rose 14.0% to ¥47,944 million, in line with the increase in net sales, gross profit increased as the cost of sales ratio remained on a par with the previous period.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

SG&A expenses were ¥24,678 million, an increase of 5.8%. This was mainly attributable to advertising costs related to sales promotion campaigns, a rise in personnel expenses, and higher research and development costs due to concerted efforts to create the next family of TOMY products. The increase in SG&A expenses was absorbed by the rise in net sales.

OPERATING INCOME

The Toy Business posted a substantial increase in operating income from ¥412 million in the previous year, to ¥2,458 million in the year under review. Operating income in Others declined 30.0% to ¥410 million. Higher gross profit offset the slight rise in SG&A expenses, leading to consolidated operating income of ¥1,155 million. This reversed the operating loss of ¥941 million in fiscal 2001.

OTHER INCOME (EXPENSES)

Other expenses totaled ¥2,305 million, significantly higher than the ¥802 million recorded in the previous year. This primarily reflected widening impairment losses on investment securities due to poorly performing stock markets, and a net foreign exchange loss against a net gain in fiscal 2001.

NET INCOME (LOSS)

As a result of the above, loss before income taxes fell 34.0% to ¥1,150 million. After the deduction of income taxes, the net loss was ¥1,388 million, and net loss per share was ¥70.45.

FINANCIAL CONDITION

As of March 31, 2003, total assets stood at ¥57,150 million, 5.0% higher than at the end of the previous year. Total current assets were up 11.7% to ¥44,317 million. This was mainly attributable to a rise in cash and cash equivalents of ¥5,723 million due to an increase in both short- and long-term debt. Property, plant and equipment totaled ¥8,866 million, ¥110 million less than fiscal 2001.

Total liabilities rose 13.9% to ¥38,607 million due mainly to the increase in both short- and long-term debt, and a corporate bond issue to cover the redemption of convertible bonds.

CASH FLOWS

Although investing activities used net cash during the year under review, operating and financing activities both generated positive cash flows, leading to the ¥5,723 million rise in cash and cash equivalents to ¥21,513 million at the end of the year.

Net cash provided by operating activities was ¥3,079 million, mainly due to a decrease in trade notes and accounts receivable and a smaller decrease in trade notes and accounts payable.

Net cash used in investing activities was ¥2,745 million. This primarily reflected the purchase of property, plant and equipment such as molds.

Net cash provided by financing activities was ¥5,597 million, mainly reflecting proceeds from short- and long-term debt.

CONSOLIDATED BALANCE SHEETS

TOMY COMPANY, LTD. AND SUBSIDIARIES
As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2003**	2002	**2003**
Current Assets:			
Cash and cash equivalents	**¥21,513**	¥15,790	**$178,977**
Marketable securities (Note 4)	**3,344**	1,723	**27,817**
Trade notes and accounts receivable (Note 3)	**9,949**	11,195	**82,771**
Less—Allowance for doubtful receivables	**(217)**	(102)	**(1,804)**
Inventories (Note 6)	**5,207**	5,311	**43,317**
Deferred income taxes—current (Note 13)	**1,260**	871	**10,485**
Other	**3,261**	4,902	**27,132**
	44,317	39,690	**368,695**
Property, Plant and Equipment, at Cost:			
Land (Notes 8 and 16)	**3,411**	3,419	**28,382**
Buildings and structures (Note 8)	**6,629**	6,697	**55,146**
Machinery and equipment	**20,810**	20,229	**173,129**
Construction in progress	**63**	92	**525**
	30,913	30,437	**257,182**
Less—Accumulated depreciation	**(22,047)**	(21,461)	**(183,422)**
	8,866	8,976	**73,760**
Investments and Other Assets:			
Investment securities (Note 4)	**1,179**	3,105	**9,813**
Investment in unconsolidated subsidiaries and affiliates	**101**	122	**836**
Lease deposits and other	**1,112**	1,053	**9,251**
Deferred income taxes—non-current (Note 13)	**1,575**	1,488	**13,106**
	3,967	5,768	**33,006**
Total assets	**¥57,150**	¥54,434	**$475,461**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 1) 2003
Current Liabilities:			
Short-term borrowings (Note 7)	**¥ 9,119**	¥ 6,930	**$ 75,862**
Current portion of long-term debt (Note 8)	**10,298**	828	**85,671**
Trade notes and accounts payable (Note 3)	**4,236**	4,397	**35,238**
Accrued expenses	**5,677**	4,796	**47,229**
Accrued income taxes	**314**	163	**2,609**
Other	**1,074**	2,634	**8,949**
	30,718	19,748	**255,558**
Long-Term Liabilities:			
Long-term debt, less current portion (Note 8)	**4,865**	10,665	**40,476**
Severance and retirement allowances (Note 11):			
Employees	**972**	1,452	**8,088**
Directors	**399**	303	**3,318**
Deferred income taxes for revaluation of land (Notes 13 and 16)	**18**	18	**147**
Other	**1,635**	1,707	**13,609**
	7,889	14,145	**65,638**
Minority Interests	**65**	–	**539**
Commitments and Contingent Liabilities (Note 17)			
Shareholders' Equity (Note 14)**:**			
Common stock, no par			
Authorized: 60,000,000 shares			
Issued: 20,419,299 shares at March 31, 2003 and 2002	**2,990**	2,990	**24,875**
Additional paid-in capital	**2,936**	2,936	**24,428**
Retained earnings	**14,078**	15,606	**117,124**
Revaluation reserve for land, net of tax (Note 16)	**26**	25	**216**
Net unrealized holding losses on securities	**(118)**	(50)	**(985)**
Foreign currency translation adjustments	**(1,426)**	(963)	**(11,864)**
	18,486	20,544	**153,794**
Less treasury stock, at cost			
5,593 shares at March 31, 2003 and 1,903 shares at March 31, 2002	**(8)**	(3)	**(68)**
	18,478	20,541	**153,726**
Total liabilities and shareholders' equity	**¥57,150**	¥54,434	**$475,461**

CONSOLIDATED STATEMENTS OF OPERATIONS

TOMY COMPANY, LTD. AND SUBSIDIARIES
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net Sales	**¥73,777**	¥64,440	**$613,783**
Cost of Sales	**47,944**	42,047	**398,866**
Gross profit	**25,833**	22,393	**214,917**
Selling, General and Administrative Expenses	**24,678**	23,334	**205,309**
Operating income (loss)	**1,155**	(941)	**9,608**
Other Income (Expenses):			
Interest and dividend income	**99**	118	**825**
Interest expense	**(280)**	(304)	**(2,326)**
Gain on sale of fixed assets	**10**	183	**86**
Loss on disposal of plant and equipment	**(83)**	(33)	**(689)**
Sales discounts	**(211)**	(287)	**(1,755)**
Impairment loss on investment securities	**(458)**	(203)	**(3,812)**
Foreign exchange gain (loss), net	**(663)**	148	**(5,519)**
Special early retirement benefit	**(355)**	–	**(2,954)**
Other, net	**(364)**	(424)	**(3,035)**
	(2,305)	(802)	**(19,179)**
Loss before Income Taxes	**(1,150)**	(1,743)	**(9,571)**
Provision for Income Taxes—current	**737**	398	**6,121**
—deferred	**(532)**	(540)	**(4,426)**
Minority Interest in Subsidiaries	**33**	–	**277**
Net Loss	**¥(1,388)**	¥(1,601)	**$(11,543)**
Per Share of Common Stock (Note 15)**:**			
Net loss:			
Basic	**¥(70.45)**	¥(78.40)	**$(0.59)**
Diluted	**–**	–	**–**
Cash dividends, applicable to the year	**–**	20.00	**–**

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, 2003 and 2002

	Millions of yen					
	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, 2001	¥2,990	¥2,936	¥17,900	¥(0)	¥(1,385)	¥22,441
Revaluation reserve for land, net of tax					25	25
Unrealized holding losses on securities arising during the period					(87)	(87)
Foreign currency translation adjustments					459	459
Net loss			(1,601)			(1,601)
Dividends declared			(613)			(613)
Bonuses paid to directors and corporate auditors			(80)			(80)
Treasury stock				(3)		(3)
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 and 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**

	Thousands of U.S. dollars (Note 1)					
	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	$24,875	$24,428	$129,834	$ (26)	$(8,220)	$170,891
Revaluation reserve for land, net of tax					**5**	**5**
Unrealized holding losses on securities arising during the period					**(571)**	**(571)**
Foreign currency translation adjustments					**(3,847)**	**(3,847)**
Net loss			**(11,543)**			**(11,543)**
Dividends declared			**(849)**			**(849)**
Bonuses paid to directors and corporate auditors			**(258)**			**(258)**
Equity in subsidiaries included in consolidation at beginning of year			**(60)**			**(60)**
Treasury stock				**(42)**		**(42)**
Balance at March 31, 2003	**$24,875**	**$24,428**	**$117,124**	**$(68)**	**$(12,633)**	**$153,726**

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, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash Flows from Operating Activities:			
Loss before income taxes	**¥(1,150)**	¥ (1,743)	**$ (9,571)**
Depreciation and amortization	**2,373**	2,069	**19,745**
Interest and dividend income	**(99)**	(118)	**(825)**
Interest expense	**280**	304	**2,326**
Decrease (increase) in trade notes and accounts receivable	**1,124**	(956)	**9,348**
Decrease in inventories	**97**	1,089	**809**
Decrease (increase) in prepaid expenses	**582**	(635)	**4,839**
Decrease in trade notes and accounts payable	**(103)**	(1,088)	**(854)**
Other, net	**741**	(436)	**6,172**
Sub total	**3,845**	(1,514)	**31,989**
Interest and dividends received	**95**	119	**793**
Interest paid	**(289)**	(343)	**(2,403)**
Income taxes paid	**(572)**	(1,228)	**(4,761)**
Net cash provided by (used in) operating activities	**3,079**	(2,966)	**25,618**
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	**(2,219)**	(2,147)	**(18,464)**
Purchase of marketable and investment securities	**(2,038)**	(1,958)	**(16,952)**
Proceeds from sales of marketable and investment securities	**1,793**	1,777	**14,920**
Other, net	**(281)**	173	**(2,337)**
Net cash used in investing activities	**(2,745)**	(2,155)	**(22,833)**
Cash Flows from Financing Activities:			
Proceeds (expenses) from short-term borrowings, net	**2,022**	(600)	**16,821**
Repayment of long-term debt	**(1,130)**	(1,037)	**(9,401)**
Proceeds from long-term debt	**3,600**	–	**29,950**
Dividends paid	**(109)**	(608)	**(910)**
Other, net	**1,214**	(3)	**10,103**
Net cash provided by (used in) financing activities	**5,597**	(2,248)	**46,563**
Effect of Exchange Rate on Cash and Cash Equivalents	**(236)**	152	**(1,967)**
Net Increase (Decrease) in Cash and Cash Equivalents	**5,695**	(7,217)	**47,381**
Cash and Cash Equivalents at Beginning of Period	**15,790**	23,041	**131,362**
Net Increase in Cash and Cash Equivalents due to Change in Consolidated Subsidiaries (Note 5)	**28**	–	**234**
Net Decrease in Cash and Cash Equivalents due to Change in Consolidated Subsidiaries (Note 5)	**–**	(34)	**–**
Cash and Cash Equivalents at End of Period	**¥21,513**	¥15,790	**$178,977**

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

TOMY Company, Ltd., ("the Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code ("the Code") and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been reorganized and translated into English (with some expanded descriptions and the inclusion of 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 considered necessary 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 the readers, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S.$1. The convenience 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 included in other long-term liabilities in the accompanying consolidated balance sheets and are amortized on a straight-line basis over five years.

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 and other 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 other 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 other securities are carried at cost. Under this accounting standard, if the fair value of the marketable securities classified as other 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

(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 have 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 account based on a review of the collectibility of the individual receivables.

(i) Appropriation of Retained Earnings

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

(j) Employee's 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 has 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 as an expense in equal amounts primarily over 5 years commencing with the years 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 allowances for directors and corporate auditors are recorded to state the liability 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 approval of the shareholders in accordance with the code.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Treasury Stock and Reversal of Statutory Reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). As a result of this change, gains and losses from disposal of treasury stock which were previously charged to income or expense are accounted for as capital transactions.

The effect on net loss of adopting the new standard was not significant.

(p) Earning Per Share

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). The effect of adopting of the new standard and guidance is disclosed in Note 15.

(q) 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. EFFECT OF BANK HOLIDAY ON MARCH 31, 2002

As financial institutions in Japan were closed on March 31, 2002 , ¥93 million ($773 thousand) of trade notes receivable and ¥13 million ($107 thousand) of trade notes payable maturing on March 31, 2002 were settled on the following business day of April 1, 2002 and accounted for accordingly.

4. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities as of March 31, 2003 and 2002, 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, 2003 and 2002:

Held-to-maturity debt securities

	Millions of yen					
	2003			2002		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values exceeding book values						
Bonds	**¥ –**	**¥ –**	**¥ –**	¥10	¥10	¥0

Held-to-maturity debt securities

	Thousands of U.S. dollars		
	2003		
	Book value	Fair value	Difference
Securities with available fair values exceeding book values			
Bonds	**$ –**	**$ –**	**$ –**

Available-for-sale securities

	Millions of yen					
	2003			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs						
Type						
Equity securities	**¥ 79**	**¥ 124**	**¥ 45**	¥ 457	¥ 597	¥ 140
Others	**100**	**101**	**1**	1,399	1,414	15
Total	**¥ 179**	**¥ 225**	**¥ 46**	¥1,856	¥2,011	¥ 155
Securities with book values not exceeding acquisition costs						
Type						
Equity securities	**¥ 651**	**¥ 494**	**¥(157)**	¥ 544	¥ 359	¥(185)
Others	**366**	**361**	**(5)**	530	452	(78)
Total	**¥1,017**	**¥ 855**	**¥(162)**	¥1,074	¥ 811	¥(263)
Total	**¥1,196**	**¥1,080**	**¥(116)**	¥2,930	¥2,822	¥(108)

Available-for-sale securities

	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs			
Type			
Equity securities	**$ 660**	**$1,035**	**$ 375**
Others	**829**	**834**	**5**
Total	**$1,489**	**$1,869**	**$ 380**
Securities with book values not exceeding acquisition costs			
Type			
Equity securities	**$5,413**	**$4,107**	**$(1,306)**
Others	**3,046**	**3,006**	**(40)**
Total	**$8,459**	**$7,113**	**$(1,346)**
Total	**$9,948**	**$8,982**	**$ (966)**

An impairment loss of ¥230 million (US$1,911 thousand) was recognized for available-for-sale securities in year ended March 31, 2003.

B. The following tables summarize book values of securities with no available fair values as of March 31, 2003 and 2002:

Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Book value		
Type			
Discounted receivables	**¥ 65**	¥ 65	**$ 540**
Commercial paper	**1,269**	–	**10,560**
Euroyen bond	**700**	1,050	**5,824**
Total	**¥2,034**	¥1,115	**$16,924**

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Book value		
Type			
Non-listed equity securities	**¥ 100**	¥313	**$ 830**
Others	**1,309**	568	**10,893**
Total	**¥1,409**	¥881	**$11,723**

An impairment loss of ¥228 million (US$1,898 thousand) was recognized for no available-for-sale securities in year ended March 31, 2003.

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

	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**

	Millions of yen				
2002	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Others	¥ 24	¥ 31	¥50	¥ –	¥ 105
Held-to-maturity debt securities:					
Bonds	360	700	–	–	1,060
Others	65	–	–	–	65
Total	¥449	¥731	¥50	¥ –	¥1,230

	Thousands of U.S. dollars				
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	**$ 540**	**$ –**	**$ –**	**$ –**	**$ 540**
Commercial paper	**10,560**	**–**	**–**	**–**	**10,560**
Others	**5,824**	**–**	**–**	**–**	**5,824**
Total	**$16,924**	**$ –**	**$ –**	**$ –**	**$16,924**

D. Available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥2,878 million ($23,947 thousand) and the related gains and losses amounted to ¥62 million ($517 thousand) and ¥121 million ($1,005 thousand), respectively.

Available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥4,471 million ($33,556 thousand) and the related gains and losses amounted to ¥26 million ($195 thousand) and ¥34 million ($252 thousand), respectively.

5. NOTES TO CASH FLOW STATEMENT

Assets and liabilities of a subsidiary, which is newly consolidated during the year ended March 31, 2003 due to its increased significance, are as follow:

Heart Land Company, Ltd.

(As of April 1, 2002)

	Millions of yen	Thousands of U.S. dollars
Current Assets	¥42	$351
Non-current Assets	15	127
Current Liabilities	18	148
Non-current Liabilities	–	–

Assets and liabilities of an affiliate, which is excluded from consolidation during the year ended March 31, 2002 due to decrease of the Company's equity interest, are as follows:

Tomy Kasei Company, Ltd.

(As of March 31, 2001)

	Millions of yen	Thousands of U.S. dollars
Current Assets	¥679	$5,095
Non-current Assets	44	331
Current Liabilities	557	4,182
Non-current Liabilities	28	207

6. INVENTORIES

Inventories as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥4,404**	¥4,421	**$36,640**
Work-in-process raw materials and supplies stock	**803**	890	**6,677**
Total	**¥5,207**	¥5,311	**$43,317**

7. 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 1.7% as of March 31, 2003 and 2002.

8. LONG-TERM DEBT

Long-term debt as of March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Bonds:			
0.58% unsecured bonds, payable in yen, due 2008	**¥ 1,200**	¥ –	**$ 9,983**
Convertible bonds:			
0.25% convertible unsecured bonds, payable in yen, due 2003	**9,965**	9,965	**82,903**
Loans payable:			
1.08% to 4.89% secured loans from banks, due 2003 through 2010	**3,998**	1,528	**33,261**
	15,163	11,493	**126,147**
Less—Current portion	**(10,298)**	(828)	**(85,671)**
	¥ 4,865	¥10,665	**$ 40,476**

The convertible bonds are convertible into shares of common stock at the option of the holders at a conversion price of ¥3,872 ($32) per share, subject to adjustment in certain circumstances including a stock split. The agreement of the convertible bonds permits early redemption at the option of the Company, in whole or in part, at defined prices.

If all convertible bonds of the Company were converted as of June 26, 2003, 2,574 thousand shares of common stock would be issuable.

Short-term borrowings and long-term debt, aggregating ¥3,921 million ($32,624 thousand), were collateralized by land and buildings with a net book value of ¥3,933 million ($32,723 thousand).

The annual maturities of long-term debt as of March 31, 2003, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥10,298	$ 85,671
2005	330	2,744
2006	2,635	21,925
2007	643	5,349
2008	1,257	10,458
Total	¥15,163	$126,147

9. 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, 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, 2005 and June 30, 2009.

(4) On September 13, 2001, the Company issued unsecured bonds with warrants. If all warrants were exercised as of March 31, 2003, common stock of ¥585 million ($4,869 thousand) would be issuable. The Company purchased all of the warrants and distributed them to a certain subsidiary's directors. The warrant exercise price is ¥2,660 per share.

10. 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 counterparty 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, and Interest rate swaps

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

(2) Information on market value of derivative instruments

In the year ended March 31, 2003, and 2002, as all derivative instruments used by the Group qualify as a hedge, the market value of those derivative instruments is not required to be presented under the current accounting standard.

11. 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, 2003 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥1,429**	¥1,941	**$11,891**
Unrecognized actuarial differences	**(67)**	21	**(554)**
Less fair value of pension assets	**(333)**	(376)	**(2,773)**
Less unrecognized net transition obligation	**(57)**	(134)	**(476)**
Liability for severance and retirement benefits	**¥ 972**	¥1,452	**$ 8,088**

Severance and retirement benefit expenses for the year ended March 31, 2003 and 2002 were as following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service costs-benefits incurred during the year	**¥425**	¥174	**$3,538**
Interest costs on projected benefit obligation	**45**	52	**372**
Expected return on plan assets	**(15)**	(17)	**(125)**
Amortization of actuarial differences	**25**	(42)	**205**
Amortization of net transition obligation	**76**	44	**635**
Temporary extra retirement pay	**355**	42	**2,954**
Severance and retirement benefit expenses	**¥911**	¥253	**$7,579**

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

	2003	2002
Discount rate	**2.5%**	2.5%
Expected return on plan assets	**4.0%**	4.0%
Amortization of actuarial differences	**5 years**	5 years
Amortization of net transition obligation	**5 years**	5 years

12. FINANCE LEASES

(1) As if capitalized amounts for acquisition cost, accumulated depreciation, and net book value of leased assets under finance leases at March 31, 2003 and 2002, were as follows:

	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**

	Millions of yen		
As of March 31, 2002	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥554	¥294	¥260
Software	62	54	8
Total	¥616	¥348	¥268

	Thousands of U.S. dollars		
As of March 31, 2003	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	**$4,083**	**$2,254**	**$1,829**
Total	**$4,083**	**$2,254**	**$1,829**

(2) Minimum payments under the leases with noncancelable terms in excess of one year as of March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Within one year	**¥ 83**	¥102	**$ 690**
Over one year	**137**	166	**1,139**
Total	**¥220**	¥268	**$1,829**

13. INCOME TAXES

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

The aggregate statutory income tax rate will be reduced for the years commencing on or after April 1, 2004 due to the revised local tax law. At March 31, 2003, the Company and its consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.5% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on or after April 1, 2004. As a result, deferred tax assets decreased by ¥100 million ($829 thousand), provision for deferred income taxes increased by ¥98 million ($813 thousand) and net unrealized holding gains (losses) on securities increased by ¥2 million ($16 thousand) compared with what would be reported using the currently applicable tax rate of 42.0%.

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

	2003	2002
Statutory tax rate	**(42.0)**	(42.0)
Expenses not deductible for tax purpose	**4.3**	3.9
Taxation on per capita basis	**0.3**	1.0
Foreign tax credit	**10.6**	(9.7)
Dividend received deduction from affiliates	**5.6**	5.3
Valuation allowance recognized	**40.3**	28.3
Difference in statutory tax rates of subsidiaries outside Japan	**(11.5)**	2.1
Elimination of unrealized gains	**2.5**	2.6
Adjustment of deferred tax assets by tax rate alteration	**8.5**	–
Others	**(0.9)**	0.3
Effective tax rate	**17.7**	(8.2)

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets by type of temporary differences:			
Revaluation losses on inventories	**¥ 275**	¥ 327	**$ 2,288**
Allowance for doubtful receivables	**71**	27	**587**
Accrued enterprise tax	**37**	23	**311**
Allowance for bonus	**114**	63	**952**
Severance and retirement allowances for employees	**321**	478	**2,669**
Severance and retirement allowances for directors	**153**	127	**1,269**
Elimination of unrealized gains on inventory	**52**	64	**433**
Tax loss carryforward	**2,350**	1,316	**19,547**
Depreciation	**86**	129	**719**
Foreign tax credit	**–**	198	**–**
Impairment loss on investment securities	**255**	–	**2,124**
Others	**632**	582	**5,255**
Deferred tax assets	**¥ 4,346**	¥3,334	**$ 36,154**
Valuation allowance	**¥(1,236)**	¥ (705)	**$(10,279)**
Total deferred tax assets	**¥ 3,110**	¥2,629	**$ 25,875**
Deferred tax liabilities by type of temporary differences:			
Reserve for tangible assets	**¥ (194)**	¥ (203)	**$ (1,615)**
Adjustment for subsidiaries' retained earnings	**(45)**	(31)	**(378)**
Revaluation of land	**(18)**	(18)	**(147)**
Others	**(35)**	(36)	**(291)**
Deferred tax liabilities	**¥ (292)**	¥ (288)	**$ (2,431)**
Net deferred tax assets	**¥ 2,818**	¥2,341	**$ 23,444**

14. 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 being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of 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.

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.

Effective April 1, 2002, the Company and its subsidiaries adopted the new accounting standard for earnings per share and related guidance.

Earnings per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

	Yen
	2002
Per share of common stock	
Net loss	¥ (79.95)
Diluted net income	–

Diluted net income per share for the years ended March 31, 2003 and 2002 was not presented as the Group had net losses in these periods.

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 revalued was ¥216 million lower than its book value as of March 31, 2003.

17. COMMITMENTS AND CONTINGENT LIABILITIES

As of March 31, 2003, the Company and certain consolidated subsidiaries were contingently liable for discounted notes receivable with banks of ¥732 million ($6,093 thousand).

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 that makes the Company the master licensee of Disney brand products in Japan.

18. SEGMENT INFORMATION

(1) Business Segment Information

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

	Millions of yen				
2003	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**

	Millions of yen				
2002	Toy	Others	Total	Eliminations	Consolidated
Net sales:					
Sales to customers	¥60,756	¥3,684	¥64,440	¥ –	¥64,440
Inter-segment sales	32	2,378	2,410	(2,410)	–
Total	60,788	6,062	66,850	(2,410)	64,440
Operating expenses	60,376	5,482	65,858	(477)	65,381
Operating income (loss)	¥ 412	¥ 580	¥ 992	¥ (1,933)	¥ (941)
Total assets	¥29,383	¥4,626	¥34,009	¥20,425	¥54,434
Depreciation	¥ 1,804	¥ 181	¥ 1,985	¥ 84	¥ 2,069
Capital expenditures	¥ 1,909	¥ 168	¥ 2,077	¥ 35	¥ 2,112

	Thousands of U.S. dollars				
2003	Toy	Others	Total	Eliminations	Consolidated
Net sales:					
Sales to customers	**$595,737**	**$18,046**	**$613,783**	**$ –**	**$613,783**
Inter-segment sales	**367**	**21,996**	**22,363**	**(22,363)**	**–**
Total	**596,104**	**40,042**	**636,146**	**(22,363)**	**613,783**
Operating expenses	**575,652**	**36,630**	**612,282**	**(8,107)**	**604,175**
Operating income	**$ 20,452**	**$ 3,412**	**$ 23,864**	**$ (14,256)**	**$ 9,608**
Total assets	**$251,383**	**$36,625**	**$288,008**	**$187,453**	**$475,461**
Depreciation	**$ 18,153**	**$ 998**	**$ 19,151**	**$ 594**	**$ 19,745**
Capital expenditures	**$ 18,229**	**$ 485**	**$ 18,714**	**$ 194**	**$ 18,908**

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, 2003 and 2002, were ¥1,875 million ($15,599 thousand) and ¥2,190 million, 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, 2003 and 2002, were ¥23,650 million ($196,755 thousand) and ¥21,457 million, respectively.

(2) Operations by Geographic Area

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

	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**

	Millions of yen						
2002	Japan	Europe	Asia	Others	Total	Eliminations	Consolidated
Net sales:							
Sales to customers	¥49,650	¥10,696	¥ 3,859	¥235	¥64,440	¥ –	¥64,440
Inter-segment sales	1,203	15	11,933	468	13,619	(13,619)	–
Total	50,853	10,711	15,792	703	78,059	(13,619)	64,440
Operating expenses	48,915	11,964	15,314	752	76,945	(11,564)	65,381
Operating income (loss)	¥ 1,938	¥ (1,253)	¥ 478	¥ (49)	¥ 1,114	¥ (2,055)	¥ (941)
Total assets	¥23,853	¥ 4,876	¥ 6,036	¥382	¥35,147	¥ 19,287	¥54,434

	Thousands of U.S. dollars						
2003	Japan	Europe	Asia	Others	Total	Eliminations	Consolidated
Net sales:							
Sales to customers	**$439,547**	**$113,737**	**$ 26,628**	**$33,871**	**$613,783**	**$ –**	**$613,783**
Inter-segment sales	**33,851**	**86**	**117,885**	**–**	**151,822**	**(151,822)**	**–**
Total	**473,398**	**113,823**	**144,513**	**33,871**	**765,605**	**(151,822)**	**613,783**
Operating expenses	**457,080**	**110,844**	**$139,388**	**32,893**	**740,205**	**(136,030)**	**604,175**
Operating income	**$ 16,318**	**$ 2,979**	**$ 5,125**	**$ 978**	**$ 25,399**	**$ (15,791)**	**$ 9,608**
Total assets	**$199,287**	**$ 47,256**	**$ 47,825**	**$11,290**	**$305,658**	**$169,803**	**$475,461**

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, 2003 and 2002, were ¥1,875 million ($15,599 thousand) and ¥2,190 million, 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, 2003 and 2002, were ¥23,650 million ($196,755 thousand) and ¥21,457 million, respectively.

Overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2003 and 2002, are presented as follows:

	Millions of yen					
	2003			2002		
	Europe	Others	Total	Europe	Others	Total
Overseas sales	**¥15,524**	**¥7,557**	**¥23,081**	¥11,516	¥5,274	¥16,790
Consolidated sales	**–**	**–**	**¥73,777**	–	–	¥64,440
Overseas sales ratio	**21.0%**	**10.3%**	**31.3%**	17.9%	8.2%	26.1%

	Thousands of U.S. dollars		
	2003		
	Europe	Others	Total
Overseas sales	**$129,150**	**$62,875**	**$192,025**
Consolidated sales	**–**	**–**	**613,783**
Overseas sales ratio	**21.0%**	**10.3%**	**31.3%**

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

AUDITORS' REPORT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
TOMY Company, Ltd. :

We have audited the accompanying consolidated balance sheets of TOMY Company, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2003 and 2002, 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 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 subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

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:
20,368

Number of Shares Issued:
20,419,299 shares

Securities Traded:
Tokyo Stock Exchange, 1st Section

Number of Employees:
288
(consolidated basis: 1,851)

Branch Offices:
Tokyo, Nagoya, Osaka,
Kyushu

Independent Auditors:
Asahi & Co.

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

Subsidiary Companies:

<Toy Products>
TOMY Corporation
TOMY UK Ltd.
TOMY France S.A.R.L.
TOMY Yujin Corporation
TOMY (Hong Kong) Ltd.
TOMY (Thailand) Ltd.
Yujin Company, Ltd.
U-Ace Company, Ltd.
TOMY Direct Company, Ltd.
U-MATE Company, Ltd.
HeartLand Co., Ltd.
GLOW-TEC INTERNATIONAL Company, Ltd.
TOMY Link Company, Ltd.
TOMY Development Center, Inc.
TOMY TEC Company, Ltd.

<Others>
TOMY Ryutu Service Company, Ltd.
TOMY Kohsan Company, Ltd.
TOMY System Design Company, Ltd.
Play Kingdom Company, Ltd.
TOMY GENERAL SERVICE Co., Ltd.

Note:
All the above subsidiaries are wholly owned, except: HeartLand Co., Ltd. (70%); GLOW-TEC INTERNATIONAL Co., Ltd. (85%); and TOMY Link Co., Ltd. (70%).

(As of March 31, 2003)

BOARD OF DIRECTORS

President & CEO
Kantaro Tomiyama

Senior VP, Chief Domestic Operating Officer
Shiryo Okuaki

Senior VP, Chief Financial Officer
Toshiki Miura

Executive Director, Chief International Operating Officer
Isamu Takahashi

Executive Director & Advisor to Management
Yasuyuki Watanabe

Corporate Statutory Auditor
Mitsuo Matsuba

Corporate Statutory Auditor
Toshi Yoshinari

Corporate Statutory Auditor
Kunihiro Horiuchi

Corporate Statutory Auditor
Tsunekazu Umeda

(As of June 26, 2003)

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