

(Translation)

May 6, 2010

Dear Sirs,

Name of Company: SEGA SAMMY HOLDINGS
INC.
Name of Representative: Hajime Satomi,
Chairman, President and
Representative Director (CEO)
(Code No. 6460, Tokyo Stock Exchange 1st Section)
Further Inquiry: Koichiro Ueda,
General Manager of Group
Communications Office
(TEL: 03-6215-9955)

**Notice of Mid-Term Report on Investigation Concerning Inappropriate Transactions
by Former Employee of the Company's Subsidiary (SEGATOYS CO., LTD.)**

As publicized on April 15, 2010, it has been discovered that a former employee of SEGATOYS Co., Ltd., a subsidiary of SEGA SAMMY HOLDINGS INC. (the "Company") had been conducting inappropriate transactions with multiple business partners. SEGATOYS' internal investigations and external investigation committee are continuing. The external investigation committee submitted a mid-term report today, and SEGATOYS has disclosed the release entitled "Notice of Mid-Term Report on Investigation Concerning Inappropriate Transactions by Former Employee" attached hereto.

SEGATOYS has announced as follows in "5. Impact on Earnings" in its release, and the impact on the Company's consolidated earnings are expected to be similar.

- The incident is expected to have no impact on operating results for the year ended March 31, 2009 and earlier.
- As for operating results for the year ended March 31, 2010, the Company plans to provide an annotation as contingent liability due to the possibility of payment in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable (around 420 million yen) through the inappropriate transactions.
- As for operating results for the year ending March 31, 2011 and later, there is a possibility of changes if payment is made in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable (around 420 million yen) through the inappropriate transactions.

The Company will promptly announce the results of the final report as soon as they are determined.

<<Attached material: Press release of SEGATOYS CO., LTD.
“Notice of Mid-Term Report on Investigation Concerning
Inappropriate Transactions by Former Employee”>>

- END -



(Translation)

May 6, 2010

Dear Sirs,

Name of Company:	SEGATOYS CO., LTD.
Name of Representative:	Yoshiharu Suzuki, President and CEO (JASDAQ, Code No. 7842)
Further Inquiry:	Akira Sugano, Senior Managing Director, Head of Corporate Department (TEL: 03-5822-6244)

**Notice of Mid-Term Report Concerning Investigation on
Inappropriate Transactions by Former Employee**

SEGATOYS CO., LTD. (the “Company”) has been conducting an investigation concerning the “Notice of Inappropriate Transactions by Former Employee” announced on April 15, 2010 through internal investigations and an external investigation committee. We are currently considering emergency in-house inspections, the impact on earnings, criminal complaint procedures, as well as confirmation of facts, investigations and future measures to prevent recurrence through the external investigation committee. Since the external investigation committee has submitted a mid-term report, we hereby inform you of the current status of investigation as follows.

1. Circumstances that led to the investigation

On the night of April 5, 2010, the former employee (hereafter, “X”) made a declaration to former superior and the Company’s Senior Managing Director Kenji Yokozeki that X formulated fictitious transactions in the Company’s name, created accounts payable with the Company as the debtor in form (hereafter, “fictitious accounts receivable”; individual fictitious transactions conducted by X, “fictitious transaction”; the series of fictitious transactions collectively, the “inappropriate transactions”) and fictitious accounts receivable that are unpaid existed at the time of the declaration.

X retired from the Company as of March 31, 2010 due to applying for the voluntary early retirement program in December 2009. There is no correlation between the retirement and the inappropriate transactions.

Following the report by Kenji Yokozeki, the Company immediately established the Taskforce on Inappropriate Transactions Conducted by Former Employee, with the Company’s President and CEO Yoshiharu Suzuki serving as Taskforce Director, and proceeded with investigating the incident in cooperation with relevant departments and the Company’s legal adviser. Furthermore, on April 15, the Company established an external investigation committee comprised of two attorneys and one certified public accountant (CPA) for further investigation and prevention of a recurrence, and continued with deeper investigations. Following the establishment of the external investigation committee, the Taskforce on Inappropriate Transactions Conducted by Former Employee reported the results

of investigation to the committee, and thereafter has investigated and reported based on instructions from the committee.

Members of the external investigation committee

Chairperson	Hitoshi Kanamori	Sanno Law Office, Attorney
Member	Ryosuke Ito	TMI Associates, Attorney
Member	Masatoshi Ishikawa	Aiwa Tax Accountants Corporation, CPA/Tax Attorney

2. Internal investigation

The Taskforce on Inappropriate Transactions Conducted by Former Employee instructed the Company's Auditing Office and parent company SEGA SAMMY HOLDINGS INC.'s Internal Auditing Office to conduct investigations and obtained the following results.

- X did not have any authority concerning the acts of solely placing orders and settling payments, etc.
- As a result of verifying the Company's establishment and operation status of internal control with regards to procedures related to order placement, delivery, payment, contracts, etc., it was found that they are generally managed adequately.

3. Mid-term report by external investigation committee

The external investigation committee, which was established on April 15, 2010 for the purpose of investigating the inappropriate transactions and preventing recurrence, submitted a mid-term report as follows. The external investigation committee confirmed that the contents of the "2. Internal investigation" had no problems and included the results in its mid-term report.

The main contents of the mid-term report are as follows:

(the full text of the external investigation committee's mid-term report is attached)

- (i) Content of the investigation
- (ii) Content of the inappropriate transactions
- (iii) Criminal responsibility of concerned parties
- (iv) Impact of the inappropriate transactions on SEGA TOYS' settlement of accounts

4. Company's response

(1) Company's views

The Company's views regarding the inappropriate transactions at this point based on the results of the "2. Internal investigation" and "3. Mid-term report by external investigation committee" are as follows:

(i) Non-existence of organizational involvement in the inappropriate transactions

Although the fictitious transactions were conducted by X in the Company's name and using order forms, etc. in the Company's name, X did not have the authority to prepare or issue order forms in the Company's name and never followed the Company's internal approval procedures. The targets of each fictitious transaction that the Company was to receive in each fictitious transaction were obviously never received by the Company.

Therefore, the Company had no involvement in the inappropriate transactions.

(ii) Non-existence of the Company's accounts payable in the inappropriate transactions

The inappropriate transactions were not conducted with the intention to go through the Company's accounting records, and they were actually never recorded on the

Company's accounting records.

Due to the above, the purpose of X formulating each fictitious transaction was not to increase the Company's sales on the surface, but to have the respective other companies record accounts receivable with the Company as the debtor in form, and to obtain kickbacks from the respective other companies. Thus, each fictitious transaction was not conducted through the Company's accounting records, and even in the results of internal investigations it was actually confirmed that the inappropriate transactions were never recorded in the Company's accounting records, and do not fall under the Company's accounts payable.

(iii) Non-existence of other concerned parties within the Company

Neither the internal investigations nor the external investigation committee's investigation found evidence that executives, employees, etc. of the Company other than X were involved in the inappropriate transactions. In addition, the mode of formulating each fictitious transaction was such that X was capable of conducting alone. Therefore, there is no concerned party within the Company other than X.

(iv) Existence of collaborator outside the Company

The Collaborator apparently gained benefits in as commission of around 3% by transferring in the Company's name the money transferred to the Collaborator's account. The Collaborator played an essential role in the inappropriate transactions of transferring money regarding the inappropriate transactions with the purpose of gaining a commission.

(v) Criminality of the inappropriate transactions

At the very least, the act of X preparing and issuing order forms in the Company's name without authority is considered to constitute crimes of counterfeiting private documents and uttering the counterfeit documents. In addition, there exists a party that is suspected to have committed the crime indicated above in collaboration with X among the external parties involved in the inappropriate transactions. The inappropriate transactions include criminal acts.

The Company's understanding is that the respective factors or the combination of factors are the reason that the inappropriate transactions did not surface for approximately two years, and the Company considers that the incident is a very special case.

As for indirect and internal factors such as internal management and supervision and intradepartmental communication, we will promptly report after sorting out information gathered through further internal investigations.

(2) Criminal complaint

The Company considers that the acts of X preparing order forms in the Company's name (methods such as scanning legitimate order forms with the Company's seal and creating PDF files, cutting the name section and red ink seal section using paint software and pasting them onto the order form in an Excel file and printing them out) and issuing them without authority constitute crimes of counterfeiting private documents and uttering the counterfeit document. Based on this, the Company has prepared a criminal complaint and is currently deliberating the contents of the complaint with the Metropolitan Police Department. The Company has responded in the same manner with regard to the external party concerned that allegedly collaborated with X in the inappropriate transactions. The Company intends to cooperate with any future investigation by authorities.

(3) Response to demand from civil procedures and pursuit of civil liability

The Company intends to adequately respond to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable through the series of fictitious transactions.

As indicated in “4. (1) Company’s views,” the Company does not recognize such as accounts payable. The Company will also consider carefully the damages of the inappropriate transactions to the Company and the legal responsibilities of the parties concerned, and intends to take adequate steps in the future.

5. Impact on earnings

As indicated on the mid-term report, the Company considers the impact of the incident on consolidated and non-consolidated earnings as follows, following the mid-term report submitted by the external investigation committee comprised of attorneys and a CPA:

- The incident is expected to have no impact on operating results for the year ended March 31, 2009 and earlier.
- As for operating results for the year ended March 31, 2010, the Company plans to provide an annotation as contingent liability due to the possibility of payment in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable (around 420 million yen) through the inappropriate transactions.
- As for operating results for the year ending March 31, 2011 and later, there is a possibility of changes if payment is made in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable (around 420 million yen) through the inappropriate transactions.

6. Future response

The Company plans to continue to earnestly proceed with the investigation and will promptly announce the results of the final report as soon as they are determined.

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Mid-Term Report on Inappropriate Transactions by Former SEGATOYS Employee

May 6, 2010

External investigation committee
Chairperson: Hitoshi Kanamori,
Attorney
Member: Ryosuke Ito, Attorney
Member: Masatoshi Ishikawa, CPA

The external investigation committee has conducted investigation on inappropriate transactions by a former SEGATOYS CO., LTD. employee as publicized on April 15, 2010. We hereby disclose the mid-term report we have compiled as follows.

I. Summary of mid-term report

The details of the mid-term report will be described in “II” and after, but the summary is as follows:

1. Content of the inappropriate transactions

As a result of the investigation of the committee, it has been revealed that a former employee (retired as of March 31, 2010; hereafter, “X”) of SEGATOYS CO., LTD. (hereafter, “SEGATOYS”) conducted unauthorized fictitious transactions without going through any SEGATOYS accounting procedures and without any transfer of target of transactions in the name of SEGATOYS (hereafter, “fictitious transactions”).

The fictitious transactions were conducted 100 or more times from May 2008 through around the time X retired (hereafter, the series of fictitious transactions collectively called the “inappropriate transactions”). It has become clear that as of April 5, 2010, when the inappropriate transactions were discovered, there were 10 parties that had fictitious accounts receivable with SEGATOYS as the seeming debtor (hereafter, “fictitious accounts receivable”) and the total amount of the fictitious accounts receivable was around 420 million yen. It has also been revealed that because of the inappropriate transactions, the money paid exceeds money acquired for 8 out of the 10 parties concerned, and the difference (thus, the amount covered by the parties) totaled around 160 million yen for these 8 parties.

2. Criminal responsibility of concerned parties

At the very least, the act of X preparing and issuing order forms in SEGATOYS’s name without authority is considered to constitute crimes of counterfeiting private documents and uttering counterfeit documents. In addition, some party who allegedly committed the above crime in collaboration with X exists among the external parties involved in the inappropriate transactions.

3. Impact of the inappropriate transactions on SEGATOYS’ settlement of accounts

The inappropriate transactions are fictitious transactions conducted by X as an individual not based on reality and cannot be ascertained as SEGATOYS’ transactions, so in terms of SEGATOYS’ accounting, there are no transactions that should have been recognized in the past. Therefore, we consider it unnecessary to revise the financial statements of past fiscal years.

As for the fiscal year ended March 31, 2010, we believe that it is adequate for SEGATOYS to provide an annotation as contingent liability with regards to the possibility of payment obligation in response to demands from parties that claim to have acquired fictitious accounts receivable.

II. Content of the investigation

The investigation was conducted by collecting information by the following methods and analyzing such.

1. Interviewing X
2. Obtaining materials such as documents, e-mails and electronic files managed and used by X at SEGATOYS
3. Voluntary interview on and collecting materials from parties who were seemingly business partners of SEGATOYS in the fictitious transactions (those in the position of “Company C” in <Chart 3> indicated later; hereafter, “Other Party”)
4. Voluntary interviews and collecting materials from the party that mediated the delivery and receipt of money in each fictitious transaction (that in the position of “Second Party” in <Chart 3> indicated later; hereafter, “Collaborator”)
5. Interview on results of internal investigation by SEGATOYS’ Auditing Office and parent company SEGA SAMMY HOLDINGS INC.’s Internal Auditing Office

III. Content of the inappropriate transactions

1. Structure of the inappropriate transactions

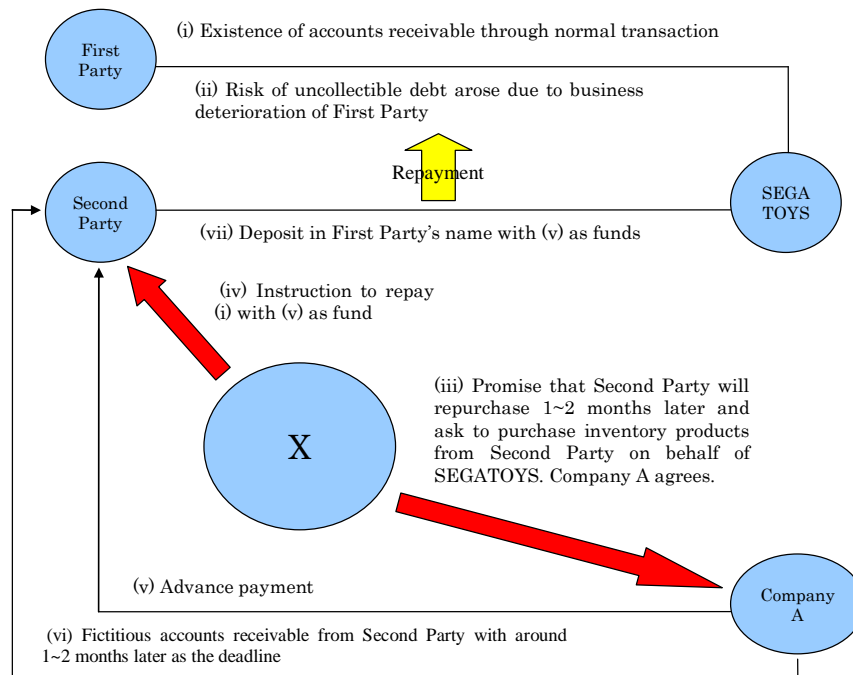
The inappropriate transactions consist of generally repeating “(2) Fictitious transactions thereafter” indicated below, but the structure of the first transaction that created the fictitious accounts receivable with SEGATOYS as the debtor varies slightly, so this will be indicated separately as “(1) Initial fictitious transaction.”

- (1) Initial fictitious transaction

X confessed to commencing the inappropriate transaction because there was a rising concern of the debtor’s ability to pay in a legitimate SEGATOYS transaction which X was involved in, and X wanted to prevent the adverse impact on X’s sales performance through being unable to collect on SEGATOYS’ accounts receivables. X’s confession has a lot of ambiguous points including this motive, but by cross checking with the facts revealed from other evidence, it can be presumed that a fictitious transaction was basically formulated as follows.

<a.> Step 1

<Chart 1>



Therefore, as of the chart above, around May 2008, the risk of insolvency arose for SEGATOYS' accounts receivable from First Party ((i), around 4 million yen), which was a business partner that X was in charge of at that time (ii). Thus, X formulated the following fictitious transaction in order to procure repayment fund for the accounts receivable in (i).

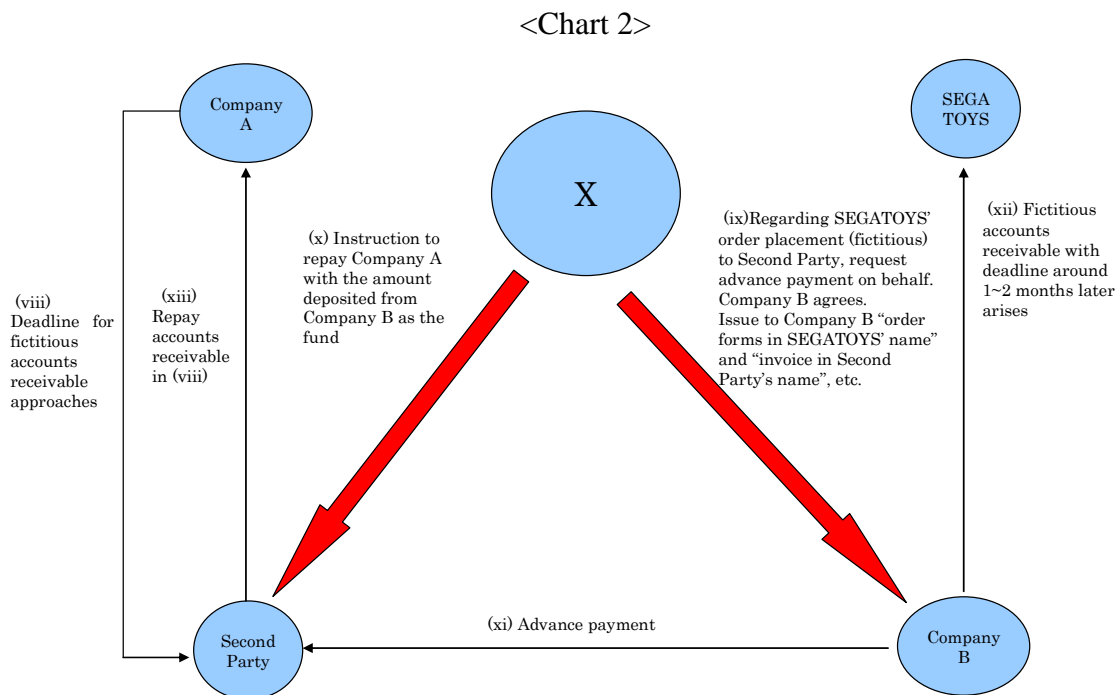
First, X consulted Company A, saying that products that SEGATOYS sold to First Party remain unsold and that First Party needs inventory adjustment, and said that if Company A would temporarily purchase the products from First Party's agent Second Party, Second Party would repurchase them 1~2 months later, and asked whether Company A would pay Second Party. Company A agreed, partly because X established a difference (hereafter, "profit margin") between the amount Company A pays to Second Party, and the amount Second Party pays Company A for repurchase 1~2 months later.

Company A paid the trading value to Second Party ((v)), and the accounts receivable in (i) was repaid by Second Party paying SEGATOYS in First Party's name the same amount as the accounts receivable in (i) ((vii)). As a result, the risk of the accounts receivable in (i) being insolvent was prevented, but since X promised Company A that Second Party would repurchase 1~2 months later, Company A's fictitious accounts receivable from Second Party (repurchase amount, (vi)) newly arose.

<b.> Step 2

As a result of formulating a fictitious transaction by the method in <a.>, Company A's fictitious accounts receivable from Second Party remained. In order to repay the fictitious

accounts receivable, X further formulated the fictitious transaction as mentioned below.



Therefore, when the payment deadline for A's fictitious accounts receivable from Second Party approaches (viii), in order to repay this, X pretends that SEGATOYS is trying to conduct a production consignment transaction with Second Party, and asks Company B to mediate between SEGATOYS and Second Party and temporarily pay on SEGATOYS' behalf the contract price debt toward Second Party for the reason that the transaction calls for advance payment but SEGATOYS cannot pay immediately ((ix)) (the content of the request will be described in detail in (3)).

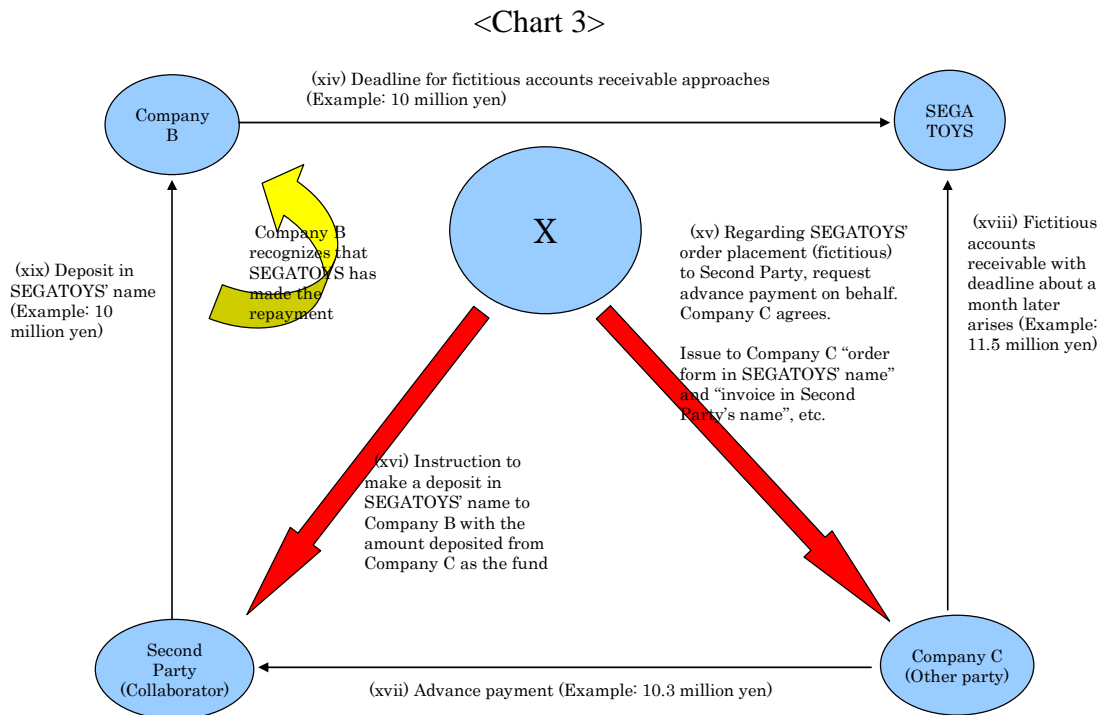
Once Company B agrees for reasons such as being able to gain a profit margin, X instructs Second Party to make a deposit to Company A with the deposit from Company B as the funds ((x)). As a result, Company B deposited money to Second Party ((xi)), and Second Party deposited money to Company A ((xiii)). By Second Party depositing money to Company A ((xiii)), the fictitious accounts receivable of (viii) will have been repaid, but Company B's fictitious accounts receivable from SEGATOYS newly arises ((xii)).

X is suspected to have formulated fictitious transactions several times after that, by the same or similar method and created fictitious accounts receivable with SEGATOYS as the debtor in other legitimate transactions of SEGATOYS that X was involved with, in order to prevent the adverse impact of such on X's sales performance through being unable to collect on SEGATOYS' accounts receivables.

(2) Fictitious transactions thereafter

As a result of formulating fictitious transactions by the method in (1), Company B's fictitious accounts receivable from SEGATOYS remained. In order to repay this fictitious

accounts receivable, X further formulated the fictitious transaction as mentioned below.



Therefore, when the payment deadline for B's fictitious accounts receivable approaches (xiv), in order to repay this, X pretends that SEGATOYS is trying to conduct a production consignment transaction with Second Party, and asks Company C to mediate between SEGATOYS and Second Party and temporarily pay on SEGATOYS' behalf the transaction value debt toward Second Party for the reason that the transaction calls for advance payment but SEGATOYS cannot pay immediately ((xv)) (the content of the request will be described in detail in (3)).

Once Company C agrees for reasons such as being able to gain a profit margin, X instructs Second Party to make a deposit to Company B in the name of SEGATOYS with the deposit from Company C as the funds ((xvi)). As a result, Company C deposited money to Second Party ((xvii)), and Second Party deposited money to Company B ((xix)). Since Second Party's deposit to Company B ((xix)) is in SEGATOYS' name, the fictitious accounts receivable of (xiv) will have been repaid. Accordingly, the fictitious accounts receivable of (xiv) dissolves, but Company C's fictitious accounts receivable from SEGATOYS newly arises ((xviii)).

Thereafter, in order to repay the fictitious accounts receivable that newly arose, X repeatedly formulated fictitious transactions using the same method.

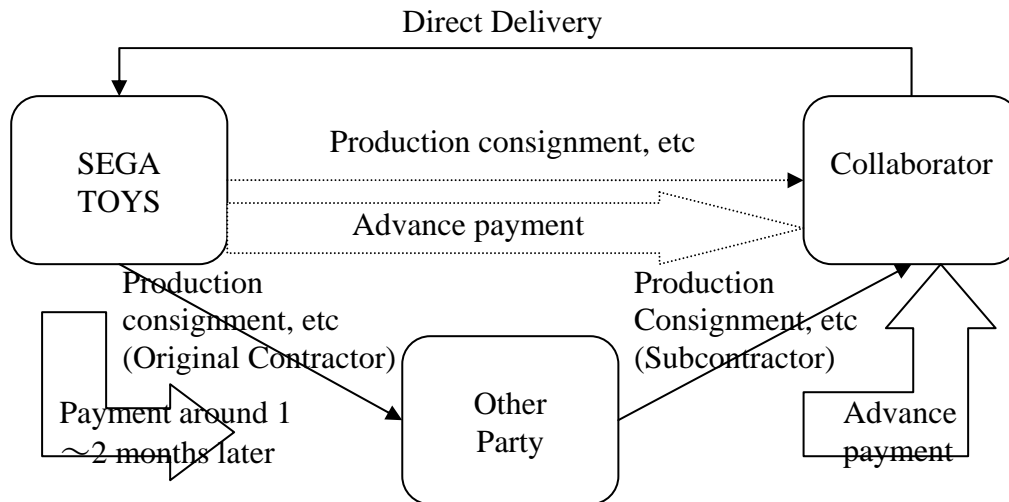
(3) Specific methods of fictitious transactions

a. Outer appearance of transactions

X explains that for the fictitious transactions, he created an outer appearance as if the transaction indicated in <Chart 4> was generally being conducted. In other words, SEGATOYS attempted production consignment or trade with the Collaborator, but SEGATOYS needs to make an advance payment to the Collaborator in these transactions. However, since

SEGATOYS cannot make the advance payment, it cannot directly consign production. For that reason, the Other Party mediates between SEGATOYS and original contractor, etc. in formality, and temporarily makes the advance payment to the Collaborator on behalf of SEGATOYS.

<Chart 4>



b. Forgery of order form

In order to create the outer appearance above, X prepared and issued documents such as order forms and acceptance forms in SEGATOYS' name to the Other Party despite lacking the authority to prepare such documents.

2. Participators in the inappropriate transactions

(1) Other Party

The Other Party of the inappropriate transactions served the role of intermediating the fictitious transactions formulated by X and paying fictitious expense to the Collaborator's bank account.

(2) Collaborator

In each fictitious transaction, the Collaborator of the inappropriate transaction served the role of receiving payment of money from the Other Party in the bank account that it manages and depositing it into the bank account of the creditor of the fictitious accounts receivable (in other words the Other Party) in SEGATOYS' name.

(3) SEGATOYS

In the inappropriate transactions, SEGATOYS in form, was the party that placed orders to other parties for production consignment, etc. However, X did not have the authority to conduct such transactions, and for those transactions, X never went through SEGATOYS' internal approval procedures. Also, the fact that SEGATOYS received products that are targets of the contracts (such as the deliverables of production consignment) cannot be ascertained. With the facts above as the premise, SEGATOYS virtually had no involvement in the inappropriate transactions.

(4) Other

X confessed that the only person involved in the inappropriate transactions within SEGATOYS was X. Other SEGATOYS' investigations also found no evidence that executives and employees, etc. of SEGATOYS other than X were involved in the inappropriate transactions. Even according to interviews with the Other Party, there has been no information

that the Other Party came into contact with SEGATOYS employees, executives, etc. other than X in relation to the inappropriate transactions. In addition, considering the fact that the mode of formulating each fictitious transaction is such that X would be fully capable of conducting alone, there is thought to be no involved party within SEGATOYS other than X.

3. Actual condition of the inappropriate transactions

(1) SEGATOYS

Although the fictitious transactions were conducted by X in the Company's name using order forms, etc. in the Company's name, X did not have authority to prepare or issue order forms in the Company's name and never followed the Company's internal approval procedures.

Furthermore, SEGATOYS did not conduct any accounting procedures with regard to the inappropriate transactions (excluding the payment for the authentic accounts receivable in the initial transaction), and the targets of transactions that SEGATOYS was supposed to receive in each fictitious transaction were obviously never received by SEGATOYS.

Therefore, the actual condition is that (excluding X) SEGATOYS had no direct involvement in the inappropriate transactions.

(2) Other Party

The inappropriate transactions are formulated in the style of SEGATOYS placing an order to the Other Party in form, and the Other Party placing orders to the Collaborator, with SEGATOYS as the party placing the order, the Other Party as the original contractor, and the Collaborator the subcontractor (in the case where fictitious transaction is in the mode of production consignment).

However, since X made the Other Party involved on the premise that the Collaborator would be the subcontractor in advance, the Other Party is not involved at all in the selection nor guidance and supervision, etc. of the subcontractor (Collaborator). Also, since the target of the fictitious transactions was to be delivered directly to SEGATOYS from the Collaborator who is said to be the subcontractor, the Other Party virtually only served a financial function.

Therefore, the actual condition of the fictitious transactions is that the Other Party was gaining a certain percentage of profit margin as a reward for shouldering the expense of the fictitious transactions for around 1~2 months in each fictitious transaction.

What type of awareness the Other Party had in the involvement in the inappropriate transactions shall be determined individually, considering the content and mode of the transactions and the existence of normal business relations with SEGATOYS, etc. However, we have not been able to fully clarify the individual situations regarding this point through the investigation thus far.

(3) Collaborator

According to confession by X, the Collaborator apparently gained benefits in the name of commission around 3% by depositing in SEGATOYS' name the money deposited to the Collaborator's account.

The investigation has not fully clarified what type of explanation X provided to the Collaborator when commencing the inappropriate transactions, and what type of awareness the Collaborator had in the involvement in the inappropriate transactions. But it is a fact that the Collaborator played an essential role in the inappropriate transactions of transferring money regarding the inappropriate transactions for the purpose of gaining commission.

4. Scale of the inappropriate transactions

(1) Number of other parties

With regard to the inappropriate transactions, there are currently 10 parties that were the Other Party in the fictitious transactions and are demanding payment from SEGATOYS (hereafter, “10 Parties”). We cannot rule out the possibility that there are parties other than the 10 Parties that served as the Other Party, but due to the following reasons, we believe, at the very least, that the possibility of someone other than the 10 Parties currently having fictitious accounts receivable is extremely low.

First of all, SEGATOYS publicized the inappropriate transactions on April 15, 2010. Nobody other than the 10 Parties has demanded payment from SEGATOYS for accounts receivable concerning the inappropriate transactions since then. Also, with regard to the inappropriate transactions that the 10 Parties were involved in, the payment deadline for fictitious accounts receivable were normally within 1~2 months, and within 3 months at the longest. With regard to the fictitious transactions that the 10 Parties were involved in, there is only one party that was in the position of collaborator since the beginning of 2010. There was no trace on the deposit and withdrawal records of the bank account that the Collaborator seemingly used for the inappropriate transactions that there was transfer of money that could possibly create fictitious accounts receivable of 2 million yen or more since the beginning of 2010 with regard to a party other than the 10 Parties. X also confessed that there is no one other than the 10 Parties that currently have fictitious accounts receivable from SEGATOYS of 2 million yen or more.

(2) Number of fictitious transactions, amount of fictitious accounts receivable

The transaction amount and the rate of profit margin established for each fictitious transaction comprising the inappropriate transactions vary. Transaction amounts ranging from about a few million yen to dozens of millions of yen, and rates of profit margin ranging from around 5% to around 45% have been confirmed.

Since the Other Party gained a profit margin and the Collaborator gained a commission of around 3% in each fictitious transaction, the amount of fictitious accounts receivable that were unpaid snowballed each time. The frequency of fictitious transaction and the transaction amount per fictitious transaction also increased. It has become clear that ultimately, in the period of less than two years, 100 or more fictitious transactions were formulated, and at the time the inappropriate transactions were discovered, the total amount of the fictitious accounts receivable that were unpaid for the 10 Parties was around 420 million yen.

(3) Flow of money in the inappropriate transactions

The inappropriate transactions were a repetition of the Other Party paying money to the Collaborator, and the Collaborator making deposits in SEGATOYS’ name to the creditor of the fictitious accounts receivable, and while doing to the Other Party gained profit margins. According to the confession by X and explanation from the Collaborator, the Collaborator also apparently gained around 3% of the money deposited as a commission. It has been confirmed that with regards to the 10 Parties, the total amount of money transferred in relation to the inappropriate transactions from May 2008, when the inappropriate transactions started, through April 2010 is around 1.6 billion yen.

When comparing the respective total amounts of the money paid and the amount deposited with regards to the 10 Parties, for 2 parties, the amount deposited exceeds the amount of money paid (therefore, it can be ascertained that benefits virtually arose for the 2 parties in the inappropriate transactions). But for the remaining 8 parties, the amount of money paid exceeds the amount deposited (therefore, it can be ascertained that losses virtually arose in the inappropriate transactions). The total of such excess for the 8 parties is around 160 million yen.

When subtracting the total amount deposited from the total amount paid with regard to the

inappropriate transactions involving the 10 Parties, it comes to around 94 million yen. The whereabouts of the money has yet to be clarified, and we are currently continuing with the investigation.

IV. Criminal responsibility of concerned parties

At the very least, it has become clear that in relation to SEGATOYS, X prepared and issued order forms and other documents without authority, and such acts are considered to constitute crimes of counterfeiting private documents and uttering counterfeit documents under the Penal Code. In addition, parties who allegedly took part in the inappropriate transactions in conspiracy with X exist (parties outside SEGATOYS). These parties may constitute accomplices in the above-mentioned criminal act of X.

SEGATOYS has already prepared a criminal complaint against the concerned parties including X and has been deliberating the contents of the complaint with the Metropolitan Police Department since April 30, 2010 (expected to be accepted in the near future).

V. Impact of the inappropriate transactions on SEGA TOYS' settlement of accounts

1. Impact on financial statements of past fiscal years

The inappropriate transactions were conducted without any relation to SEGATOYS' order placement system and accounting procedures, with X forging order forms in SEGATOYS' name without authority. The inappropriate transactions did not pass through any of the necessary internal approval procedures. And although SEGATOYS in form is the party placing orders to other parties for production consignment, etc., even the fact that SEGATOYS received products that are targets of the contracts cannot be ascertained.

Therefore, SEGATOYS virtually had no involvement in the inappropriate transactions, and the transactions are considered to be the criminal act of the individual X (and other outside parties concerned).

Considering the facts that have become clear so far as the premise, the inappropriate transactions are fictitious transactions not based on reality, and cannot be ascertained as SEGATOYS' transactions, so we believe there are no transactions that SEGATOYS should have recognized in the past in terms of accounting. Therefore, we believe there are no accounts payable, etc. that SEGATOYS should record, and revision of financial statements of past fiscal years is unnecessary.

2. Impact on financial statements of the year ended March 31, 2010

What type of awareness each party concerned had in involvement in the inappropriate transactions shall be determined individually, and have not yet been fully clarified through the investigation thus far.

Since there is the possibility that SEGATOYS will have payment obligations in response to demands from civil procedures by parties that claim to have acquired fictitious accounts receivable, we considered the advisability of registering reserves for such payments, but we believe it is appropriate to disclose it as an annotation as contingent liability for the year ended March 31, 2010 since it is impossible to rationally estimate at this point the amount that SEGATOYS may shoulder.

In the future, when the burdens of a settlement package, etc. are actually accrued, or when the liabilities can be rationally estimated, these should be registered as expenses.

(END)