1. FY2004 Consolidated Financial Results (April 1, 2004 to March 31, 2005)

(1) Consolidated Financial Results

(Millions of yen, except percentages and per share data)

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Recurring Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>73,864</td>
<td>26,438</td>
<td>25,901</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>63,202</td>
<td>19,398</td>
<td>18,248</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Net Income</th>
<th>Earnings Per Share (Basic)</th>
<th>Earnings Per Share (Diluted)</th>
<th>Return on Equity</th>
<th>Recurring Income to Total Assets</th>
<th>Recurring Income Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>14,932</td>
<td>135.63</td>
<td>99.76</td>
<td>14.5</td>
<td>21.4</td>
<td>35.1</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>10,993</td>
<td>100.04</td>
<td>-</td>
<td>11.9</td>
<td>16.4</td>
<td>28.9</td>
</tr>
</tbody>
</table>

- Equity in gain or loss of affiliated company: Fiscal year ended March 31, 2005 (FY2004) -
(Millions of yen)
- Mid-term average of number of shares issued and outstanding (Consolidated): Fiscal year ended March 31, 2005 (FY2004) 109,884,947
- Change of significant accounting policy: N/A
- Percentages in net sales, operating income, recurring income and net income are the percent change compared with the previous fiscal year.
- Since the merger of Enix Corporation and Square Co., Ltd., took place on April 1, 2003, there are no prior figures with which to compare results for the fiscal year ended March 31, 2004.

(2) Consolidated Financial Position

(Millions of yen, except percentages and per share data)

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Total Assets</th>
<th>Total Shareholders' Equity</th>
<th>Ratio of Shareholders' Equity</th>
<th>Shareholders' Equity Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>131,695</td>
<td>108,933</td>
<td>82.7</td>
<td>988.19</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>110,633</td>
<td>96,700</td>
<td>87.4</td>
<td>878.85</td>
</tr>
</tbody>
</table>

Note: Number of shares issued and outstanding at year-end (Consolidated)

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>From Operating Activities</th>
<th>From Investing Activities</th>
<th>From Financing Activities</th>
<th>Closing Cash and Cash Equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>24,873</td>
<td>574</td>
<td>(2,907)</td>
<td>81,243</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>14,139</td>
<td>(10,579)</td>
<td>(6,739)</td>
<td>58,676</td>
</tr>
</tbody>
</table>

(4) Scope of Consolidation and Application of the Equity Method
- Number of consolidated subsidiaries: 11 and 1 partnership
- Number of equity-method non-consolidated subsidiaries: -
- Number of equity-method affiliates: -

(5) Change in Scope of Consolidation and Application of the Equity Method
- Consolidated (Added) 1 (Removed) - Equity-Method (Added) - (Removed) -

2. FY2005 Consolidated Forecasts (April 1, 2005 to March 31, 2006)

(Millions of yen)

<table>
<thead>
<tr>
<th>First Six Months</th>
<th>Net Sales</th>
<th>Recurring Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>26,000</td>
<td>2,000</td>
<td>800</td>
</tr>
<tr>
<td>Full-Year</td>
<td>90,000</td>
<td>27,000</td>
<td>15,500</td>
</tr>
</tbody>
</table>

(Reference) Earnings per share (basic) forecasts for FY2005: ¥140.61

- The above forecasts are based on information available at the time this material was prepared. A number of indefinite factors are inherent in, and could cause actual results to be materially different from, these forecasts.
- Please see page 10 for more details regarding the above forecasts.
1. AFFILIATED COMPANY INFORMATION

SQUARE ENIX Group ("the Group") is composed of SQUARE ENIX CO., LTD., 11 consolidated subsidiaries, three non-consolidated subsidiaries, two affiliated companies and one partnership. A list of businesses performed by the Group and the companies that compose it are as follows. (Section refers to operating segment)

【Consolidated Companies】

<table>
<thead>
<tr>
<th>Section</th>
<th>Region</th>
<th>Name of Company</th>
<th>Major Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Games (Offline)</td>
<td>Japan</td>
<td>SQUARE ENIX CO., LTD.</td>
<td>Development and distribution of game software</td>
</tr>
<tr>
<td></td>
<td></td>
<td>THE GAME DESIGNERS STUDIO, INC.</td>
<td>Development and distribution of game software</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>SQUARE ENIX, INC. *</td>
<td>Distribution of game software in North America</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UIEVOLUTION, INC.</td>
<td>Development and licensing of network applications and middleware</td>
</tr>
<tr>
<td></td>
<td>Europe</td>
<td>SQUARE L.L.C.</td>
<td>Goodwill transferred to SQUARE ENIX, INC.</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>SQUARE ENIX LTD. *</td>
<td>Distribution of games in Europe</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>SQUARE ENIX CO., LTD.</td>
<td>Game software development, distribution and operation of online games</td>
</tr>
<tr>
<td></td>
<td></td>
<td>COMMUNITY ENGINE INC.</td>
<td>Development and distribution of network applications and middleware</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>SQUARE ENIX, INC. *</td>
<td>Distribution and operation of online games in North America</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UIEVOLUTION, INC.</td>
<td>Development and licensing of network applications and middleware</td>
</tr>
<tr>
<td></td>
<td>Europe</td>
<td>SQUARE ENIX LTD. *</td>
<td>Distribution and operation of online games in Europe</td>
</tr>
<tr>
<td></td>
<td>Asia</td>
<td>SQUARE ENIX (China) CO., LTD.</td>
<td>Distribution and operation of online games in China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.</td>
<td>Distribution and operation of online games in China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.</td>
<td>Development and distribution of network applications and middleware</td>
</tr>
<tr>
<td>Mobile Phone Content</td>
<td>Japan</td>
<td>SQUARE ENIX CO., LTD.</td>
<td>Development and distribution of mobile phone content</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>SQUARE ENIX, INC. *</td>
<td>Development and distribution of mobile phone content in North America</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UIEVOLUTION, INC.</td>
<td>Development and licensing of network applications and middleware</td>
</tr>
<tr>
<td></td>
<td>Europe</td>
<td>SQUARE ENIX LTD. *</td>
<td>Development and distribution of mobile phone content in Europe</td>
</tr>
<tr>
<td></td>
<td>Asia</td>
<td>SQUARE ENIX (China) CO., LTD.</td>
<td>Development and distribution of mobile phone content in China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.</td>
<td>Development and distribution of mobile phone content in China</td>
</tr>
<tr>
<td>Publication</td>
<td>Japan</td>
<td>SQUARE ENIX CO., LTD.</td>
<td>Publication and distribution of magazines, serial comics and game-related books</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>SQUARE ENIX, INC. *</td>
<td>Licensing of game-related books in North America</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UIEVOLUTION, INC.</td>
<td>Licensing of game-related books in Europe</td>
</tr>
<tr>
<td>Other</td>
<td>Japan</td>
<td>SQUARE ENIX CO., LTD.</td>
<td>Planning, production, sales and licensing of derivative products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DIGITAL ENTERTAINMENT ACADEMY CO., LTD.</td>
<td>Operation of schools for game designers</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>FF FILM PARTNERS (Partnership)</td>
<td>Licensing and management of movies and derivative products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SQUARE PICTURES, INC.</td>
<td>Management of overseas movie revenues</td>
</tr>
</tbody>
</table>

*Changed company name as of July 1, 2004

【Non-Consolidated Subsidiaries】

BMF CORP., SOLID CO., LTD.
MAG GAREN CORP. (listed on Tokyo Stock Exchange Mothers market), Kusanagi, Inc.
SQUARE U.S.A., INC.
The following chart outlines transactions within the Group.

![Chart showing various transactions and companies within the group]
2. Management Policy

The management policy employed by SQUARE ENIX CO., LTD. (“the Company”), and its enterprise group consisting of the Company, consolidated companies and partnership (“the Group”) is as follows.

(1) Basic Policy

The Group’s basic policy is to provide various consumers with dreams and excitement through creating and distributing advanced high-quality content.

For sustainable growth and expansion of the Group to reward our shareholders, we seek to bring the Group the greatest value with an efficient operation that effectively combines management resources.

(2) Basic Policy on Profit Distribution

It is one of the Company’s most important management policies to return profit to our shareholders.

We will reserve our retained earnings as we take priority over investments for effective purposes for future growth of corporate value, such as enhancement and expansion of existing business operations, capital investments for new business development and mergers and acquisitions activities.

Regarding returning profit to shareholders as important, retained earnings are also to be expended for dividends, and we will maintain continuous and stable dividend payouts.

(3) Views and Policy of Stock Trading Unit Reduction

The Company perceives that long-term investment from a wide range of investors and investor base expansion are important to the Company’s capital strategy. We set our stock trading unit to 100 shares per unit and have established an environment facilitating investments by various investors.

(4) Targeting Management Benchmark

The Company perceives that realization of growth with maintaining profitability is a fundamental management task.

We set the target operation profit ratio at a range between 25% and 30% as we sustain the investments necessary for growth.

(5) Medium- and Long-Term Management Strategy and Task

It is the management’s main task to grow the Company in the medium and long term, maintaining profitability with the creation of advanced, high-quality content.

As the development and popularization of information technology and network environments are rapidly advancing, new digital entertainment will transform the industry structure in the near future; customer needs for network-compliant entertainment will increase; and multifunctional terminals will enable users to have easy access to various types of content.

It is the Group’s medium- and long-term strategy to respond to such changes and to open a new era of digital entertainment.

In such a period of transformation, the Group will continue to deal with such strategic tasks as an appropriate management of network communities, the deployment of “Polymorphic Content” based on diversified methods of expression and the formation of new platforms for various content.
(6) Corporate Governance

- Basic Perspective on Corporate Governance
  The Company adopts the statutory auditors system for its corporate governance system. The monitoring function is strengthened by having half of the auditors from outside. The Board of Directors, which focuses on enterprise-level management decisions, delegates a part of its powers to decision-making committees in accordance with the objective standard to facilitate operations.

- Implemented Measures
  A) Management system and any other corporate governance system regarding decision making, execution and monitoring of business operations
  The Company has six directors (one from outside) and four statutory auditors (two from outside and one standing statutory auditor). The term for directors is one year, and half of the statutory auditors come from outside.

  There is the independent internal audit staff (directly reporting to the president) inspecting, examining and evaluating the Group’s operations, taking significance and risks into account.

  The Board of Directors’ meeting is held at least once a month and enhances mutual checking by vigorous discussions among the directors, including one from outside.

  The Board of Auditors’ meeting is held at least once a month, and performs account and operation auditing based on audit policies. The auditors also attend the Board of Directors’ meeting.

  Significant legal issues and events are consulted with several outside counsels as needed. Accounting issues are reviewed by an external independent audit firm, ChuoAoyama PricewaterhouseCoopers, under the Commercial Code of Japan and the Security Exchange Law.

  Certified Public Accountants in Charge this Fiscal Year
  - Partner staff Nobuyoshi Yuasa, Yasuhisa Yajima
  - Supporting staff
    Certified public accountants: 2 Assistants: 6 Other: 1

  Compensation for Directors and Auditors
  - Compensation for directors ¥332 million (including ¥6 million for outside director)
  - Compensation for auditors ¥28 million (including ¥12 million for outside auditor)
  Note: Above compensation amounts include retirement benefits of ¥176 million paid to a retired director in accordance with the resolution of the annual general meeting of shareholders.

  Compensation for External Audit Firm
  The Company has paid a compensation of ¥26 million for ChuoAoyama PricewaterhouseCoopers for auditing in accordance with the audit agreement.

  B) Personal, financial or business relationships and any conflict of interest between the Company and outside directors/auditors
  Nothing to be specified.

  C) Enhancement of corporate governance for the last year
  The Company has increased Board members from five to six to strengthen the decision-making capacity to deal with much complicated and intense management tasks stated above. Furthermore, we have appointed two directors in charge of development, and accounting and financial position, respectively, to strengthen the control power over the operations.

(7) Parent Company
Nothing to be specified.
3. Operating Results and Financial Conditions

(1) Operation Highlights of FY2004 ( Ended March 31, 2005)

The Company has been making determined efforts to strengthen the foundation and profitability of its business segments of Games, Online Games, Mobile Phone Content, Publication and Others.

The Company has been pursuing fundamental R&D activities to obtain advanced information technologies, which are crucial to promote growing network-related businesses, and to apply such technologies to our products and services.

The Games (Online) and Mobile Phone Content segments have continued to make significant growth in this fiscal year in addition to the Games (Offline) segment. The Publication segment has made increased income and profit despite unfavorable market conditions.

Consolidated financial results for FY2004

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥73,864 mn</td>
<td>up 16.9%</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥26,438 mn</td>
<td>up 36.3%</td>
</tr>
<tr>
<td>Recurring income</td>
<td>¥25,901 mn</td>
<td>up 41.9%</td>
</tr>
<tr>
<td>Net income</td>
<td>¥14,932 mn</td>
<td>up 35.8%</td>
</tr>
</tbody>
</table>

(% is the rate of change in comparison to the previous fiscal year results)

Numbers of new game titles released during FY2004

<table>
<thead>
<tr>
<th>Region</th>
<th>Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>11</td>
</tr>
<tr>
<td>North America</td>
<td>7</td>
</tr>
<tr>
<td>Europe</td>
<td>4</td>
</tr>
<tr>
<td>Asia</td>
<td>1</td>
</tr>
</tbody>
</table>

Unit sales, including repeat orders, for FY2004

<table>
<thead>
<tr>
<th>Region</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>6.30 mn</td>
</tr>
<tr>
<td>North America</td>
<td>3.76 mn</td>
</tr>
<tr>
<td>Europe</td>
<td>0.92 mn</td>
</tr>
<tr>
<td>Asia</td>
<td>0.07 mn</td>
</tr>
<tr>
<td>Total</td>
<td>11.05 mn</td>
</tr>
</tbody>
</table>

Additionally, it is the Company’s basic policy on profit distribution to maintain continuous and stable dividend payouts. The Board of Directors, however, has decided after taking into account our recent financial performance to pay a commemorative dividend for our 25th fiscal year (¥30) in addition to the ordinary dividend. Dividend per share for the fiscal year ended March 31, 2005 will be doubled from that of the previous fiscal year (interim dividend: ¥10, year-end dividend: ¥20) to ¥60 (interim dividend: ¥10, year-end dividend: ¥50, including the commemorative dividend of ¥30).
(2) Operating Results by Business Segment

Games (Offline)

The Company plans, develops and distributes games for game consoles and mobile game terminals. We also handle localization of games developed and distributed in Japan to distribute in North America through our wholly owned subsidiary, SQUARE ENIX, INC. (SEI), while distribution in Europe and Asia is handled by leading publishers through license arrangements.

During this fiscal year, “DRAGON QUEST VIII Sora-to-Umi-to-Daichi-to-Norowareshi Himegimi” was released and is now the first PlayStation2 (PS2) title in Japan achieving over 3 million units shipped (3,610 thousand units in Japan as of March 31, 2005). In addition, “Kingdom Hearts Chain of Memories” for Game Boy Advance (“GBA”) has over 1 million units shipped worldwide (360 thousand units in Japan, 720 thousand units in North America) Other new game titles released during this period are “FULLMETAL ALCHEMIST 2 Akaki Erika-no-Akumu” (160 thousand units in Japan), “DRAGON QUEST & FINAL FANTASY in Itadaki Street Special” (380 thousand units in Japan), “RADIATA STORIES” (290 thousand units in Japan) and “MUSASHI: Samurai Legend” (80 thousand units in North America) for PS2; and “Toruneko no Daibouken 3 Advance –Fushigi no Dungeon–” (140 thousand units in Japan) and “FINAL FANTASY I & II Advance” (290 thousand units in Japan, 500 thousand units in North America and 150 thousand units in Europe) for GBA. Furthermore, we released “Egg Monster HEROES” (90 thousand units in Japan) for Nintendo DS in December 2004.

Consequently, net sales of the Games (Offline) segment totaled ¥41 billion (up 10.4% from the previous fiscal year), and operating income amounted to ¥19 billion (up 19.8%).

Games (Online)

The Company plans, develops, distributes and operates online games connected to the network. In September, 2004, the expansion pack “FINAL FANTASY XI: Chains of Promathia” was released in Japan and North America, while online game service “PlayOnline” and “FINAL FANTASY XI” (“FFXI”) were launched in Europe.

The number of “FFXI” subscribers has been increasing at a steady pace since its launch in Japan (May 2002) and North America (Oct. 2003) reaching over 500,000. “FFXI” has now grown to be one of the top MMORPGs (Massively Multi-player Online RPGs) in the world. Game servers for the service are concentrated in Japan, and since access peak times differ from one continent to another, the operation efficiency has increased significantly as service areas have expanded. In addition, sales are steadily growing for “Cross Gate,” a MMORPG developed specifically for the Asian market, and the title has acquired a top-tier position in terms of membership in the Chinese online gaming market.

Consequently, net sales of the Games (Online) segment totaled ¥13 billion (up 55.2%), and operating income was ¥4 billion (up 112.4%).

Mobile Phone Content

The Company plans, develops and provides content such as ring tones, wallpapers, game and portals for mobile phones.

We have been deploying our original content making the best use of its strength through providing a mobile network game, “BEFORE CRISIS -FINAL FANTASY VII-,” which takes advantage of network and digital camera functions, a full-port version of “FINAL FANTASY II,” an RPG for Nintendo Family Computer, and a mobile simulation game, “FRONT MISSION 2089.” Furthermore, we collaborated in creating an interface for “EZ Game Street,” a mobile phone’s game portal service. In addition, an expansion overseas in North America, Europe and Asia has been in progress.

Consequently, net sales of the Mobile Phone Content segment was ¥4 billion (up 63.2%), and operating income amounted to ¥1 billion (up 50.0%).
Publication
The Company publishes magazines, comics, serial comics and game strategy books.

We published monthly magazines “SHONEN GANGAN,” “G FANTASY” and “GANGAN WING,” and newly published a comic magazine for young adults, “YOUNG GANGAN,” during this period.

“Mahoraba,” featured in a monthly magazine, came on air as an animated television show during this period. Another television show, “FULLMETAL ALCHEMIST,” which came on air in the previous fiscal year, ended in September 2004, however, it has retained its popularity, and we have published over 15 million copies of its comics. In addition, we have published game strategy books for the two big titles “DRAGON QUEST V” and “DRAGON QUEST VIII.”

Consequently, net sales of the Publications segment totaled ¥10 billion (up 12.3%), and operating income was ¥3 billion (up 7.3%).

Other
The Other segment covers the planning, production, distribution and licensing of Square Enix titles’ derivative products.

The Company sells toys and merchandise for a wide range of ages, such as merchandise related to “DRAGON QUEST,” pencils named “BATON-EN” and character goods related to “FINAL FANTASY,” “Kingdom Hearts” and “FULLMETAL ALCHEMIST.” We also licenses music CDs as the soundtracks.

Net sales in this segment amounted to ¥2 billion (down 30.7%), and operating income totaled ¥0.7 billion (down 23.8%).

(3) Operating Results by Region

Japan
All business segments Games (Offline), Games (Online), Mobile Phone Content, Publication and Other are operated in Japan.

The games are shipped to retail stores through the Company's own distribution channel. Since the Company licenses the sales of game content in Asia as well as some parts of the PAL region (Europe), sales from such licenses are included in the regional results of Japan.

In the Games (Online) segment, the Company provides services and sales on “PlayOnline” of such online games as “FINAL FANTASY XI” for PS2 and PC as well as “CROSS GATE” and “Depth Fantasia” for PC.

In the Mobile Phone Content segment, the Company provides such mobile phone content as games, ring tones, and wallpapers for NTT DoCoMo, au and vodafone.

Currently, the Publication and Others segment are operated primarily in Japan.

Net sales in Japan was ¥64 billion (up 21.3%), and operating income was ¥23 billion (up 48.0%).

North America
The Company operates Games (Offline), Games (Online) and Mobile Phone Content services in North America, and licenses sales of game content developed by the Company primarily to SEI.

Although no title sold over a million units during this period, online game titles such as “FINAL FANTASY XI” have been making steady growth.

Net sales in North America totaled ¥11 billion (down 11.0%), and operating income was ¥2 billion (down 28.9%).

Europe
The Company primarily provides Games (Offline), Games (Online) and Mobile Phone Content services in Europe. Sales of game content are generally licensed to leading publishers in this region.

Furthermore, the Company succeeded in entering into the online gaming and mobile phone content market in Europe by launching “FINAL FANTASY XI Chains of Promathia” in September 2004, with SQUARE ENIX LTD. as the publisher.

Net sales in Europe amounted to ¥0.8 billion (up 107.9%), and operating income was ¥0.03 billion (down 66.1%).
Asia

In Asia, the Company provides primarily Games (Online) and Mobile Phone Content services.

The Company strengthened its business foundation by establishing the 100% subsidiary Square Enix (China) Co., Ltd., in Beijing as a new base of business operations in China in January 2005. Accompanying this development, a dissolution of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD. (SEW), a joint-venture with Softstar Entertainment, Taiwan, is scheduled for December 2005. SEW will continue to operate its current services, including operation of "CROSS GATE," until Square Enix (China), takes over fully.

Net sales in Asia was ¥0.8 billion (up 14.8%), and operating income was ¥0.1 billion (-% operating loss of the previous fiscal year amounted to ¥0.07 billion).

(4) Financial Conditions

Cash and cash equivalents at the end of this period were ¥81 billion.

The cash flow status and contributing factors are as follows.

Cash flows from operating activities
Net income before taxes amounted to ¥25 billion, and resulted in cash and cash equivalents of ¥24 billion.

This was due primarily to the increased work-in-progress to ¥5 billion caused by content development, and from the decreased sales credit of negative ¥4 billion due to difference in the dates of title release each year.

Cash flows from investing activities
Mainly due to income from investment securities such as maturity of government bond of ¥2 billion and capital investment in property, plant and equipment, and intangible assets of negative ¥1 billion, the cash and cash equivalents from investing activities are ¥0.5 billion.

Cash flows from financing activities
Mainly due to dividend payouts, the cash and cash equivalents from financial activities are ¥2 billion.

A Trend of Solvency Indices of the Group:

<table>
<thead>
<tr>
<th></th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First Six Months</td>
<td>Year-End</td>
</tr>
<tr>
<td>Shareholders' Equity Ratio</td>
<td>87.19%</td>
<td>87.41%</td>
</tr>
<tr>
<td>Shareholders' Equity Ratio on Market Value Basis</td>
<td>303.03%</td>
<td>309.59%</td>
</tr>
<tr>
<td>Term of Repayment of Interest-Bearing Liabilities</td>
<td>0.2622 year</td>
<td>0.0013 year</td>
</tr>
<tr>
<td>Interest Coverage Ratio (times)</td>
<td>10,227.73</td>
<td>1,203.36</td>
</tr>
</tbody>
</table>

Notes: Shareholders' Equity Ratio: Shareholders’ equity / Total assets
Shareholders’ Equity Ratio on Market Value Basis (%):
Market capitalization of outstanding stock / Total Assets
Term of Repayment of Interest-Bearing Liabilities:
Interest bearing liabilities / Cash flows from operating activities
Interest Coverage Ratio: Cash flows from operating activities / Interest paid

* determined from consolidated financial results
* Interest-bearing liabilities include all the liabilities on which the Company are paying interests.
* Cash flows from operating activities and interest paid are “Cash flows from operating activities” and “Interest paid” in the consolidated statements of cash flows, respectively.
(5) Forecasts for FY2005

Consolidated forecasts for FY2005 (ending March 31, 2006)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2005 Forecast</th>
<th>FY2004 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥90 billion</td>
<td>¥73 billion</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥27 billion</td>
<td>¥26 billion</td>
</tr>
<tr>
<td>Recurring income</td>
<td>¥27 billion</td>
<td>¥25 billion</td>
</tr>
<tr>
<td>Net income</td>
<td>¥15 billion</td>
<td>¥14 billion</td>
</tr>
</tbody>
</table>

(6) Risk Factors

The forecasts for the consolidated operating results stated above have been prepared based on the current business environment as of May 24, 2005.

Risks, which may affect the Company’s financial condition, include:

- Changes in consumer preferences in the digital content market, and the Company’s ability to respond to rapid progress of innovative technology
  
  In such a period of transitions as stated in the medium- and long-term strategy and tasks, it is probable such change may affect the Company’s financial result if the Company is unable to deal with the transitions properly and promptly.

- Obtaining employees of talent to further the Company’s strategy of concentrating on creation of new content services and business development overseas
  
  The Company has been making rapid growth in expanding its business operations globally. Delay in recruiting employees may adversely affect the Company’s financial condition.

- Fluctuation of exchange rates
  
  The Group includes consolidated subsidiaries located in North America, Europe and China. The risks of foreign exchange loss have been reduced, since the foreign currency gained by subsidiaries are expended for disbursement or reinvestment in each country. However, sales, expenses and assets of the overseas subsidiaries are converted into Japanese yen amounts on the consolidated financial statements. Consequently, the exchange rate may effect the Company’s financial results as it fluctuates beyond our forecast.

#### (1) Consolidated Balance Sheets

- **(Millions of yen)**

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2003 Results</th>
<th>FY2004 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td></td>
<td>(As of March 31, 2004)</td>
<td>(As of March 31, 2005)</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Cash and deposits</td>
<td>58,676</td>
<td>81,243</td>
<td>22,567</td>
</tr>
<tr>
<td>2. Notes and accounts receivable</td>
<td>12,046</td>
<td>7,670</td>
<td>(4,375)</td>
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<tr>
<td>3. Inventories</td>
<td>809</td>
<td>1,112</td>
<td>303</td>
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<tr>
<td>4. Content production account</td>
<td>10,128</td>
<td>15,510</td>
<td>5,381</td>
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<tr>
<td>5. Deferred tax assets</td>
<td>1,850</td>
<td>3,440</td>
<td>1,590</td>
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<tr>
<td>6. Other current assets</td>
<td>1,157</td>
<td>1,337</td>
<td>179</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(227)</td>
<td>(262)</td>
<td>(34)</td>
</tr>
<tr>
<td>Total current assets</td>
<td>84,441</td>
<td>76.4</td>
<td>110,053</td>
</tr>
<tr>
<td>II</td>
<td></td>
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</tr>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Property, plant and equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Buildings and structures</td>
<td>3,445</td>
<td>3,667</td>
<td>222</td>
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<tr>
<td>Accumulated depreciation</td>
<td>1,250</td>
<td>2,195</td>
<td>945</td>
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<td>(2) Tools and fixtures</td>
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<td>9,116</td>
<td>671</td>
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<tr>
<td>Accumulated depreciation</td>
<td>5,367</td>
<td>3,077</td>
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<td>(3) Other</td>
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<td>Accumulated depreciation</td>
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<tr>
<td>(4) Land</td>
<td>3,813</td>
<td>3,813</td>
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<td>Total property, plant and equipment</td>
<td>9,087</td>
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<td>8,918</td>
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<tr>
<td>2. Intangible assets</td>
<td>7,550</td>
<td>6.8</td>
<td>6,096</td>
</tr>
<tr>
<td>3. Investments and other assets</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(1) Investment securities</td>
<td>3,516</td>
<td>1,295</td>
<td>(2,221)</td>
</tr>
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<td>*1</td>
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</tr>
<tr>
<td>(2) Long-term loans</td>
<td>4</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>(3) Rental deposits</td>
<td>2,864</td>
<td>2,863</td>
<td>(1)</td>
</tr>
<tr>
<td>(4) Deferred tax assets</td>
<td>2,665</td>
<td>1,768</td>
<td>(897)</td>
</tr>
<tr>
<td>(5) Other</td>
<td>502</td>
<td>689</td>
<td>187</td>
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<tr>
<td>Total investments and other assets</td>
<td>9,554</td>
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<td>6,626</td>
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<td>26,192</td>
<td>23.6</td>
<td>21,641</td>
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<tr>
<td>Total assets</td>
<td>110,633</td>
<td>100.0</td>
<td>131,695</td>
</tr>
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</table>
## FY2003 Results (As of March 31, 2004)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Rate</th>
<th>Amount</th>
<th>Rate</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Liabilities)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Notes and accounts payable</td>
<td>3,205</td>
<td>-</td>
<td>2,241</td>
<td>-</td>
<td>(963)</td>
</tr>
<tr>
<td>2. Long-term borrowings due within one year</td>
<td>18</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-18</td>
</tr>
<tr>
<td>3. Other accounts payable</td>
<td>1,020</td>
<td>-</td>
<td>1,190</td>
<td>-</td>
<td>170</td>
</tr>
<tr>
<td>4. Accrued expenses</td>
<td>1,551</td>
<td>-</td>
<td>1,662</td>
<td>-</td>
<td>111</td>
</tr>
<tr>
<td>5. Accrued income taxes</td>
<td>1,313</td>
<td>-</td>
<td>9,994</td>
<td>-</td>
<td>8,681</td>
</tr>
<tr>
<td>6. Accrued consumption taxes</td>
<td>408</td>
<td>-</td>
<td>1,022</td>
<td>-</td>
<td>614</td>
</tr>
<tr>
<td>7. Advance payments received</td>
<td>697</td>
<td>-</td>
<td>896</td>
<td>-</td>
<td>198</td>
</tr>
<tr>
<td>8. Deposits received</td>
<td>354</td>
<td>-</td>
<td>385</td>
<td>-</td>
<td>31</td>
</tr>
<tr>
<td>9. Reserve for bonuses</td>
<td>1,239</td>
<td>-</td>
<td>1,021</td>
<td>-</td>
<td>(218)</td>
</tr>
<tr>
<td>10. Allowance for sales returns</td>
<td>1,569</td>
<td>-</td>
<td>1,316</td>
<td>-</td>
<td>(253)</td>
</tr>
<tr>
<td>11. Other</td>
<td>807</td>
<td>-</td>
<td>1,057</td>
<td>-</td>
<td>249</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>12,185</td>
<td>11.1</td>
<td>20,790</td>
<td>15.8</td>
<td>8,604</td>
</tr>
<tr>
<td><strong>II Fixed liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Accrued pension costs</td>
<td>978</td>
<td>-</td>
<td>1,173</td>
<td>-</td>
<td>195</td>
</tr>
<tr>
<td>2. Allowance for directors' retirement benefits</td>
<td>110</td>
<td>-</td>
<td>55</td>
<td>-</td>
<td>(54)</td>
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<tr>
<td>3. Other</td>
<td>63</td>
<td>-</td>
<td>84</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total fixed liabilities</strong></td>
<td>1,152</td>
<td>1.0</td>
<td>1,313</td>
<td>1.0</td>
<td>160</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>13,338</td>
<td>12.1</td>
<td>22,103</td>
<td>16.8</td>
<td>8,764</td>
</tr>
<tr>
<td><strong>(Minority interests)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority interests in consolidated subsidiaries</td>
<td>594</td>
<td>0.5</td>
<td>658</td>
<td>0.5</td>
<td>64</td>
</tr>
<tr>
<td><strong>(Shareholders’ equity)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I Common stock</strong></td>
<td>*2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>II Capital surplus reserve</strong></td>
<td>36,393</td>
<td>32.9</td>
<td>36,673</td>
<td>27.8</td>
<td>280</td>
</tr>
<tr>
<td><strong>III Retained earnings</strong></td>
<td>53,931</td>
<td>48.7</td>
<td>65,561</td>
<td>49.8</td>
<td>11,630</td>
</tr>
<tr>
<td><strong>IV Unrealized gain on revaluation of marketable securities</strong></td>
<td>363</td>
<td>0.3</td>
<td>472</td>
<td>0.4</td>
<td>108</td>
</tr>
<tr>
<td><strong>V Foreign currency translation adjustment</strong></td>
<td>(898)</td>
<td>(0.8)</td>
<td>(807)</td>
<td>(0.6)</td>
<td>90</td>
</tr>
<tr>
<td><strong>VI Treasury stock</strong></td>
<td>*3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>96,700</td>
<td>87.4</td>
<td>108,933</td>
<td>82.7</td>
<td>12,232</td>
</tr>
<tr>
<td><strong>Total liabilities, minority interests and shareholders’ equity</strong></td>
<td>110,633</td>
<td>100.0</td>
<td>131,695</td>
<td>100.0</td>
<td>21,061</td>
</tr>
</tbody>
</table>

## FY2004 Results (As of March 31, 2005)

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Rate</th>
<th>Amount</th>
<th>Rate</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Liabilities)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
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<td>-</td>
<td>170</td>
</tr>
<tr>
<td>4. Accrued expenses</td>
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<td>-</td>
<td>1,662</td>
<td>-</td>
<td>111</td>
</tr>
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<td>-</td>
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<td>385</td>
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<td>-</td>
<td>(253)</td>
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<td>-</td>
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<td>15.8</td>
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<td></td>
<td></td>
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</tr>
<tr>
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<td>-</td>
<td>195</td>
</tr>
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<td>-</td>
<td>55</td>
<td>-</td>
<td>(54)</td>
</tr>
<tr>
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<td>-</td>
<td>84</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
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<td>1,313</td>
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<td>160</td>
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<tr>
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<td>16.8</td>
<td>8,764</td>
</tr>
<tr>
<td><strong>(Minority interests)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority interests in consolidated subsidiaries</td>
<td>594</td>
<td>0.5</td>
<td>658</td>
<td>0.5</td>
<td>64</td>
</tr>
<tr>
<td><strong>(Shareholders’ equity)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I Common stock</strong></td>
<td>*2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>II Capital surplus reserve</strong></td>
<td>36,393</td>
<td>32.9</td>
<td>36,673</td>
<td>27.8</td>
<td>280</td>
</tr>
<tr>
<td><strong>III Retained earnings</strong></td>
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<td>48.7</td>
<td>65,561</td>
<td>49.8</td>
<td>11,630</td>
</tr>
<tr>
<td><strong>IV Unrealized gain on revaluation of marketable securities</strong></td>
<td>363</td>
<td>0.3</td>
<td>472</td>
<td>0.4</td>
<td>108</td>
</tr>
<tr>
<td><strong>V Foreign currency translation adjustment</strong></td>
<td>(898)</td>
<td>(0.8)</td>
<td>(807)</td>
<td>(0.6)</td>
<td>90</td>
</tr>
<tr>
<td><strong>VI Treasury stock</strong></td>
<td>*3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>96,700</td>
<td>87.4</td>
<td>108,933</td>
<td>82.7</td>
<td>12,232</td>
</tr>
<tr>
<td><strong>Total liabilities, minority interests and shareholders’ equity</strong></td>
<td>110,633</td>
<td>100.0</td>
<td>131,695</td>
<td>100.0</td>
<td>21,061</td>
</tr>
</tbody>
</table>
## (2) Consolidated Statements of Income

(Millions of yen)

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2003 Results</th>
<th>FY2004 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 1, 2004 to March 31, 2004</td>
<td>April 1, 2004 to March 31, 2005</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>Net sales</td>
<td>63,202</td>
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<td>73,864</td>
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<tr>
<td>II</td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>Cost of sales</td>
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<td>Gross profit</td>
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<td>1,569</td>
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<tr>
<td>Provision for allowance for sales returns and price protection</td>
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<td>2.5</td>
<td>1,316</td>
</tr>
<tr>
<td>Net gross profit</td>
<td>40,968</td>
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<td>48,414</td>
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<tr>
<td>III Selling, general and administrative expenses</td>
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<td></td>
</tr>
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<td>1. Packaging freight charge</td>
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<td>634</td>
</tr>
<tr>
<td>2. Advertising expenses</td>
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<td>5,346</td>
</tr>
<tr>
<td>3. Sales promotion expenses</td>
<td>660</td>
<td></td>
<td>109</td>
</tr>
<tr>
<td>4. Provision for doubtful accounts</td>
<td>332</td>
<td>77</td>
<td>233</td>
</tr>
<tr>
<td>5. Compensation for directors</td>
<td>388</td>
<td>233</td>
<td></td>
</tr>
<tr>
<td>6. Salary</td>
<td>3,887</td>
<td>4,251</td>
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</tr>
<tr>
<td>7. Provision to reserve for bonuses</td>
<td>1,130</td>
<td>418</td>
<td></td>
</tr>
<tr>
<td>8. Net predict pension costs</td>
<td>491</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>9. Provision to reserve for directors’ retirement benefits</td>
<td>6</td>
<td>121</td>
<td></td>
</tr>
<tr>
<td>10. Welfare expenses</td>
<td>698</td>
<td>753</td>
<td></td>
</tr>
<tr>
<td>11. Rental expenses</td>
<td>955</td>
<td>1,033</td>
<td></td>
</tr>
<tr>
<td>12. Commissions paid</td>
<td>3,023</td>
<td>2,667</td>
<td></td>
</tr>
<tr>
<td>13. Depreciation and amortization</td>
<td>1,179</td>
<td>1,141</td>
<td></td>
</tr>
<tr>
<td>14. Other</td>
<td>3,007</td>
<td>21,569</td>
<td>34.1</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,398</td>
<td>30.7</td>
<td>26,438</td>
</tr>
<tr>
<td>IV Non-operating income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interest income</td>
<td>67</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>2. Interest from securities</td>
<td>78</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>3. Foreign exchange gain</td>
<td>-</td>
<td>296</td>
<td></td>
</tr>
<tr>
<td>4. Rental income</td>
<td>0</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>5. Miscellaneous income</td>
<td>294</td>
<td>138</td>
<td>542</td>
</tr>
<tr>
<td>Operating income</td>
<td>19,398</td>
<td>30.7</td>
<td>26,438</td>
</tr>
<tr>
<td>V Non-operating expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interest expenses</td>
<td>7</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>2. Foreign exchange loss</td>
<td>788</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3. Stock issuance expense</td>
<td>8</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Loss on disposal of inventories</td>
<td>-</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>5. Loss on write-off of content development account</td>
<td>-</td>
<td>983</td>
<td></td>
</tr>
<tr>
<td>6. Equity on losses of non-consolidated subsidiaries and affiliates</td>
<td>760</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>7. Miscellaneous losses</td>
<td>25</td>
<td>1,590</td>
<td>2.5</td>
</tr>
<tr>
<td>Recurring income</td>
<td>18,248</td>
<td>28.9</td>
<td>25,901</td>
</tr>
<tr>
<td>VI Extraordinary gain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Gain on sale of property, plant and equipment</td>
<td>*2</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>2. Gain on sale of investment securities</td>
<td>59</td>
<td>106</td>
<td></td>
</tr>
<tr>
<td>3. Gain on sale of shares in affiliates</td>
<td>240</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Reversal of allowance for doubtful accounts</td>
<td>-</td>
<td>300</td>
<td>0.5</td>
</tr>
<tr>
<td>Recurring income</td>
<td>18,248</td>
<td>28.9</td>
<td>25,901</td>
</tr>
<tr>
<td>VII Extraordinary loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Loss on sale of property, plant and equipment</td>
<td>*3</td>
<td>123</td>
<td>2</td>
</tr>
<tr>
<td>2. Loss on disposal of property, plant and equipment</td>
<td>*4</td>
<td>198</td>
<td>50</td>
</tr>
<tr>
<td>3. Evaluation loss on shares in affiliates</td>
<td>125</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>4. Loss on evaluation of investment securities</td>
<td>*5</td>
<td>375</td>
<td>80</td>
</tr>
<tr>
<td>5. Loss on sale of investment securities</td>
<td>84</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>6. Provision of amortization of consolidated adjustment account</td>
<td>-</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>7. Other losses</td>
<td>-</td>
<td>907</td>
<td>1.4</td>
</tr>
<tr>
<td>Income before income taxes and distribution of loss in partnership (Tokumei-kumiai)</td>
<td>17,640</td>
<td>28.0</td>
<td>25,576</td>
</tr>
<tr>
<td>Distribution of loss in partnership</td>
<td>24</td>
<td>0.0</td>
<td>20</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>17,616</td>
<td>28.0</td>
<td>25,556</td>
</tr>
<tr>
<td>Income taxes:</td>
<td>3,600</td>
<td>11,267</td>
<td>34.0</td>
</tr>
<tr>
<td>Current deferred</td>
<td>2,962</td>
<td>6,563</td>
<td>10.4</td>
</tr>
<tr>
<td>Minority interest in consolidated subsidiaries</td>
<td>59</td>
<td>116</td>
<td>0.2</td>
</tr>
<tr>
<td>Net income</td>
<td>10,993</td>
<td>14,932</td>
<td>20.2</td>
</tr>
</tbody>
</table>
(3) Consolidated Statements of Capital Surplus and Retained Earnings

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2003 Results</th>
<th>FY2004 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td>(Capital surplus)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital surplus at beginning of year</td>
<td>9,383</td>
<td>36,393</td>
<td>27,010</td>
</tr>
<tr>
<td>Increases in capital surplus</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Increase due to merger</td>
<td>26,792</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>2. Gain on disposal of treasury stock</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>3. Shares issued through stock options</td>
<td>213</td>
<td>27,010</td>
<td>280</td>
</tr>
<tr>
<td></td>
<td>278</td>
<td>280</td>
<td>(26,730)</td>
</tr>
<tr>
<td>Capital surplus at year-end</td>
<td>36,393</td>
<td>36,673</td>
<td>280</td>
</tr>
<tr>
<td>(Retained earnings)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings at beginning of year</td>
<td>33,341</td>
<td>53,931</td>
<td>20,590</td>
</tr>
<tr>
<td>Increase in retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Net income</td>
<td>10,993</td>
<td>14,932</td>
<td></td>
</tr>
<tr>
<td>2. Transferred from merged company</td>
<td>11,524</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3. Increase due to increase in consolidated subsidiaries</td>
<td>16</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Increase due to decrease in consolidated subsidiaries</td>
<td>36</td>
<td>22,569</td>
<td>14,932 (7,637)</td>
</tr>
<tr>
<td>Decreases in retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Dividends</td>
<td>1,979</td>
<td>3,301</td>
<td></td>
</tr>
<tr>
<td>2. Bonus for directors</td>
<td>-</td>
<td>1,979</td>
<td>3,302</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td>1,322</td>
</tr>
<tr>
<td>Retained earnings at year-end</td>
<td>53,931</td>
<td>65,561</td>
<td>11,630</td>
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</table>
### (4) Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2003 Results</th>
<th>FY2004 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (April 1, 2003)</td>
<td>Amount (March 31, 2004)</td>
<td>Amount (Thousands of yen)</td>
</tr>
<tr>
<td>I  Cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>17,616</td>
<td>25,556</td>
<td>7,940</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,974</td>
<td>1,814</td>
<td>(160)</td>
</tr>
<tr>
<td>Increase (decrease) in allowance for doubtful accounts</td>
<td>224</td>
<td>31</td>
<td>(193)</td>
</tr>
<tr>
<td>Increase (decrease) in reserve for bonuses</td>
<td>688</td>
<td>(218)</td>
<td>(907)</td>
</tr>
<tr>
<td>Decrease in allowance for sales returns and price protection</td>
<td>(105)</td>
<td>(267)</td>
<td>(161)</td>
</tr>
<tr>
<td>Increase (decrease) in accrued pension costs</td>
<td>576</td>
<td>195</td>
<td>(381)</td>
</tr>
<tr>
<td>(Decrease) increase in allowance for directors’ retirement benefits</td>
<td>(26)</td>
<td>(54)</td>
<td>(28)</td>
</tr>
<tr>
<td>(Decrease) increase in reserve for office relocation costs</td>
<td>(589)</td>
<td></td>
<td>589</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>(145)</td>
<td>(76)</td>
<td>68</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>7</td>
<td>2</td>
<td>(5)</td>
</tr>
<tr>
<td>Gain on sale of investment securities</td>
<td>(59)</td>
<td>(106)</td>
<td>(47)</td>
</tr>
<tr>
<td>Loss on sale of investment securities</td>
<td>84</td>
<td>2</td>
<td>(82)</td>
</tr>
<tr>
<td>Losses on investments in securities</td>
<td>375</td>
<td>80</td>
<td>(294)</td>
</tr>
<tr>
<td>Gain on sale of shares held in affiliates</td>
<td>(240)</td>
<td></td>
<td>240</td>
</tr>
<tr>
<td>Evaluation loss on shares held in affiliates</td>
<td>125</td>
<td>145</td>
<td>20</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>198</td>
<td>50</td>
<td>(148)</td>
</tr>
<tr>
<td>Gain on sales of property and equipment</td>
<td></td>
<td>(0)</td>
<td>(0)</td>
</tr>
<tr>
<td>Loss on sales of property and equipment</td>
<td>123</td>
<td>2</td>
<td>(121)</td>
</tr>
<tr>
<td>Decrease (increase) in accounts receivable</td>
<td>4,852</td>
<td>4,319</td>
<td>(532)</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>(6,745)</td>
<td>(5,618)</td>
<td>1,126</td>
</tr>
<tr>
<td>(Decrease) increase in purchase liabilities</td>
<td>(507)</td>
<td>(953)</td>
<td>(445)</td>
</tr>
<tr>
<td>(Decrease) increase in accrued consumption taxes</td>
<td>(104)</td>
<td>614</td>
<td>719</td>
</tr>
<tr>
<td>Decrease in other current assets</td>
<td>250</td>
<td>(94)</td>
<td>(345)</td>
</tr>
<tr>
<td>Decrease (increase) in other fixed assets</td>
<td>299</td>
<td>(198)</td>
<td>(498)</td>
</tr>
<tr>
<td>(Decrease) increase in other current liabilities</td>
<td>(2,014)</td>
<td>701</td>
<td>2,715</td>
</tr>
<tr>
<td>Directors’ bonuses paid</td>
<td></td>
<td>(0)</td>
<td>(0)</td>
</tr>
<tr>
<td>Other</td>
<td>1,958</td>
<td>1,632</td>
<td>(325)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>18,818</td>
<td>27,559</td>
<td>8,740</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>126</td>
<td>83</td>
<td>(43)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(11)</td>
<td>(0)</td>
<td>11</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(4,794)</td>
<td>(2,768)</td>
<td>2,025</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>14,139</td>
<td>24,873</td>
<td>10,733</td>
</tr>
<tr>
<td>II  Cash flows from investing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for acquiring property, plant and equipment</td>
<td>(2,709)</td>
<td>(1,318)</td>
<td>1,390</td>
</tr>
<tr>
<td>Payments for acquiring intangible assets</td>
<td>(416)</td>
<td>(362)</td>
<td>54</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities</td>
<td></td>
<td>2,248</td>
<td>2,248</td>
</tr>
<tr>
<td>Payments for acquisition of shares in affiliates</td>
<td>(6,461)</td>
<td>(27)</td>
<td>6,434</td>
</tr>
<tr>
<td>Proceeds from sale of shares in affiliates</td>
<td>423</td>
<td></td>
<td>(423)</td>
</tr>
<tr>
<td>Proceeds from clearance of shares in affiliates</td>
<td></td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Proceeds from return of guarantee money paid</td>
<td>407</td>
<td>104</td>
<td>(302)</td>
</tr>
<tr>
<td>Payments for provision of guarantee money paid</td>
<td>(1,843)</td>
<td>(101)</td>
<td>1,741</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>(2)</td>
<td>(23)</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(10,579)</td>
<td>574</td>
<td>11,153</td>
</tr>
<tr>
<td>III Cash flows from financing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in short-term borrowings</td>
<td>(1,000)</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Payments for acquisition of treasury stock</td>
<td>(147)</td>
<td>(154)</td>
<td>(7)</td>
</tr>
<tr>
<td>Payments for dividends</td>
<td>(1,955)</td>
<td>(3,300)</td>
<td>(1,344)</td>
</tr>
<tr>
<td>Payments for dividends for minority interests</td>
<td>(2)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Payments of cash lien of dividend to retiree shareholders of merged company</td>
<td>(4,153)</td>
<td></td>
<td>4,153</td>
</tr>
<tr>
<td>Payments for partnership distributions</td>
<td>(616)</td>
<td></td>
<td>616</td>
</tr>
<tr>
<td>Other</td>
<td>1,135</td>
<td>549</td>
<td>(585)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(6,739)</td>
<td>(2,907)</td>
<td>3,832</td>
</tr>
<tr>
<td>IV Effect of exchange rate changes on cash and cash equivalents</td>
<td>(984)</td>
<td>27</td>
<td>1,012</td>
</tr>
<tr>
<td>V  Net (decrease) increase in cash and cash equivalents</td>
<td>(4,164)</td>
<td>22,367</td>
<td>26,731</td>
</tr>
<tr>
<td>VI Cash and cash equivalents at beginning of year</td>
<td>39,847</td>
<td>58,676</td>
<td>18,829</td>
</tr>
<tr>
<td>VII Increase in cash and cash equivalents due to merger</td>
<td>22,632</td>
<td></td>
<td>(22,632)</td>
</tr>
<tr>
<td>∘ Increase in cash and cash equivalents due to increase in consolidated subsidiaries</td>
<td>484</td>
<td></td>
<td>(484)</td>
</tr>
<tr>
<td>IX Decrease in cash and cash equivalents due to increase in consolidated subsidiaries</td>
<td>(123)</td>
<td></td>
<td>123</td>
</tr>
<tr>
<td>∘ Cash and cash equivalents at year-end</td>
<td>(58,676)</td>
<td>81,243</td>
<td>22,567</td>
</tr>
</tbody>
</table>

*Note: The table represents the consolidated statements of cash flows for two fiscal years, FY2003 and FY2004, showing the changes in cash and cash equivalents and the cash flows from operating, investing, and financing activities. The table includes detailed breakdowns of income and expense items, as well as cash flows from and to investing and financing activities, along with changes in cash and cash equivalents due to these activities.*
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Scope of Consolidation</strong></td>
<td><strong>1. Scope of Consolidation</strong></td>
</tr>
<tr>
<td>(1) Number of consolidated subsidiaries: 10 and one partnership</td>
<td>(1) Number of consolidated subsidiaries: 11 and one partnership</td>
</tr>
<tr>
<td>DIGITAL ENTERTAINMENT ACADEMY CO., LTD.</td>
<td>COMMUNITY ENGINE INC.</td>
</tr>
<tr>
<td>COMMUNITY ENGINE INC.</td>
<td>THE GAME DESIGNERS STUDIO, INC.</td>
</tr>
<tr>
<td>THE GAME DESIGNERS STUDIO, INC.</td>
<td>SQUARE ENIX U.S.A., INC.</td>
</tr>
<tr>
<td>SQUARE ENIX U.S.A., INC.</td>
<td>SQUARE L.L.C.</td>
</tr>
<tr>
<td>SQUARE L.L.C.</td>
<td>SQUARE PICTURES, INC.</td>
</tr>
<tr>
<td>SQUARE PICTURES, INC.</td>
<td>SQUARE ENIX EUROPE LTD.</td>
</tr>
<tr>
<td>SQUARE ENIX EUROPE LTD.</td>
<td>SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.</td>
</tr>
<tr>
<td>SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD.</td>
<td>COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.</td>
</tr>
<tr>
<td>COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD.</td>
<td>UIEVOLUTION, INC.</td>
</tr>
<tr>
<td>UIEVOLUTION, INC.</td>
<td>FF FILM PARTNERS (partnership)</td>
</tr>
<tr>
<td>COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., and UIEVOLUTION, INC., were newly acquired during FY2004. Due to the increasing importance of their business activities, COMMUNITY ENGINE INC. and SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., have been included in the Company's scope of consolidation from this fiscal year. THE GAME DESIGNERS STUDIO, INC., SQUARE L.L.C., SQUARE PICTURES, INC., SQUARE ENIX EUROPE LTD. and FF FILM PARTNERS (partnership) have been included in the Company's scope of consolidation from this fiscal year due to the merger with SQUARE CO., LTD. In addition, proceedings to liquidate ENIX AMERICA INC. were completed during this fiscal year.</td>
<td>SQUARE ENIX (China) CO., LTD., was established in January 2005 and has been included in the Company's scope of consolidation from this fiscal year.</td>
</tr>
<tr>
<td>(2) Non-consolidated subsidiaries</td>
<td>(2) Non-consolidated subsidiaries</td>
</tr>
<tr>
<td>BMF CORPORATION</td>
<td>BMF CORPORATION</td>
</tr>
<tr>
<td>SPORTS BB CORPORATION</td>
<td>SOLID CO., LTD.</td>
</tr>
<tr>
<td>SOLID CO., LTD.</td>
<td>SPORTS BB CORPORATION was liquidated during this fiscal year.</td>
</tr>
<tr>
<td>Proceedings are currently in progress to liquidate SPORTS BB CORP, following a resolution at the annual general meeting of stockholders held on March 15, 2004.</td>
<td>(Rationale for the exclusion of subsidiary companies from the scope of consolidation)</td>
</tr>
<tr>
<td>Non-consolidated subsidiaries conduct operations that are relatively small in scale. The total of non-consolidated subsidiaries’ assets, sales, equity in net income (loss), and equity in retained earnings (deficit) are deemed to have an immaterial effect on the Company’s financial performance and consolidated financial statements.</td>
<td>Same as FY2003</td>
</tr>
</tbody>
</table>
| 2. Application of the Equity Method of Accounting | FY2003  
April 1, 2003 to  
March 31, 2004 | FY2004  
April 1, 2004 to  
March 31, 2005 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of equity-method non-consolidated subsidiaries: 1</td>
<td>Number of equity-method non-consolidated subsidiaries and affiliates: 0</td>
<td></td>
</tr>
</tbody>
</table>
Principal non-consolidated subsidiaries not accounted for under the equity method (BMF CORPORATION, SOLID CO., LTD., SQUARE U.S.A., INC.) and an affiliated company (KUSANAGI INC.) are excluded from the scope of consolidation as equity-method affiliates, as the Company's equity in net income (loss) and equity in retained earnings (deficit) in these companies are deemed to have immaterial effect on the Company's consolidated financial statements. In addition, as the Company's investment in MAG GARDEN CORP. is deemed to be temporary, it has been excluded from the scope of consolidation as an equity-method affiliate. |

| 3. Fiscal Year-End of Consolidated Subsidiaries |  
The fiscal year of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., SQUARE PICTURES, INC., and FF FILM PARTNERS (partnership) ends December 31. | The first half year of SQUARE ENIX WEBSTAR NETWORK TECHNOLOGY (BEIJING) CO., LTD., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., SQUARE ENIX (China) CO., LTD., SQUARE PICTURES, INC., COMMUNITY ENGINE NETWORK SOFTWARE (BEIJING) CO., LTD., and FF FILM PARTNERS (partnership) ends December 31. |

In the preparation of consolidated financial statements, their financial statements for the December 31 fiscal year-end are used. Important transactions between their fiscal year-end and the consolidated balance date of March 31 are reconciled for consolidation. |

In the preparation of consolidated financial statements, their financial statements for the December 31 fiscal year-end are used. Important transactions between their fiscal year-end and the consolidated balance date of March 31 are reconciled for consolidation. |

| 4. Summary of Significant Accounting Policies  
(1) Standards and valuation methods for major assets | A) Investment securities  
Held-to-maturity securities: Amortized cost method, amortized on a straight-line basis | A) Investment securities  
Same as FY2003 |

Other investment securities  
Securities for which fair values are available: Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of shareholders’ equity at a net-of-tax amount, and the cost of sales determined by the moving-average method. Securities for which fair values are unavailable: Stated at cost determined by the average method |

B) Inventories  
Manufactured goods, merchandise: Stated at cost, determined by the monthly average method.  
Content production account: Stated at cost, determined by the identified cost method.  
Supplies: Stated at the last purchase price | B) Inventories  
Same as FY2003. |
<table>
<thead>
<tr>
<th>(2) Method for depreciation and amortization of major assets</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>A) Property, plant and equipment</strong></td>
<td>Property, plant and equipment are depreciated using the declining-balance method.</td>
<td>Property, plant and equipment are depreciated using the declining-balance method.</td>
</tr>
<tr>
<td></td>
<td>Estimated useful lives of major assets are as follows:</td>
<td>Estimated useful lives of major assets are as follows:</td>
</tr>
<tr>
<td></td>
<td>Buildings and structures</td>
<td>Buildings and structures</td>
</tr>
<tr>
<td></td>
<td>3–50 years</td>
<td>3–50 years</td>
</tr>
<tr>
<td></td>
<td>Tools and fixtures</td>
<td>Tools and fixtures</td>
</tr>
<tr>
<td></td>
<td>3–20 years</td>
<td>3–15 years</td>
</tr>
<tr>
<td>(Change in accounting policy)</td>
<td>Previously, assets with a purchase price greater than or equal to ¥100,000 and less than ¥200,000 were depreciated on a straight-line basis over a period of three years. To unify the accounting policy as a result of the merger and to further strengthen the financial position, from this fiscal year acquired assets that are deemed to have an immaterial impact on the Company's consolidated financial position are expensed at the time of purchase. The result of this change on the Company's consolidated operating income, recurring profit and income before taxes for the fiscal year under review is considered immaterial.</td>
<td></td>
</tr>
<tr>
<td><strong>B) Intangible assets</strong></td>
<td>In-house software used by the Company and its domestic consolidated subsidiaries is amortized using the straight-line method based on an estimated useful life of five years. For all other intangible fixed assets, trademarks are amortized using the straight-line method based on an estimated useful life of 10 years. Goodwill is amortized using the straight-line method over a period of five years.</td>
<td>In-house software used by the Company and its domestic consolidated subsidiaries is amortized using the straight-line method based on an estimated useful life of five years. For all other intangible fixed assets, trademarks are amortized using the straight-line method based on an estimated useful life of 10 years. Goodwill is amortized using the straight-line method over a period of five years.</td>
</tr>
<tr>
<td></td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
</tbody>
</table>
## Accounting for allowances and reserves

<table>
<thead>
<tr>
<th>Description</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Allowance for doubtful accounts</td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>An allowance for doubtful accounts provides for possible loss arising from default on accounts receivable. The allowance is made up of two components: the estimated credit loss for doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B) Reserve for bonuses</td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>A reserve for bonuses provided for payments to employees of the Company and its consolidated subsidiaries at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C) Accrued pension costs</td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>An allowance for retirement benefits is provided at the amount incurred during this fiscal year, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial differences are fully amortized in the next year in which they arise. In addition, the Company and its domestic consolidated subsidiaries provide a reserve for retirement benefits equal to 100% of such benefits the Company and its subsidiaries would be required to pay under the lump-sum retirement plan if all eligible employees were to voluntarily terminate their employment at the balance sheet date.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D) Allowance for sales returns</td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>An allowance is provided for losses due to the return of published materials, at an amount calculated based on historic experience, prior to this fiscal year. In addition, allowance is provided for losses due to the return of game software, at an estimated amount of future losses assessed by each game title.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E) Allowance for directors’ retirement benefits</td>
<td>Same as FY2003</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>An allowance for directors’ retirement benefits is provided to adequately cover the costs of directors’ retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Additional Information

Until the previous fiscal year, the Company had provided a reserve for retirement benefits equal to 100% of such benefits the Company would be required to pay if all eligible employees were to voluntarily terminate their employment at the balance sheet date. Effective from the current fiscal year, as the number of Company employees exceeded 300 due to the merger with SQUARE, the Company changed its accounting policy for reserve for retirement benefits to the method described above. As a result of this change, retirement expense increased ¥437 million, and recurring profit and income before income taxes each decreased ¥416 million. Moreover, this change in accounting method was adopted in the second half of the fiscal year under review due to the merger with SQUARE and the increase in the Company’s number of employees above 300. Reserve for retirement benefits for the first half were calculated using the previous method. Adjusting first-half accounts to reflect the change in accounting method, recurring profit and income before income taxes would increase ¥393 million.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4) Translation of foreign currency transactions and accounts</td>
<td>All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the balance sheet date at the year-end rate. The resulting translation gains or losses are charged or credited to income. All monetary assets and liabilities of overseas subsidiaries are translated as of the balance sheet year-end rate, and all income and expense accounts are translated at rates for their respective periods. The resulting translation adjustments are recorded in minority interests in consolidated subsidiaries and shareholders' equity as &quot;Foreign currency translation adjustment.&quot;</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>5) Accounting for leases</td>
<td>Finance leases, other than those for which the ownership of the leased assets are considered to be transferred to the lessees, are accounted for as operating leases.</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>6) Accounting for deferred assets</td>
<td>Stock issuance expenses Costs associated with issuance of common shares are expensed as incurred.</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>7) Additional accounting policies used to prepare consolidated financial statements</td>
<td>A) Accounting treatment of consumption tax Income statement items are presented exclusive of consumption tax. B) Accounting treatment of overseas subsidiaries The accounts and records of overseas subsidiaries are maintained in conformity with accounting principles and practices generally accepted in their respective countries.</td>
<td>A) Accounting treatment of consumption tax Same as FY2003 B) Accounting treatment of overseas subsidiaries Same as FY2003</td>
</tr>
<tr>
<td>5. Valuation of Assets and Liabilities of Consolidated Subsidiaries</td>
<td>All assets and liabilities of consolidated subsidiaries are revalued on acquisition.</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>6. Amortization of Goodwill</td>
<td>Goodwill is amortized over a period of 3 years on a straight-line basis.</td>
<td>Goodwill is amortized over a period of 3–5 years on a straight-line basis.</td>
</tr>
<tr>
<td>7. Appropriation of Retained Earnings</td>
<td>The consolidated statement of capital surplus retained earnings is prepared based on earnings (deficit) appropriations determined during the fiscal year.</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>8. Scope of Cash and Cash Equivalents in the Statements of Cash Flows</td>
<td>Cash and cash equivalents in the consolidated statements of cash flows is comprised of cash on hand, bank deposits which are able to be withdrawn on demand and highly liquid short-term investments with an original maturity of three months or less and with minor risk of significant fluctuations in value.</td>
<td>Same as FY2003</td>
</tr>
<tr>
<td>(Accounting treatment for costs related to the planning and development of game content paid to third parties)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Until the fiscal year ended March 31, 2003, the Company expensed the costs related to the planning and development of game content when paid to a third party. Effective from the fiscal year ended March 31, 2004, as a result of efforts to strengthen the decision-making process in connection to the development of game software and to implement more stringent selection criteria, such costs incurred during the development stage are capitalized as &quot;Content production account&quot; and charged to cost of sales at the time of sale of related game products. For the fiscal year ended March 31, 2004, &quot;Content production account&quot; included such capitalized costs in the amount of ¥3,763 million.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Accounting for business combination)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On April 1, 2003, ENIX CORPORATION and SQUARE CO., LTD., merged and formed SQUARE ENIX CO., LTD. The merger was effected through the issue of 51,167,293 common shares and allocated on the basis of one SQUARE CO., LTD., common share for every 0.85 ENIX CORPORATION common shares. The merger was consummated on an equal footing by combining the entire control over net assets and management activities prior to the merger, and sharing both the post-merger benefits and risks equally. In addition, it was not possible to determine which entity was the acquirer. Therefore, this business combination was accounted for under the pooling-of interests method. Details of post-merger assets and liabilities are provided on the following page.</td>
</tr>
</tbody>
</table>
* Assets and Liabilities Transferred from SQUARE CO., LTD., due to the Merger

(Millions of yen)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Assets)</strong></td>
<td></td>
<td><strong>(Liabilities)</strong></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>36,490</td>
<td>Current liabilities</td>
<td>13,489</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>16,931</td>
<td>Accounts payable–trade</td>
<td>1,717</td>
</tr>
<tr>
<td>Accounts receivable–trade</td>
<td>11,438</td>
<td>Current portion of long-term debt</td>
<td>22</td>
</tr>
<tr>
<td>Finished goods</td>
<td>45</td>
<td>Accounts payable–other</td>
<td>2,808</td>
</tr>
<tr>
<td>Merchandise</td>
<td>11</td>
<td>Payables arising due to merger</td>
<td>4,153</td>
</tr>
<tr>
<td>Content production account</td>
<td>3,402</td>
<td>Income taxes payable</td>
<td>4</td>
</tr>
<tr>
<td>Suppliers</td>
<td>77</td>
<td>Consumption tax payable</td>
<td>422</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>375</td>
<td>Accrued expenses</td>
<td>1,248</td>
</tr>
<tr>
<td>Accounts receivable–other</td>
<td>483</td>
<td>Advances received</td>
<td>594</td>
</tr>
<tr>
<td>Income taxes receivable</td>
<td>537</td>
<td>Deposits received</td>
<td>83</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>2,980</td>
<td>Reserve for bonuses</td>
<td>463</td>
</tr>
<tr>
<td>Other current assets</td>
<td>217</td>
<td>Allowance for sales returns</td>
<td>893</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(10)</td>
<td>Reserve for office relocation costs</td>
<td>1,074</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other current liabilities</td>
<td>3</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>14,370</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>3,759</td>
<td>Fixed liabilities</td>
<td>359</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>621</td>
<td>Long-term debt</td>
<td>18</td>
</tr>
<tr>
<td>Tools and fixtures</td>
<td>2,663</td>
<td>Long-term deposits received</td>
<td>39</td>
</tr>
<tr>
<td>Land</td>
<td>421</td>
<td>Reserve for retirement benefits</td>
<td>301</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>53</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone rights</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>636</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software production account</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments and other assets</td>
<td>9,584</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>1,345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>3,376</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term prepaid expenses</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in consortiums</td>
<td>560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold deposits</td>
<td>590</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>3,383</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>316</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>50,860</td>
<td><strong>Net worth</strong></td>
<td>37,012</td>
</tr>
</tbody>
</table>

- 22 -
## Notes to Consolidated Balance Sheets

<table>
<thead>
<tr>
<th>FY2003 (As of March 31, 2004)</th>
<th>FY2004 (As of March 31, 2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Investment in non-consolidated subsidiaries and affiliates</td>
<td>1 Investment in non-consolidated subsidiaries and affiliates</td>
</tr>
<tr>
<td>Investment securities ¥341 million</td>
<td>Investment securities ¥151 million</td>
</tr>
<tr>
<td>Investments and other assets ¥4 million</td>
<td>Investments and other assets ¥4 million</td>
</tr>
<tr>
<td>2 Number of shares of common stock outstanding: 110,130,418</td>
<td>2 Number of shares of common stock outstanding: 110,385,543</td>
</tr>
<tr>
<td>3 Number of shares of treasury stock: 99,539</td>
<td>3 Number of shares of treasury stock: 150,650</td>
</tr>
<tr>
<td>4 Contingent liabilities for guarantees</td>
<td>4 Contingent liabilities for guarantees</td>
</tr>
</tbody>
</table>
| The Company has issued a revolving guarantee to a maximum limit of U.S.$15 million on behalf of consolidated subsidiary SQUARE ENIX U.S.A., INC., in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2004, the liability outstanding under the guarantee was U.S.$432 thousand (¥45 million). |}

## Notes to Consolidated Statements of Income

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Selling, general and administrative expense includes R&amp;D costs of ¥7 million.</td>
<td>1</td>
</tr>
<tr>
<td>2 Breakdown of gain on sale of property and equipment</td>
<td>2 Breakdown of gain on sale of property and equipment</td>
</tr>
<tr>
<td>Tools and fixtures ¥0 million</td>
<td>Tools and fixtures ¥0 million</td>
</tr>
<tr>
<td>3 Breakdown of loss on sale of property and equipment</td>
<td>3 Breakdown of loss on sale of property and equipment</td>
</tr>
<tr>
<td>Tools and fixtures ¥123 million</td>
<td>Tools and fixtures ¥2 million</td>
</tr>
<tr>
<td>4 Breakdown of loss on disposal of property and equipment</td>
<td>4 Breakdown of loss on disposal of property and equipment</td>
</tr>
<tr>
<td>Tools and fixtures ¥159 million</td>
<td>Tools and fixtures ¥47 million</td>
</tr>
<tr>
<td>Software ¥39 million</td>
<td>Software ¥2 million</td>
</tr>
<tr>
<td>Total ¥198 million</td>
<td>Total ¥50 million</td>
</tr>
<tr>
<td>5 Loss on investment securities is due to the significant decline in market prices of marketable securities.</td>
<td>5 Same as FY2003</td>
</tr>
</tbody>
</table>

## Notes to Consolidated Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Reconciliation of cash and cash equivalents on consolidated statements of cash flows to the amounts disclosed in the consolidated balance sheets is as follows:</td>
<td>1 Reconciliation of cash and cash equivalents on consolidated statements of cash flows to the amounts disclosed in the consolidated balance sheet is as follows:</td>
</tr>
<tr>
<td>Cash and deposits ¥58,676 million</td>
<td>Cash and deposits ¥81,243 million</td>
</tr>
<tr>
<td>Cash and cash equivalents ¥58,676 million</td>
<td>Cash and cash equivalents ¥81,243 million</td>
</tr>
<tr>
<td>2</td>
<td>2 “Gain on sale of investment securities” includes income from redemption of held-to-maturity national bond of ¥2 billion.</td>
</tr>
</tbody>
</table>
## 5. Segment Information

### 1. Consolidated Business Segment Information

<table>
<thead>
<tr>
<th>FY2003 (April 1, 2003 to March 31, 2004)</th>
<th>(Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales and operating income</td>
</tr>
<tr>
<td>Sales and operating income</td>
<td>Net sales</td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>Total</td>
</tr>
<tr>
<td>(2) Intersegment sales</td>
<td>Total</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>Total</td>
</tr>
<tr>
<td>Operating income</td>
<td>Total</td>
</tr>
</tbody>
</table>

### Assets, depreciation and capital expenditures

#### Assets

- 55,104
- 14,215
- 12
- 1,159
- 3,180
- 1,027
- 24,120
- 18,523
- 110,633

#### Depreciation

- 870
- 742
- 12
- 12
- 1,735
- 239
- 1,974

#### Capital expenditures

- 188
- 513
- 12
- 0
- 715
- 1,989
- 2,704

### Notes:

1. The classification of business segments is made according to the types of products and services.

2. Major products offered by each business segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Major Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Games (Offline)</td>
<td>Games</td>
</tr>
<tr>
<td>Games (Online)</td>
<td>Online games</td>
</tr>
<tr>
<td>Mobile Phone Content</td>
<td>Content for mobile phones</td>
</tr>
<tr>
<td>Publishing</td>
<td>Magazine comics, serial comics, game-related books</td>
</tr>
<tr>
<td>Other</td>
<td>Derivative products such as character merchandise, school for game designers</td>
</tr>
</tbody>
</table>

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥4,722 million. These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.

4. Unallocated assets included in "Eliminations or Unallocated" totaled ¥18,523 million. These assets are related to administrative departments of the Company.

5. As in "Summary of Significant Accounting Policies used in the Preparation of Consolidated Financial Statements," the method for depreciation and amortization of property, plant and equipment are expensed at the time of purchase from FY2003. The result of this change is considered immaterial.
### FY2004 (April 1, 2004 to March 31, 2005)

(Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Games (Offline)</th>
<th>Games (Online)</th>
<th>Mobile Phone Content</th>
<th>Publishing</th>
<th>Other</th>
<th>Total</th>
<th>Eliminations or Unallocated</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>41,944</td>
<td>13,853</td>
<td>4,557</td>
<td>10,859</td>
<td>2,649</td>
<td>73,864</td>
<td></td>
<td>73,864</td>
</tr>
<tr>
<td>(2) Intersegment sales</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>41,944</td>
<td>13,853</td>
<td>4,557</td>
<td>10,859</td>
<td>2,649</td>
<td>73,864</td>
<td></td>
<td>73,864</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>22,295</td>
<td>8,866</td>
<td>2,818</td>
<td>7,448</td>
<td>1,866</td>
<td>43,295</td>
<td>4,131</td>
<td>47,426</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>19,649</td>
<td>4,986</td>
<td>1,738</td>
<td>3,411</td>
<td>782</td>
<td>30,569</td>
<td>(4,131)</td>
<td>26,438</td>
</tr>
<tr>
<td><strong>Assets, depreciation, and capital expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>64,860</td>
<td>20,752</td>
<td>4,725</td>
<td>20,448</td>
<td>6,168</td>
<td>116,955</td>
<td>14,739</td>
<td>131,695</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>693</td>
<td>770</td>
<td>35</td>
<td>19</td>
<td>99</td>
<td>1,618</td>
<td>195</td>
<td>1,814</td>
</tr>
<tr>
<td><strong>Capital expenditures</strong></td>
<td>106</td>
<td>725</td>
<td>51</td>
<td>3</td>
<td>17</td>
<td>905</td>
<td>618</td>
<td>1,523</td>
</tr>
</tbody>
</table>

**Notes:**

1. The classification of business segments is made according to the types of products and services.
2. Major products offered by each business segment
   - **Games (Offline)**: Games
   - **Games (Online)**: Online games
   - **Mobile Phone Content**: Content for mobile phones
   - **Publishing**: Magazine comics, serial comics, game-related books
   - **Other**: Derivative products such as character merchandise, school for game designers

3. Unallocated operating expenses included in "Eliminations or Unallocated" totaled ¥4,131 million. These expenses are related to administrative departments, such as accounting and general affairs, of the Company, which provide services and operational support that are not allocable to specific business segments.
4. Unallocated assets included in "Eliminations or Unallocated" totaled ¥14,739 million. These assets are related to administrative departments of the Company.
# 2. Consolidated Geographic Segment Information

## FY2003 (April 1, 2003 to March 31, 2004) (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Total</th>
<th>Eliminations or Unallocated</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>49,354</td>
<td>12,981</td>
<td>148</td>
<td>717</td>
<td>63,202</td>
<td>4,387</td>
<td>63,202</td>
</tr>
<tr>
<td>(2) Intersegment sales</td>
<td>3,718</td>
<td>389</td>
<td>279</td>
<td>717</td>
<td>4,387</td>
<td>(4,387)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>53,073</td>
<td>13,371</td>
<td>428</td>
<td>717</td>
<td>67,589</td>
<td>(4,387)</td>
<td>63,202</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>36,880</td>
<td>10,178</td>
<td>336</td>
<td>796</td>
<td>48,191</td>
<td>(4,387)</td>
<td>43,803</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>16,192</td>
<td>3,192</td>
<td>91</td>
<td>(79)</td>
<td>19,398</td>
<td></td>
<td>19,398</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>96,547</td>
<td>12,106</td>
<td>772</td>
<td>1,207</td>
<td>110,633</td>
<td></td>
<td>110,633</td>
</tr>
</tbody>
</table>

Notes: 1. The classification of geographic segments is made according to geographical distances.
2. Main countries included in each segment:
   (1) North America………the United States of America
   (2) Europe………United Kingdom
   (3) Asia………China
3. There are no unallocated operating expenses included in "Eliminations or Unallocated."
4. There are no unallocated assets included in "Eliminations or Unallocated."
5. As in "Summary of Significant Accounting Policies used in the Preparation of Consolidated Financial Statements," the method for depreciation and amortization of property, plant and equipment are expensed at the time of purchase from FY2003. The result of this change is considered immaterial.

## FY2004 (April 1, 2004 to March 31, 2005) (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Total</th>
<th>Eliminations or Unallocated</th>
<th>Consolidated Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Sales to outside customers</td>
<td>60,949</td>
<td>11,528</td>
<td>577</td>
<td>810</td>
<td>73,864</td>
<td>4,123</td>
<td>73,864</td>
</tr>
<tr>
<td>(2) Intersegment sales</td>
<td>3,436</td>
<td>360</td>
<td>312</td>
<td>13</td>
<td>4,123</td>
<td>(4,123)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64,386</td>
<td>11,889</td>
<td>889</td>
<td>823</td>
<td>77,988</td>
<td>(4,123)</td>
<td>73,864</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>40,425</td>
<td>9,619</td>
<td>858</td>
<td>646</td>
<td>51,550</td>
<td>(4,123)</td>
<td>47,426</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>23,960</td>
<td>2,270</td>
<td>31</td>
<td>176</td>
<td>26,438</td>
<td></td>
<td>26,438</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>118,306</td>
<td>10,694</td>
<td>1,010</td>
<td>1,683</td>
<td>131,695</td>
<td></td>
<td>131,695</td>
</tr>
</tbody>
</table>

Notes: 1. The classification of geographic segments is made according to geographical distances.
2. Main countries included in each segment:
   (1) North America………the United States of America
   (2) Europe………United Kingdom
   (3) Asia………China
3. There are no unallocated operating expenses included in "Eliminations or Unallocated."
4. There are no unallocated assets included in "Eliminations or Unallocated."
3. Consolidated Overseas Sales

FY2003 (April 1, 2003 to March 31, 2004) (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Overseas sales</td>
<td>15,618</td>
<td>2,121</td>
<td>972</td>
<td>18,712</td>
</tr>
<tr>
<td>II Consolidated sales</td>
<td></td>
<td></td>
<td></td>
<td>63,202</td>
</tr>
<tr>
<td>III Percentage of overseas sales to consolidated sales</td>
<td>24.7%</td>
<td>3.4%</td>
<td>1.5%</td>
<td>29.6%</td>
</tr>
</tbody>
</table>

Notes:  
1. The classification of geographic segments is made according to geographical distances.  
2. Main countries included in each segment:  
   (1) North America........the United States of America, Canada  
   (2) Europe........United Kingdom, France, Germany, others  
   (3) Asia.........China, others  
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside of Japan.

FY2004 (April 1, 2004 to March 31, 2005) (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Overseas sales</td>
<td>12,295</td>
<td>1,298</td>
<td>1,179</td>
<td>14,772</td>
</tr>
<tr>
<td>II Consolidated sales</td>
<td></td>
<td></td>
<td></td>
<td>73,864</td>
</tr>
<tr>
<td>III Percentage of overseas sales to consolidated sales</td>
<td>16.6%</td>
<td>1.8%</td>
<td>1.6%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

Notes:  
1. The classification of geographic segments is made according to geographical distances.  
2. Main countries included in each segment:  
   (1) North America........the United States of America, Canada  
   (2) Europe........United Kingdom, France, Germany, others  
   (3) Asia.........China, others  
3. Overseas sales represent sales of the Company and its consolidated subsidiaries to countries and areas outside of Japan.
### 6. Lease Transactions

#### FY2003

**April 1, 2003 to March 31, 2004**

Information related to finance leases other than those that transfer ownership to the lessee

1. **Acquisition cost, accumulated depreciation and net book value of leased assets**

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Acquisition cost</th>
<th>Accumulated depreciation</th>
<th>Net Book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools and fixtures</td>
<td>90</td>
<td>48</td>
<td>41</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>48</strong></td>
<td><strong>41</strong></td>
</tr>
</tbody>
</table>

Note: The acquisition cost payment is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total acquisition cost includes the interest portion.

2. **Ending balance of future lease payments**

   - Due within one year: ¥16 million
   - Due after one year: ¥24 million
   - **Total**: ¥41 million

Note: The total future lease payment at the end of the period is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total future lease payment includes the interest portion.

3. **Lease payment and depreciation**

   - Lease expenses payment: ¥18 million
   - Depreciation expense: ¥18 million

4. **Method of calculation for depreciation**

   Depreciation is calculated using the straight-line method over the useful life with no residual value.

#### FY2004

**April 1, 2004 to March 31, 2005**

Information related to finance leases other than those that transfer ownership to the lessee

1. **Acquisition cost, accumulated depreciation and net book value of leased assets**

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Acquisition cost</th>
<th>Accumulated depreciation</th>
<th>Net Book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools and fixtures</td>
<td>74</td>
<td>49</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>74</strong></td>
<td><strong>49</strong></td>
<td><strong>24</strong></td>
</tr>
</tbody>
</table>

Note: The acquisition cost payment is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total acquisition cost includes the interest portion.

2. **Ending balance of future lease payments**

   - Due within one year: ¥14 million
   - Due after one year: ¥9 million
   - **Total**: ¥24 million

Note: The total future lease payment at the end of the period is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total future lease payment includes the interest portion.

3. **Lease payment and depreciation**

   - Lease expenses payment: ¥16 million
   - Depreciation expense: ¥16 million

4. **Method of calculation for depreciation**

   Same as FY2003
7. Tax Effect Accounting

1. Significant components of deferred tax assets and liabilities are summarized as follows: (Millions of yen)

<table>
<thead>
<tr>
<th></th>
<th>FY2003 As of March 31, 2004</th>
<th>FY2004 As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred tax assets (Current assets)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enterprise tax payable</td>
<td>115</td>
<td>809</td>
</tr>
<tr>
<td>Office tax payable</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Accrues bonuses, allowance for bonuses to employees</td>
<td>500</td>
<td>415</td>
</tr>
<tr>
<td>Advances paid</td>
<td>252</td>
<td>310</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>309</td>
<td>346</td>
</tr>
<tr>
<td>Allowance for sales return</td>
<td>466</td>
<td>442</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>205</td>
<td>-</td>
</tr>
<tr>
<td>Non-deductible portion of allowance for doubtful accounts</td>
<td>86</td>
<td>162</td>
</tr>
<tr>
<td>Tax credits</td>
<td>118</td>
<td>80</td>
</tr>
<tr>
<td>Non-deductible portion of allowance for content production account</td>
<td>(258)</td>
<td>(190)</td>
</tr>
<tr>
<td>Evaluation loss on content</td>
<td>-</td>
<td>1,140</td>
</tr>
<tr>
<td>Other</td>
<td>35</td>
<td>(97)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,850</td>
<td>3,440</td>
</tr>
</tbody>
</table>

| **Deferred tax assets (Fixed assets)** |                             |                             |
| Non-deductible portion of allowance for retirement benefits | 392                         | 477                         |
| Allowance for directors’ retirement benefits | 53                          | 31                          |
| Non-deductible depreciation expense of property, plant and equipment | 684                         | 562                         |
| Advance payments               | 552                         | -                           |
| Tax effect on deficit of subsidiaries | 666                         | 690                         |
| Loss on investments in securities | 472                         | 242                         |
| Other                          | 91                          | 87                          |
| **Total**                      | 2,914                       | 2,093                       |
| **Offset to deferred tax assets (Fixed assets)** | (249)                       | (324)                       |
| **Balance**                    | 2,665                       | 1,768                       |
| **Net deferred tax assets**    | 4,515                       | 5,209                       |

| **Deferred tax liabilities (Fixed liabilities)** |                             |                             |
| Net unrealized gains on available-for-sale securities | (249)                       | (324)                       |
| **Total**                      | (249)                       | (324)                       |
| **Offset to deferred tax assets (Fixed assets)** | 249                         | 324                         |
| **Total deferred tax liabilities** | -                           | -                           |
| **Net deferred tax assets (liabilities)** | 4,515                       | 5,209                       |

2. Reconciliation of the statutory tax rate and the effective tax rate

<table>
<thead>
<tr>
<th></th>
<th>FY2003 As of March 31, 2004</th>
<th>FY2004 As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory tax rate</td>
<td>42.05</td>
<td>40.70</td>
</tr>
<tr>
<td>Permanent differences excluded from non-taxable expenses</td>
<td>0.18</td>
<td>0.17</td>
</tr>
<tr>
<td>Permanent differences excluded from gross revenue</td>
<td>(0.18)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Increase/decrease in valuation allowance</td>
<td>(3.18)</td>
<td>-</td>
</tr>
<tr>
<td>Taxation on per capita basis for residents tax</td>
<td>0.07</td>
<td>0.04</td>
</tr>
<tr>
<td>Foreign tax credits</td>
<td>(0.33)</td>
<td>-</td>
</tr>
<tr>
<td>Special income tax credits</td>
<td>(0.95)</td>
<td>(0.56)</td>
</tr>
<tr>
<td>Investment loss on equity method</td>
<td>1.76</td>
<td>-</td>
</tr>
<tr>
<td>Tax effect on related companies’ unappropriated retained earnings</td>
<td>(1.36)</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of consolidation adjustment account</td>
<td>0.34</td>
<td>2.43</td>
</tr>
<tr>
<td>Adjustments in unrealized profits due to consolidation</td>
<td>(1.00)</td>
<td>-</td>
</tr>
<tr>
<td>Difference in tax rate with the parent company</td>
<td>0.01</td>
<td>(1.17)</td>
</tr>
<tr>
<td>Other</td>
<td>(0.15)</td>
<td>(0.49)</td>
</tr>
<tr>
<td><strong>Effective tax rate</strong></td>
<td>37.26</td>
<td>41.11</td>
</tr>
</tbody>
</table>
8. Securities

FY2003 Year-End (ended March 31, 2004)

1. Held-to-sell securities
   Not applicable

2. Held-to-maturity securities with market value
   (Millions of yen)

<table>
<thead>
<tr>
<th>Type</th>
<th>Book Value</th>
<th>Market Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities with market value exceeding book value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Government bonds</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2,000</td>
<td>2,000</td>
<td>0</td>
</tr>
</tbody>
</table>

3. Other investment securities with market value
   (Millions of yen)

<table>
<thead>
<tr>
<th>Type</th>
<th>Acquisition Cost</th>
<th>Market Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities with book value exceeding acquisition cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Stocks</td>
<td>179</td>
<td>797</td>
<td>617</td>
</tr>
<tr>
<td>Subtotal</td>
<td>179</td>
<td>797</td>
<td>617</td>
</tr>
<tr>
<td>Securities with acquisition cost exceeding book value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Stocks</td>
<td>76</td>
<td>71</td>
<td>(4)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>76</td>
<td>71</td>
<td>(4)</td>
</tr>
<tr>
<td>Total</td>
<td>256</td>
<td>869</td>
<td>613</td>
</tr>
</tbody>
</table>

Note: An impairment loss of ¥222 million was incurred in the fiscal year ended March 31, 2004, in connection with the Company’s other marketable securities with market value. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not less than 50% of the acquisition cost. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering such factors as the significance and amount of securities and the potential for recovery.

4. Securities sold during this fiscal year
   (Millions of yen)

<table>
<thead>
<tr>
<th>Amount of Sale</th>
<th>Gain on Sale</th>
<th>Loss on Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>156</td>
<td>59</td>
<td>84</td>
</tr>
</tbody>
</table>

5. Investment securities whose fair values are not readily determined as of March 31, 2004
   (Millions of yen)

<table>
<thead>
<tr>
<th>(1) Other marketable securities Unlisted securities (excluding OTC securities)</th>
<th>Book Value</th>
</tr>
</thead>
</table>

   Note: An impairment loss of ¥278 million was incurred in the fiscal year ended March 31, 2004, in connection with the Company’s other securities whose fair values are not readily determined as of March 31, 2004. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not less than 50% of the acquisition cost. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering such factors as the significance and amount of securities and the potential for recovery.

6. Held-to-maturity securities
   Not applicable
FY2004 Year-End (ended March 31, 2005)

1. Held-to-sell securities
   Not available

2. Other investment securities with market value
   (Millions of yen)

<table>
<thead>
<tr>
<th>Type</th>
<th>Acquisition Cost</th>
<th>Book Value</th>
<th>Unrealized Gain (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities with book value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding acquisition cost</td>
<td>(1) Stocks</td>
<td>179</td>
<td>994</td>
</tr>
<tr>
<td>Securities with acquisition cost exceeding book value</td>
<td>Subtotal</td>
<td>179</td>
<td>994</td>
</tr>
<tr>
<td>(1) Stocks</td>
<td>76</td>
<td>58</td>
<td>(18)</td>
</tr>
<tr>
<td>Securities with acquisition cost exceeding book value</td>
<td>Subtotal</td>
<td>76</td>
<td>58</td>
</tr>
<tr>
<td>Total</td>
<td>256</td>
<td>1,052</td>
<td>796</td>
</tr>
</tbody>
</table>

3. Securities sold during this fiscal year
   (Millions of yen)

<table>
<thead>
<tr>
<th>Amount of Sale</th>
<th>Gain on Sale</th>
<th>Loss on Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>143</td>
<td>106</td>
<td>2</td>
</tr>
</tbody>
</table>

4. Investment securities whose fair values are not readily determined as of March 31, 2005
   (Millions of yen)

<table>
<thead>
<tr>
<th>(1) Other marketable securities</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlisted securities (excluding OTC securities)</td>
<td>81</td>
</tr>
</tbody>
</table>

Note: An impairment loss of ¥80 million was incurred in the fiscal year ended March 31, 2005, in connection with the Company's other marketable securities with market value. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls not less than 50% of the acquisition cost. Impairment loss on securities is charged to income when the market price at the end of the fiscal year falls between 30% and 50% of the acquisition cost after considering such factors as the significance and amount of securities and the potential for recovery.

5. Held-to-maturity securities
   Not applicable
9. Derivative Transactions

FY2003 (April 1, 2003 to March 31, 2004)

The Group does not engage in derivative transactions.

FY2004 (April 1, 2004 to March 31, 2005)

1. Condition of Transaction
   A) Type of transaction and purpose of engagement
      The Company does not engage in derivative transactions in principal, however, to avoid foreign exchange rate risks, it is probable that we may engage in exchange reservation transaction.
   B) Transaction policy
      Exchange reservation transaction is made within a range of foreign currency transaction amount, and the Company does not engage in speculation transaction.
   C) Risks
      Exchange reservation transaction contains risks resulting from fluctuation of exchange rate. Additionally, the Company considers that there are few risks of non-fulfillment of a contract by credible banks to contract of exchange reservation.
   D) Risk Management
      Under the approval of the representative director or an executives in charge, the Accounting and Financing Division administer the risk management.

2. Market Value of Transaction
   Not applicable
10. Retirement Benefits

FY2003 (ended March 31, 2004)

1. Overview of retirement benefit plan applied

The Company and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan with regard to its retirement benefit obligation. The projected benefits are allocated to periods of service on a straight-line basis. Its domestic consolidated subsidiaries apply the conventional method in the calculation of retirement benefit obligations. In addition, certain of the Company's overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation

<table>
<thead>
<tr>
<th>Retirement benefit obligation</th>
<th>¥988 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrecognized actuarial difference</td>
<td>¥(10) million</td>
</tr>
<tr>
<td>Allowance for retirement benefits</td>
<td>¥978 million</td>
</tr>
</tbody>
</table>

3. Retirement benefit expenses

<table>
<thead>
<tr>
<th>Service cost</th>
<th>¥602 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>¥12 million</td>
</tr>
<tr>
<td>Retirement benefit expenses</td>
<td>¥615 million</td>
</tr>
</tbody>
</table>

Service cost includes a deficit of ¥388 million due to the change in calculation of retirement benefit obligation from the conventional method to the basic method.

4. Assumption used in accounting for retirement benefit obligation

<table>
<thead>
<tr>
<th>Periodic allocation method for projected benefits</th>
<th>Straight-line basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>1.611%</td>
</tr>
<tr>
<td>Years over which net actuarial gains and losses are amortized</td>
<td>1 year</td>
</tr>
</tbody>
</table>

FY2004 (ended March 31, 2005)

1. Overview of retirement benefit plan applied

The Company and its domestic consolidated subsidiaries applied a lump-sum retirement payment plan with regard to its retirement benefit obligation. The projected benefits are allocated to periods of service on a straight-line basis. Its domestic consolidated subsidiaries apply the conventional method in the calculation of retirement benefit obligations. In addition, certain of the Company’s overseas subsidiaries maintain defined contribution retirement pension plans.

2. Retirement benefit obligation

<table>
<thead>
<tr>
<th>Retirement benefit obligation</th>
<th>¥969 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrecognized past service obligation</td>
<td>¥100 million</td>
</tr>
<tr>
<td>Unrecognized actuarial difference</td>
<td>¥103 million</td>
</tr>
<tr>
<td>Allowance for retirement benefits</td>
<td>¥1,173 million</td>
</tr>
</tbody>
</table>

3. Retirement benefit expenses

<table>
<thead>
<tr>
<th>Service cost</th>
<th>¥210 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>¥15 million</td>
</tr>
<tr>
<td>Amortization of net actuarial gains and losses</td>
<td>¥10 million</td>
</tr>
<tr>
<td>Retirement benefit expenses</td>
<td>¥235 million</td>
</tr>
</tbody>
</table>

Service cost includes a deficit of ¥388 million due to the change in calculation of retirement benefit obligation from the conventional method to the basic method.

4. Assumption used in accounting for retirement benefit obligation

<table>
<thead>
<tr>
<th>Periodic allocation method for projected benefits</th>
<th>Straight-line basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>1.652%</td>
</tr>
<tr>
<td>Years over which past service obligations are amortized</td>
<td>1 year</td>
</tr>
<tr>
<td>Years over which net actuarial gains and losses are amortized</td>
<td>1 year</td>
</tr>
</tbody>
</table>
11. Production, Order and Sales Information

(1) Production

Because a production process of one product/merchandise differs from that of another despite being under the same segment, the production scale by segment is not indicated in monetary accounts or quantity of units.

(2) Purchasing

Consolidated purchasing results by segment for FY2004 (ended March 31, 2005) (Millions of yen, %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>Games (Offline)</td>
<td>5,123</td>
<td>52.4</td>
<td>6,179</td>
</tr>
<tr>
<td>Games (Online)</td>
<td>380</td>
<td>3.9</td>
<td>508</td>
</tr>
<tr>
<td>Publication</td>
<td>2,534</td>
<td>25.9</td>
<td>4,373</td>
</tr>
<tr>
<td>Other</td>
<td>1,742</td>
<td>17.8</td>
<td>958</td>
</tr>
<tr>
<td>Total</td>
<td>9,780</td>
<td>100.0</td>
<td>12,019</td>
</tr>
</tbody>
</table>

Note: The above amounts do not contain consumption taxes.

(3) Orders Received

The Group does not manufacture products by order.

(4) Sales

Consolidated sales results by segment for FY2004 (ended March 31, 2005) (Millions of yen, %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>Games (Offline)</td>
<td>37,988</td>
<td>60.1</td>
<td>41,944</td>
</tr>
<tr>
<td>Games (Online)</td>
<td>8,924</td>
<td>14.1</td>
<td>13,853</td>
</tr>
<tr>
<td>Mobile Phone Content</td>
<td>2,793</td>
<td>4.4</td>
<td>4,557</td>
</tr>
<tr>
<td>Publication</td>
<td>9,671</td>
<td>15.3</td>
<td>10,859</td>
</tr>
<tr>
<td>Other</td>
<td>3,824</td>
<td>6.1</td>
<td>2,649</td>
</tr>
<tr>
<td>Total</td>
<td>63,202</td>
<td>100.0</td>
<td>73,864</td>
</tr>
</tbody>
</table>

Note: The above amounts do not contain consumption taxes.
### NON-CONSOLIDATED FINANCIAL RESULTS
for Fiscal Year Ended March 31, 2005

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Recurring Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>63,950</td>
<td>24,080</td>
<td>23,533</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>51,429</td>
<td>15,991</td>
<td>15,618</td>
</tr>
</tbody>
</table>

#### 1. FY2004 Non-Consolidated Financial Results (April 1, 2004 to March 31, 2005)

- **(1) Non-Consolidated Financial Results**

  (Millions of yen, except percentages and per share data)

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Net Income</th>
<th>Earings Per Share (Basic)</th>
<th>Earings Per Share (Diluted)</th>
<th>Return on Equity</th>
<th>Recurring Income to Total Assets</th>
<th>Recurring Income Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2005</td>
<td>13,562</td>
<td>45.2</td>
<td>123.19</td>
<td>13.6</td>
<td>20.6</td>
<td>36.8</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>9,342</td>
<td>-</td>
<td>85.02</td>
<td>10.4</td>
<td>14.8</td>
<td>30.3</td>
</tr>
</tbody>
</table>

- **(2) Dividends**

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Annual Dividend Per Share</th>
<th>Total Dividends (annual)</th>
<th>Payout Ratio</th>
<th>Dividend Rate of Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interim</td>
<td>Year-end</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Fiscal year ended March 31, 2005 (FY2004)</td>
<td>60.00</td>
<td>50.00</td>
<td>109,093,589</td>
<td>48.8</td>
</tr>
<tr>
<td>Fiscal year ended March 31, 2004 (FY2003)</td>
<td>30.00</td>
<td>20.00</td>
<td>109,884,947</td>
<td>35.3</td>
</tr>
</tbody>
</table>

  **Note:** Year-end dividend for FY2004: Commemorative dividend Y 30.00 Special dividend Y -

- **(3) Non-Consolidated Financial Position**

  (Millions of yen, except percentages and per share data)

<table>
<thead>
<tr>
<th>Fiscal Years Ended</th>
<th>Total Assets</th>
<th>Total Shareholders’ Equity</th>
<th>Ratio of Shareholders’ Equity</th>
<th>Shareholders’ Equity Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>March 31, 2005</td>
<td>124,105</td>
<td>104,909</td>
<td>84.5</td>
<td>951.69</td>
</tr>
<tr>
<td>March 31, 2004</td>
<td>104,623</td>
<td>94,137</td>
<td>89.9</td>
<td>855.55</td>
</tr>
</tbody>
</table>

- **(4) Number of shares issued at year-end**

  Fiscal year ended March 31, 2005 (FY2004): 110,234,893
  Fiscal year ended March 31, 2004 (FY2003): 110,030,879

- **(5) Amount of treasury stock**

  Fiscal year ended March 31, 2005 (FY2004): 150,650
  Fiscal year ended March 31, 2004 (FY2003): 99,539

### 2. FY2005 Forecasts (April 1, 2005 - March 31, 2006)

(Reference) Earnings per share (basic) forecasts for FY2005: ¥108.86

- **(i) The above forecasts are based on information available at the time these material were prepared. A number of indefinite factors are inherent in, and could cause actual results to be materially different from, these forecasts.**

---35---
### 7. Non-Consolidated Financial Statements for FY2004 (Ended March 31, 2005)

#### (1) Non-Consolidated Balance Sheets

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2004 Results</th>
<th>FY2003 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(As of March 31, 2005)</td>
<td>(As of March 31, 2004)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>I. Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Cash and deposits</td>
<td>52,158</td>
<td></td>
<td>74,218</td>
</tr>
<tr>
<td>2. Notes receivable</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Time deposits</td>
<td>10,819</td>
<td></td>
<td>6,840</td>
</tr>
<tr>
<td>4. Inventories</td>
<td>444</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>5. Content production account</td>
<td>10,126</td>
<td></td>
<td>15,510</td>
</tr>
<tr>
<td>6. Unfinished goods</td>
<td>81</td>
<td></td>
<td>98</td>
</tr>
<tr>
<td>7. Supplies</td>
<td>32</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>8. Advanced payment expenses</td>
<td>332</td>
<td></td>
<td>334</td>
</tr>
<tr>
<td>9. Accrued payment received</td>
<td>250</td>
<td></td>
<td>84</td>
</tr>
<tr>
<td>10. Loans to affiliates</td>
<td>5,073</td>
<td></td>
<td>2,469</td>
</tr>
<tr>
<td>11. Deferred tax assets</td>
<td>1,112</td>
<td></td>
<td>2,950</td>
</tr>
<tr>
<td>12. Other current assets</td>
<td>17</td>
<td></td>
<td>248</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(17)</td>
<td></td>
<td>(6)</td>
</tr>
<tr>
<td>Total current assets</td>
<td>80,435</td>
<td>76.9</td>
<td></td>
</tr>
<tr>
<td>II. Fixed assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Property, plant and equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Buildings</td>
<td>3,350</td>
<td></td>
<td>3,544</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>1,206</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>(2) Structures</td>
<td>24</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>20</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>(3) Ships</td>
<td>7</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>7</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(4) Tools and fixtures</td>
<td>7,695</td>
<td></td>
<td>8,254</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>4,927</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>(5) Land</td>
<td>3,813</td>
<td></td>
<td>3,813</td>
</tr>
<tr>
<td>Total property, plant and equipment</td>
<td>8,729</td>
<td>8.3</td>
<td></td>
</tr>
<tr>
<td>2. Intangible assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Goodwill</td>
<td>190</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td>(2) Trademarks</td>
<td>39</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>(3) Softwares</td>
<td>717</td>
<td></td>
<td>635</td>
</tr>
<tr>
<td>(4) Softwares under development</td>
<td>10</td>
<td></td>
<td>159</td>
</tr>
<tr>
<td>(5) Telephone rights</td>
<td>9</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>(6) Other</td>
<td>145</td>
<td></td>
<td>114</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>1,112</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>3. Investments and other assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Investment securities</td>
<td>3,175</td>
<td></td>
<td>1,133</td>
</tr>
<tr>
<td>(2) Shares held in affiliates</td>
<td>4,143</td>
<td></td>
<td>3,326</td>
</tr>
<tr>
<td>(3) Long-term loans</td>
<td>4</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>(4) Long-term advanced payment expenses</td>
<td>468</td>
<td></td>
<td>431</td>
</tr>
<tr>
<td>(5) Investment in consortiums</td>
<td>1,051</td>
<td></td>
<td>1,406</td>
</tr>
<tr>
<td>(6) Guarantee money</td>
<td>2,774</td>
<td></td>
<td>2,800</td>
</tr>
<tr>
<td>(7) Deferred tax assets</td>
<td>2,712</td>
<td></td>
<td>2,095</td>
</tr>
<tr>
<td>(8) Other</td>
<td>16</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>14,347</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>Total fixed assets</td>
<td>24,188</td>
<td>23.1</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>104,623</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td>FY2003 Results (As of March 31, 2004)</td>
<td>FY2004 Results (As of March 31, 2005)</td>
<td>Change</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>(Liabilities)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Account payable</td>
<td>3,300</td>
<td>-</td>
<td>2,282</td>
</tr>
<tr>
<td>2. Long-term borrowings due within one year</td>
<td>18</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Accrued payments</td>
<td>1,114</td>
<td>96</td>
<td>1,210</td>
</tr>
<tr>
<td>4. Accrued expenses</td>
<td>986</td>
<td>218</td>
<td>767</td>
</tr>
<tr>
<td>5. Accrued corporation taxes</td>
<td>984</td>
<td>8,976</td>
<td></td>
</tr>
<tr>
<td>6. Accrued consumption taxes</td>
<td>401</td>
<td>614</td>
<td></td>
</tr>
<tr>
<td>7. Advance payments received</td>
<td>151</td>
<td>285</td>
<td></td>
</tr>
<tr>
<td>8. Deposits received</td>
<td>336</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>9. Reserve for bonuses</td>
<td>1,229</td>
<td>(219)</td>
<td></td>
</tr>
<tr>
<td>10. Allowance for sales returns</td>
<td>814</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>11. Other</td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>9,338</td>
<td>14.3</td>
<td>8,549</td>
</tr>
<tr>
<td>II Fixed liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Long-term deposits</td>
<td>63</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2. Accrued pension costs</td>
<td>973</td>
<td>194</td>
<td></td>
</tr>
<tr>
<td>3. Allowance for directors' retirement</td>
<td>110</td>
<td>(54)</td>
<td></td>
</tr>
<tr>
<td>Total fixed liabilities</td>
<td>1,147</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>(Shareholders' equity)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Common stock</td>
<td>7,154</td>
<td>278</td>
<td></td>
</tr>
<tr>
<td>II Capital surplus reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Reserved common stock</td>
<td>36,389</td>
<td></td>
<td>36,668</td>
</tr>
<tr>
<td>2. Other capital surplus reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Gain on disposal of treasury stock</td>
<td>4</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Total capital surplus reserve</td>
<td>36,393</td>
<td>280</td>
<td></td>
</tr>
<tr>
<td>III Retained earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Reserved retained earnings</td>
<td>885</td>
<td></td>
<td>885</td>
</tr>
<tr>
<td>2. Optional reserve fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Special reserve fund</td>
<td>29,522</td>
<td></td>
<td>29,522</td>
</tr>
<tr>
<td>3. Unappropriated earnings</td>
<td>20,062</td>
<td></td>
<td>30,323</td>
</tr>
<tr>
<td>Total retained earnings</td>
<td>50,469</td>
<td>10,261</td>
<td></td>
</tr>
<tr>
<td>IV Unrealized gain on revaluation of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>marketable securities</td>
<td>363</td>
<td>108</td>
<td></td>
</tr>
<tr>
<td>Treasury stock</td>
<td>(245)</td>
<td>(156)</td>
<td></td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>94,137</td>
<td>10,772</td>
<td></td>
</tr>
<tr>
<td>Total liabilities and shareholders' equity</td>
<td>104,623</td>
<td>19,482</td>
<td></td>
</tr>
</tbody>
</table>
## Non-Consolidated Statements of Income

### (Millions of yen)

<table>
<thead>
<tr>
<th>Account</th>
<th>FY2003 Results</th>
<th>FY2004 Results</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 1, 2003 to March 31, 2004</td>
<td>April 1, 2004 to March 31, 2005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amount</td>
<td>Rate</td>
<td>Amount</td>
</tr>
<tr>
<td>I Net sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales of merchandise</td>
<td>51,429</td>
<td>100.0</td>
<td>63,950</td>
</tr>
<tr>
<td>II Cost of sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Merchandise in inventory at beginning of the year</td>
<td>358</td>
<td></td>
<td>444</td>
</tr>
<tr>
<td>2. Merchandise purchased</td>
<td>8,999</td>
<td>12.706</td>
<td>10,317</td>
</tr>
<tr>
<td>3. Cost of merchandise production</td>
<td>10,273</td>
<td>10.317</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19,631</td>
<td></td>
<td>23,469</td>
</tr>
<tr>
<td>4. Other accounts transferred</td>
<td>41</td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>5. Merchandise in inventory at end of the year</td>
<td>444</td>
<td>37.2</td>
<td>481</td>
</tr>
<tr>
<td>Gross profit</td>
<td>32,285</td>
<td>62.8</td>
<td>41,012</td>
</tr>
<tr>
<td>Reversal of allowance for sales returns and</td>
<td>1,420</td>
<td>2.8</td>
<td>814</td>
</tr>
<tr>
<td>Provision for allowance for sales returns and</td>
<td>814</td>
<td>1.6</td>
<td>832</td>
</tr>
<tr>
<td>Net gross profit</td>
<td>32,890</td>
<td>64.0</td>
<td>40,993</td>
</tr>
<tr>
<td>III Selling, general and administrative expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Packaging freight charge</td>
<td>498</td>
<td></td>
<td>603</td>
</tr>
<tr>
<td>2. Advertising expenses</td>
<td>2,747</td>
<td>4,055</td>
<td></td>
</tr>
<tr>
<td>3. Sales promotion expenses</td>
<td>605</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Provision for doubtful accounts</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Compensation for directors</td>
<td>194</td>
<td></td>
<td>184</td>
</tr>
<tr>
<td>6. Salary</td>
<td>3,422</td>
<td></td>
<td>3,471</td>
</tr>
<tr>
<td>7. Provision to reserve for bonuses</td>
<td>1,107</td>
<td>396</td>
<td></td>
</tr>
<tr>
<td>8. Net predict pension costs</td>
<td>487</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>9. Provision to reserve for directors' retirement benefits</td>
<td>6</td>
<td></td>
<td>121</td>
</tr>
<tr>
<td>10. Welfare expenses</td>
<td>596</td>
<td></td>
<td>596</td>
</tr>
<tr>
<td>11. Rental expenses</td>
<td>777</td>
<td></td>
<td>838</td>
</tr>
<tr>
<td>12. Commissions paid</td>
<td>2,404</td>
<td></td>
<td>2,246</td>
</tr>
<tr>
<td>13. Depreciation and amortization</td>
<td>1,070</td>
<td>1,005</td>
<td></td>
</tr>
<tr>
<td>14. Outside production accounts</td>
<td>819</td>
<td></td>
<td>1,027</td>
</tr>
<tr>
<td>15. Other</td>
<td>2,155</td>
<td>16,899</td>
<td>2,269</td>
</tr>
<tr>
<td>Operating income</td>
<td>15,991</td>
<td>31.1</td>
<td>24,080</td>
</tr>
<tr>
<td>IV Non-operating income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interest income</td>
<td>10</td>
<td></td>
<td>72</td>
</tr>
<tr>
<td>2. Interest from securities</td>
<td>83</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>3. Foreign exchange gain</td>
<td>-</td>
<td></td>
<td>296</td>
</tr>
<tr>
<td>4. Rental income</td>
<td>29</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>5. Miscellaneous income</td>
<td>252</td>
<td>376</td>
<td>0.7</td>
</tr>
<tr>
<td>6. Other</td>
<td>11</td>
<td>748</td>
<td>1.5</td>
</tr>
<tr>
<td>Recurring income</td>
<td>15,618</td>
<td>30.3</td>
<td>23,533</td>
</tr>
<tr>
<td>V Non-operating expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Interest expenses</td>
<td>0</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>2. Foreign exchange loss</td>
<td>728</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Loss on disposal of inventories</td>
<td>-</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>4. Loss on write-off of content</td>
<td>-</td>
<td></td>
<td>996</td>
</tr>
<tr>
<td>5. Stock issuance expense</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Other</td>
<td>11</td>
<td>748</td>
<td>1.5</td>
</tr>
<tr>
<td>Recurring income</td>
<td>15,618</td>
<td>30.3</td>
<td>23,533</td>
</tr>
<tr>
<td>VI Extraordinary gain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Gain on sale of investment securities</td>
<td>59</td>
<td>106</td>
<td></td>
</tr>
<tr>
<td>2. Gain on sale of shares in affiliates</td>
<td>240</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Reversal of allowance for doubtful accounts</td>
<td>-</td>
<td>0.6</td>
<td>11</td>
</tr>
<tr>
<td>VII Extraordinary loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Loss on sale of property, plant and equipment</td>
<td>123</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>2. Loss on disposal of property, plant and equipment</td>
<td>193</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>3. Loss on sale of investment securities</td>
<td>84</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>4. Loss on evaluation of investment securities</td>
<td>375</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>5. Evaluation loss on shares in affiliates</td>
<td>317</td>
<td>897</td>
<td></td>
</tr>
<tr>
<td>6. Other</td>
<td>1,095</td>
<td>2.1</td>
<td>16</td>
</tr>
<tr>
<td>Income before income taxes and distribution of loss in partnership</td>
<td>14,823</td>
<td>28.8</td>
<td>22,603</td>
</tr>
<tr>
<td>Distribution of loss in partnership</td>
<td>24</td>
<td>0.0</td>
<td>20</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>14,799</td>
<td>28.8</td>
<td>22,582</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1,600</td>
<td></td>
<td>10,315</td>
</tr>
<tr>
<td>Current deferred</td>
<td>3,856</td>
<td>5,457</td>
<td>10.6</td>
</tr>
<tr>
<td>Retained earnings brought forward from the previous year-end</td>
<td>1,814</td>
<td>17,861</td>
<td></td>
</tr>
<tr>
<td>Retained earnings brought from merged company</td>
<td>10,004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>1,098</td>
<td></td>
<td>1,101</td>
</tr>
<tr>
<td>Retained earnings at year-end</td>
<td>20,062</td>
<td></td>
<td>30,323</td>
</tr>
</tbody>
</table>
### (3) Proposal of Appropriation

<table>
<thead>
<tr>
<th>Term</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Unappropriated retained earnings</td>
<td>20,062</td>
<td>30,323</td>
</tr>
<tr>
<td>II Appropriation of retained earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Cash dividend paid</td>
<td>2,200</td>
<td>5,511</td>
</tr>
<tr>
<td>III Retained earnings carried forward</td>
<td>17,861</td>
<td>24,812</td>
</tr>
</tbody>
</table>

### Dividend Per Share

<table>
<thead>
<tr>
<th>Type</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual</td>
<td>Interim</td>
</tr>
<tr>
<td>Ordinary dividend</td>
<td>30.00</td>
<td>10.00</td>
</tr>
</tbody>
</table>

* Year-end dividends for FY2004 includes a commemorative dividend of ¥30.00.
## Summary of Significant Accounting Policies Used in the Preparation of Non-Consolidated Financial Statements for FY2004 (Ended March 31, 2005)

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2003 to March 31, 2004</td>
<td>April 1, 2004 to March 31, 2005</td>
</tr>
</tbody>
</table>

### 1. Standards and Valuation Methods for Investment Securities

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Held-to-maturity securities: Amortized cost method, amortized on a straight-line basis</td>
<td>(1) Held-to-maturity securities: Same as FY2003</td>
</tr>
<tr>
<td>(2) Investment in consolidated subsidiaries and affiliates: Stated at cost, determined using the moving-average method</td>
<td>(2) Investment in consolidated subsidiaries and affiliates: Same as FY2003</td>
</tr>
<tr>
<td>(3) Other investment securities: Securities for which fair values are available: Market value, determined by the quoted market price as of the balance sheet date, with unrealized gains and losses reported as a separate component of shareholders' equity at a net-of-tax amount, and the cost of sales determined by the moving-average method</td>
<td>(3) Other investment securities: Securities for which fair values are available: Same as FY2003</td>
</tr>
<tr>
<td></td>
<td>Securities for which fair values are unavailable: Stated at cost determined using the moving-average method</td>
</tr>
</tbody>
</table>

### 2. Standards and Valuation Methods for Inventories

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufactured goods, merchandise: Stated at cost, determined using the monthly average method</td>
<td>Manufactured goods, merchandise: Same as FY2003</td>
</tr>
<tr>
<td>Content production account: Stated at cost, determined using the identified cost method</td>
<td>Content production account: Same as FY2003</td>
</tr>
<tr>
<td>Unfinished goods: Stated at cost, determined using the monthly average method in principal</td>
<td>Unfinished goods: Same as FY2003</td>
</tr>
<tr>
<td>Supplies: Stated at last purchase price</td>
<td>Supplies: Same as FY2003</td>
</tr>
</tbody>
</table>

### 3. Method for Depreciation and Amortizion of Current Assets

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Property, plant and equipment Property, plant and equipment are depreciated using the declining-balance method. Estimated useful lives of major assets are as follows: Building 50 years Structures 3–18 years Tools and fixtures 3–20 years</td>
<td>(1) Property, plant and equipment Property, plant and equipment are depreciated using the declining-balance method. Estimated useful lives of major assets are as follows: Building 50 years Structures 3–18 years Tools and fixtures 3–15 years</td>
</tr>
<tr>
<td>(Change in accounting policy) Previously, assets with a purchase price greater than or equal to ¥100,000 and less than ¥200,000 were depreciated on a straight-line basis over a period of three years. To unify the accounting policy as a result of the merger and to further strengthen the financial position, from this fiscal year acquired assets deemed to have an immaterial impact on the Company's consolidated financial position are expensed at the time of purchase. The result of this change on the Company's consolidated operating income, recurring profit and income before taxes for this fiscal year is considered immaterial.</td>
<td></td>
</tr>
<tr>
<td>(2) Intangible assets In-house software used by the Company and its domestic consolidated subsidiaries is amortized using the straight-line method based on an estimate useful life of five years. For all other intangible fixed assets, trademarks are amortized using the straight-line method based on an estimated useful life of 10 years. Goodwill is amortized using the straight-line method over a period of five years.</td>
<td>(2) Intangible assets Same as FY2003</td>
</tr>
</tbody>
</table>

### 4. Accounting for Deferred Assets

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock issuance expenses Costs associated with issuance of common shares are expensed as incurred.</td>
<td></td>
</tr>
</tbody>
</table>

---

- 40 -
<table>
<thead>
<tr>
<th>5. Accounting for Allowances and Reserves</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Allowance for doubtful accounts</td>
<td>An allowance for doubtful accounts provides for possible losses arising from default on accounts receivable. The allowance is made up of two components: the estimated credit loss for doubtful receivables based on an individual assessment of each account, and a general reserve calculated based on historical default rates.</td>
<td>(1) Allowance for doubtful accounts</td>
</tr>
<tr>
<td>(2) Reserve for bonuses</td>
<td>A reserve for bonuses provided for payments to employees of the Company at the amount expected to be paid in respect of the calculation period ended on the balance sheet date.</td>
<td>(2) Reserve for bonuses</td>
</tr>
<tr>
<td>(3) Allowance for sales returns</td>
<td>An allowance is provided for losses due to the return of published materials, at an amount calculated based on historic experience, prior to the fiscal year ended March 31, 2004. In addition, allowance is provided for losses due to the return of game software, at an estimated amount of future losses assessed by each game title.</td>
<td>(3) Allowance for sales returns</td>
</tr>
<tr>
<td>(4) Allowance for retirement benefits</td>
<td>An allowance for retirement benefits is provided at the amount incurred during the fiscal year, which is based on the estimated present value of the projected benefit obligation. Unrecognized actuarial differences are fully amortized in the next year in which they arise.</td>
<td>(4) Allowance for retirement benefits</td>
</tr>
<tr>
<td>(5) Allowance for directors’ retirement benefits</td>
<td>An allowance for directors’ retirement benefits is provided to adequately cover the costs of directors’ retirement benefits, which are accounted for on an accrual basis in accordance with internal policy.</td>
<td>(5) Allowance for directors’ retirement benefits</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Accounting for Leases</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance leases, other than those for which the ownership of the leased assets are considered to be transferred to the lessees, are accounted for as operating leases.</td>
<td></td>
<td>Same as FY2003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Additional Accounting Policies Used to Prepare Consolidated Financial Statements</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting treatment of consumption tax</td>
<td>Income statement items are presented exclusive of consumption tax.</td>
<td>Same as FY2003</td>
</tr>
</tbody>
</table>
### Additional Information

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2003 to March 31, 2004</td>
<td>April 1, 2004 to March 31, 2005</td>
</tr>
</tbody>
</table>

#### (Accounting treatment for costs related to the planning and development of game content paid to third parties)

Until the fiscal year ended March 31, 2003, the Company expensed the costs related to the planning and development of game content when paid to a third party. Effective from the fiscal year ended March 31, 2004, as a result of efforts to strengthen the decision-making process in connection to the development of game software and to implement more stringent selection criteria, such costs incurred during the development stage are capitalized as “Content production account” and charged to cost of sales at the time of sale of related game products. For the fiscal year ended March 31, 2004, “Content production account” included such capitalized costs in the amount of ¥3,763 million.

#### (Accounting for business combination)

On April 1, 2003, ENIX CORPORATION and SQUARE CO., LTD., merged and formed SQUARE ENIX CO., LTD. The merger was effected through the issue of 51,167,293 common shares and allocated on the basis of one SQUARE CO., LTD., common share for every 0.85 ENIX CORPORATION common shares. The merger was consummated on an equal footing by combining the entire control over net assets and management activities prior to the merger, and sharing both the post-merger benefits and risks equally. In addition, it was not possible to determine which entity was the acquirer. Therefore, this business combination was accounted for under the pooling-of-interests method. Details of post-merger assets and liabilities are provided on the following page.
* Assets and Liabilities Transferred from SQUARE CO., LTD., due to the Merger

(�Millions of Yen)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Assets)</strong></td>
<td></td>
<td><strong>(Liabilities)</strong></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>36,490</td>
<td>Current liabilities</td>
<td>13,489</td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>16,931</td>
<td>Accounts payable–trade</td>
<td>1,717</td>
</tr>
<tr>
<td>Accounts receivable–trade</td>
<td>11,438</td>
<td>Current portion of long-term debt</td>
<td>22</td>
</tr>
<tr>
<td>Finished goods</td>
<td>45</td>
<td>Accounts payable–other</td>
<td>2,808</td>
</tr>
<tr>
<td>Merchandise</td>
<td>11</td>
<td>Payable due to merger</td>
<td>4,153</td>
</tr>
<tr>
<td>Content production account</td>
<td>3,402</td>
<td>Income taxes payable</td>
<td>4</td>
</tr>
<tr>
<td>Suppliers</td>
<td>77</td>
<td>Consumption tax payable</td>
<td>422</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>375</td>
<td>Accrued expenses</td>
<td>1,248</td>
</tr>
<tr>
<td>Accounts receivable–other</td>
<td>483</td>
<td>Advances received</td>
<td>594</td>
</tr>
<tr>
<td>Income taxes receivable</td>
<td>537</td>
<td>Deposits received</td>
<td>83</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>2,980</td>
<td>Reserve for bonuses</td>
<td>463</td>
</tr>
<tr>
<td>Other current assets</td>
<td>217</td>
<td>Allowance for sales returns</td>
<td>893</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(10)</td>
<td>Reserve for relocation-related costs</td>
<td>1,074</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other current liabilities</td>
<td>3</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>14,370</td>
<td><strong>Total liabilities</strong></td>
<td>13,848</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>3,759</td>
<td>Fixed liabilities</td>
<td>359</td>
</tr>
<tr>
<td>Building and structures</td>
<td>621</td>
<td>Long-term debt</td>
<td>18</td>
</tr>
<tr>
<td>Tools and fixtures</td>
<td>2,663</td>
<td>Long-term deposits received</td>
<td>39</td>
</tr>
<tr>
<td>Land</td>
<td>421</td>
<td>Reserve for retirement benefits</td>
<td>301</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>53</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intangible assets</strong></td>
<td>1,027</td>
<td><strong>Total liabilities</strong></td>
<td>13,848</td>
</tr>
<tr>
<td>Goodwill</td>
<td>250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademarks</td>
<td>45</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone rights</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>636</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software production account</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments and other assets</td>
<td>9,584</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>1,345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in subsidiaries</td>
<td>3,376</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term prepaid expenses</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in consortiums</td>
<td>560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold deposits</td>
<td>590</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>3,383</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td>316</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>50,860</td>
<td><strong>Net worth</strong></td>
<td>37,012</td>
</tr>
</tbody>
</table>

- 43 -
Reclassifications

<table>
<thead>
<tr>
<th>(Balance Sheet)</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 1, 2003 to March 31, 2004</td>
<td>April 1, 2004 to March 31, 2005</td>
</tr>
</tbody>
</table>

“Manufactured goods” and “Merchandise,” which were stated separately until the previous fiscal year, are now presented as “Manufactured goods and merchandise” to unify the accounting policy as a result of the merger.

“Prepaid expenses,” which was stated separately in current assets until the previous fiscal year, is included in “Other” because of its small amount.

“Accounts receivable–other,” which was included in “Other” until the previous fiscal year, is stated separately as the amount became material due to the merger. In the previous fiscal year, “Accounts receivable–other” included in “Other” was ¥0 million.

(Statements of Income)

“Merchandise sales,” “Manufactured goods sales,” “Merchandise in inventory at beginning of period,” “Manufactured goods in inventory at beginning of period,” “Merchandise purchased,” “Merchandise in inventory at the end of period” and “Manufactured goods in inventory at the end of period,” which were stated separately until the previous fiscal year, are now presented as “Manufactured goods and merchandise net sales,” “Manufactured goods and merchandise in inventory at beginning of period,” “Manufactured good and merchandise purchased” and “Manufactured goods and merchandise in inventory at the end of period” to unify the accounting policy as a result of the merger. “R&D expenses,” which was presented in selling, general and administrative expenses, is included in “Other” due to its small amount (¥7 million at the end of this period).

Notes to Balance Sheets

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>(As of March 31, 2004)</td>
<td>(As of March 31, 2005)</td>
</tr>
</tbody>
</table>

*1 Number of shares authorized 300,000,000
   Number of shares issued and outstanding 110,130,418
*2 Treasury stocks owned by the Company
   Common shares : 99,539
*3 Assets and liabilities in affiliates include:
   Time deposits ¥405 million
   Accrued payment received ¥7 million
   Account payable ¥110 million
   Accrued payments ¥58 million
*4 Incidental liabilities
   Contingent liabilities for guarantees
   The Company has issued a revolving guarantee to a maximum limit of U.S.$15 million on behalf of consolidated subsidiary SQUARE ENIX U.S.A., INC., in favor of SONY COMPUTER ENTERTAINMENT AMERICA INC. As of March 31, 2004 the liability outstanding under the guarantee was U.S. $432,000 (¥45 million).
*5 Dividend limitation
   Due to accounting market value into the assets according to the provision of Commercial Code, Article 124 – 3, total shareholders’ equity increased to ¥363 million.

*1 Number of shares authorized 300,000,000
   Number of shares issued and outstanding 110,385,543
*2 Treasury stocks owned by the Company
   Common shares : 150,650
*3 Assets and liabilities in affiliates include:
   Time deposits ¥317 million
   Accrued payment received ¥47 million
   Account payable ¥72 million
   Accrued payments ¥115 million
*4 Incidental liabilities
*5 Dividend limitation
   Due to accounting market value into the assets according to the provision of Commercial Code, Article 124 – 3, total shareholders’ equity increased to ¥472 million.
### Notes to Statements of Income

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>April 1, 2003 to March 31, 2004</strong></td>
<td><strong>April 1, 2004 to March 31, 2005</strong></td>
</tr>
<tr>
<td><strong>1</strong> Cost of merchandise production is related to the publishing of books and magazines and development of game content.</td>
<td><strong>1</strong> Same as FY2003</td>
</tr>
</tbody>
</table>
| **2** Other accounts transferred:  
  Selling, general and administrative expenses ¥41 million | **2** Other accounts transferred:  
  Selling, general and administrative expenses ¥45 million  
  Loss on disposal of inventories ¥3 million  
  Total ¥48 million |
| **3** Loss on sale of property, plant and equipment  
  Tools and fixtures ¥123 million | **3** Loss on sale of property, plant and equipment  
  Tools and fixtures ¥2 million |
| **4** Loss on disposal of property, plant and equipment  
  Tools and fixtures ¥154 million  
  Software ¥39 million  
  Total ¥193 million | **4** Loss on disposal of property, plant and equipment  
  Tools and fixtures ¥47 million  
  Buildings ¥2 million  
  Total ¥49 million |
| **5** Total R&D costs  
  R&D costs included in general and administrative expenses and cost of sales is ¥7 million. | **5** Total R&D costs |
| **6** Notes to affiliated companies  
  Net sales ¥4,956 million | **6** Notes to affiliated companies  
  Net sales ¥3,831 million |
2. Lease Transactions

<table>
<thead>
<tr>
<th>FY2003</th>
<th>FY2004</th>
</tr>
</thead>
</table>

Information related to finance leases other than those that transfer ownership to the lessee

1. Acquisition cost, accumulated depreciation and net book value of leased assets

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>Acquisition Cost</th>
<th>Accumulated Depreciation</th>
<th>Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools and fixtures</td>
<td>90</td>
<td>48</td>
<td>41</td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>48</td>
<td>41</td>
</tr>
</tbody>
</table>

Note: Acquisition cost payment is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total acquisition cost includes the interest portion.

2. Ending balance of future lease payments

<table>
<thead>
<tr>
<th></th>
<th>Due within one year</th>
<th>Due after one year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003</td>
<td>¥16 million</td>
<td>¥24 million</td>
<td>¥41 million</td>
</tr>
<tr>
<td>FY2004</td>
<td>¥14 million</td>
<td>¥24 million</td>
<td>¥24 million</td>
</tr>
</tbody>
</table>

Note: Total future lease payment at the end of the period is an insignificant portion of total property and equipment at the end of the period. Accordingly, the total future lease payment includes the interest portion.

3. Lease payment and depreciation

<table>
<thead>
<tr>
<th></th>
<th>Lease expenses payment</th>
<th>Depreciation expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003</td>
<td>¥18 million</td>
<td>¥18 million</td>
</tr>
<tr>
<td>FY2004</td>
<td>¥16 million</td>
<td>¥16 million</td>
</tr>
</tbody>
</table>

4. Method of calculation for depreciation

Depreciation is calculated using the straight-line method over the useful life with no residual value.

3. Securities

Shares in affiliates with market value

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Book Value</td>
<td>Market Value</td>
</tr>
<tr>
<td>Shares in affiliates</td>
<td>151</td>
<td>1,377</td>
</tr>
<tr>
<td>Total</td>
<td>151</td>
<td>1,377</td>
</tr>
</tbody>
</table>
4. Tax Effect Accounting

1. Significant components of deferred tax assets and liabilities are summarized as follows: (Millions of yen)

<table>
<thead>
<tr>
<th>FY2003 As of March 31, 2004</th>
<th>FY2004 As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets (Current assets)</td>
<td></td>
</tr>
<tr>
<td>Enterprise tax payable</td>
<td>115</td>
</tr>
<tr>
<td>Office tax payable</td>
<td>18</td>
</tr>
<tr>
<td>Accrues bonuses, allowance for bonuses to employees</td>
<td>500</td>
</tr>
<tr>
<td>Advances paid</td>
<td>252</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>309</td>
</tr>
<tr>
<td>Allowance for sales return</td>
<td>166</td>
</tr>
<tr>
<td>Non-deductible portion of allowance for content production account</td>
<td>(258)</td>
</tr>
<tr>
<td>Evaluation loss on content</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>1,112</td>
</tr>
</tbody>
</table>

Deferred tax assets (Fixed assets)

<table>
<thead>
<tr>
<th>FY2003 As of March 31, 2004</th>
<th>FY2004 As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-deductible portion of allowance for retirement benefits</td>
<td>392</td>
</tr>
<tr>
<td>Allowance for directors’ retirement benefits</td>
<td>53</td>
</tr>
<tr>
<td>Non-deductible depreciation expense of property, plant, and equipment</td>
<td>745</td>
</tr>
<tr>
<td>Advance payments</td>
<td>552</td>
</tr>
<tr>
<td>Tax effect on deficit of subsidiaries</td>
<td>666</td>
</tr>
<tr>
<td>Loss on investments in securities</td>
<td>472</td>
</tr>
<tr>
<td>Other</td>
<td>77</td>
</tr>
<tr>
<td>Total</td>
<td>2,962</td>
</tr>
<tr>
<td>Offset to deferred tax assets (Fixed assets)</td>
<td>(249)</td>
</tr>
<tr>
<td>Balance</td>
<td>2,712</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>3,825</td>
</tr>
</tbody>
</table>

Deferred tax liabilities (Fixed liabilities)

<table>
<thead>
<tr>
<th>FY2003 As of March 31, 2004</th>
<th>FY2004 As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on available-for-sale securities</td>
<td>(249)</td>
</tr>
<tr>
<td>Total</td>
<td>(249)</td>
</tr>
<tr>
<td>Offset to deferred tax assets (Fixed assets)</td>
<td>249</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>-</td>
</tr>
<tr>
<td>Net deferred tax assets (liabilities)</td>
<td>3,825</td>
</tr>
</tbody>
</table>

2. Reconciliation of the statutory tax rate and the effective tax rate

<p>| FY2003 | FY2004 |</p>
<table>
<thead>
<tr>
<th>As of March 31, 2004</th>
<th>As of March 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory tax rate</td>
<td>42.05</td>
</tr>
<tr>
<td>Permanent differences excluded from non-taxable expenses</td>
<td>0.24</td>
</tr>
<tr>
<td>Permanent differences excluded from gross revenue</td>
<td>(0.23)</td>
</tr>
<tr>
<td>Increase/decrease in valuation allowance</td>
<td>(3.78)</td>
</tr>
<tr>
<td>Foreign tax credits</td>
<td>(0.39)</td>
</tr>
<tr>
<td>Taxation on per capita basis for residents tax</td>
<td>0.08</td>
</tr>
<tr>
<td>Special income tax credits</td>
<td>(1.13)</td>
</tr>
<tr>
<td>Other</td>
<td>0.03</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>36.87</td>
</tr>
</tbody>
</table>

5. Transformation of Directors

Not applicable

6. Other

Not applicable