



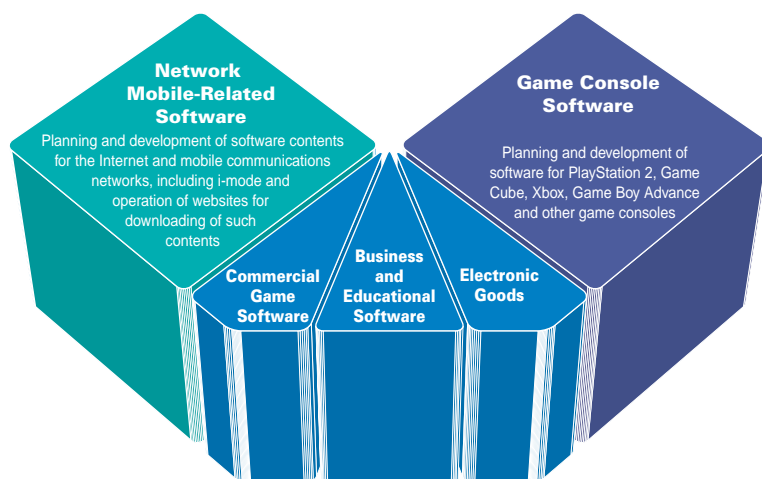
Creating the Coming Wave of Digital Entertainment

•
August 2002



TOSE
SOFTWARE

What is TOSE?



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Computer games, a form of digital entertainment first created in Japan, are now sweeping the world. Video game consoles and portable game devices incorporating networking functions, high rendering performance and sophisticated audio functions — as well as multifunctional portable information terminals incorporating Java™ and equipped with cameras — have appeared on the scene as platforms for enjoying games. The game scene has consequently undergone an explosive expansion across both generations and national boundaries.

Fascinating, appealing software is said to be the prime force propelling this market expansion. Behind the scenes of software development are the software development companies that shoulder responsibility for game software planning and development.

Since its establishment in 1979, Tose has specialized in the outsourced development of game software for domestic and overseas producers. We have worked hand in hand with software publishers to create numerous hit titles, placing a particular emphasis on game software for consumer consoles. Our successful track record in contributing to the development of the computer game industry has made Tose a leading name in the industry worldwide. Tose has developed into Japan's largest outsourced software developer, and numbers among its customers the leading hardware manufacturers and software publishers in the game industry.

Building on our success, we are pursuing expansion of our business in response to the burgeoning age of ubiquitous networks, engaging in content development for Internet-enabled mobile phones and moving into the Internet auction business.

Playing a role befitting the video game industry's premier support company — a company with planning, development and information gathering capabilities and financial wherewithal unrivalled in the industry — Tose will explore the potential of the age of ubiquitous networks, working with our customers to achieve an integrated entertainment industry.

At the far reaches of fun, you'll find us... TOSE



Corporate Mission

The Masked Giant of the Game Software Industry

SPECIALIST IN OUTSOURCED SOFTWARE DEVELOPMENT

Within the game industry, most businesses are roughly divided into four categories: 1) companies that produce and market hardware and software, 2) companies specializing in software development and sales, 3) companies that specialize solely in software development and 4) companies that focus primarily on retail software sales. Tose, while not a software publisher, occupies a unique position between these categories as a contract developer of game software. We have business dealings with all major game software publishers, utilizing our exclusive focus on and expertise in software project planning and software development to underscore our unique role. We can be relied upon for original game software development to suit our customers' needs from the product planning stage, and are a type of EMS (Electronics Manufacturing Service) for the software industry. The string of hit games that we have developed over the years strongly attests to our skill in this area.

*EMS companies specialize in the outsourced production of electronics equipment as well as product design.

ONE OF JAPAN'S LARGEST GAME SOFTWARE SUPPORT COMPANIES

Major software publishers are constantly looking to outsource projects. They want assurances that the companies to whom they outsource will be able to speedily produce high-quality software products reliably and on schedule. Major software companies also seek to avoid the confusion of having project development, software design and software programming outsourced to different businesses, choosing instead to outsource to a single company capable of performing all of these functions. Tose, as one of the largest outsourced software developers in Japan, is virtually the only company of its kind in the country able to meet the total needs of such discriminating customers. Tose was there at the dawn of the video gaming industry, and with a reputation for reliability and achievement in the design and development of game software, it is small wonder that most software publishers say that when outsourcing is needed: "You can count on Tose!"

TO BE THE BEST BEHIND-THE-SCENES SUPPORTING

The spread of portable game systems and changes in consumer preferences, and discovery of new applications of game consoles by companies from outside the game industry have given rise to a steady stream of new software contents. Broadly connected with the penetration of broadband in the entertainment field, including the performing arts, movie, and sports, and to technical innovation in the information network field, this is a movement to create a new era of software contents. In this milieu, by leveraging the technologies and expertise we have nurtured in the game software field, taking advantage of our network of contacts in other industries, and supplying contents and services in step with the changing times and enjoyed by people everywhere, Tose will remain active in various sectors and continue to play a critical behind-the-scenes support role in the next-generation integrated entertainment industry.

Shigeru Saito
President



The Strength of TOSE

STABLE, HIGH-PROFIT EARNINGS STRUCTURE AND HEALTHY FINANCIAL POSITION

Tose is not a software publisher, but specializes in outsourced software development. As a result, product inventory neither contributes to nor detracts from our corporate earnings structure. In addition to our net sales from software development, royalties on software sales (31% of software development revenues for the term ended August 2002) provide a steady, if unassuming, source of earnings. In software development, remakes and updates of past hit games, as well as the reprogramming of those titles for different game consoles, account for a large proportion of our current development business. With our corporate earnings structure firmly anchored in software development and the royalties produced from them, Tose is a low-risk business capable of maintaining consistent and solid earnings. Since the Company's founding in 1979, it has never once been in the red. And with no dependence upon bank loans for its business operations, the financial position of Tose can only be described as extremely sound.

STRONG RELATIONSHIP OF TRUST AND RELIABILITY WITH THE GAME SOFTWARE INDUSTRY

Throughout its years in the game software industry, Tose has firmly established itself as a profitable company with a specialized focus on outsourced software development. As a result of our professional achievements and the reputation for reliability and trust we have built over the years, we at Tose are proud to have called virtually every major hardware manufacturers and software publishers in the business our customer. (See p.5 for a detailed list of our main clients.) While working closely with game makers on software development strategies, we have always sought to grow along with our customers. Our goal in doing so is to develop into a business that is ever more capable of supporting its customers' total software development needs. Thanks to the relationships built with game makers, Tose is always at the forefront in receiving the latest information on new game consoles and game software design plans. In the fast-paced computer gaming industry, this gives Tose the edge in creating effective business strategies to further meet its clients' needs.

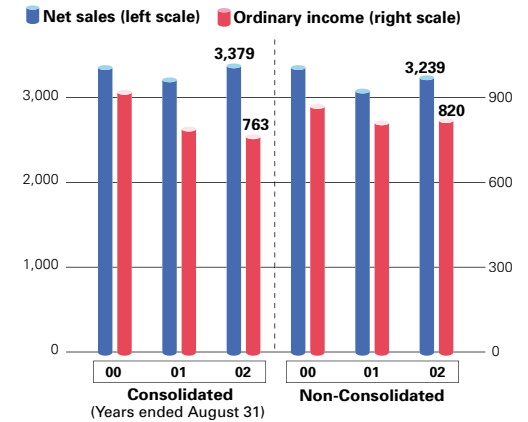
THE EXPANSION OF TOSE'S TALENTED STAFF OVERSEAS

There is a high demand for young programmers and developers with professional-level skills in virtually every aspect of the software development field. The importance of having the right staff on hand to the survival of any company, particularly those in the computer gaming industry, cannot be overstated. With a legion of talented young men and women, we are always ready to respond to the needs of our clients, big or small. In order to strengthen our ability to handle increasingly mobile and complex software development more effectively, we have ventured to mainland China to find talented young people to continue the tradition of excellence our customers have come to expect. Building upon the success of Tose Software (Shanghai) Co., Ltd. established in 1993, we established Tose Software (Hangzhou) Co., Ltd. in 2001. In our quest to bolster our dominant software development prowess, we know no borders as we continue to take the search for enthusiastic and talented employees global.

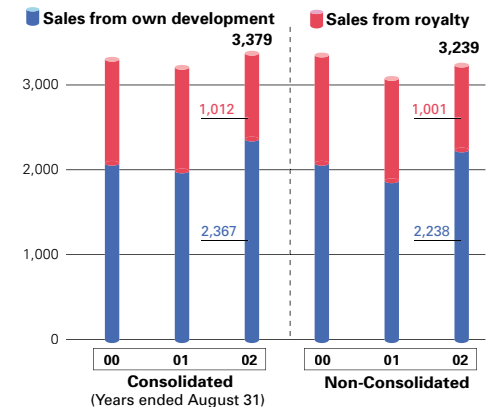
WHY TOSE IS THE BEST SUPPORT COMPANY IN THE INDUSTRY

By now, the reasons why Tose's strengths have made it the leading software development support company in the business are clear. With its list of achievements throughout the years and wealth of experience in the industry, the Company has earned a high degree of trust from manufacturers throughout the computer gaming industry. From the ability to handle increasingly large-scale software development projects to advance access to industry information and funds on hand, Tose is without question the best game software support company in Japan. Tose, the masked giant of the industry, will continue to push its software development skills, acquisition of talented staff and its financial strength to greater heights, and prove to all why its value as a software creation partner in the multimedia and network generation is indeed second to none.

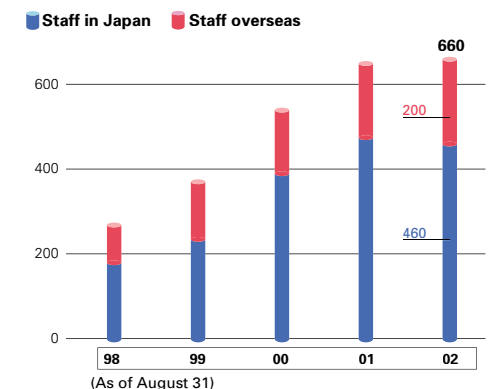
Sales and Income (Millions of Yen)



Sales Analysis (Millions of Yen)



Number of Staff



Earning Customers' Unwavering Trust with Our Record of Achievements in the Game Industry

Amusement Vision, Ltd.
Ascii Corporation
Atlus Co., Ltd.
Avex Network Inc.
Bandai Co., Ltd.
Banpresto Co., Ltd.
Capcom Co., Ltd.
Cavia Inc.
Digicube Co., Ltd.
Disney Interactive, Inc.
D3Publisher Inc.
Electronic Arts Square K.K.
Enix Corporation
Fujiko F. Fujio Pro Co., Ltd.
Genki Co., Ltd.
Imagineer Co., Ltd.
Kaga Electronics Co., Ltd.
Kaga Tech Co., Ltd.
Keiba-Book Co., Ltd.
Ken-On Inc.
Kodansha Ltd.
Konami Computer Entertainment Japan, Inc.
Konami Computer Entertainment Osaka, Inc.
Konami Computer Entertainment Tokyo, Inc.
Konami Corporation

Konami Mobile & Online, Inc.
Konami Music Entertainment, Inc.
Marvelous Entertainment Inc.
Mitsubishi Electric Corporation
Namco Limited
NEC Interchannel, Ltd.
NetVillage Co., Ltd.
Nintendo Co., Ltd.
NTT DoCoMo Kansai, Inc.
Pacific Century CyberWorks Japan Co., Ltd.
Panasonic Mobile Communications Co., Ltd.
San-ai Company, Ltd. Giga Networks Company
SEGA-AM2 Co., Ltd.
Sega Corporation
Sega Rosso Co., Ltd.
Sega Toys, Ltd.
Smilebit Corporation
Sony Computer Entertainment Inc.
Square Co., Ltd.
Sunrise Interactive Co., Ltd.
TDK Mediactive, Inc.
Television Tokyo Channel 12, Ltd.
Tomy Company, Ltd.
Victor Interactive Software Inc.
Walt Disney Japan Inc.

Major
Customers

(in alphabetical order)

Creation is Our Way of Life

Supporting an Integrated Digital Entertainment Industry

Tose operates development centers in six locations: the Kyoto Head Office, Honsha Development Center, Ohmiya Development Center, and Tokyo Office in Japan, and Chinese subsidiaries in Shanghai and Hangzhou. A distinctive feature of these centers is that they are equipped with all the functions necessary for developing software for every imaginable game platform — from the latest home game consoles to personal computers and arcade game machines — as well as for developing and administering contents for mobile phones.

A 660 member strong creative staff in Japan and China (as of August 31, 2002) makes Tose Japan's largest independent game developer. We have adopted a division of labor system that enables us to coordinate the strengths of our operations in Japan and China in the game development process, and thus to promote greater efficiency in the production system. The Company opens its doors to highly creative people who are keenly interested in the planning and development of video games and mobile contents. Our elite development staff comprises regular employees, special contract staff, temporary staff, and experienced outside specialists.

In addition to striving to create an environment in which these talented creators can give full play to their abilities, to further motivate our top-notch staff Tose has instituted a stock option system and an employees' stockholding association. To continue to promptly respond to the latest cutting-edge technology, we are steadily accumulating experience in research and development in the information network field.





Kyoto Head Office



Tose Software (Shanghai) Co., Ltd.



Ohmiya Development Center



Tokyo Office



Honsha Development Center



Software Developed

(as of August 31, 2002)

Total of **822** titles

168 games for portables

434 games for consoles

43 arcade games

73 other titles

104 contents for mobile communications

Game Software Development

Tose has always passionately and single-mindedly created fascinating software that engrosses the user.

The scale of software development projects has increased in step with the ever-increasing performance of game systems. Tose has introduced numerous leading-edge development tools specific to various software publishers, putting in place a fully integrated in-house planning and development system for mega-projects.

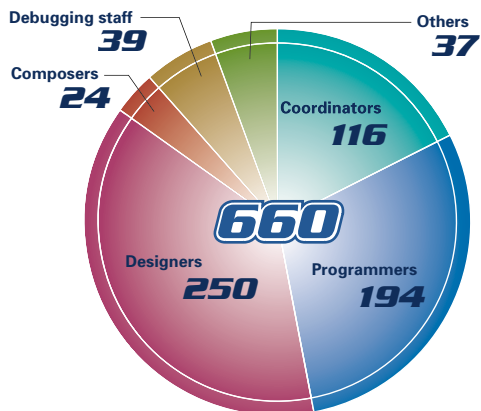
In new game development, we form project teams comprising professionals with consummate skills and instincts in every aspect of development, including planning, script writing, animation, graphics, sound, programming, and production coordination. We enlist the cooperation of writers, composers, and actors to provide external brainpower from the planning stage onward, sparing no effort to devise highly original product plans that competitors cannot begin to imitate.

We are at all times simultaneously involved with projects commissioned by multiple software publishers. To protect confidential client information and focus the efforts of creators on each project, we have established a dedicated development office for each client. We have pursued measures to realize a fully endowed development environment, including setting up a training office to assist our workers in honing their skills.

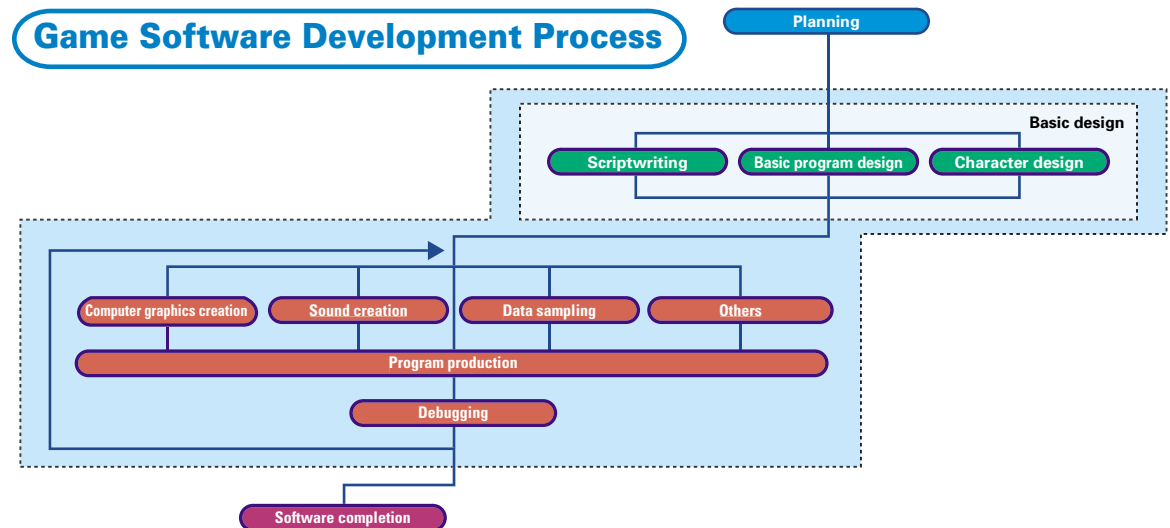


Our Development Staff

(As of August 31, 2002)



Game Software Development Process



Mobile Content Development

Coordinators

Project coordinators play a pivotal role in working with clients to bring projects to a successful conclusion. They organize the activities of large project teams, allowing each member to display his or her full talent.



Character designers

Character designers create appealing, distinctive game characters, rendering them in two dimensions or three dimensions as required.



Scriptwriters

The script is the heart and soul of an interesting video game. Scriptwriters bring their talents to bear to create innovative game scenarios.



Composers

Composers create background music and sound effects for games, contributing to the excitement and the illusion of true-to-life action.



Programmers

Programmers generate the basic game elements that govern play, such as graphics, movement and time elements. In addition, mobile device content programmers seek to discover the optimal conditions for the given network and realize a highly reliable operating environment with easy maintenance.



T-net



Global Business Development

Tose Builds on its Development Base to Meet the Needs of the Global Market



To augment its ability to respond to the development requirements of software publishers, Tose operates subsidiaries that serve as overseas development bases. The subsidiaries are located in Shanghai and Hangzhou, cities that offer the twin advantages of highly skilled workers and favorable development costs. Currently, a staff of about 200 workers is engaged in development activities — primarily, design and programming processes — at Tose Software (Shanghai) Co., Ltd. and Tose Software (Hangzhou) Co., Ltd., and plans call for expanding the overseas workforce to a total of 400 workers by 2004. The overseas subsidiaries engage in efficient teamwork with staff in Japan involved in other creative areas such as scenario production, contributing greatly to Tose's development capabilities and cost competitiveness.

Against a backdrop of buoyant overseas game markets in Europe and North America, awareness of Tose's comprehensive outsourced development capabilities is growing rapidly among game software publishers overseas. We will aggressively move ahead with outsourced development activities abroad, and will consider establishing additional overseas subsidiaries. We will also leverage the advantages obtained from our experience as Japan's largest and most advanced mobile content developer in overseas mobile content markets, with the aim of further expanding our user base and securing new business opportunities.



The high-rise offices of Tose Software (Shanghai) in the Fushan District

TOSE SOFTWARE (SHANGHAI) Co., LTD.

Established in 1993, Tose's Shanghai-based subsidiary handles the programming and design stages in the development of software for home and portable game systems. Located in a business district in the suburbs of Shanghai, dominated by high-rise buildings, the company is rapidly making a reputation for itself as a development powerhouse, thanks to its talented staff recruited from graduates of the science faculties of prestigious Chinese universities.

To meet the needs of its staff for further education and to stimulate their enthusiasm for product development, the company sends employees to Japan on job assignments and for short-term training courses. We also offer staff at the subsidiary various incentives, including a bonus system linked to the company's stock price. Tose Software (Shanghai) continues to work closely with the parent company, making a valuable contribution to the software development capabilities and cost competitiveness of the group as a whole.



The staff of Tose Software (Shanghai) Co., Ltd.

TOSE SOFTWARE (HANGZHOU) Co., LTD.

Located in the city of Hangzhou, the capital of Zhejiang Province, the company is Tose's No. 2 production center in China, and handles the programming and designing of game software and contents for mobile services. As well as being conveniently situated between two and two-and-a-half hours from Shanghai by expressway or rail, the company has easy access to a highly educated and creative workforce thanks to the proximity of institutes of higher learning specializing in the arts as well as science and technology.

To make Tose Software (Hangzhou) into an important development center for the Tose group, alongside our Shanghai subsidiary, in June 2002 the company moved its premises to an industrial park housing companies in the IT and software fields. The company plans to increase the number of its employees to 200 by 2004.



Tose Software (Hangzhou) Co., Ltd.



Globalization of Outsourced Software Development

The computer game software market, which has grown particularly strongly over the past few years, shows regional differences caused by culture-rooted divergences in game preferences. In the North American market, for instance, action games and sports simulation games account for an especially high proportion of hit products.

Tose has enjoyed a steep rise in inquiries from overseas game makers for the development of games that tap into the particular needs of such markets. From here on, the management intend to pursue an active policy in expanding the provision of outsourced development. The aim is to raise Tose's corporate value by growing it into a comprehensive game software developer capable of handling any contract from the planning stage onward. To this end, we will be opening new offices overseas.

The last few years have seen an explosive spread in the use of mobile phones in China, and there are even more mobile phone users in the North American and European markets combined than in Japan. We aim to target these markets, which we believe have tremendous growth potential for mobile online contents and embedded phone contents. In so doing, we are confident of our ability to expand our market share by catering to the development outsourcing needs of overseas communications carriers and major handset manufacturers. To enable effective response to the anticipated future expansion in the scale of development, we are currently working to optimize our development system in both Japan and China. We are also drawing up plans for expanding our business bases in China.

Tose's Business Strategy

Further growth through expansion in overseas markets

Maintaining Steady Performance amid a Slowdown in the Game Software Business in Japan

Q: The recent launch of the latest generation of game consoles gave a much-needed shot in the arm to the Japanese computer game hardware market. While game software sales rebounded somewhat from the slump suffered in fiscal 2000, this stopped short of a full-scale recovery. Tose's own sales in fiscal 2001 posted an increase, while earnings declined year-on-year by only a small margin. How do you view these developments?

A: In the business term ended August 31, 2002, Tose recorded increases over initial forecasts in the number of development contracts undertaken and in revenues from completed contracts for development of game software and software for use with Internet-enabled mobile communications systems. We posted particularly solid profits on contracts for Internet-enabled mobile communications use thanks to software for NTT DoCoMo's 504 series of mobile phones, launched in May 2002. Strong income from royalties was also recorded.

Overall profit, however, declined, owing to a greater-than-predicted negative effect on the computer game software industry of the World Cup, held jointly in Japan and South Korea in June 2002. The popularity of this event temporarily diverted consumers' attention away from computer games. We had been hoping for considerable royalty income from major game software titles, but sales were sluggish. Subsequently, however, sales of game consoles grew due to year-end sales campaigns and strategic discounting. Sales of game software are thus expected to gradually emerge from their stagnation starting this term.

Development of Software for Internet-Enabled Mobile Communications is Set to Become No. 2 Earnings Generator

Q: In 1999, Tose started the development of software for Internet-enabled mobile phones. Progress since then seems to have substantially exceeded your targets. Could you tell us something about the background to this business?

A: Tose's software for mobile phones covers a wide range including not only games, but also music and animations. We have fostered our share of this business into the largest on the domestic market for a behind-the-scenes developer. We also provide website maintenance and management services, which serve as a useful additional source of income. As a whole, online mobile phone services look set to become Tose's second earnings generator from here on.

It goes without saying that we operate in a business sector that is particularly subject to rapid change. The mobile phone ownership rate is close to saturation point, with a slowdown in the rate of growth of new mobile phone users. The competition from here on will thus focus on acquiring and keeping users by offering attractive contents. Companies will have to be even more flexible in responding to changes in user preferences.

Tose plans to leverage its position within the industry — which gives it access to the cutting edge of information — to get a grasp of burgeoning game trends and incorporate them into its business strategy. By facilitating improved development capabilities and greater cost-competitiveness through close liaison with our Chinese subsidiaries and flexible support from our domestic subsidiary T-net, we feel confident of realizing continued growth.

Moving to the Next Growth Stage via Overseas Market Development

Q: Tose is said to be the world's largest provider of outsourced services in the software field. The Company is currently enjoying good business on overseas markets, but how do you see future developments?

A: As the average game title sells far more copies in the United States than on the Japanese market, the development of a hit title makes a major contribution to Tose's earnings. On overseas markets, as in Japan, we intend to maintain our policy of concluding outsourced service contracts that give us both direct revenue from development work and royalty income linked to the number of game copies sold.

Until recently, Tose was almost completely unknown among overseas game makers, but when we approached certain U.S. makers and explained our capabilities and research system, they were very impressed. We have high hopes of developing such users into a major market.

Regarding player preferences in the game market, role-playing games are the most popular in Japan, while action games, racing games, and sports simulation games are the best sellers on overseas markets. Games developed by Tose under contract to Japanese makers have already achieved great success in the U.S. market, and appear to have acquired an excellent reputation overseas.

We have already received orders from overseas makers for the development of a number of titles, and we plan to make further efforts to contract such business, including opening new development bases outside Japan.

Q: Could you tell us something about your plans for the extension of Tose's mobile Internet business to overseas markets and which regions you intend to target?

A: Unlike Japan, where there is a high rate of usage in the latest generation of mobile phones, most overseas markets are lagging behind in the hardware infrastructure required to support the sort of mobile Internet services we offer. The earnings structure of mobile Internet businesses also differs from that in Japan. Nonetheless, we have already received inquiries from leading mobile communications service providers and manufacturers of mobile phones, both in Japan and abroad. In this way, we see a steady broadening of our potential market.

We see the United States and China as promising markets for mobile communications contents, in view of the ability to reach a huge market with contents all in one language. Judging by the spreading use of mobile phones, the ultimate potential market in these two countries should be some five to six times the current scale. Building on our achievements and existing expertise in this field, we plan to continue with contents development both in Japan and overseas.

Ongoing Strengthening of Chinese Bases to Bolster Development Capabilities

Q: To achieve our goal of pursuing the game development business overseas in parallel with development under contract to Japanese makers, we need to build a larger organization. One important key to this will be the success of our Chinese subsidiaries.

A: Now, eight years after the establishment of Tose Software

(Shanghai), the subsidiary has a full management and development system in place. To make full use of these management resources, from the current business term, fiscal 2002, the subsidiary is raising both its capacity utilization rate and overall business scale through extra staff hiring and additional effort poured into training. Tose's customers have demonstrated their confidence in the Company's development system by placing a large number of orders, thanks to which we are enjoying almost full capacity utilization.

Tose Software (Hangzhou), meanwhile, plans to expand its staff to 200 employees by August 2004, move into new offices, and implement thorough training for the newly hired staff. In this and other ways, the subsidiary will be creating a superior development environment.

The basic policy behind Tose's strategy for development of its Chinese business bases is to employ local resources only. In particular, we aim to employ only Chinese staff for work at the actual development stage. In the future, we intend not only to raise the level of contribution by our Chinese subsidiaries to the development capability of the Tose group as a whole, but also to utilize them to lower the ratio of total development costs to sales. Depending on the success of our overall activities overseas, we are ready to establish a third and fourth development base in China. Any such new subsidiary will be located in an area containing a concentration of top-flight universities.

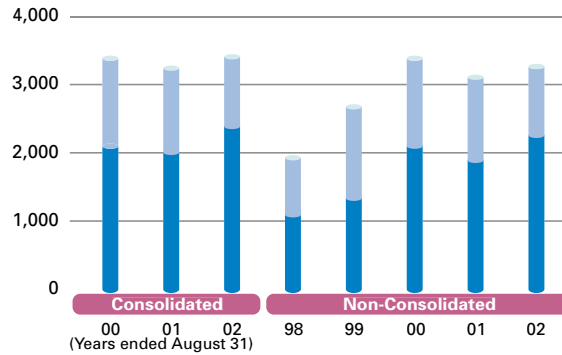
Tose's management focus will be firmly fixed on profitability and the maintenance of financial soundness. Our prime target for the term ending August 2004 is to achieve a ratio of recurring profit to sales of 30% at minimum.



Financial Data

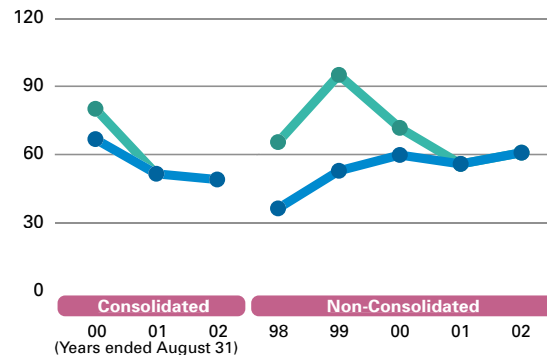
Major Indicators

Net Sales (Millions of Yen)



Net sales	
3,359	3,214
3,379	3,239
Sales from own development	
2,081	1,991
2,367	2,328
Sales from royalties	
1,277	1,222
1,012	828
1,328	1,277
1,207	1,001

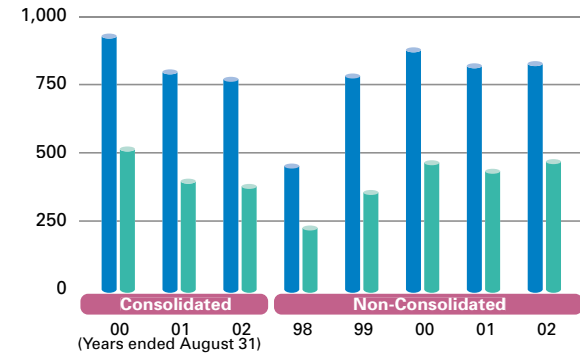
Earnings per Share (Yen)



Earnings per share	
79.4	51.1
48.6	48.6
Earnings per share (after stock-split adjustment*)	
66.2	51.1
48.6	48.6

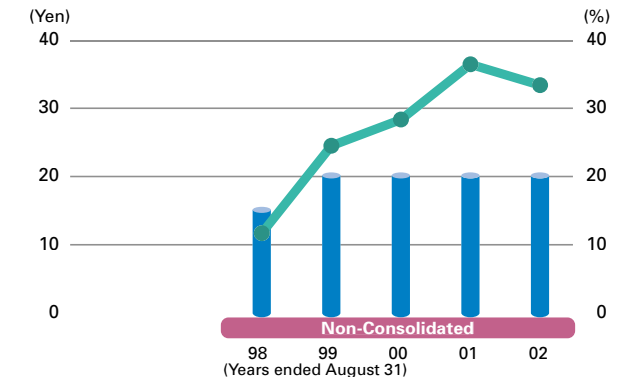
* Earnings were adjusted after three stock-splits (1:2 in August 1998, 1:1.5 in April 2000 and 1:1.2 in April 2001).

Ordinary Income and Net Income (Millions of Yen)



Ordinary income	
920	790
763	448
448	775
870	812
820	820
Net income	
510	393
374	223
460	352
429	460
464	429

Dividend and Payout Ratio (Yen, %)

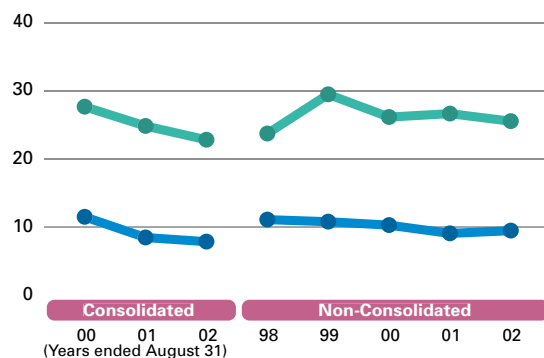


Dividend (Yen)	
15	20
20	20
20	20
20	20
Payout ratio (%)	
11.6	24.3
28.1	36.1
33.2	33.2

Payout ratio = dividend / net income x 100

Profitability

(%)



● Ordinary income to net sales ratio

27.4 24.6 22.6 23.5 29.2 25.9 26.4 25.3

Ordinary income to net sales ratio = ordinary income / net sales X 100

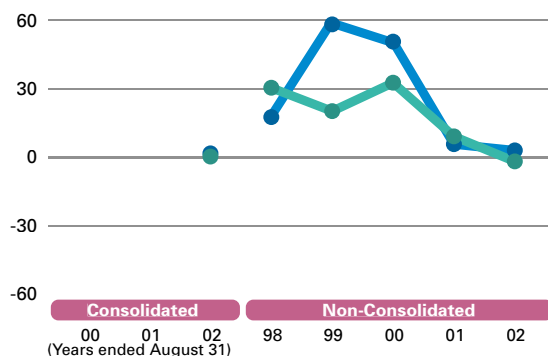
● Return on equity

11.4 8.4 7.9 11.0 10.7 10.2 9.0 9.5

Return on equity = net income / shareholders' equity (average during the term) X 100

Growth

(%)



● Growth rate for net sales

- - 0.4 30.4 20.2 32.6 9.2 -1.6

Growth rate for net sales = ((net sales / previous-term net sales + previous-term net sales / preceding-term net sales) / 2 X 100) - 100

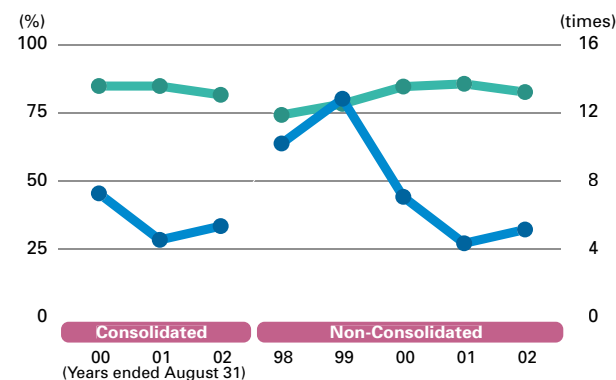
● Growth rate of shareholders' equity

- - 1.8 17.6 59.0 50.5 5.8 3.1

Growth rate of shareholders' equity = ((shareholders' equity / previous-term shareholders' equity + previous-term shareholders' equity / preceding-term shareholders' equity) / 2 X 100) - 100

Safety

(% , times)



● Equity ratio (%)

84.0 84.0 80.8 73.5 77.5 83.8 84.8 81.8

Equity ratio = Shareholders' equity / total liabilities and shareholders' equity X 100

● Liquidity ratio (times)

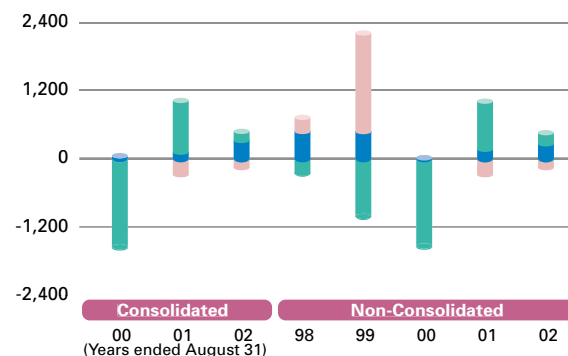
7.2 4.5 5.3 10.1 12.7 7.0 4.3 5.1

Liquidity ratio = (cash and cash equivalents + current asset securities) / average monthly sales

(Note) Purchases of government bonds, other public bonds and corporate debentures were made to disperse credit risks in advance of the abolition of unlimited guarantees on bank deposits in 2001.

Cash Flows

(Millions of Yen)



■ Cash flows from operating activities

53 114 318 475 473 15 164 259

■ Cash flows from investing activities

-1,535 902 159 -251 -1,006 -1,521 839 195

■ Cash flows from financing activities

-21 -279 -156 245 1,719 -21 -279 -156

(Note) We issued 600,000 shares through a public offering upon the listing of the Company's shares on the Second Section of the Osaka Securities Exchange and the Kyoto Stock Exchange in August 1999.

CONSOLIDATED BALANCE SHEETS

(Millions of Yen)

(As of August 31)	2000	2001	2002		2000	2001	2002
Assets				Liabilities, minority interests and shareholders' equity			
Current assets	3,169	2,662	3,249	Liabilities			
Cash and deposit	2,027	1,215	1,495	Current liabilities	785	718	966
Accounts receivable — trade	254	386	416	Accounts payable — trade	90	15	48
Inventories	819	977	1,244	Accrued income taxes	203	165	184
Deferred tax assets	38	39	49	Accrued bonuses	95	91	97
Others	30	45	43	Others	395	446	636
Allowance for doubtful accounts	(1)	(1)	(0)	Long-term liabilities	100	157	172
Fixed assets	2,380	2,938	2,727	Reserve for directors' retirement allowances	100	117	131
Tangible fixed assets	1,000	1,008	1,072	Reserve for employees' retirement benefits	—	39	41
Buildings and structures	400	383	403	Total liabilities	886	875	1,139
Land	461	461	513	Minority interests			
Others	139	163	155	Minority interests	—	20	9
Intangible assets	22	71	70	Shareholders' equity			
Consolidation adjustment	—	34	23	Capital stock	967	967	967
Others	22	37	47	Capital surplus	1,313	1,313	1,313
Investments and other assets	1,357	1,857	1,583	Retained earnings	2,397	2,577	2,730
Investment securities	999	1,513	1,142	Unrealized loss on available-for-sale securities	—	(3)	(24)
Deferred tax assets	51	78	105	Adjustment on foreign currency translation	—	12	6
Others	306	270	341	Treasury stock	(13)	(161)	(164)
Allowance for doubtful accounts	—	(4)	(7)	Total shareholders' equity	4,664	4,705	4,828
Total assets	5,550	5,601	5,977	Total liabilities, minority interests and shareholders' equity	5,550	5,601	5,977

Consolidated financial statements for the term ended August 2000 included accounts of Tose Software (Shanghai) Co., Ltd. Consolidated financial statements for the term ended August 2001 included accounts of T-net Inc. and Tose Software (Hangzhou) Co., Ltd.

CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

(Years ended August 31)	2000	2001	2002
Net sales.....	3,359	3,214	3,379
Cost of sales.....	1,843	1,725	2,012
Gross profit.....	1,515	1,488	1,367
Selling, general and administrative expenses.....	686	737	688
Operating income.....	829	751	679
Non-operating income.....	94	52	96
Interest and dividend income.....	22	27	30
Gain on sale of securities.....	44	—	31
Gain on investments in dormant partnerships.....	12	22	27
Others.....	14	2	6
Non-operating expenses.....	3	13	12
Loss on foreign exchange translation.....	—	6	10
Loss on sale of treasury stock.....	—	2	0
Provision to reserve for doubtful accounts.....	—	4	2
Others.....	3	—	—
Ordinary income.....	920	790	763
Extraordinary gains.....	0	0	1
Reversal of reserve for doubtful accounts.....	—	0	1
Gain on sale of fixed assets.....	0	0	—
Extraordinary losses.....	15	51	31
Losses on disposal of fixed assets.....	6	7	3
Loss on valuation of golf club memberships.....	9	—	—
Amortization of transitional obligations on employees' retirement benefits.....	—	38	—
Employees' bonuses for prior services.....	—	5	—
Loss on valuation of inventories.....	—	—	28
Income before income taxes.....	905	740	732
Income taxes, current.....	411	367	381
Income taxes, deferred.....	(16)	(25)	(22)
Minority interests.....	—	4	0
Net income.....	510	393	374
Unappropriated retained earnings.....	2,397	2,577	2,730

Consolidated financial statements for the term ended August 2000 included accounts of Tose Software (Shanghai) Co., Ltd. Consolidated financial statements for the term ended August 2001 included accounts of T-net Inc. and Tose Software (Hangzhou) Co., Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

(Years ended August 31)	2000	2001	2002
Cash flows from operating activities			
Income before income taxes.....	905	740	732
Depreciation.....	94	106	111
Amortization of consolidation adjustment.....	—	11	20
Increase in reserve for directors' retirement allowances.....	17	16	13
Increase in reserve for employees' retirement benefits.....	—	39	1
Increase (decrease) in accrued bonuses.....	23	(4)	5
Interest and dividends income.....	(22)	(27)	(30)
Loss on foreign exchange translation.....	—	6	10
Gain on sale of securities.....	(44)	—	(31)
Loss on sale of treasury shares.....	—	2	0
Increase in accounts receivable — trade.....	(206)	(125)	(31)
Decrease (increase) in inventories.....	82	(148)	(269)
(Decrease) increase in advances received.....	(351)	64	139
Increase (decrease) in accounts payable — trade.....	33	(75)	32
Directors' bonuses.....	(46)	(65)	(67)
Others.....	14	(38)	11
Subtotal.....	500	503	649
Interest and dividends received.....	22	27	30
Income taxes paid.....	(469)	(416)	(361)
Net cash provided by operating activities.....	53	114	318
Cash flows from investing activities			
Increase in time deposits.....	(690)	(150)	(320)
Proceeds from repayment of time deposits.....	—	1,730	350
Acquisition of tangible fixed assets.....	(191)	(81)	(156)
Acquisition of intangible assets.....	(12)	(21)	(22)
Acquisition of investment securities.....	(600)	(619)	(230)
Proceeds from the sale of investment securities.....	100	100	596
Acquisition of additional shares of consolidated subsidiaries.....	—	—	(19)
Investments in nonconsolidated subsidiaries.....	(126)	—	—
Others.....	(14)	(55)	(36)
Net cash provided by (used in) investing activities.....	(1,535)	902	159
Cash flows from financing activities			
Acquisition of Company's own shares.....	(170)	(173)	(2)
Proceeds from sale of treasury stock.....	277	23	0
Dividends paid.....	(128)	(128)	(154)
Net cash used in financing activities.....	(21)	(279)	(156)
Effect of exchange rate changes on cash and cash equivalents.....	(8)	4	(11)
(Decrease) increase in cash and cash equivalents during the year.....	(1,512)	742	309
Cash and cash equivalents at beginning of the year.....	1,809	297	1,065
Increase in cash and cash equivalents resulting from increase in the scope of consolidation.....	—	26	—
Cash and cash equivalents at end of the year.....	297	1,065	1,375

NON-CONSOLIDATED BALANCE SHEETS

(Millions of Yen)

(As of August 31)	2000	2001	2002		2000	2001	2002
Assets				Liabilities and shareholders' equity			
Current assets	3,100	2,459	3,093	Liabilities			
Cash and deposits	1,963	1,108	1,368	Current liabilities	799	714	925
Accounts receivable — trade	254	379	405	Accounts payable — trade	132	56	86
Treasury stock	0	0	—	Accounts payable — other	33	23	22
Work in progress	814	907	1,201	Accrued expenses payable	36	38	48
Prepaid expenses	0	17	13	Accrued income taxes	203	164	184
Deferred tax assets	38	36	46	Accrued consumption taxes	46	25	18
Accrued income	2	1	1	Advances received	242	305	446
Short-term loans	—	—	50	Deposited money	17	18	26
Others	27	10	5	Accrued bonuses	87	75	86
Allowance for doubtful accounts	(1)	(1)	(0)	Others	0	7	5
Fixed assets	2,444	3,289	2,939	Long-term liabilities	100	157	172
Tangible fixed assets	989	948	1,009	Reserve for directors' retirement allowances	100	117	131
Buildings	396	379	400	Reserve for retirement benefits	—	39	41
Structures	0	1	1	Total liabilities	900	872	1,097
Cars and vehicles	14	16	11				
Ships	15	8	4	Shareholders' equity			
Tools, furniture and fixtures	101	80	77	Capital stock	967	967	967
Land	461	461	513				
Intangible assets	22	39	46	Capital surplus	1,313	1,313	1,313
Telephone subscription rights	1	1	1	Capital reserve	1,313	1,313	1,313
Software	20	37	44				
Investments and other assets	1,432	2,300	1,883	Retained earnings	2,363	2,599	2,843
Investment securities	999	1,513	1,142	Appropriation for legal reserve	34	58	72
Equity shares of subsidiaries	126	166	185	Voluntary reserve	1,670	1,940	2,133
Investments in subsidiaries	70	163	201	Unappropriated retained earnings	659	601	637
Investment in capital	11	32	21	[including net income for the year]	[460]	[429]	[464]
Long-term prepaid expenses	5	4	8				
Deferred tax assets	51	78	105	Unrealized loss on available-for-sale securities	—	(3)	(24)
Leasehold deposits	15	15	22	Treasury stock	—	—	(164)
Reserve for insurance payments	130	161	193	Total shareholders' equity	4,644	4,876	4,934
Treasury stock (Note)	13	161	—	Total liabilities and shareholders' equity	5,544	5,748	6,032
Others	9	9	9				
Allowance for doubtful accounts	—	(4)	(7)				
Total assets	5,544	5,748	6,032				

Note: Own stock acquired for employee stock option scheme.

NON-CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

(Years ended August 31)	2000	2001	2002
Net sales.....	3,359	3,082	3,239
Cost of sales.....	1,916	1,707	1,949
Selling, general and administrative expenses.....	661	608	550
Operating income.....	780	767	739
Non-operating income.....	90	52	91
Interest and dividend income.....	22	27	30
Gain on sale of securities.....	44	—	31
Gain on investments in dormant partnerships.....	12	21	27
Miscellaneous income.....	11	3	1
Non-operating expenses.....	1	7	10
Loss on foreign exchange translation.....	0	—	7
Loss on sale of treasury shares.....	—	2	0
Miscellaneous losses.....	1	—	—
Provision to reserve for doubtful accounts.....	—	4	2
Ordinary income.....	870	812	820
Extraordinary gains.....	0	0	1
Reversal of reserve for doubtful accounts.....	—	0	1
Gains on sales of fixed assets.....	0	0	—
Extraordinary losses.....	15	38	0
Loss on disposal of fixed assets.....	6	0	0
Loss on valuation of golf-club membership rights.....	9	—	—
Amortization of transitional obligation on employees' retirement benefits.....	—	38	—
Income before income taxes.....	855	774	821
Income taxes, current.....	411	367	379
Income taxes, deferred.....	(16)	(21)	(22)
Net income.....	460	429	464
Retained earnings brought forward			
from the previous term.....	246	242	250
Interim dividend.....	42	64	77
Appropriation for legal reserve required for			
payment of interim dividend.....	4	6	—
Unappropriated retained earnings for the term.....	659	601	637

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Yen)

(Years ended August 31)	2000	2001	2002
Cash flows from operating activities			
Income before income taxes.....	855	774	821
Depreciation.....	88	84	81
Amortization of consolidation adjustment.....	—	0	0
Increase in reserve for directors' retirement allowances.....	17	16	13
Increase in reserve for employees' retirement benefits.....	—	39	1
Increase (decrease) in accrued bonuses.....	21	(11)	10
Interest and dividends income.....	(22)	(27)	(30)
Loss on foreign exchange translation.....	—	(0)	7
Gain on sale of securities.....	0	0	(31)
Loss on sale of treasury shares.....	5	2	0
Increase in accounts receivable — trade.....	(206)	(124)	(26)
Decrease (increase) in inventories.....	94	(93)	(294)
(Decrease) increase in advances received.....	(351)	63	140
Increase (decrease) in accounts payable — trade.....	69	(76)	30
Directors' bonuses.....	(46)	(65)	(67)
Others.....	(63)	(39)	(70)
Subtotal.....	461	543	588
Interest and dividends received.....	22	27	30
Income taxes paid.....	(469)	(406)	(359)
Net cash provided by operating activities.....	15	164	259
Cash flows from investing activities			
Increase in time deposits.....	(690)	(150)	(320)
Proceeds from repayment of time deposits.....	—	1,730	350
Acquisition of tangible fixed assets.....	(178)	(35)	(123)
Proceeds from sale of tangible fixed assets.....	1	3	—
Acquisition of intangible assets.....	(12)	(24)	(18)
Acquisition of investment securities.....	(600)	(619)	(230)
Proceeds from the sale of investment securities.....	100	100	596
Additional investment in subsidiaries.....	—	—	0
Others.....	(141)	(164)	(58)
Net cash provided by (used in) investing activities.....	(1,521)	839	195
Cash flows from financing activities			
Acquisition of the Company's own shares.....	(170)	(173)	(2)
Proceeds from sale of treasury shares.....	277	23	0
Dividends paid.....	(128)	(128)	(154)
Net cash used in financing activities.....	(21)	(279)	(156)
Effects of exchange rate changes on cash and cash equivalents.....	—	0	(7)
(Decrease) increase in cash and cash equivalents during the year.....	(1,527)	724	290
Cash and cash equivalents at beginning of year.....	1,760	233	958
Cash and cash equivalents at end of year.....	233	958	1,248

THE HISTORY OF TOSE

The Force Behind Many of the Biggest Hit Game Titles in Japan's Computer Game History

Founded in 1979, Tose got its start in arcade game machines. Propelled by its successes there, since 1983 the Company has found its niche in the outsourced development of home game software. Over the same period, Tose took major steps toward expanding its operations into mainland China and creating subsidiaries focused exclusively on technology for the Network Age, all this while helping to develop some of the biggest hit game titles in the industry. In August 2001, the Company's stock was listed on the first sections of the Tokyo and Osaka stock markets, and a period of further strong growth is clearly in the offing.

1970	November 1979	Tose Co., Ltd. established in Higashiyama-ku, Kyoto City; Development and sale of game machines begun
1980	September 1980 March 1981 April 1983 May 1986 April 1987 April 1988 July 1988	Development of "Sasuke vs. Commander" arcade game machine, which went on to become a hit, thereby establishing the Company's business base "Vanguard" arcade game machine developed and launched overseas Strategic shift to games for home use, and development of game software for personal computers and Family Computer machines begun Head office moved to Ohyamazaki-cho, Otokuni-gun, Kyoto (Current location for Head Office Development Center) Development of event software begun Ohmiya Office (current Ohmiya Development Center) opened in Shimogyo-ku, Kyoto City to cope with expansion of business Completion of new head office building
1990	April 1990 May 1991 April 1993 November 1993 February 1994 January 1999 August 1999 October 1999	Expansion of business to include, for example, CD-ROMs, and products for Game Boy and Super Family Computer machines Establishment of Tose Software of America Inc. in Los Angeles, with the aim of procurement, developing sales channels, and setting up a development system in the U.S. Closure of Tose Software of America due to a downturn in the overseas game market Establishment of Tose Software (Shanghai) Co., Ltd. in order to recruit talented development staff Establishment of Nagaokakyo CG Center in Nagaokakyo City, Kyoto, in preparation for the multimedia era CG Center moved from Nagaokakyo City to Nakagyo-ku, Kyoto City, and renamed Karasuma CG Center Company's shares listed on second section of Osaka Securities Exchange and Kyoto Stock Exchange Establishment of the new Kyoto Head Office in Shijo-Karasuma in Kyoto, transferring functions of the former head office and the Karasuma CG Center, and closing the center down
2000	January 2000 September 2000 March 2001 August 2001 June 2002 August 2002 September 2002	Subsidiary company "T-net" established to focus on web management and the development of outsourced mobile web content for NTT DoCoMo's i-mode service To strengthen the development capabilities of the Tose Software (Shanghai) Co., Ltd. subsidiary, additional offices set up in Shanghai's Pudong district Tose stock listed on the second section of the Tokyo Stock Exchange Tose Software (Hangzhou) Co., Ltd. (Zhejiang Province) subsidiary set up as a new software development center in mainland China; In a bid to consolidate software development capability, Tose's two Shanghai operations located in Pudong and Fushan districts merged, with new offices established in the city's Fushan district Tose stock upgraded to the first sections of both the Tokyo and Osaka stock markets Offices of Tose Software (Hangzhou) moved to larger premises in city's industrial park to facilitate expansion Development center of T-net Inc. moved to nearby area to facilitate expansion Tose opens Tokyo office to provide improved customer service

COMPANY OUTLINE

NAME

Tose Co., Ltd.

HEAD OFFICE

Higashinotoindori Shijo Sagaru,
Shimogyo-ku, Kyoto 600-8091, Japan

FOUNDED

November 1, 1979

CAPITAL

¥967,000,000

SHARES ISSUED

7,763,040 (as of August 31, 2002)

SHAREHOLDERS

6,384 (as of August 31, 2002)

EMPLOYEES

270

(excluding temporary and outside staff)

(as of August 31, 2002)

DIRECTORS

Chairman: Yutaka Saito

President and

Representative Director: Shigeru Saito

Managing Director: Shin Kondo

Directors:

Shinya Saito

Jiro Sakaguchi

Tadashi Nishi

Fumihisa Hayakawa

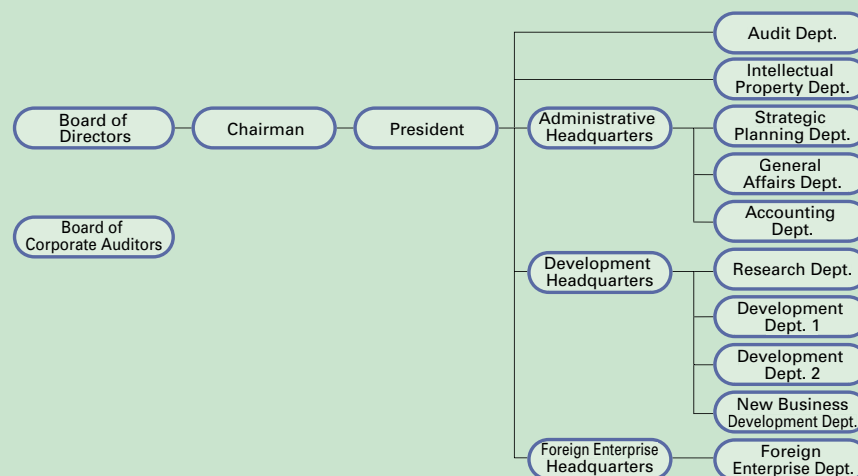
Standing Corporate

Auditor: Shoji Ozawa

Corporate Auditors: Tomonori Yahata

Hirotooshi Shigehara

ORGANIZATION CHART



NETWORK



Domestic

Tose Co., Ltd.

● Kyoto Head Office

Higashinotoindori Shijo Sagaru,
Shimogyo-ku, Kyoto 600-8091, Japan
Tel: +81-75-342-2525 Fax: +81-75-342-2524

● Honsha Development Center

13 Nikaishita, Shimoueno, Ohyamazaki-cho,
Otokuni-gun, Kyoto 618-0081, Japan
Tel: +81-75-958-2525 Fax: +81-75-958-2526

● Ohmiya Development Center

Nakamasa Bldg., Bukkoji Sagaru, Ohmiyadori,
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Tel: +81-75-812-3773 Fax: +81-75-803-2311

● Tokyo Office

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T-net Inc.

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Shibuya-ku, Tokyo 150-0002, Japan
Tel: +81-3-5766-8545 Fax: +81-3-5766-8546



Overseas

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Tose Software (Hangzhou) Co., Ltd.

Room 205, No.17
XiHuShuYuan Software Park, 176 Tian Mu Shan Road,
Hangzhou 310012, P.R. China

TOSE
SOFTWARE

(as of December 1, 2002)

TOSE **SOFTWARE**

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