

“THRILLING THE WORLD”

Since its founding in 1979, TOSE CO., LTD. has built up a strong reputation in the commissioned development of game software in accordance with the spirit of the refined traditions and art of old Kyoto, the city that encapsulates Japanese culture.

As an independent game software maker, we are committed to innovative software development based on the knowledge and technologies we have accumulated from our transactions with customers in a range of industries.

Working in this way, providing customers with full support for their growth, TOSE can generate sustained growth of its own.

TOSE will go on “thrilling the world.” Based on this concept, and on the reputation for reliability that we have built up in Japan, we are now going global.

Rise in online
games

Localization
of software

Spread of
3G mobile
phones

SOFTWARE FOR PORTABLE
GAME MACHINES

INFORMATION CAPABILITIES

TOSE works with nearly all the major game manufacturers. This gives us rapid access to a wide range of knowledge, enabling us to activate appropriate strategies ahead of change in our markets. The strength that we derive from being independent enables us to create new businesses by reaching out to customers in other industries.

FINANCIAL STRENGTH

Since its founding 27 years ago, the Company has remained profitable under a policy of debt-free management. In the fiscal year ended August 31, 2006, the shareholders' equity ratio stood at the high level of 75.7%. Firmly rooted management and a healthy financial position have supported our reputation as an independent commissioned development company.

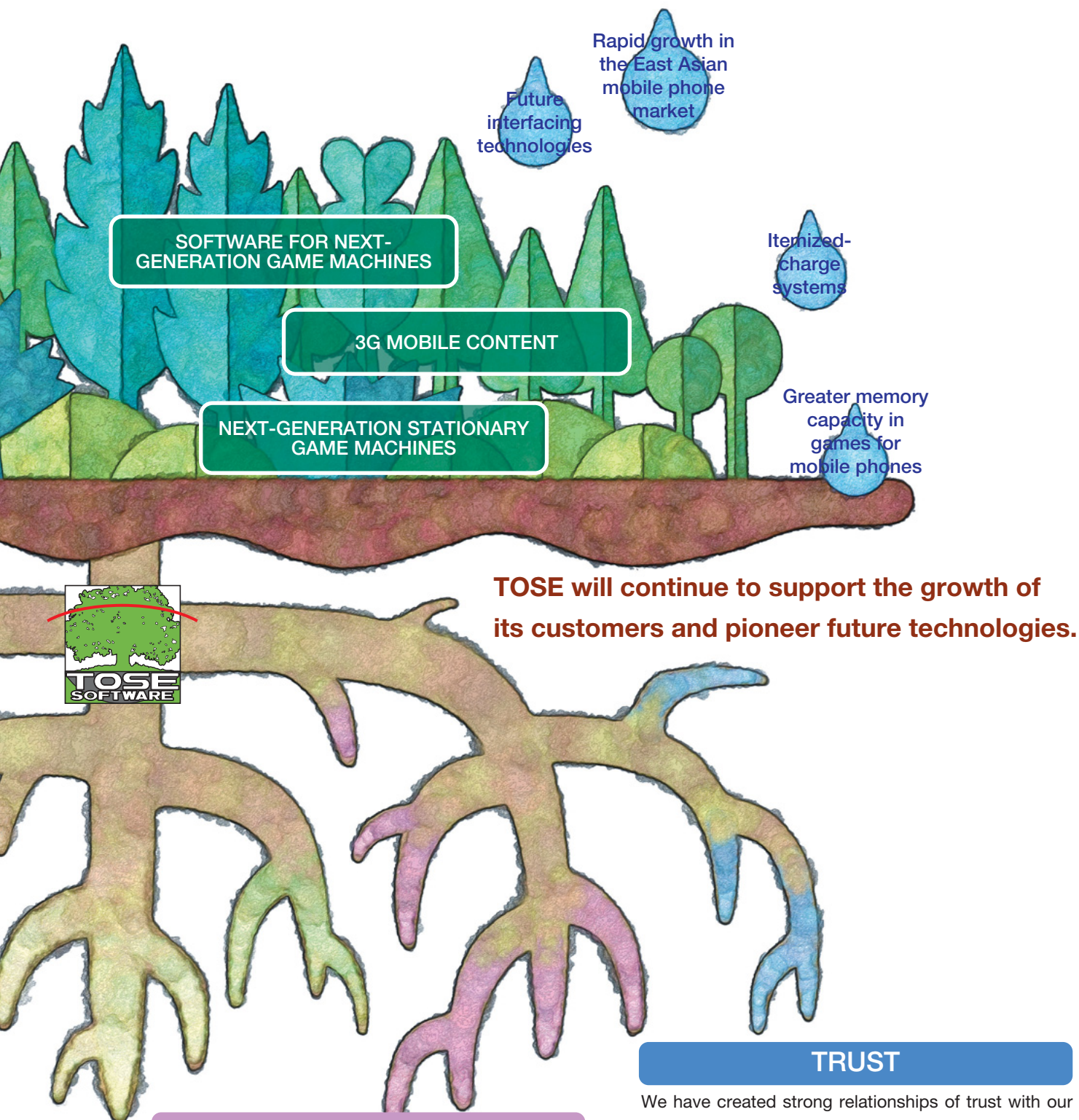
Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this report regarding plans, strategies, and beliefs of TOSE CO., LTD. that are not historical fact constitute forward-looking statements about future operational results. As such, they are based on the judgements and suppositions of TOSE's management made in consideration of currently available data and contain a variety of risks and uncertainties. For these and other reasons, actual future disclosed results may vary, in some cases materially, from those anticipated.

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DEVELOPMENT CAPABILITIES

Since our founding, we have created a total of 1,386 titles (software and content), as of August 31, 2006. During 2007, we plan to bring this figure above 1,400. With our deep experience in a wide range of genres and our topflight engineers, we have in place a comprehensive skill set for adapting immediately to technological innovation.

TRUST

We have created strong relationships of trust with our customers based on our corporate philosophy of ensuring superb quality, rigorous deadline observance, and unfailing customer support behind the scenes. These relationships help keep us informed of developments on a wide range of fronts. Our name recognition—not only for our commissioned development, but also for our knowledge-based roles—has risen in recent years in overseas markets.

Shigeru Saito
President and CEO



Turning Change to Our Advantage, for Sustained Growth

The market for game software and mobile content is entering a new stage. Popular portable game machines now being marketed have created a wider spectrum of game players, realizing latent demand among customer groups that formerly showed no interest in computer games, such as young women and the elderly. The way in which games are played is also evolving in new directions, with remarkable growth in online gaming and great interest in the future direction of next-generation game machines.

Since its foundation, TOSE has always responded successfully to transition periods in the game industry by researching trends instantly and thoroughly to cope with change. TOSE has grown in tandem with its wide-ranging customers, whom it supports by acting as a subcontractor for development projects. In recent years, TOSE has become an internationally recognized name in commissioned development projects and can count on a steady stream of development orders from overseas customers. We are building up a reputation for reliability among new customers, by expanding the scale of commissioned operations and making our name more widely known.

Fiscal Year Ended August 31, 2006

During the fiscal year under review, the TOSE Group saw consolidated net sales rise 14.7% year on year, to ¥4,905 million. Operating income declined 1.1%, to ¥705 million, and ordinary income climbed 2.0%, to ¥821 million. Net income was down 15.2%, at ¥356 million.

In addition to a sharp increase in development sales, in line with our stepping up of our development capabilities, royalty sales were ahead of target in all businesses. As a result of this strong performance, TOSE posted record high earnings on a parent-only basis. However, earnings were hit by a poor performance by our equity-method affiliates in China, which develop our network game delivery business. This resulted in an extraordinary loss of ¥116 million, including impairment losses at the said affiliates.

Game Software Development Focuses on Portable Machines

Game Software: Development by Platform

(Number of development titles)

	Year ended August 2004	Year ended August 2005	Year ended August 2006	Year ending August 2007 (target)
DS	—	3	15	21
PSP	—	2	14	10
GBA	8	6	6	3
PS2	11	16	7	7
Cube	4	3	0	0
Xbox	0	2	2	0
Xbox360	—	—	—	1
PS3	—	—	—	2
Wii	—	—	—	8

Our game software development business saw healthy sales for portable game systems, such as Nintendo DS and PSP. Development periods for systems for portable game machines are shorter than for stationary systems, meaning there is less risk of projects being terminated during the development phase. In addition, because the number of development requests is very high, we shall continue to focus on products for portable game machines over the coming years.

We are positioning ourselves for the development of products for stationary next-generation game machines (Wii, PS3, Xbox360), while researching middleware and other development tools.

Toward Full-Scale Entry into the Online Gaming Market

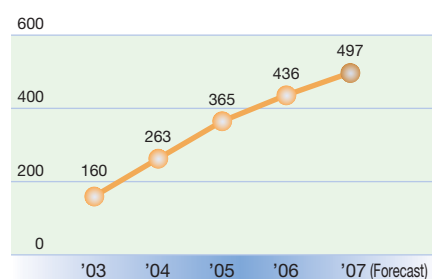
In September 2006, TOSE established the Online Enterprise Office to step up its commitment to developing products for the promising online game market.

For online games, which continue to be popular in China, itemized-charge systems, in which charges are made per item purchase with subscription free, have largely replaced traditional monthly subscription charges, to give users freer rein in their gaming. In line with this change, the development emphasis has shifted to easy-to-use products rather than large-scale, role-playing games. However, vast advertising revenues can be made from advertisements included within the games, since, in China, the online population exceeds 144 million and a single game has many millions of game users. Looking ahead, profitability can be further raised by deploying the online game engine "Tsunami," developed independently by TOSE SOFTWARE (SHANGHAI) CO., LTD.

In other online gaming developments, we are extending localization to Japan and North America initially by strengthening our license acquisition business.

Scaling Up Profitability through Mobile Content

Total Number of Titles Developed



In mobile content, scale is increasing, but the number of titles developed is on a downward trend. However, we are building profitability on the back of rising development and royalty unit fees. In light of this situation, in September 2006, we spun off mobile operations, formerly under the New Business Development Group, as the Mobile Business Development Group.

As our experience with mobile content shows, TOSE's greatest strength is its ability to ensure optimum quality with limited memory capacity. With the upscaling of content, it is necessary to add a certain number of development engineers, but we believe we are adequately positioned to cope by adding a few engineers through the fusion of our technologies and expertise garnered supplying software for the arcade game and home computer sectors.

Stepping Up Our Global Strategy

Agency Business for Mobile Content for 2.5G Mobile Phone Market in China

(End of September 2006)

	Number of titles (content)	Status
Being delivered	15	By 5 Japanese game manufacturers
Under development	4	Including Java content
Partnership agreement	2	

In North America, where we are developing game software businesses, we have successfully created long-term relationships with topflight clients through the activities of TOSE SOFTWARE USA, INC., ensuring a steady stream of orders. We have also seen an increase in commissioned work carried out directly by our subsidiaries in China for European and North American manufacturers.

Our mobile businesses in China remain in standby mode, due to delays in the issue of 3G licenses for mobile phones. For 2.5G systems, we have assumed the role of agency for the distribution of high-quality Japanese content, but profitability is limited by the scarcity of suitable machines. We await the launch of 3G services in China at the earliest date.

In South Korea, we have carried out market research and expect to be able to launch a mobile content agency business. As more and more South Korean manufacturers enter the Japanese market, TOSE has drawn a large number of requests on the strength of its thorough knowledge of its home market.

We continue to prepare for our entry into Russia and Brazil, where the mobile phone market shows growth promise. If 3G services progress in China, we are thinking of rolling out localized content in other BRIC (Brazil, Russia, India, and China) nations, too, in the same way.

Raising Development Capabilities to Process Large Numbers of Orders

For TOSE to sustain growth going forward, it is important, first and foremost, for us to consolidate and further hone our development capabilities. For this reason, we are already positioning ourselves to process orders in large numbers by the aggressive pursuit of operational and capital alliances as well as through merger and acquisition and similar activities. For TOSE, the key thing is to acquire engineering talent in the right quantity and of the right quality—we must cast our net as far as possible in this regard. Over the coming 12 months, we will focus on bolstering our development framework in Japan, setting up development bases in new locations, including Okinawa, Nagoya, and Hokkaido, as we build up a leading position in the various regions of Japan. In China, we will continue to increase the number of development staff at TOSE SOFTWARE (HANGZHOU) CO., LTD., while shifting

the focus at TOSE SOFTWARE (SHANGHAI) toward marketing. We will upgrade development capabilities while bolstering training systems in both Japan and China, to translate our investments in human resources into bottom-line growth as soon as possible.

TOSE is one of the very few companies in the sector that have large-scale commission-based operations while remaining independent. For this reason, we have been asked to carry out development contracts from customers in a wide range of different fields. By overcoming the problems of recruiting good engineers and raising staff to adequate levels at an early date, I am convinced TOSE will further enhance its reputation for reliability.

Developing Application Technologies: GestureTek

Sales at the Gesture-Recognition Technology Business

Overview of Our Subsidiary T-NET

(Thousands of yen)

	Year ended August 2006	Year ending August 2007 (target)
GestureTek products	47,005	168,200
Application products	0	47,000
Other (application technologies)	0	139,000
	47,005	354,200

Subsidiaries in China

(Thousands of yen)

	Year ended August 2006	Year ending August 2007 (target)
GestureTek products	77,850	163,980

In the first year of business of GestureTek, which specializes in gesture-recognition technology, we were unable to see significant benefits from the major investments we made. The reason for this was our lack of experience in the installation and maintenance of the machinery needed by GestureTek products, which prevented smooth progress. By further developing alliances with each of the partner companies involved, we intend to streamline and standardize operations going forward.

The key for the TOSE Group to succeed in the gesture-technology business is how to harness its application technologies. In the diversified arcade game and mobile phone fields, we plan to propose original new technologies for use in hardware and win development orders for content to be used with the said hardware. As sales of GestureTek products are a precondition for this, we are now working to raise their level of market recognition. In China, we sell products for advertising and promotional purposes and have a strong sense of what the future may hold in this regard. We also see Hong Kong and Southeast Asia as good potential markets for application products configured for the Japanese market.

We expect to see T-NET, the consolidated subsidiary that promotes the GestureTek business, gradually move into profitability from the year ending August 31, 2007. We intend to further develop this company as a platform for absorbing such innovative technologies as GestureTek technology.

Strengthening Corporate Governance

To achieve still higher corporate governance standards, we are increasing the transparency and soundness of our management and strengthening the supervision of the conduct of operations.

External directors already attend nearly all the meetings of our Board of Directors, and they participate in proceedings, verifying from an outside perspective that no compliance issues arise in the conduct of our business. At the same time, to take over internal auditing functions, we are setting up the Internal Auditing Office, responsible for the internal auditing of all operations, and the Intellectual Property Office to deal with issues of intellectual property and the protection of personal privacy. By having these offices, with their in-depth knowledge of operations, partner with statutory auditors, we believe we have taken measures that enhance and strengthen auditors' oversight activities.

We have also introduced the executive officer system to strengthen the functions of the Board of Directors regarding the supervision of management and to speed up decision making for the conduct of business by the executive officers.

In addition, we have a range of activities designed to instill corporate governance principles in every employee, and we are also planning a range of educational activities to raise awareness in this regard.

Becoming a Leading Group in Supporting Customers

As an independent company driven by commission orders, TOSE provides a full spectrum of top-class services. This strength will underpin the consolidation and enhancement of enterprise value at TOSE going forward.

My ambition is for TOSE, under a holding company framework, to become a group of companies that are leaders in their respective areas in terms of supporting the customer behind the scenes. The creation of a range of committees over the past 12 months may be called the first step in the realization of the holding company concept. My aim is to create an integrated TOSE Group, in which committees run all operations horizontally, replacing a system in which company officials take on product quality, research and development, corporate social responsibility, and other briefs, with no higher responsible authority above them.

For example, in quality control, we are building an organization-wide framework to ensure that we do not create faulty software.

This would be a further strengthening of an operating structure based on our pledge since our founding not to develop software that infringes on public order or moral standards.

TOSE has taken every measure to instill a sound sense of corporate ethics in all of its employees. I have also sought to explain our management posture, point by point, in forums outside the Company. The reason for this is that the value of TOSE resides in its people. By keeping employees duly briefed about daily operations, I aim to thoroughly familiarize them with the corporate philosophy.

Showing the TOSE Way

In line with the growing diversity of the game-playing public, the role of games has begun to show signs of change. In the future, TOSE will continue to support growth in the entertainment industry in all its potential, working quietly behind the scenes.

Our business goals for the period ending August 31, 2007 (consolidated basis) are as follows: Net sales of ¥5,983 million, up 22.0% year on year; operating income of ¥765 million, up 8.6%; ordinary income of ¥825 million, up 0.4%; and net income of ¥455 million, up 28.0%.

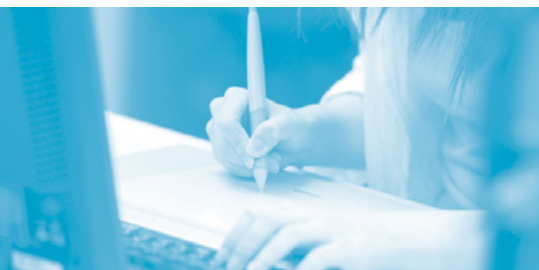
Since our founding 27 years ago, TOSE has continued a policy of debt-free management and has never posted a loss. Looking ahead, we will continue to ensure a sound management posture in every aspect of operations and a healthy balance sheet. I would like to thank all our shareholders and earnestly request their continued support and understanding.

December 2006



President and CEO, Shigeru Saito

Game Software Development



We plan and develop software for household game consoles at the request of game software manufacturers in Japan and overseas. We are also launching a full-scale entry into the online gaming market.

Business Results in the Period Ended August 31, 2006

Sales: ¥2,619 million

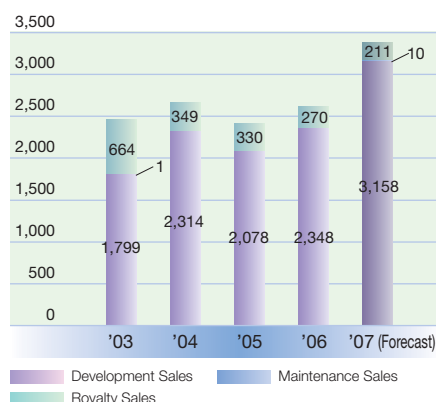
(up 8.7% year on year)

Operating income: ¥818 million

(down 0.4% year on year)

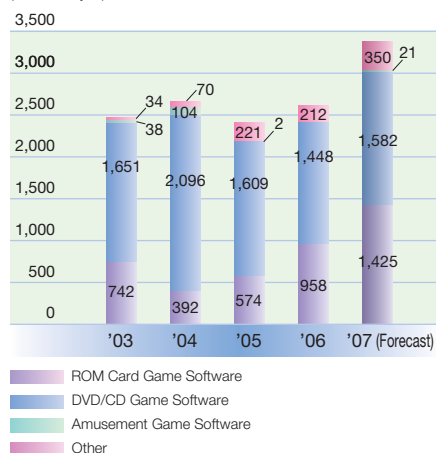
Net Sales

(Millions of yen)



Net Sales by Product Category

(Millions of yen)



In the Japanese market, the game development business saw sales rise sharply for portable game machine use, which are in strong demand. Among overseas markets, we were able to maintain steady levels of development requests in North America.

The total number of titles developed in the fiscal year under review was 49, compared with a target of 47. We released three extra titles for Game Boy Advance and an extra two titles for Xbox, compared with the original target. However, development sales dropped 8.8% short of target, at ¥2,348 million (up 13.0% year on year), due to delays in the completion of a number of large-scale titles developed for Nintendo DS.

Royalty sales were ahead of target overall. Royalty sales beat the target by 58.7%, to reach ¥270 million (down 18.2% year on year) and approximately ¥100 million ahead of forecast due, in particular, to a strong performance by porting of game titles for use in overseas markets and the conversion of titles for other types of game machines.

By product, sales of ROM-use game software for Nintendo DS rose an impressive 66.8% year on year. However, sales of game software for DVDs and CDs fell 10.1%, as a result of lower sales for PS2 following the shift toward PSP.

Outlook

Going forward, we expect localization orders and royalty sales to rise as portable game machines become increasingly popular overseas. However, we also expect a gradual increase in development requests for software for next-generation systems, such as Wii, PS3, and Xbox360, based on our experience of previous generation changes in platforms. Therefore, near-term developments are geared to Nintendo DS and PSP, for which we have received many development requests.

In the fiscal year ending August 31, 2007, we expect a major increase in the number of development titles for Nintendo DS, from 15 to 21, and some decline in titles for PSP, from 14 to 10. In developments for next-generation game machines, we plan to produce 8 titles for Wii (including 6 small-scale titles), 2 titles for PS3, and 1 title for Xbox360.

In overseas markets, we are targeting increased orders from game manufacturers in Europe and North America, as well as from game manufacturers in the East Asian region centered on our subsidiaries in China.

Maintenance sales for online gaming are scheduled to start in the fiscal year ending August 31, 2007. Through TOSE SOFTWARE (SHANGHAI), we plan to provide to digital publishers two online game titles for PCs using "Tsunami," the online game engine independently developed by that company. At the same time, steady growth in revenues from itemized-charge systems means we expect investment payback in the period ending August 31, 2008 or later. Despite having booked impairment losses at our affiliates in China, we expect to rebuild our earnings performance through the launch of new titles using "Tsunami."

For the period ending August 31, 2007, we are targeting consolidated sales of ¥3,380 million (up 29.1% year on year), development sales of ¥3,158 million, maintenance sales of ¥10 million, and royalty sales of ¥211 million, with 55 new development titles.

Mobile and Internet Content Development



We are planning and developing mobile/Internet content in response to requests from game software manufacturers and content providers. In Japan, we provide updating services for existing content, as well as maintenance and management services for servers that provide content.

■ Business Results in the Period Ended August 31, 2006

Sales: ¥1,565 million

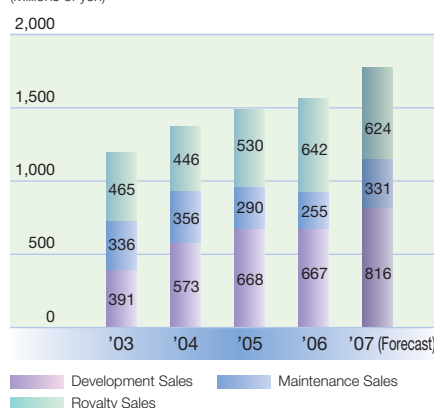
(up 5.1% year on year)

Operating income: ¥558 million

(up 9.7% year on year)

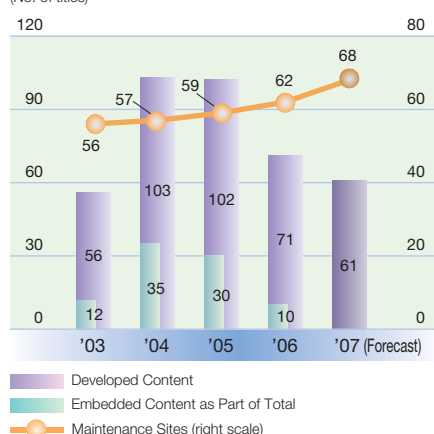
Net Sales

(Millions of yen)



Software Content

(No. of titles)



In the Japanese market, we focused on porting our existing content lineup for the new types of mobile phones that have been launched. In overseas markets, we developed our agency business for 2.5G mobile phones in China and provided licenses for content of Japanese game software makers to Chinese digital publishers.

The number of development titles fell short of the projected total of 77, at 71 titles, because of the increased scale of content due to the increased sophistication of mobile phones and increased operations compatible with BREW for au. As a result, development sales were 17.8% short of our target, at ¥667 million (down 0.1% year on year).

Maintenance sales fell 8.0% short of their target, at ¥255 million (down 12.0% year on year), due to instances of titles where a delay occurred in the service launch from the late completion of development.

However, royalty sales were 20.4% ahead of target, at ¥642 million (up 21.0% year on year) on steady growth in user numbers for both new and existing sites.

With regard to development content, of 71 titles for which development has been completed, 10 were built-in content. The number of maintenance sites rose by 3 from the previous fiscal year, to 62.

■ Outlook

In the Japanese market, content scale continues to increase. In the NTT DoCoMo 903 series, mega-i-applications of up to 1MB are being built in as memory capacity increases. Against this background, we expect to see an increase in development requests for products that meet this increase in scale. We are taking a range of approaches, including mergers and acquisitions, to bolster our development capabilities for the purpose of making existing content compatible with the new mobile phone models that are increasingly coming onto the market.

In maintenance, we are further consolidating our position by providing games that support end users and high-quality services, due to the strong performance of mobile phone sites for taking commission orders.

Overseas, we are expanding our business domains centered on the BRIC nations, where mobile phone penetration rates are high. Specifically, we will develop content for the Russian market as we do for the European region, as Russia uses essentially the same handset specifications, and in Brazil, we are gathering market information from local digital publishers.

For the fiscal year ending August 31, 2007, we forecast consolidated sales of ¥1,771 million (up 13.1% year on year), development sales of ¥816 million, maintenance sales of ¥331 million, and royalty sales of ¥624 million. Plans call for 61 development titles.

Other Business



Apart from software for game machines, we develop software for such platforms as key chain LCD games. In addition, we offer image creation products for LCD parts for *pachinko* platforms. We also have a gesture-recognition technology-based business and are developing application technologies.

Business Results in the Period Ended August 31, 2006

Sales: ¥720 million

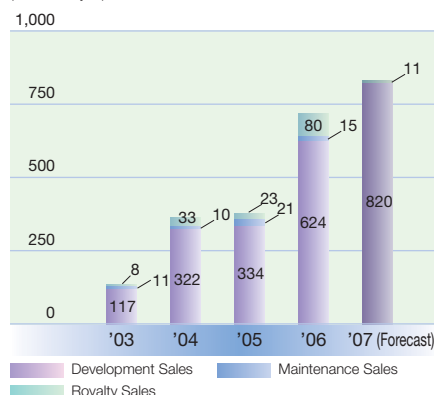
(up 89.6% year on year)

Operating income: ¥283 million

(up 166.7% year on year)

Net Sales

(Millions of yen)



We launched a total of 7 new image creation titles for *pachinko* and *pachinko* slot machines (3 for *pachinko* and 4 for *pachinko* slot) and 9 titles for LCD game software, bringing the total of development titles to 16—in line with our targets. Despite a delay in launching the gesture-recognition technology-based business, our consolidated subsidiary T-NET posted sales of ¥47 million, and our Chinese subsidiaries booked advertising-related sales of ¥78 million.

As a result of the foregoing, development sales fell 28.1% short of our target, at ¥624 million (up 86.7% year on year). Maintenance sales fell 52.2% short of target, at ¥15 million (down 28.0%). We were unable to meet targets for developing the Internet auction business, which was closed down at the end of August 2006.

Royalty sales from *pachinko* and *pachinko* slot operations greatly exceeded our target, by 57.5%, coming in at ¥80 million (up 238.2% year on year).

Outlook

We expect little change in the number of development titles in the *pachinko* and *pachinko* slot businesses, with 7 titles planned (3 for *pachinko* and 4 for *pachinko* slot). In the gesture-recognition technology-based business, we expect to increase profitability by strengthening the product lineup and developing application technologies for all kinds of hardware.

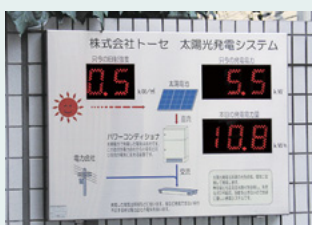
Consolidated business targets for the period ending August 31, 2007 are as follows. Sales: ¥832 million (up 15.5% year on year); development sales: ¥820 million; and royalty sales: ¥11 million. We plan to release 8 development titles. In line with the closure of the Internet auction business, we will no longer book maintenance sales in this segment.

TOSE's CSR Activities

To integrate CSR (corporate social responsibility) into our management philosophy, TOSE has begun full-scale activities to launch a CSR committee and map out basic policies. We plan to make further contributions to the community through environmental preservation activities in Kyoto, where our Head Office is located.

Solar Panels Installed on the Roof of the Head Office

At our Head Office, we have installed solar panels on the roof that supply power to all buildings. We are also raising employee awareness of environmental



Display board showing power generated from solar panels on the roof of the Head Office

issues by showing current power generation levels on a display panel on the entrance of the Head Office building.

Participation in the Gion Festival Clean Campaign

The Gion Festival is one of Japan's three major festivals, and every year we support the Gion Festival Clean Campaign. We install garbage cans carrying the Company name at street corners where visitors for the festival from all around the world gather, as our contribution to the preservation of the beauty of the old city of Kyoto.



Consolidated Financial Highlights

TOSE CO., LTD. and Consolidated Subsidiaries

Years ended August 31, 2006, 2005, 2004, 2003 and 2002

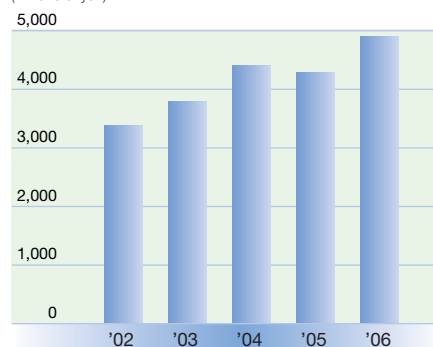
	Millions of Yen				Thousands of U.S. Dollars	
	2002	2003	2004	2005	2006	2006
For the year						
Net sales	¥ 3,379	¥ 3,796	¥ 4,407	¥ 4,278	¥4,905	\$41,812
Gross profit	1,367	1,376	1,135	1,481	1,674	14,269
Operating income	679	673	467	713	705	6,009
Ordinary income	763	747	476	805	821	6,998
Net income	374	388	191	420	356	3,034
At year-end						
Total assets	5,977	6,111	6,131	6,501	6,931	59,082
Total shareholders' equity	4,828	4,937	4,898	5,119	5,250	44,753
Per share data (yen, U.S. dollars)						
Net income	¥ 48.59	¥ 42.92	¥ 17.79	¥ 48.20	¥ 46.54	\$0.39
Shareholders' equity	626.83	639.66	635.16	662.42	685.58	5.84
Cash dividends	20.00	20.00	25.00	25.00	25.00	0.21

Notes: 1. For fiscal years prior to fiscal 2002 and fiscal 2006, net income per share has been calculated by dividing net income by the average number of shares during the fiscal year after the deduction of treasury stock (weighted moving average). From fiscal 2003 through fiscal 2005, the amount appropriated for inclusion in the reserve for directors' bonuses has been deducted from net income prior to this calculation.

2. U.S. dollar amounts have been translated for convenience only at the rate of ¥117.31=US\$1, the approximate exchange rate prevailing on August 31, 2006.

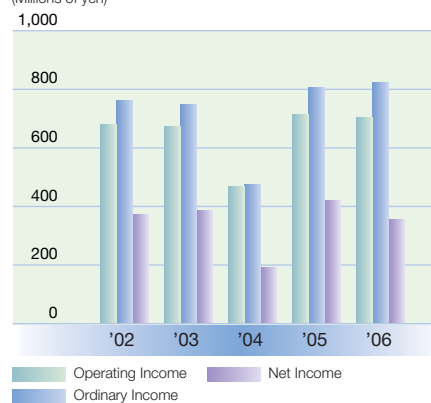
Net Sales

(Millions of yen)



Operating Income, Ordinary Income, and Net Income

(Millions of yen)



Total Assets, Total Shareholders' Equity, and ROE

(Millions of yen)



Management's Discussion & Analysis

Operating Results

Net Sales

During the fiscal year under review, sales of Nintendo DS and PSP portable game machines were strong, as were sales of software for these hardware items. Attention was also focused on trends in next-generation game machines, such as Xbox360 launched in 2005 by Microsoft, and PS3, the computer entertainment system launched by Sony Computer Entertainment in 2006, as well as Nintendo's Wii.

Although these developments led to delays in project completion at all businesses of the TOSE Group, we greatly increased development sales as our development capabilities grew. Royalty sales were also strong, and we were able to easily surpass targets for game, mobile, and *pachinko/pachinko* slot operations.

Sales in the fiscal year under review rose 14.7% year on year, to ¥4,905 million.

Income

Operating income during the fiscal year under review declined 1.1% year on year, to ¥705 million, due partly to the transfer to general and administrative expenses of executive bonuses totaling ¥54 million, which had been booked as an appropriation of profit. In non-operating earnings, ordinary income rose 2.0%, to ¥821 million, on proceeds from the disposal of investment securities and increases in real-estate rental income.

In addition, we booked an extraordinary loss of ¥116 million from impairment losses at an affiliated company established to develop the network game delivery business in China, which performed poorly during the period. However, we also booked an extraordinary gain of ¥48 million from the disposal of real estate used in development businesses. As a result of the foregoing, net income after income taxes fell 15.2% year on year, to ¥356 million.

Results by Business Segment

Game Software Development

In game development operations, we produced 49 titles compared with a target of 47, as a result of a sharp increase in development projects from the previous year centered on software for portable game machines, which have sold well. At the same time, development sales rose 13.0% year on year, to ¥2,348 million, although we missed our targets due to unavoidable delays in the completion of projects for several titles.

In royalty sales, we posted an 18.2% decrease year on year, to ¥270 million, having beaten our targets due to a strong sales performance from the porting of game titles for use in overseas markets and the conversion of titles for other types of game machines.

As a result, sales in the game software development business rose 8.7% year on year, to ¥2,619 million, and operating income declined 0.4%, to ¥818 million.

Mobile and Internet Content Development

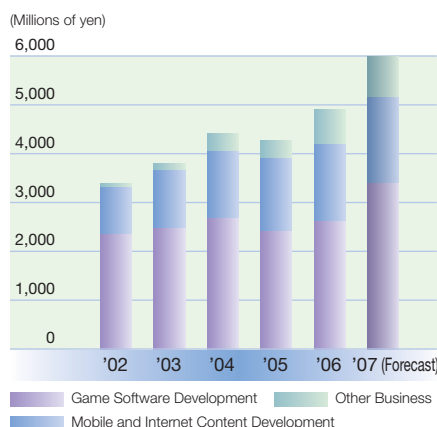
Sales in Mobile and Internet Content Development declined 0.1% year on year, to ¥667 million. The number of titles for which development was completed is on a downward trend due to the increasing scale of content; against this backdrop, there were delays in the completion of projects, causing us to complete the development of only 71 titles compared with a targeted 77.

Maintenance sales declined 12.0% year on year, to ¥255 million, due to a delay in the launch of maintenance operations because of late development completion.

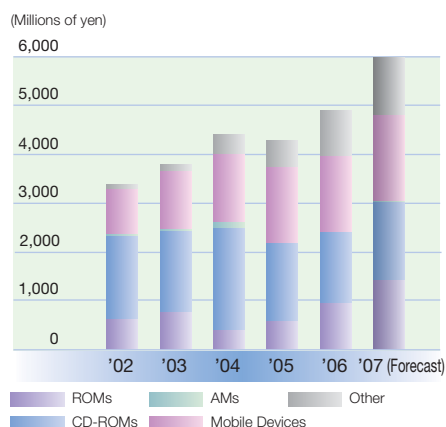
Royalty sales increased 21.0% year on year, to ¥642 million, with both existing and new sites performing strongly.

As a result, sales of the Mobile and Internet Content Development Business increased 5.1% year on year, to ¥1,565 million, and operating income rose 9.7%, to ¥558 million.

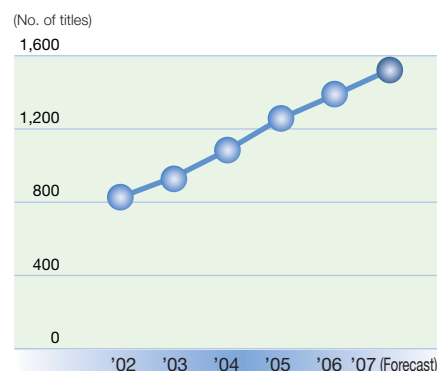
Net Sales by Segment



Net Sales by Individual Product



Number of Development Titles



Other Business

In development operations, we completed 7 titles in *pachinko/pachinko* slot-related operations on plan. Despite a delay in the start-up of the gesture-recognition technology-based business, we booked sales of ¥124 million, fuelling an 86.7% increase year on year in development sales, to ¥624 million. Maintenance sales declined 28.0%, to ¥15 million, due to the failure of the Internet auction business to meet targets.

Royalty sales jumped 238.2% year on year, to ¥80 million, with royalties from *pachinko/pachinko* slot-related operations far ahead of target.

As a result, sales in other businesses climbed 89.6% year on year, to ¥720 million, and operating income rose 166.7%, to ¥283 million.

Financial Condition

Total assets as of August 31, 2006 stood at ¥6,931 million, up ¥430 million from the end of the previous fiscal year. Current assets rose ¥377 million, due mainly to inventory increases from delays in game software development and inspection until the next fiscal year, and an increase in cash and deposits.

Liabilities increased ¥299 million, compared with the previous fiscal year-end, due chiefly to an increase in inventory assets and an associated increase in advances received.

Net assets increased ¥130 million from the end of the previous fiscal year, due chiefly to an increase in retained earnings. As a result, the shareholders' equity ratio at the end of the period remained relatively unchanged from the previous fiscal year-end at the relatively high level of 75.7%, and the Company maintained its policy of debt-free management.

Cash Flows

Cash and cash equivalents at the end of the fiscal year were down by ¥509 million year on year, at ¥1,072 million. Details of the TOSE Group's cash flows for the fiscal year under review follow.

1) Cash flows from operating activities

Net cash provided by operating activities declined ¥90 million year on year, to ¥379 million. Increases of ¥198 million in advances received and ¥122 million in accounts payable—trade were more than offset by an increase of ¥323 million in income taxes paid and other outflows.

2) Cash flows from investing activities

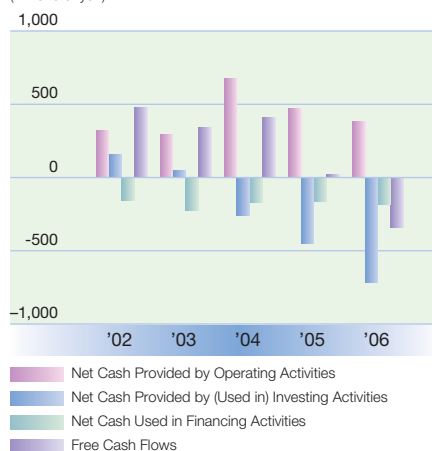
Net cash used in investing activities decreased ¥270 million year on year, to ¥718 million. The increase of ¥472 million in time deposits and ¥57 million in investments in tangible and intangible fixed assets (for development line maintenance and expansion) were partially offset by proceeds of ¥130 million from the sale of tangible fixed assets and other inflows.

3) Cash flows from financing activities

Net cash used in financing activities increased ¥17 million from the end of the previous fiscal year, to ¥183 million, due chiefly to ¥191 million paid out in dividend expenses and an ¥18 million decline in revenues from the sale of treasury stock.

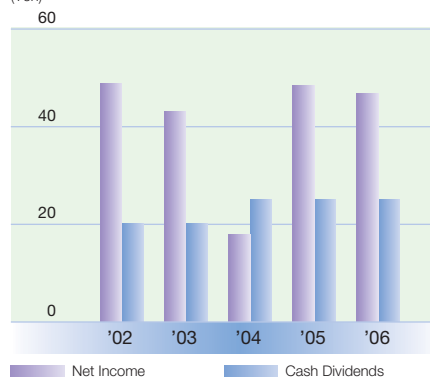
Cash Flows

(Millions of yen)



Net Income per Share and Cash Dividends per Share

(Yen)



For fiscal years prior to fiscal 2002 and fiscal 2006, net income per share has been calculated by dividing net income by the average number of shares during the fiscal year after the deduction of treasury stock (weighted moving average). From fiscal 2003 through fiscal 2005, the amount appropriated for inclusion in the reserve for directors' bonuses has been deducted from net income prior to this calculation.

Consolidated Balance Sheets

TOSE CO., LTD. and Consolidated Subsidiaries
At August 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Assets			
Current assets			
Cash and deposits	¥1,611	¥1,722	\$14,679
Accounts receivable—trade	464	539	4,594
Marketable securities	20	22	187
Inventories	1,204	1,429	12,181
Deferred tax assets	32	40	340
Others	152	108	920
	3,485	3,863	32,929
Fixed assets			
Tangible fixed assets			
Buildings and structures	366	399	3,401
Machinery and equipment	102	147	1,253
Land	513	461	3,929
Construction in progress	21	—	—
Others	24	20	170
	1,028	1,027	8,754
Intangible fixed assets			
Software, etc.	64	71	605
	64	71	605
Investments and other assets			
Investment securities	1,090	1,098	9,359
Deferred tax assets	74	110	937
Investment real estate	398	392	3,341
Long-term loans	40	—	—
Others	327	433	3,691
Allowance for doubtful accounts	(7)	(65)	(554)
	1,923	1,969	16,784
	3,015	3,068	26,152
Total assets	¥6,501	¥6,931	\$59,082

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Liabilities			
Current Liabilities			
Accounts payable—trade	¥ 34	¥ 124	\$ 1,057
Accrued income taxes	297	243	2,071
Advances received	615	778	6,632
Accrued bonuses	8	11	93
Reserve for directors' bonuses	—	54	460
Others	182	251	2,139
	1,138	1,463	12,471
Long-term liabilities			
Reserve for employees' retirement benefits	31	—	—
Reserve for directors' retirement benefits	161	173	1,474
Others	50	44	375
	243	218	1,858
Total liabilities	1,382	1,681	14,329
Minority interests			
Minority interests	0	—	—
Shareholders' equity			
Capital stock	967	—	—
Capital surplus	1,313	—	—
Earned surplus	3,011	—	—
Unrealized gain on available-for-sale securities	15	—	—
Adjustment on foreign currency translation	6	—	—
Treasury stock	(194)	—	—
Total shareholders' equity	5,119	—	—
Total liabilities, minority interests, and shareholders' equity	¥6,501	¥ —	\$ —
Net assets			
Shareholders' equity			
Capital stock	—	967	8,243
Capital surplus	—	1,313	11,192
Earned surplus	—	3,117	26,570
Treasury stock	—	(180)	(1,534)
	—	5,217	44,471
Valuation and translation adjustments			
Unrealized gain/loss on available-for-sale securities	—	20	170
Adjustment on foreign currency translation	—	12	102
	—	32	272
Total net assets	—	5,250	44,753
Liabilities and total net assets	¥ —	¥6,931	\$59,082

Consolidated Statements of Income

TOSE CO., LTD. and Consolidated Subsidiaries
For the years ended August 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Net sales	¥4,278	¥4,905	\$41,812
Cost of sales	2,796	3,231	27,542
Gross profit	1,481	1,674	14,269
Selling, general and administrative expenses	767	969	8,260
Operating income	713	705	6,009
Non-operating income			
Interest received	16	8	68
Dividends received	13	38	323
Gain on foreign exchange translation	2	—	—
Gain on sales of securities	49	29	247
Real estate leasing income	61	63	537
Investment gain on equity-method subsidiaries	—	2	17
Others	10	8	68
	154	150	1,278
Non-operating expenses			
Interest paid	—	0	0
Loss on foreign exchange translation	—	1	8
Real estate leasing expenses	33	32	272
Investment loss on equity-method subsidiaries	27	—	—
Others	2	0	0
	63	34	289
Ordinary income	805	821	6,998
Extraordinary gains			
Gain from sales of fixed assets	1	48	409
	1	48	409
Extraordinary losses			
Loss from sales of fixed assets	0	—	—
Loss on disposal of fixed assets	2	1	8
Depreciation on investments in affiliates' businesses	—	116	988
	2	117	997
Income before income taxes and minority interests	803	752	6,410
Income taxes, current	409	443	3,776
Income taxes, deferred	(25)	(47)	(400)
Minority interests	0	0	0
Net income	¥ 420	¥ 356	\$ 3,034

Consolidated Statements of Earned Surplus

TOSE CO., LTD. and Consolidated Subsidiaries
For the years ended August 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Capital surplus			
Balance at beginning of year	¥1,313	¥—	\$—
Balance at end of year	¥1,313	¥—	\$—
Earned surplus			
Balance at beginning of year	¥2,858	¥—	\$—
Increase in earned surplus			
Net income	420	—	—
Deductions from earned surplus			
Cash dividends paid	190	—	—
Bonuses to directors	56	—	—
Loss on treasury stock	20	—	—
Balance at end of year	¥3,011	¥—	\$—

Consolidated Statement of Changes in Shareholders' Equity

TOSE CO., LTD. and Consolidated Subsidiaries

For the year ended August 31, 2006

	Millions of Yen				
	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at August 31, 2005	¥967	¥1,313	¥3,011	¥(194)	¥5,096
Change during the business year, consolidated					
Dividends from surplus			(191)		(191)
Distribution of profits to pay directors' bonuses			(52)		(52)
Net income			356		356
Acquisition of treasury stock				(1)	(1)
Disposal of treasury stock			(6)	15	8
Net change during the reporting year (consolidated) in items other than shareholders' equity			106	14	120
Total change during the reporting year (consolidated)			106	14	120
Balance at August 31, 2006	¥967	¥1,313	¥3,117	¥(180)	¥5,217
	Thousands of U.S. Dollars				
	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at August 31, 2005	\$8,243	\$11,192	\$25,667	\$(1,653)	\$43,440
Change during the business year, consolidated					
Dividends from surplus			(1,628)		(1,628)
Distribution of profits to pay directors' bonuses			(443)		(443)
Net income			3,034		3,034
Acquisition of treasury stock				(8)	(8)
Disposal of treasury stock			(51)	127	68
Net change during the reporting year (consolidated) in items other than shareholders' equity			903	119	1,022
Total change during the reporting year (consolidated)			903	119	1,022
Balance at August 31, 2006	\$8,243	\$11,192	\$26,570	\$(1,534)	\$44,471
	Millions of Yen				
	Valuation and translation adjustments				
	Unrealized gain/loss on available-for-sale securities	Adjustment on foreign currency translation	Total gain (loss) on valuation and translation adjustments	Minority interests	Total net assets
Balance at August 31, 2005	¥15	¥ 6	¥22	¥ (0)	¥5,119
Change during the business year, consolidated					
Dividends from surplus					(191)
Distribution of profits to pay directors' bonuses					(52)
Net income					356
Acquisition of treasury stock					(1)
Disposal of treasury stock					8
Net change during the reporting year (consolidated) in items other than shareholders' equity	4	6	10	(0)	10
Total change during the reporting year (consolidated)	4	6	10	(0)	130
Balance at August 31, 2006	¥20	¥12	¥32	¥—	¥5,250
	Thousands of U.S. Dollars				
	Valuation and translation adjustments				
	Unrealized gain/loss on available-for-sale securities	Adjustment on foreign currency translation	Total gain (loss) on valuation and translation adjustments	Minority interests	Total net assets
Balance at August 31, 2005	\$127	\$ 51	\$187	\$ (0)	\$43,636
Change during the business year, consolidated					
Dividends from surplus					(1,628)
Distribution of profits to pay directors' bonuses					(443)
Net income					3,034
Acquisition of treasury stock					(8)
Disposal of treasury stock					68
Net change during the reporting year (consolidated) in items other than shareholders' equity	34	51	85	(0)	85
Total change during the reporting year (consolidated)	34	51	85	(0)	1,108
Balance at August 31, 2006	\$170	\$102	\$272	\$—	\$44,753

Consolidated Statements of Cash Flows

TOSE CO., LTD. and Consolidated Subsidiaries
For the years ended August 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2005	2006	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 803	¥ 752	\$ 6,410
Depreciation	105	122	1,039
Increase in reserve for directors' retirement allowances	4	11	93
Increase (decrease) in reserve for employees' retirement benefits	16	(49)	(417)
Increase in accrued bonuses	2	2	17
Increase in reserve for doubtful accounts	—	58	494
Interest and dividend income	(29)	(47)	(400)
Loss on foreign exchange translation	—	(1)	(8)
Gain on sale of securities	(49)	(29)	(247)
Gain on sale of fixed assets	—	(48)	(409)
Depreciation on investment securities in affiliates	—	57	485
Equity in (income) losses of equity-method affiliates	27	(2)	(17)
(Increase) decrease in accounts receivable—trade	204	(75)	(639)
Increase in inventories	(318)	(225)	(1,917)
Increase (decrease) in advances received	(35)	162	1,380
Increase (decrease) in accounts payable—trade	(32)	89	758
Directors' bonuses	(56)	(52)	(443)
Others	(25)	102	869
Subtotal	616	830	7,705
Interest and dividends received	28	47	400
Income taxes paid	(174)	(498)	(4,245)
Net cash provided by operating activities	470	379	3,230
Cash flows from investing activities			
Increase in time deposits	(148)	(621)	(5,293)
Proceeds from repayment of time deposits	139	—	—
Acquisition of tangible fixed assets	(110)	(159)	(1,355)
Proceeds from sale of tangible fixed assets	—	130	1,108
Acquisition of intangible fixed assets	(25)	(34)	(289)
Acquisition of investment securities	(367)	(337)	(2,872)
Proceeds from sale of investment securities	214	295	2,514
Increase (decrease) in loans	(105)	36	306
Acquisition of shares of subsidiaries	(29)	—	—
Acquisition of investment real estate	(1)	(0)	(0)
Others	(13)	(29)	(247)
Net cash used in investing activities	(448)	(718)	(6,120)
Cash flows from financing activities			
Acquisition of Company's own shares	(2)	(1)	(8)
Income from disposal of Company shares (exercise of stock options)	27	8	68
Dividends paid	(190)	(191)	(1,628)
Net cash used in financing activities	(165)	(183)	(1,559)
Effect of exchange rates on cash and cash equivalents	4	13	110
Decrease in cash and cash equivalents during the year	(138)	(509)	(4,338)
Cash and cash equivalents at beginning of year	1,720	1,582	13,485
Cash and cash equivalents at end of year	¥1,582	¥1,072	\$ 9,138

Notes to Consolidated Financial Statements

Important Items Related to the Basis of the Consolidated Financial Statements

1. Scope of Consolidation

(1) Consolidated subsidiaries: 3

TOSE SOFTWARE (SHANGHAI) CO., LTD.

T-NET INC.

TOSE SOFTWARE (HANGZHOU) CO., LTD.

(2) Major nonconsolidated subsidiaries

TOSE SOFTWARE USA, INC.

(Reason for exclusion from consolidation)

The nonconsolidated subsidiaries are all of small scale and their total assets, sales, net earnings (proportionate to share holdings) and earned surplus, etc. (proportionate to share holdings) do not have significant impact on the consolidated financial statements.

2. Application of Equity Method

(1) Number of nonconsolidated subsidiaries and affiliates using equity-method accounting: 3

Name of the principal company using equity-method accounting

TOSE SOFTWARE USA, INC.

(2) Name of significant companies among those nonconsolidated subsidiaries that do not use equity-method accounting

CING, INC.

(Reason for nonapplication of equity method)

The company in question has net income and earned surplus of very limited material impact and has no overall significance for the financial statements. Therefore, it has been excluded from the application of equity-method accounting.

(3) For companies under equity-method accounting, which have different account settlement dates from the consolidated account settlement dates, financial statements are based on the business year of the companies in question.

3. Consolidated Subsidiaries' Account Settlement Dates

Among consolidated subsidiaries that have a different account settlement date to the consolidated account settlement date, TOSE SOFTWARE (SHANGHAI) CO., LTD. and TOSE SOFTWARE (HANGZHOU) CO., LTD. close their accounts on December 31, 2006. For the purposes of these consolidated financial statements, we have prepared accounts assuming June 30, 2006, as the settlement date for these companies.

In both cases, adjustments are made as necessary to consolidated accounts with regard to significant transactions occurring in the period between July 1, 2006, and August 31, 2006, the consolidated account settlement date.

4. Accounting Standards

(1) Basis and method of evaluation for significant assets

① Marketable securities

Other marketable securities:

With market value:

At fair value as of the balance-sheet date (Changes in fair value are directly charged or credited to shareholders' equity, and the moving-average method is used to calculate the original cost.)

Without market value:

At cost, determined using the moving-average method

② Inventories

Work in process:

Valued at original cost using the specific-cost method

Finished products:

Valued at original cost using the period-average method

(2) Depreciation method for significant depreciable assets

① Tangible fixed assets:

Depreciated using the declining-balance method. However, buildings acquired on and after April 1, 1998, with the exception of building equipment, are depreciated using the straight-line method.

The range of useful lives is from 10 to 41 years for buildings and structures, and 3 to 20 years for tools and equipment.

② Intangible fixed assets:

Software for internal use is amortized using the straight-line method over its expected useful in-house life of five years.

③ Investments in real estate:

Based on the straight-line method for real estate and the fixed-percentage method for others. The main period of depreciation is 42 years.

(3) Accounting policies for principal allowances

① Reserve for doubtful accounts

To calculate losses due to bad debt, the expected amount to be collected is accounted for based on the actual bad debt ratio for general credits and by examining specific credits individually to evaluate the possibility of collection.

② Reserve for bonuses

With regard to bonuses paid to employees, amounts are recorded based on the estimated amount to be paid. In addition, the period during which the bonuses were paid and the accounting period coincide with respect to the consolidated fiscal year-ends, and because there is no posting of an accrued bonus fund, the amount posted on the consolidated balance sheet is the full amount posted for the Company and its subsidiaries.

③ Reserve for directors' bonuses

To provide for the directors' bonus reserve, amounts are recorded based on the estimated annual directors' bonus payout at the consolidated fiscal year-end, with the due proportion charged to the fiscal year in question.

④ Reserve for employees' retirement benefits

The amount necessary for payment of employees' retirement benefits is provided based on estimated retirement benefit liabilities and pension assets at the end of the fiscal year. Please note that at the end of the fiscal year under review, this reserve was not included in the accounting item reserve for employees' retirement benefits but was included in prepaid pension expenses.

⑤ Reserve for directors' retirement benefits

The amount necessary for the payment of directors' retirement benefits is recorded at the end of the fiscal year based on internal regulations.

(4) Accounting for leases

Finance leases that do not transfer the ownership of property to the lessee are accounted for by the Company and domestic consolidated subsidiaries based on accounting procedures according to methods for regular leases.

(5) Additional important items related to the basis of consolidated financial statements

Accounting for consumption tax

Transactions subject to consumption tax are recorded at amounts exclusive of tax.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are valued using the full-fair-value method.

6. Scope of Funding in the Consolidated Cash Flow Statement

Funding (cash and cash equivalents) in the consolidated cash flow statement consists of cash at hand, deposits that can be withdrawn at any time and easily convertible deposits as well as short-term investments with little risk of change to their value, which must be redeemed within three months of the date of acquisition.

(Accounting standards for impairment of fixed assets)

From the consolidated fiscal year under review, we have applied "Accounting Standards for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment on Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (Guidelines on Implementation of Business Accounting Standard No. 6, issued by the Accounting Standards Board of Japan on October 31, 2003). There is no material impact on the earnings position from the above.

(Accounting standards for directors' bonuses)

From the consolidated fiscal year under review, we have applied "Accounting Standard for Directors' Bonuses" (Corporate Accounting Standard, No. 4, November 29, 2005). Formerly, directors' bonuses were accounted for as reductions to the earned surplus, but, from the consolidated fiscal year under review, they are recorded as expected payments in the allowances for directors' bonuses.

This has led to a ¥54 million increase in selling, general and administrative expenses, with a corresponding decrease in operating income, ordinary income, and income before income taxes, respectively.

(Accounting Standards for Presentation of Net Assets on the Balance Sheet)

From the consolidated accounting period under review, the Company adopted "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Corporate Accounting Standard, No. 5, issued by the Accounting Standards Board of Japan on December 9, 2005), and "Guidelines for Application of the Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Corporate Accounting Standard Guideline, No. 8, issued by the Accounting Standards Board of Japan on December 9, 2005). Total assets as previously presented would have amounted to ¥5,250 million.

Net assets have been presented for the consolidated reporting period under review according to the revised rules for financial statements.

Notes

Fiscal years ended August 31	Millions of Yen	
	2005	2006
(Consolidated balance sheets)		
(1) Nonconsolidated subsidiaries and affiliates: Investment securities (shares)	¥147	¥80
(2) Number of shares of companies presented in the consolidated financial statements held by consolidated companies		
Common shares	113,239	—
(Consolidated statements of income)		
(1) Research and development expenses included in general and administrative expenses and product development costs	¥ 1	¥29
(2) Proceeds from sale of fixed assets		
Land and buildings (Shijo branch offices)	—	48
Other (vehicles and transport equipment)	1	0
(3) Loss on sale of fixed assets		
Other (vehicles and transport equipment)	0	—
(4) Loss on disposal of fixed assets		
Tools and equipment	—	1
Other (vehicles and transport equipment)	2	—
(5) Investment losses on affiliated businesses		
Appraisal loss on shares of affiliated companies	—	57
Provision to the reserve for doubtful accounts	—	58

(Consolidated statement of changes in shareholders' equity)

1. Type and Total of Shares Issued, Type and Total of Treasury Stock

	Fiscal year-end Aug. 31, 2005 (Consolidated) Total of shares	Fiscal year ended Aug. 31, 2006 (Consolidated) Increase in shares	Fiscal year ended Aug. 31, 2006 (Consolidated) Decrease in shares	Fiscal year-end Aug. 31, 2006 (Consolidated) Total of shares
Shares issued				
Common shares	7,763,040	—	—	7,763,040
Total	7,763,040	—	—	7,763,040
Treasury stock				
Common shares (note)	113,239	850	9,100	104,989
Total	113,239	850	9,100	104,989

Note: The increase in treasury stock in common shares resulted from the acquisition of shares that did not form a stock unit lot. The decrease in treasury stock in common shares is due to the exercise of stock options.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total of dividends paid (Thousands of yen)	Dividend per share (Yen)	Record date	Entry into effect
Regular general meeting of shareholders, Nov. 29, 2005	Common shares	¥95,622	¥12.50	Aug. 31, 2005	Nov. 30, 2005
Board of Directors' meeting, April 12, 2006	Common shares	95,663	12.50	Feb. 28, 2006	May 25, 2006

(2) Among dividends for which the record date falls in the consolidated fiscal year under review, those dividends with entry into effect in the following fiscal year

Resolution	Type of shares	Total of dividends paid (Thousands of yen)	Source of dividend payment	Dividend per share (Yen)	Record date	Entry into effect
Regular general meeting of shareholders, Nov. 29, 2006	Common shares	¥95,725	Earned surplus	¥12.50	Aug. 31, 2006	Nov. 30, 2006

(Consolidated Statements of Cash Flows)

Cash and cash equivalents at fiscal year-end and amounts for items listed on the consolidated balance sheets are as follows:

Fiscal years ended August 31	Millions of Yen	
	2005	2006
Cash and deposits	¥1,611	¥1,722
Time deposits exceeding three months	(29)	(650)
Cash and cash equivalents	¥1,582	¥1,072

(Leases)

Financial lease transactions other than leases in which the ownership of the leased property is transferred to the lessee

(1) Assumed amounts of acquisition cost, accumulated depreciation and net book value at end of year

Fiscal years ended August 31		Millions of Yen	
		2005	2006
Tools and equipment			
	Assumed amounts of acquisition cost	¥11	¥8
	Assumed accumulated depreciation	7	7
	Assumed amount at end of year	¥ 4	¥0

Assumed amounts of acquisition cost are calculated using the inclusive-of-interest method, as the balance of lease commitments at the end of the fiscal year was only a small proportion of fixed tangible assets at year-end.

(2) Assumed lease commitments

Due within one year	¥3	¥0
Due after one year	0	—
Total	¥4	¥0

The balance of assumed lease commitments is calculated using the inclusive-of-interest method, as the balance of lease commitments at the end of the fiscal year was only a small proportion of fixed tangible assets at year-end.

(3) Assumed lease payments and depreciation

Lease payments	¥4	¥3
Assumed depreciation	4	3

(4) Method for calculation of assumed depreciation

Calculated by the straight-line method over the lease period without residual value

Fiscal years ended August 31		Millions of Yen	
		2005	2006
(Tax-effect accounting)			
(1) Deferred tax asset occurrence: Breakdown by principal factor			
(Current)			
Deferred tax assets			
	Enterprise tax	¥24	¥19
	Reserve for bonuses for directors	0	—
	Other	8	20
	Total deferred tax assets	¥32	¥40

(Fixed)

Deferred tax assets

Reserve for directors' retirement benefits	¥ 65	¥ 70
Reserve for retirement benefits	12	—
Deficits carried over	91	139
Reserve for doubtful accounts	—	23
Other	6	36
Subtotal	176	269
Reserve for appraisal loss	(91)	(139)
Total of deferred tax assets	¥ 85	¥130

Deferred tax liabilities

Appraisal differential on other investment securities	¥(10)	¥ (13)
Other	—	(5)
Total deferred tax liabilities	¥(10)	¥ (19)
Deferred tax assets (net)	¥ 74	¥110

(2) Breakdown of principal factors accounting for difference between corporate tax burden (percentage rate) after the application of statutory tax rate and after tax-effect accounting

Statutory effective tax rate	40.6%	40.6%
(Adjustments)		
Long-term entertainment, etc., related differential	1.7	4.7
Residents' tax (equal installments)	0.7	0.9
Special deduction for corporate taxes	(0.4)	(0.2)
Loss on equity-method investments	1.4	(0.1)
Increase in reserve for appraisal loss	3.4	7.2
Other	0.4	(0.4)
Total burden (percentage rate) of corporate taxes after application of tax-effect accounting	47.8%	52.7%

(Retirement benefits)

(1) Outline of retirement benefit system

The Company provides an approved retirement annuity system as a fixed-benefit type system.

Retirement benefit liabilities, etc., are calculated using simplified accounting procedures.

The Company's consolidated subsidiaries do not have retirement benefit arrangements.

(2) Items relating to retirement benefit liabilities (at the end of the consolidated fiscal year)

		Millions of Yen	
Fiscal years ended August 31		2005	2006
Retirement benefit liability		¥(192)	¥(210)
Pension assets		160	228
Retirement benefit reserve		(31)	—
Prepaid pension expenses		—	17
(3) Items related to retirement benefit expenses (consolidated fiscal year)			
Employment expenses		55	(3)
Total retirement benefit expenses		¥ 55	¥ (3)

Segment Information

1. Business Information by Segment

For the fiscal year from September 1, 2004, to August 31, 2005

Millions of Yen

	Game Software Development	Mobile and Internet Content Development	Other	Total	Elimination and Corporate	Consolidated
I. Net sales and operating income						
Net sales						
(1) Customer sales	¥2,408	¥1,489	¥379	¥4,278	¥ —	¥4,278
(2) Inter-segment	—	—	—	—	—	—
Total	2,408	1,489	379	4,278	—	4,278
Operating expenses	1,587	980	273	2,841	723	3,564
Operating income (loss)	¥ 821	¥ 508	¥106	¥1,436	¥ (723)	¥ 713
II. Assets, depreciation and amortization, and capital expenditures						
Assets	¥1,308	¥ 454	¥218	¥1,981	¥4,519	¥6,501
Depreciation	¥ 36	¥ 18	¥ 1	¥ 56	¥ 48	¥ 105
Capital expenditures	¥ 58	¥ 24	¥ 13	¥ 96	¥ 48	¥ 144

For the fiscal year from September 1, 2005, to August 31, 2006

Millions of Yen

	Game Software Development	Mobile and Internet Content Development	Other	Total	Elimination and Corporate	Consolidated
I. Net sales and operating income						
Net sales						
(1) Customer sales	¥2,619	¥1,565	¥720	¥4,905	¥ —	¥4,905
(2) Inter-segment	—	—	—	—	—	—
Total	2,619	1,565	720	4,905	—	4,905
Operating expenses	1,800	1,007	436	3,244	955	4,200
Operating income (loss)	¥ 818	¥ 558	¥283	¥1,660	¥ (955)	¥ 705
II. Assets, depreciation and amortization, and capital expenditures						
Assets	¥1,664	¥ 295	¥287	¥2,247	¥4,684	¥6,931
Depreciation	¥ 51	¥ 9	¥ 7	¥ 69	¥ 53	¥ 122
Capital expenditures	¥ 158	¥ 9	¥ 20	¥ 188	¥ 51	¥ 240

Notes: 1) Business segmentation corresponds to segmentation used in internal administration.

2) Principal products of each segment

① Game Software Development: Planning and development of game software

② Mobile and Internet Content Development: Planning and development of content, and maintenance/management of servers that provide content

③ Other: E-commerce operations and other

3) Operating expenses including a cost of ¥955 million (¥723 million in the previous year) that cannot be allocated and is included in Elimination and Corporate items. The main part of this cost is expenses related to the General Affairs Department of the Company's Administrative Division, etc.

4) Assets include an amount of ¥4,684 million (¥4,519 million in the previous year) categorized as Companywide assets that have been included in Elimination and Corporate items. The main part of these assets is surplus managed funds (cash and negotiable securities), long-term investment funds (investment securities), investment real estate, and assets related to the Administrative Division.

5) Depreciation expenses and capital expenditures include long-term prepaid expenses and associated depreciation costs.

2. Geographical Segment Information

For the fiscal year from September 1, 2004, to August 31, 2005

Geographical segment information is not included in this report since operations in Japan accounted for more than 90% of all segment sales and assets.

For the fiscal year from September 1, 2005, to August 31, 2006

Geographical segment information is not included in this report since operations in Japan accounted for more than 90% of all segment sales and assets.

3. Overseas Sales

For the fiscal year from September 1, 2004, to August 31, 2005

Overseas sales information is not included since they account for less than 10% of all sales on a consolidated basis.

For the fiscal year from September 1, 2005, to August 31, 2006

Overseas sales information is not included since they account for less than 10% of all sales on a consolidated basis.

Per Share Information

Fiscal 2005 (September 1, 2004, to August 31, 2005)		Fiscal 2006 (September 1, 2005, to August 31, 2006)	
Net assets per share	¥662.42	Net assets per share	¥685.58
Net income per share	¥48.20	Net income per share	¥46.54
Diluted net income per share	¥48.07	Diluted net income per share	¥46.46

Note: Figures for the basis of further calculations

1. Net assets per share

	Fiscal 2005 (September 1, 2004, to August 31, 2005)	Fiscal 2006 (September 1, 2005, to August 31, 2006)
Total of net assets as presented in the consolidated balance sheet	—	¥5,250 million
Net assets per share of common stock	—	¥5,250 million
Difference between total net assets as reported in the consolidated balance sheets and net assets at the end of the consolidated fiscal year as related to common stock used for calculation of net assets per share	—	—
Total of issued common shares	—	7,763 thousand
Treasury stock within common shares	—	104 thousand
Total of common shares used for calculation of net assets per share	—	7,658 thousand

2. Net income per share and net income per share after dilution

	Fiscal 2005 (September 1, 2004, to August 31, 2005)	Fiscal 2006 (September 1, 2005, to August 31, 2006)
Net income	¥420 million	¥356 million
Net income not applicable to common shareholders		
Distribution of profits to pay directors' bonuses	¥52 million	—
Net income per common share during the period	¥368 million	¥356 million
Average number of common shares during the period	7,638 thousand	7,653 thousand
Adjustment to net income for the period after use as basis for calculating diluted net income per share	—	—
Increase in common shares used during the period used in the calculation of diluted net income per share (third round of new warrants)	21 thousand	14 thousand
Explanation of residual stock not included in calculation of diluted net income per share due to lack of dilutive potential	Second round of new warrants Total of new warrants: 53,880 shares Type of shares underlying the warrants: Common Warrant exercise price: ¥3,417 The exercise period ended Nov. 30, 2004	—

Development, Purchase Orders, and Sales

1. Development Results

Development results broken down by business segment were as follows:

For the fiscal year from September 1, 2004, to August 31, 2005

Millions of Yen

Business Segment	Amount
Game Software Development	¥2,078
Mobile and Internet Content Development	958
Other	356
Total	¥3,392

For the fiscal year from September 1, 2005, to August 31, 2006

Millions of Yen

Business Segment	Amount
Game Software Development	¥2,348
Mobile and Internet Content Development	923
Other	640
Total	¥3,912

Notes: 1) Amounts are calculated according to selling prices.

2) The amounts shown above do not include consumption taxes.

3) Mobile and Internet Content Development business includes sales related to maintenance operations.

2. Purchase Orders

Purchase order results broken down by business segment were as follows:

For the fiscal year from September 1, 2004, to August 31, 2005

Millions of Yen

Business Segment	Orders Received	Orders Backlog
Game Software Development	¥1,887	¥1,523
Mobile and Internet Content Development	1,015	174
Other	364	254
Total	¥3,266	¥1,953

For the fiscal year from September 1, 2005, to August 31, 2006

Millions of Yen

Business Segment	Orders Received	Orders Backlog
Game Software Development	¥3,044	¥2,199
Mobile and Internet Content Development	948	192
Other	531	172
Total	¥4,524	¥2,563

Note: The amounts shown above do not include consumption taxes.

3. Sales

Sales results broken down by business segment were as follows:

For the fiscal year from September 1, 2004, to August 31, 2005

Millions of Yen

Business Segment	Amount
Game Software Development	¥2,408
Mobile and Internet Content Development	1,489
Other	379
Total	¥4,278

For the fiscal year from September 1, 2005, to August 31, 2006

Millions of Yen

Business Segment	Amount
Game Software Development	¥2,619
Mobile and Internet Content Development	1,565
Other	720
Total	¥4,905

Note: The amounts shown above do not include consumption taxes.



Chairman
Yutaka Saito



President and CEO
Shigeru Saito



Director, Managing Executive Officer
(General Manager of New Business
Development Group)
Shin Kondo



Director, Managing Executive Officer
(General Manager of
Game Development Group)
Fumihisa Hayakawa



Director, Executive Officer
(General Manager of
Intellectual Property Office)
Shinya Saito



Director
(Outside director)
Yoshihiro Funahashi



Standing Corporate Auditor
Jiro Sakaguchi



Corporate Auditor
Tomonori Yahata



Corporate Auditor
Hirotoishi Shigehara



Executive Officer
(General Manager of Mobile
Business Development Group)
Masatoshi Sasaki

Executive Officers

CEO
Shigeru Saito

Managing Executive Officer
Shin Kondo

Managing Executive Officer
Fumihisa Hayakawa

Executive Officer
Shinya Saito

Executive Officer
Masatoshi Sasaki

CORPORATE PROFILE (As of August 31, 2006)

Establishment: November 1, 1979
 Capital: ¥967,000,000
 Principal business: Planning and development of home video game software; planning, development, and administration of mobile and Internet content
 Number of employees: 366

* The TOSE Group currently employs a development staff of more than 1,000 employees worldwide, including specialist outsourcing staff.

Number of Group Employees
 (including average number of provisional hires)



The TOSE Group currently employs a development staff of more than 1,000 employees worldwide, including specialist outsourcing staff.

NETWORK (As of August 31, 2006)

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T-NET INC.
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TOSE SOFTWARE (HANGZHOU) CO., LTD.
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 Hangzhou 310012, P.R. China

TOSE SOFTWARE USA, INC.
 2625 Townsgate Road, Suite 330
 Westlake Village, California 91361, U.S.A.

TOSE OKINAWA CO., LTD.
 (start of operations slated for April 2007)

STOCK INFORMATION (As of August 31, 2006)

Total number of shares authorized: 31,000,000
 Total number of shares issued: 7,763,040
 Listed stock exchanges: Tokyo and Osaka
 (First sections,
 stock code: 4728)
 Number of shareholders: 4,956

Major Shareholders

Shareholder	Number of Shares Held (Thousands of Shares)	Percentage of Shares Held
Shigeru Saito	1,404	18.1%
Shinya Saito	567	7.3
Japan Trustee Services Bank, Ltd.	457	5.9
The Master Trust Bank of Japan, Ltd.	455	5.9
Trust & Custody Services Bank, Ltd.	359	4.6
Yutaka Saito	302	3.9
Kazue Saito	221	2.9
The Bank of Kyoto, Ltd.	151	1.9
Chieko Saito	120	1.5
The Kyoto Chuo Shinkin Bank	103	1.3

Note: Although not included in the above, the Company holds 104,989 shares of treasury stock.



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