

**FLASH REPORT**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Year Ended March 31, 2004**

**Name of the Company :** Sammy Corporation  
**Code number :** 6426  
 (URL <http://ir.sammy.co.jp>)  
**Any inquiry to :** Shunichi Shimizu  
 General Manager, Accounting & Finance Department, Administration Division  
 2-23-2 Higashi Ikebukuro  
 Toshima-ku, Tokyo, Japan  
 Tel (03)5950 - 3790

Date of the Board of Directors meeting for the fiscal year closing May 18, 2004

**1. RESULTS OF CONSOLIDATED OPERATIONS FOR THE YEAR ENDED MARCH 31, 2004**

(1) RESULTS OF CONSOLIDATED OPERATIONS

	Net sales		Operating income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For Year ended March 31, 2004	251,226	(51.5)	71,676	(38.6)	32,196	(39.6)
For Year ended March 31, 2003	165,774	(0.9)	51,709	( 4.3)	23,066	( 3.5)

	Net income per share	Net income per share (Diluted)	Return on equity	Operating income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
For Year ended March 31, 2004	424.68	417.97	36.1	34.8	28.5
For Year ended March 31, 2003	436.79	435.42	37.6	43.1	31.2

(Note) Equity in net earnings of affiliated companies for the fiscal years 2004 and 2003 were negative ¥1,835 million and ¥12 million, respectively.

Weighted average number of shares outstanding for the fiscal years 2004 and 2003 were 74,782,783 shares and 52,038,939 shares, respectively.

There was no significant change in the accounting policy between the years presented.

Percentages for net sales, operating income and net income represent change from the prior-year.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
March 31, 2004	299,272	112,987	37.8	1,390.74
March 31, 2003	112,873	65,428	58.0	1,298.90

(Note) The total numbers of shares outstanding were 80,927,879 shares and 50,113,270 shares at March 31, 2004 and 2003, respectively.

(3) CONSOLIDATED CASH FLOWS

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by financing activities	Cash and cash equivalents at the year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For Year ended March 31, 2004	36,581	(57,368)	61,128	66,838
For Year ended March 31, 2003	31,645	(9,284)	(18,201)	26,567

- (4) Scope of consolidation and equity method application  
The Company consolidated all of its 21 subsidiaries and applied the equity method to 2 affiliated companies.
- (5) Change in scope of consolidation and equity method application  
Starting from this fiscal year, 5 of the Companies were newly consolidated as subsidiaries and 1 company as consolidated subsidiary was excluded. 1 affiliated company using the equity method was newly consolidated.

**2. PROJECTION FOR CONSOLIDATED RESULTS FOR FISCAL YEAR 2004(APRIL 1, 2004 – MARCH 31, 2005)**

	Net sales	Operating income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Interim	167,000	49,300	22,000
Entire – year	297,000	77,700	36,000

(Reference) Projected net income per share for the entire-year is ¥438.66 Yen

Note :

The management of the Company is required to disclose the information about Projection of results for fiscal year 2004 in accordance with the regulation of Tokyo Stock Exchange.

Above estimate is made based on the information available at the date of announcement of this flash report and there may be a case that above estimate would differ from actual amount due to various reasons.

## 1. Description of Sammy Group

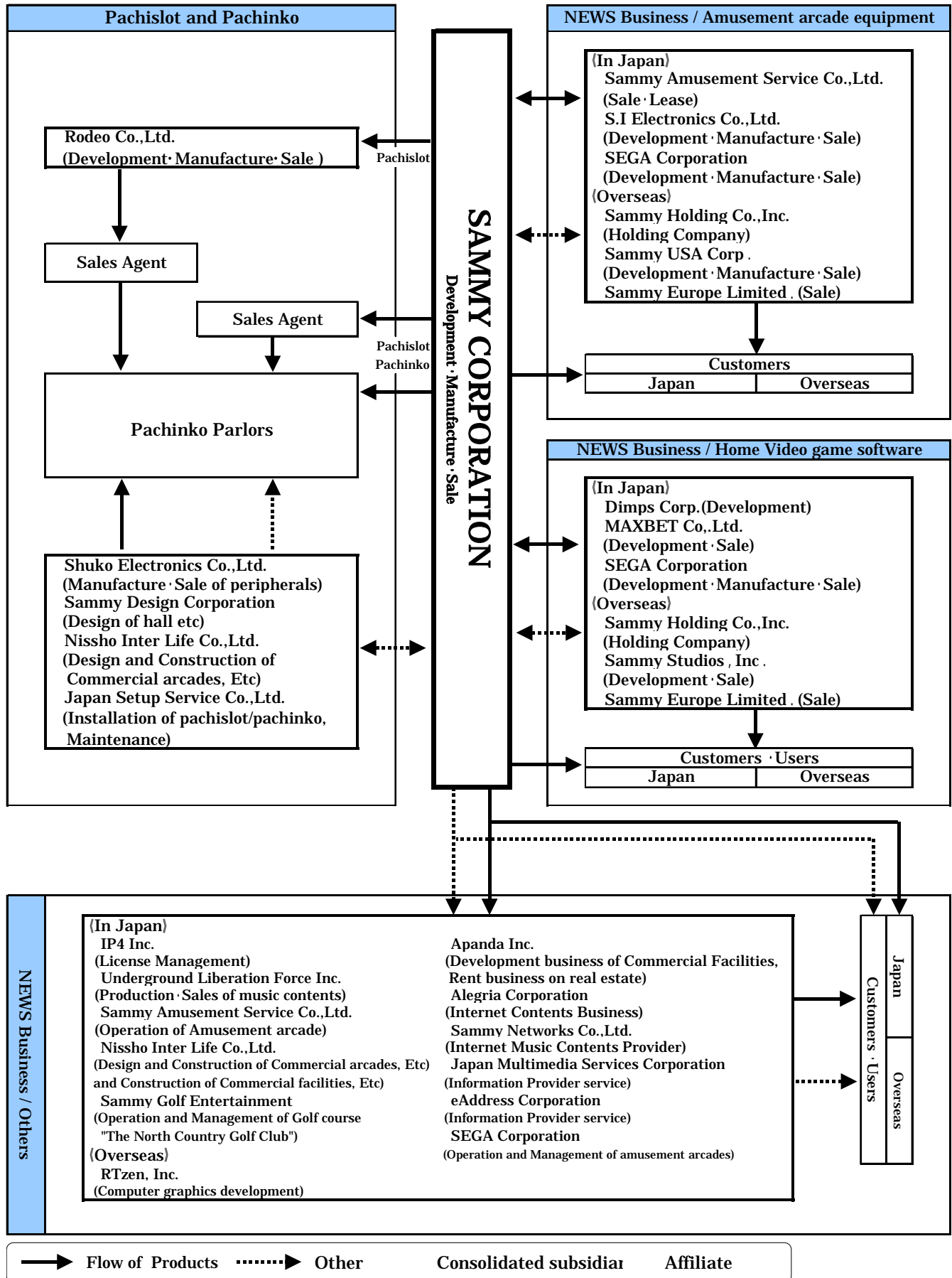
The group consists of the Company and its 21 subsidiaries and 2 affiliates, and is primarily engaged in business to develop, manufacture and sell pachinko and pachislot machines, amusement arcade equipment and home video game software. Our lines of business by segment are as follows:

Segment	Business contents	Names of company	
Pachinko and Pachislot Business	Manufacture and sale of Pachinko/Pachislot machines and those attachments and accessories Maintenance and manufacture of peripherals Design of parlor and etc.	Sammy Corporation RODEO Co.,Ltd. Shuko Electronics Co.,Ltd. Sammy Design Corporation Japan Setup Service Co.,Ltd.(Note 1) Nissho Inter Life Co.,Ltd.(Note 3)	
NEWS Business	Game machines used in amusement arcades	In Japan	Sammy Corporation Sammy Amusement Service Co.,Ltd. SI Electronics Co.,Ltd. SEGA Corporation(Note 1)
		Overseas	Sammy Holding Co.,Inc. Sammy USA Corporation Sammy Europe Ltd.
	Home video game Software	In Japan	Sammy Corporation MAXBET Co.,Ltd.(Note 7) Dimps Corporation. SEGA Corporation(Note 1)
		Overseas	Sammy Holding Co.,Inc. Sammy Studios, Inc. Sammy Europe Ltd.
	Others (Note 6)	In Japan	Sammy Corporation Sammy Amusement Service Co.,Ltd. Underground Liberation Force Inc. Alegria Corporation IP4 Inc. Sammy Networks Co.,Ltd. Apanda Inc.(Note 2) Nissho Inter Life Co.,Ltd.(Note 3) Japan Multimedia Services Corporation(Note 4) eAddress Corporation(Note 4) Sammy Golf Entertainment(Note 5) SEGA Corporation(Note 1)
		Overseas	RTzen Inc.

( Note )

1. Japan Setup Service Co., Ltd. and SEGA Corporation are affiliated companies.
2. Apanda Inc. became a subsidiary upon the acquisition of shares and the third party allotment of new shares in which the company participated.
3. Nissho Inter Life Co.,Ltd. became a subsidiary upon the share purchase by the tender offer.
4. Japan Multimedia Services Corporation and its subsidiary company (owning 66.6% of voting shares), eAddress Corporation became subsidiaries upon the acquisition of shares and the third party allotment of new shares in which the company participated.
5. The North Country Golf Club became a subsidiary upon the third party allotment of new shares of and changed the corporate name to Sammy Golf Entertainment.
6. Quat Technology Inc., a consolidated subsidiary in the prior year was absorbed into Research and Development division of Sammy Corporation and was excluded from scope of consolidation on March 31,2004.
7. MAXBET Co.,Ltd. changed the corporate name to Sammy Rental Service Co., Ltd. on April 28, 2004.

The following is a chart of business transaction flow:



## **2. Management Policies**

### (1) Basic Management Policies

The main business domains of the Sammy Group are pachislot and pachinko operations and the NEWS (New Entertainment World of Sammy) business, encompassing the areas of amusement, content, new technology and merchandising. Under the brand statement, “Entertainment Culture Creator, Bound by an Adventurous Spirit, With Original Entertainment for People the World Over,” and with “Enterprising Spirit” encapsulating its corporate vision, the Sammy Group is united in a commitment to improving operating results and to meeting the expectations of shareholders and other stakeholders that place their trust in the Sammy name.

### (2) Basic Policy Regarding the Allocation of Profits

Returning profits to shareholders is a key topic for management. Sammy’s basic policy is to pay a cash dividend commensurate with earnings. During the fiscal year ended March 31, 2004, Sammy paid an interim dividend of ¥40 per share to shareholders of record as of September 30, 2003. The Company plans to pay a year-end dividend of ¥50 per share, including a one-time special dividend of ¥10 per share to mark record-breaking unit sales of the *Hokuto No Ken (Fist of the North Star)* pachislot machine. While this raises Sammy’s full-year dividend by ¥20 per share year on year to ¥90 per share, a 1.5-for-1 stock split (date of record: December 31, 2003) will result in an actual increase in the dividend of ¥45 per share.

Sammy’s policy of effectively using retained earnings encompassed actions to bolster the Company’s financial position and business base; investments targeting mainly the enlargement of business; the establishment of new subsidiaries; and M&A activities.

### (3) Stance and Policy on Lowering the Minimum Trading Unit

Management considers lowering the minimum trading unit to be an effective means of expanding the base of individual shareholders and improving the liquidity of its stock. By keeping the minimum trading unit at 100 shares and by execution of three times for share split-up since it registered on the over-the-counter market in December 1999, Sammy believes that it has achieved an investment environment conducive to participation by individual investors. To further grow its base of ordinary investors, Sammy conducted a 1.5-for-1 stock split on February 27, 2004, with a record date of December 31, 2003.

Sammy will continue to closely monitor operating results and market trends and conduct careful cost-benefit analyses to determine if the minimum trading unit should be lowered in the future.

### (4) Medium- and Long-term Strategies and Key Issues

In July 2004, the pachislot and pachinko industry will see major revisions come into force for the law governing the industry in Japan. These revisions are expected to toughen measures for preventing improper use and impose controls on the gaming nature of machines. In the wake of these changes, more weight than ever will be given to game play and entertainment value as vital elements differentiating pachislot and pachinko machines in the marketplace. This is likely to bring technological disparities among industry manufacturers to the fore.

In pachislot machines, concerns have been raised that the genre’s popularity may suffer due to the impact of these impending revisions on several pachislot varieties. However, backed by the runaway success of *Hokuto No Ken*, the best-selling pachislot machine in the industry’s history, the Sammy Group is confident that its advanced technology will enable it to win staunch approval from the market even after the revisions have taken effect by continuing to roll out captivating products. In the years ahead, the Sammy Group will remain committed to maintaining its top market share in terms of annual unit sales, bringing its dominant R&D capabilities to bear to develop new functions and strengthening the brand equity that Sammy has built to date.

In pachinko machines, the aforementioned revisions will eliminate gaming machine classifications and prompt other changes that will enable a greater degree of variation in machine development. This should result in machines that break the conventional mold by incorporating innovative concepts. Going forward, the Sammy Group will strive as always to boost its development capabilities in this area, launching products with creative concepts that could only originate from Sammy. The goal is to be the market leader in pachinko machines as well, raising the profile of the Sammy Group as a name to watch in pachinko and pachislot alike.

Sammy recognizes that in addition to bolstering the business base and achieving constant growth in the pachislot and pachinko businesses, generating new earnings streams from businesses in other areas of entertainment will be indispensable to growing as a truly comprehensive entertainment company. Guided by this policy, Sammy acquired a 22.4% stake, or 39,148,600 shares, in SEGA CORPORATION in December 2003, making that company an equity-method affiliate. Collaborations between the two companies in the past have led to the appearance of SEGA's popular character, *Sonic the Hedgehog*, in Sammy's pachinko machines and other developments. Sammy's recent equity investment in SEGA will reinforce cooperative ties across the full range of business fields, expanding and accelerating growth in entertainment-related businesses outside pachislot and pachinko, and strengthening Sammy's expansion into overseas markets.

In amusement arcade equipment, Sammy is involved in a renewed effort to transform *ATOMISWAVE*, the arcade game platform launched during the March 2004 fiscal year, into the de facto standard. In addition to the full-scale operation of *AW-NET*, poised to become a predominant network gaming format in the coming years, Sammy is securing business ties with influential software development houses in Japan to gain a full lineup of dedicated software to aggressively develop *ATOMISWAVE* in previously uncultivated areas and locations.

In home videogame software, Sammy is steadily releasing pachislot simulations and has stepped up development in other game genres. Sammy is also expanding business with an eye on profitability by using partnerships with influential game software developers to further enhance the already outstanding content of its software releases.

In the March 2004 fiscal year, Sammy commenced operations in its commercial facility development business. In July 2004, it plans to open *Sammy Ebisu Plaza* in Dotonbori, Osaka. This plaza, as a comprehensive entertainment center, counting a "food theme park," an "amusement zone" and a fitness club among its facilities, will become a focal point of Sammy's operations in the commercial facility development business.

Going forward, as it produces more "entertainment spaces" that fuse commercial developments and amusement centers, the Sammy Group will utilize the synergistic effects of each facility type to attract customers, in the process improving the efficiency of its operations.

#### (5) Basic Stance on Corporate Governance and Progress on Related Measures

##### Basic stance on corporate governance

The Sammy Group places the highest priority on efforts to ensure sound corporate management, progressive improvements in efficiency and transparent corporate activities.

##### Progress on corporate governance measures

The managerial and administrative organization of the Sammy Group related to management decision-making, business execution and monitoring, and other aspects of the Group's corporate governance structure, is as follows.

- Sammy employs the corporate auditor system, and two of the three corporate auditors are from outside the company.
- Sammy utilizes the corporate executive officer system to achieve accurate and swift decision-making, and to clarify authority and accountability.
- In addition to monthly meetings, the Board of Directors and corporate executive officers each hold annual meetings to share information between directors and officers and to foster the extensive debate required to build consensus.
- Sammy has established an Audit Office as an internal audit division. Two members of this four-person team are certified internal auditors. The Audit Office carries out internal audits, including of the Group companies.
- Sammy has compiled a Compliance Manual and is conducting related training to ensure a high level of compliance awareness among executives and employees.
- Independent auditors AZSA & Co. not only audit Sammy's results at the close of each business term, but offer valuable advice from an auditing standpoint regarding monthly financial reports and other corporate reports. As the need arises, Sammy also seeks the advice of attorneys and other professionals during the course of normal management and business activities.

Conflicts of interest (personal, financial, transactional, etc.) between Sammy and its outside directors and corporate auditors

Sammy presently has no outside directors. With regard to the two outside corporate auditors, there are no transactions or conflicts of interest with the Company, including transactions or conflicts of interest pertaining to relatives of the corporate auditors or companies with whom they are affiliated.

Progress on corporate governance measures during the most recent fiscal year  
Sammy continued to enhance the functions of its internal Group management system during the March 2004 fiscal year. This included clarifying aspects of the administrative system governing Group companies and greater support for the functioning of the Board of Directors. To achieve the best auditing possible, regular meetings of the Board of Corporate Auditors are held to encourage the exchange of information and views among corporate auditors at Group companies with the theme of prevention of iniquity and role of corporate auditors. Sammy also holds regular conferences attended by representatives and CFOs from Group companies overseas to ensure the consistency of management policies and to maintain the cohesiveness of the Group.

#### (6) Other Key Management Issues

Currently, the following lawsuits have been filed against Sammy in relation to certain pachislot machines manufactured and distributed by the Company, claiming infringement of certain patent rights. While the Sammy Group believes and is insisting that none of the cases being litigated infringes any patent rights, the outcome of such litigation may affect its operating results.

The right in question in case “2.” below is the same as the one in case “1.” below. The Japan Patent Office made a judgment that such patent right was invalid and the documented invalidation judgment was sent on December 25, 2002. Correspondingly, Aruze Corp. (“Aruze”) filed a claim with the Tokyo High Court on January 27, 2003 insisting that such judgment be revoked and the case has currently been on trial. In the case of “3.” below, Sammy confirmed the delivery of a decision from the Japan Patent Office dated November 17, 2003 invalidating the infringement claim brought by Aruze. Subsequently, Aruze filed an appeal with the Tokyo High Court on December 25, 2003 to revoke this decision. A decision on this matter is still pending. And Sammy confirmed the delivery of a decision from the Japan Patent Office dated June 5, 2003 invalidating the utility model right in question in case “4.” On July 10, 2003, Abilit Corporation (the former Takasago Electric Industry Co., Ltd.) filed an appeal with the Tokyo High Court to revoke this decision. A decision on the case is still pending. In case “2.” below, a final judgment issued by the Tokyo High Court dated January 20, 2004 ruled in favor of Sammy Corporation, following the rejection of an appeal filed by Aruze on June 17, 2003.

1. The claim for damages of ¥10,066 million made by Aruze Corp. (“Aruze”)

On March 19, 2002, the Tokyo District Court ordered Sammy to pay Aruze ¥7,416 million. On the same day, Sammy appealed to the Tokyo High Court and the case is still before the courts.

2. The claim for damages of ¥1,430 million made by Aruze

The case was filed with the Tokyo District Court on March 26, 2001, and the case is still before the courts.

3. The claim for damages of ¥5,145 million made by Aruze

The case was filed with the Tokyo District Court on May 31, 2002, and the case is still before the courts.

4. The claim for damages of ¥11,424 million made by Abilit Corporation

The case was filed with the Osaka District Court on July 18, 2002, and the case is still before the courts.

The claim for damages of ¥1,500 million made by Aruze reported in previous business reports was dismissed by both the Tokyo District Court and the Tokyo High Court. Aruze appealed the case to the Supreme Court on June 17, 2003. Subsequently, Sammy won the case on January 20, 2004 following a refusal by the Supreme Court to hear Aruze’s appeal.

### **3. Operating Results and Financial Position**

#### (1) Overview

During the fiscal year ended March 31, 2004, persistent weakness hindered a recovery in personal income and employment in Japan. Concerns over possible tax hikes and uncertainty surrounding the country’s pension

system were other factors that sapped vitality from consumer spending. Exports, however, flourished as overseas economies rebounded, supporting improved corporate earnings particularly among manufacturers. These trends have fueled growing anticipation that overseas demand will soon jumpstart a full economic recovery.

In the pachislot and pachinko industry, a shift towards large-scale gaming centers has driven an increase in the total number of machines in Japan for five years running. An inevitable consequence of this trend is that the number of stand-alone pachinko halls declined for the eighth consecutive year, as small and medium-sized operators were weeded out of the market.

January 2004 saw the announcement of major revisions to the law governing the industry pachislot and pachinko industry in Japan that will come into force in July 2004. The revisions are expected to toughen basic measures for preventing improper use and impose controls on the gaming nature of machines.

The amusement arcade industry as a whole, meanwhile, saw positive signs emerge. Network gaming, a key market sector, is getting a boost from the appearance of a host of new game and service genres, with a stable growth track also apparent in token-based *medal* games. In amusement facilities, in addition to aggressive development of primarily large-scale amusement centers and other new facilities, growth remains strong in shopping center-based facilities aimed at younger audiences.

The home videogame software industry is witnessing a gradual weakening in hardware sales as time elapses since the launch of the current cycle of major game consoles. The software market is also contracting overall due to a lack of noteworthy titles, with the exclusion of follow-ups to previous hit games.

In this operating environment, the Sammy Group positioned several themes to guide its concerted effort to enhance the Group's presence as a global, comprehensive entertainment company. These themes were namely maintaining Sammy's leading share in pachislot machines, currently the Group's core business; raising the profile of the Sammy brand and its sales share in pachinko machines; and attaining profitability as quickly as possible in the NEWS (New Entertainment World of Sammy) business, which Sammy is striving to expand worldwide.

In pachislot machines, Sammy developed products with a renewed emphasis on game play and entertainment value in light of upcoming revisions to laws in Japan governing gaming machines. The focus of these efforts was Sammy's 3 "D" Project, designed to generate surprise and excitement among pachislot players. From this project, Dream Reel, which features an unprecedented range of actions, and Doughnut Vision, incorporating the industry's largest doughnut-shaped, 20-inch LCD, were among the technologies announced by Sammy during the year as it launched pachislot machines built around innovative concepts.

In pachinko machines, Sammy continued efforts from the previous year to bolster its R&D structure. Attention was also given to enhancing the product lineup by raising the number of machines receiving regulatory approval, and amassing expertise in the development of pachinko machines. To lay the groundwork for meeting diversifying market needs, the Sammy Group made its first attempts at the development of so-called "Variant 2" and "Variant 3" pachinko machines, also known in the market as the "Hane-mono(Feather)" and "Kenri-mono(Rights)" machine varieties. The market launch of these innovative machines, with features that bring an unprecedented level of interaction to the pachinko gaming experience, led to a substantial leap in unit sales during the year, as efforts to reinforce R&D capabilities in this area paid off.

In the NEWS business, Sammy drove operations forward to nurture this business into a pillar for supporting the Group's sustainable growth. During the year, Sammy released the amusement arcade machine *ATOMISWAVE*, a strategic product and the pinnacle of years of R&D, as the starting point for the Group's global business strategies.

Sammy branched out into the commercial facility development business, with its first project, *Sammy Ebisu Plaza*, which is set to become the flagship facility in this business. The Group also aggressively pursued other initiatives for generating new demand across the breadth of the field of entertainment.

The foregoing resulted in consolidated net sales of ¥251,226 million, up 51.5% from the previous year.



Consolidated operating income was ¥71,676 million, or 38.6% higher. Net income was ¥32,196 million, exceeding drastically up 39.6% from the previous year, despite equity in losses of affiliates of ¥1,835 million posted as nonoperating expenses.

An overview of operations by business segment is as follows.

### Pachislot and Pachinko Machines

Guided by the key concept, “If it’s new, it’s from Sammy,” the Group took optimal advantage of its dominant development strengths creating new technologies and functions, and providing products with a heightened degree of game play and entertainment value. In pachislot machines, these actions resulted in the sale of over 259,000 units of *Hokuto No Ken (Fist of the North Star)* in the March 2004 fiscal year alone. This performance makes *Hokuto No Ken*, launched in October 2003, the biggest-selling pachislot machine in the industry’s history, with many more units expected to ship in the current fiscal year. The machine features a Liquid Crystal Display (LCD) interface that accurately recreates the atmosphere of the wildly popular “*Fist of the North Star*” comic book, as well as a “Battle Bonus” round, a never-before-seen function for pachislot machines. These outstanding features combine to produce the quality game play that has won *Hokuto No Ken* such high marks. Sammy rolled out other new products, including *King Camel*, a machine incorporating Dream Reel, the first product from Sammy’s 3 “D” Project, and *Gamera High Grade Vision*, equipped with Doughnut Vision, the second technological development from this project.

In pachinko machines, unit sales consistently rose on the back of new products born out of Sammy’s imagination. One hit was *CR-MOJYUOH*, Sammy’s best-selling pachinko machine series to date with over 82,000 units sold. This series incorporates the game play of the hit *JYUOH* and *MOJYUOH* pachislot machines, and allows players to select the game mode of their choice. Another pachinko series introduced was *CR Rikidozan*, conceptually based on legendary Japanese pro-wrestler Mitsuhiro Rikidozan. This series shatters the conventional thinking on pachinko machines by replacing the traditional jackpot interface with a LCD of Rikidozan facing off against an opponent, whereby a victory for Rikidozan translates into a jackpot for the player.

The above culminated in record-high top- and bottom-line performance for this segment compared with a year earlier, with sales up 52.0% at ¥226,624 million, and operating income 39.4% higher at ¥84,597 million.

(Main Pachislot and Pachinko Machines)

#### Pachislot Machines

Variety	Units Sold
<i>Hokuto No Ken</i> (Sammy)	259,000
<i>King Camel</i> (Sammy)	42,000
<u><i>Slotter Kintaro RX</i></u> (Rodeo)	52,000
<u><i>Gamera High Grade Vision</i></u> (Rodeo)	30,000
<u><i>Mach GoGoGo</i></u> (OEM)	44,000
Others	162,000
Total	591,000

#### Pachinko Machines

Variety	Units Sold
<i>CR-MOJYUOH</i> series	82,000
<u><i>CR Rikidozan</i></u> series	39,000
<i>CR City Hunter</i> series	36,000
<i>CR Sonic</i> series	27,000
Others	62,000
Total	248,000

### Amusement Arcade Equipment

Sammy continued to witness healthy growth in the *REVOLUTION II* series of pachislot and pachinko machines specially redesigned for use in amusement arcades, as well as robust growth in its *Kids’ Series* of token-based medal game machines for children. The Sammy Group also launched worldwide sales of its new amusement

arcade machine platform *ATOMISWAVE* during the year. Dedicated software for this new platform included titles such as *GUILTY Gear Isuka*, a game compatible with *AW-NET*, a service that enables users to link arcade games to mobile content via a network connection.

These factors resulted in sales of ¥7,779 million, up 23.6% year on year. However, the segment sustained an operating loss of ¥1,651 million due to higher R&D expenses, mainly for *ATOMISWAVE* dedicated software.

### **Home Videogame Software**

Sammy launched three titles in its popular *Jissen Pachislot Hisshoho!* series of pachislot simulations, and launched in Japan, North America and Europe *SPY FICTION* and *SEVEN SAMURAI 20XX*, Sammy's first foray into the action game genre. Despite these actions, lingering weakness in the domestic market and the impact of exclusion of a consolidated subsidiary comparing the previous financial year dragged sales down 36.7% to ¥4,864 million. Increased R&D expenditures, mainly by overseas subsidiaries for the creation of original software, higher advertising costs and other expenses resulted in an operating loss of ¥5,048 million.

### **Other Businesses**

In amusement facilities, sales were brisk as Sammy opened three new facilities. At each of these new and existing facilities, based on a unique concept, Sammy took full advantage of local characteristics and the customer base.

In content for mobile phones, benefits from Sammy's media mix strategies, among them synergies between mobile pachislot sites such as *Sammy 777 Town* and Sammy's pachinko and pachislot businesses, sparked substantial growth in the subscriber base and sales during the year.

The foregoing, combined with the consolidation of Nissho Inter Life Co., Ltd. and Japan Multimedia Services Corporation, drove sales a substantial 339.8% higher year on year to ¥11,958 million. However, a subsequent increase in the amortization of goodwill and other expenses resulted in an operating loss of ¥451 million.

## **(2) Financial Position**

Cash and cash equivalents were ¥66,838 million, or ¥40,270 million higher year on year.

Operating activities provided net cash of ¥36,581 million, or ¥4,936 million more than in the previous year. This result was largely due to a ¥21,353 million increase in income before income taxes, combined with an increase in purchasing liabilities and a decrease in income taxes paid. Partially offsetting these was a temporary increase in accounts receivable accompanying substantially higher sales.

Investing activities used net cash of ¥57,368 million, or ¥48,083 million more than the previous year. This was largely attributed to increases in the acquisition of stock in affiliated companies and property and equipment related to the commercial facility development business.

Financing activities provided net cash of ¥61,128 million, or ¥79,330 million more than in the previous year. This was primarily due to a sharp increase in proceeds from the issuance of shares and corporate bonds, as well as lower payments for the purchase of treasury stock.

## **(3) Outlook**

In the pachislot and pachinko industry, revisions to the law in Japan governing the industry scheduled to come into force in July 2004 are expected to result in the launch of pachislot and pachinko machines with a greater emphasis on game play and entertainment value. This is particularly true of pachinko machines, where elimination of the "Variant 1," "Variant 2," and "Variant 3" classification scheme is likely to generate an abundant variety of new pachinko machine models supplied by manufacturers.

The amusement arcade industry, meanwhile, will see the launch of an even greater number of network-enabled arcade machines, which should translate into more stable earnings for amusement arcade facilities. Stability will also be a keyword for the home videogame software industry, where a steady supply of software is expected for North America and Europe.

In this anticipated operating environment, Sammy will focus in the pachislot business on sales strategies for *Hokuto No Ken*, riding strong on the momentum of its runaway success in the previous year. Sammy intends to leverage its sophisticated planning capabilities and talents in graphical expression, and its palette of skills as a comprehensive entertainment company to launch a raft of new products distinct from those of other companies. Through these actions, Sammy aims to sell 580,000 pachislot machine units in the fiscal year ending March 31, 2005. In pachinko machines, Sammy plans to sell 300,000 units by steadily launching new machine varieties built around innovative concepts and technology.

In the amusement arcade equipment business, Sammy plans to bolster its ties with influential software developers in Japan and strengthen its system for online gaming, in addition to the marketing of *ATOMISWAVE*. In home videogame software, sales will largely consist of titles in the *Jissen Pachislot Hisshoho!* series of simulation software. Meanwhile, U.S.-based Sammy Studios, Inc. will remain the focus of efforts to develop powerful game titles targeting overseas markets.

Sammy is projecting consolidated net sales for the full year of ¥297,000 million, up 18.2%, consolidated operation income up 8.4% to ¥77,700 million, and consolidated net income of ¥36,000 million, or 11.8% higher.

[Caution with Regard to Forward-Looking Statements]

Statements in this earnings report regarding market forecasts and the Company's results projections reflect the opinions of the management based on the best information currently available. As such, these statements involve risks and uncertainties, both known and unknown, that may have an impact on the Company's results. Readers are therefore cautioned that changes in any number of such factors could cause actual results to differ materially from such statements.

#### 4 . CONSOLIDATED FINANCIAL STATEMENTS

SAMMY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2004 AND 2003

( Unit : Millions of Yen )

	Current year ( As of March 31, 2004 )		Prior year ( As of March 31, 2003 )		Change
	Amount	Percentage	Amount	Percentage	Amount
( A s s e t s )		%		%	
Current Assets					
Cash and deposits	1.	66,863	26,592		40,270
Notes receivable and accounts receivable-trade		94,119	30,032		64,086
Allowance for doubtful accounts		(651)	(562)		(89)
Inventories		19,812	16,486		3,326
Deferred taxes-current		10,020	3,814		6,206
Deposit for lawsuit		5,000	5,000		-
Others		4,917	3,341		1,576
Total current assets		200,081	84,705	75.0	115,376
Non-current assets					
Property and equipment					
Buildings	1.	6,455	4,962		1,493
Machinery and equipments		2,353	2,055		297
Rental equipment for amusement arcades		1,199	1,037		161
Land	1.	4,835	3,010		1,824
Software		1,279	1,433		(154)
Goodwill		1,384	2,116		(731)
Construction in progress		5,830	59		5,771
Others		3,388	1,918		1,470
Total property and equipment	4.	26,726	16,593	14.7	10,133
Investments and other assets					
Investment securities	2,3.	64,497	3,053		61,444
Lease deposits		1,420	1,887		(466)
Deferred taxes non-current		214	1,981		(1,766)
Others		7,237	4,838		2,399
Allowance for doubtful accounts		(905)	(186)		(719)
Total investments and other assets		72,464	11,574	10.3	60,890
Total non-current assets		99,191	28,168	25.0	71,023
Total assets		299,272	112,873	100.0	186,399

SAMMY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2004 AND 2003

(Unit : Millions of Yen)

	Current year ( As of March 31, 2004 )		Prior year ( As of March 31, 2003 )		Change
	Amount	Percentage	Amount	Percentage	Amount
( Liabilities )					
Current liabilities					
Short-term bank loans and current portion of long-term debt	1.	6,362	3,581		2,780
Notes and accounts payable	1.	55,885	15,019		40,865
Redeemable bond within a year		180	-		180
Accounts payable -other	1.	11,301	2,374		8,926
Income taxes payable		30,691	13,831		16,859
Accrued employees' bonuses		1,403	1,153		250
Others		7,218	3,429		3,788
Total current liabilities		113,042	39,391	34.9	73,650
Non-current liabilities					
Long-term debt, less current portion	1.	3,114	2,169		944
Severance and retirement allowance		2,120	1,553		566
Bonds payable		55,395	200		55,195
Deferred tax liabilities non-current		3,891	-		3,891
Others		3,838	3,015		823
Total non-current liabilities		68,360	6,938	6.1	61,422
Total liabilities		181,403	46,330	41.0	135,073
Minority interest		4,882	1,114	1.0	3,768
( Shareholders' equity )					
Common stock		15,374	8,017	7.1	7,357
Additional paid-in capital		16,364	9,011	8.0	7,352
Retained earnings		86,378	60,023	53.2	26,355
Net unrealized holding gains on securities		10,352	562	0.5	9,789
Foreign currency translation adjustments		32	19	0.0	13
		128,502	77,634	68.8	50,867
Treasury stock, at cost		(15,515)	(12,205)	(10.8)	(3,309)
Total shareholders' equity		112,987	65,428	58.0	47,558
Total liabilities and shareholders' equity		299,272	112,873	100.0	186,399

**SAMMY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

(Unit : Millions of Yen)

	Current year		Prior year		Change
	From April 1,2003 To March 31,2004		From April 1,2002 To March 31,2003		
	Amount	Percentage	Amount	Percentage	Amount
Net sales	251,226	100.0	165,774	100.0	85,452
Cost of sales	123,738	49.3	72,809	43.9	50,929
Gross profit	127,488	50.7	92,964	56.1	34,523
Selling, general and administrative expenses	55,811	22.2	41,255	24.9	14,556
Operating income	71,676	28.5	51,709	31.2	19,967
Other income (expenses) :					
Interest and dividend income	235		104		131
Equity earnings from affiliates etc.	-		12		(12)
Interest expenses	(298)		(180)		(118)
Loss on disposal of property and equipment	(237)		(149)		(88)
Gain on sale of property and equipment-net	5		24		(19)
Exchange loss	(229)		(47)		(182)
Cost of restructuring for subsidiaries	-		(3,753)		3,753
Cost of voluntary recall of products	-		(430)		430
Expense proceeded form issuance of Bond	(643)		-		(643)
Equity in losses of affiliates	(1,835)		-		(1,835)
Others	(733)		(704)		(28)
Sub total	(3,737)	(1.5)	(5,124)	(3.1)	1,386
Income before income taxes and minority interest	67,938	27.0	46,585	28.1	21,353
Income taxes - current	42,369	16.9	25,625	15.5	16,743
- deferred	(6,989)	(2.8)	(2,443)	(1.5)	(4,545)
Total income taxes	35,379	14.1	23,181	14.0	12,197
Net income before minority interests	32,559	12.9	23,403	14.1	9,155
Minority interests	363	0.1	337	0.2	26
Net income	32,196	12.8	23,066	13.9	9,129

**SAMMY CORPORATION**  
**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**  
**FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

(Unit : Millions of Yen)

	Current year		Prior year		Change
	From April 1,2003 To March 31,2004		From April 1,2002 To March 31,2003		
	Amount	Amount	Amount	Amount	
Retained earnings at the beginning of year Beginning balance	60,023	40,172	19,851		
Decrease					
1. Dividends	(5,486)	(2,670)	(2,815)		
2. Bonuses to directors and corporate auditors	(333)	(312)	(20)		
3. Loss of disposal of treasury stock	(21)	(231)	210		
Net income	32,196	23,066	9,129		
Retained earnings to be carried forward	86,378	60,023	26,355		

**SAMMY CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2004 AND 2003**

(Unit : Millions of Yen)

	Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes and minority interests	67,938	46,585
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation and amortization	3,715	2,697
Amortization of good will	720	873
Loss on disposal/sales of property, plant and equipment etc. – net	232	149
Share of earnings of silent ownership	-	(129)
Equity in losses of affiliates	1,835	-
Others	421	201
Changes in assets and liabilities:		
Decrease (Increase) in notes and accounts receivable	(58,305)	23,309
(Increase) in inventories	(1,618)	(713)
Increase (Decrease) in notes and accounts payable	36,623	(10,119)
Decrease (Increase) in other assets	(1,632)	1,972
Increase (Decrease) in other liabilities	12,121	(1,711)
Sub-total	62,053	63,115
Interest and dividends received	17	147
Payment of interest	35	(198)
Payment of income taxes	(25,524)	(31,419)
Net cash provided by operating activities	36,581	31,645
Cash flows from investing activities:		
Payment for purchase of property, plant and equipment	(8,200)	(3,901)
Proceeds from sales of property, plant and equipment	235	568
Payment for purchase of intangible assets	(877)	(747)
Payment for acquisition of shares of affiliated company	(45,442)	-
Proceeds from sales of marketable securities	116	-
Payment for purchase of investment securities – net	(1,119)	(591)
Payment of investment in capital	-	(2,840)
Payment for acquisition of consolidated subsidiaries	-	(1,919)
Increase in cash and cash equivalents due to acquisition of consolidated subsidiaries	313	-
Decrease in loans receivable – net	902	61
Decrease (Increase) in time deposit – net	(3,000)	20
Increase (Decrease) in other investments – net	(296)	66
Net cash used in investing activities	(57,368)	(9,284)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,150	606
Payments of long-term debt	(1,151)	(1,696)
(Decrease) in short-term bank loans	(920)	(2,377)
Proceeds from issuance of bonds	54,456	-
Payment of redemption of bonds	(75)	-
Payment for acquirement of treasury stock	(3,466)	(12,535)
Proceeds from sale of common stock	14,823	201
Cash dividends paid	(5,512)	(2,670)
Others	825	270
Net cash provided by financing activities	61,128	(18,201)
Effect of exchange rate changes on cash and cash equivalents	(70)	(126)
Net increase in cash and cash equivalents	40,270	4,031
Cash and cash equivalents at beginning of year	26,567	22,535
Cash and cash equivalents at end of year	66,838	26,567

## SIGNIFICANT ACCOUNTING POLICIES

### 1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and all of its 21 subsidiaries. There are 2 affiliated companies, which are accounted for by the equity method. 21 subsidiaries and 2 affiliated companies are as follows;

Sammy Amusement Service Co.,Ltd., MAXBET Co., Ltd., Underground Liberation Force Inc., RODEO Co., Ltd., Dimps Corporation, SI Electronics Co., Ltd. Shuko Electronics Co., Ltd., Sammy Design Corporation, Alegria Corporation, IP4 Inc., Sammy Networks Co. ,Ltd., Sammy Holding Co., Inc., Sammy USA Corporation, Sammy Studios, Inc., Sammy Europe Ltd., RTzen Inc., Apanda Inc., Nissho Inter Life Co.,Ltd., Japan, Multimedia Services Corporation, eAddress Corporation, Sammy Golf Entertainment.

### 2. Affiliated company

Japan Setup Service Co., Ltd. and SEGA Corporation are affiliated companies. We newly added SEGA Corporation as an affiliated company in the current year and consolidated financial statements of SEGA is based on the application of the equity method is amortized by straight line method over the year estimated the period of the efficiency appears.

### 3. Fiscal year end of consolidated subsidiaries

Fiscal year end of Nissho Inter Life is May 20 and execution of making consolidated financial statement is used the date of provisional settlement of account practiced on March 20,2004. Only the necessary consolidated adjustments of the important transactions in the period between March 21 and March 31 were made.

Fiscal year end of another consolidated subsidiaries except Nissho Inter Life is March 31, which is the same as that of parent company.

### 4. Method and basis of Accounting standards

#### (1) Valuation of significant assets

Securities that have quoted market prices are stated at the market value. The difference between acquisition cost and market value is accounted for as net unrealized holding gains on securities in Shareholders' equity.

Other securities are carried at moving average cost.

Inventories are stated at cost determined by the average method.

#### (2) Depreciation method of property and equipment

Tangible assets

Depreciation is computed primarily using the declining-balance method according to Japanese Corporate Tax Law.

In addition, buildings acquired after April 1, 1998 are depreciated using the straight-line method according to the Corporate Tax Law.

Service life for primary assets is as follows;

Building/Structure : 3 - 50 years

Tools/Furniture : 4-6 years

Rental equipment for Amusement arcade : 2-3 years

Intangible assets

Depreciation is computed primarily using the straight-line method. We adopt the straight-line method over the useful life of 5 years for Software for internal use.

Advance payment

Depreciation is computed primarily using the straight-line method.

#### (3) Accounting for deferred assets

Stock issuance costs are expensed as incurred.

#### (4) Basis of recording allowances

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover possible losses by estimating individually uncollectible amounts and applying a historical percentage to the remaining accounts.

Severance and retirement allowance for employees

The liability for the employees' severance and retirement benefits is recorded based on the estimated amounts of benefit obligation and plan assets at the end of the year.

Severance and retirement allowance for directors and corporate auditors

The liability for the directors' and corporate auditors' severance and retirement benefits is recorded based on the amount required in accordance with the Company's policy.

#### (5) Accounting for lease transactions

Finance leases, which do not transfer ownership to lessees, are accounted for in the same manner as operating leases.



(6) Accounting for significant hedge

The Company has employed certain interest swaps to hedge its exposure to movements in the interest rates for its borrowings. As a matter of policy, the Company does not engage in speculative transactions. These swaps have been accounted for using the simplified method permissible.

(7) Accounting method of consumption taxes

Consumption taxes paid and received are recorded as suspense payments and suspense receipts during the year. The net payable resulting from offsetting the two accounts is recorded as consumption tax payable at year-end.

5. Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are valued at market value.

6. Goodwill

The difference between the cost and underlying net equity of investments in subsidiaries at acquisition is allocated to identifiable assets. The unallocated residual value of the excess of the cost over the net assets is recognized as goodwill and is amortized over 5 years. The Company continuously evaluates realizability of such intangible assets and records write-down where appropriate. Insignificant amount of such intangible asset is charged to income when incurred.

7. Appropriation of retained earnings

Consolidated statement of retained earnings is prepared based on appropriations of retained earnings of consolidated companies authorized in the fiscal year.

8. Scope of financial funds in the statement of cash flow

Financial funds (cash and cash equivalent) in the statement of cash flow consist of cash and deposits in bank which are readily available for withdrawal, and short term investments with maturities of 3 months **or less, which are readily convertible to cash and have negligible risk of changes in value.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEET

Current year (As of March 31, 2004)	Prior year (As of March 31, 2003)																
<p>1. Collateralized assets for payable-trade (¥2 million), payable-other(¥1million), Loan(¥662million), Long-term Loan(¥526million) are as follows;</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Land</td> <td style="text-align: right;">¥1,139 million</td> </tr> <tr> <td>Building and structure</td> <td style="text-align: right;">¥632 million</td> </tr> <tr> <td><u>Time deposit</u></td> <td style="text-align: right;"><u>¥20 million</u></td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>¥1,791 million</b></td> </tr> </table>	Land	¥1,139 million	Building and structure	¥632 million	<u>Time deposit</u>	<u>¥20 million</u>	<b>Total</b>	<b>¥1,791 million</b>	<p>1. Collateralized assets for payable-trade (¥17 million), payable-other(¥3million), Loan(¥252million) are as follows;</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Land</td> <td style="text-align: right;">¥200 million</td> </tr> <tr> <td>Building and structure</td> <td style="text-align: right;">¥0 million</td> </tr> <tr> <td><u>Time deposit</u></td> <td style="text-align: right;"><u>¥20 million</u></td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>¥220 million</b></td> </tr> </table>	Land	¥200 million	Building and structure	¥0 million	<u>Time deposit</u>	<u>¥20 million</u>	<b>Total</b>	<b>¥220 million</b>
Land	¥1,139 million																
Building and structure	¥632 million																
<u>Time deposit</u>	<u>¥20 million</u>																
<b>Total</b>	<b>¥1,791 million</b>																
Land	¥200 million																
Building and structure	¥0 million																
<u>Time deposit</u>	<u>¥20 million</u>																
<b>Total</b>	<b>¥220 million</b>																
2. Security to affiliated company is ¥44,077 million.	2. Security to affiliated company is ¥26 million.																
3 Security loaned with ¥1,261 million is included in Investment securities	3 _____																
4 Accumulated depreciation of tangible fixed asset is ¥8,220 million	4 Accumulated depreciation tangible fixed asset is ¥5,909 million																

### CONSOLIDATED STATEMENT OF INCOME

Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
Summary of selling, general and administrative expenses is as follows;	Summary of selling, general and administrative expenses is as follows;
<u>Millions of Yen</u>	<u>Millions of Yen</u>
Bad debt expenses	-
Allowance for Bonuses	731
Retirement allowance for employees	137
Retirement allowance for directors	115
Sales agent fee	10,645
Reseach & Development expenses	8,079

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
1. Reconciliation between balance of cash and cash equivalent at period-end and cash and bank deposits shown in the balance sheet:	1. Reconciliation between balance of cash and cash equivalent at period-end and cash and bank deposits shown in the balance sheet:
<u>Millions of Yen</u>	<u>Millions of Yen</u>
Cash and bank deposits	Cash and bank deposits
66,863	26,592
Marketable securities	Marketable securities
-	-
Sub-total	Sub-total
66,863	26,592
Time deposit whose maturity date is over 3months	Time deposit whose maturity date is over 3months
(25)	(25)
Cash and cash equivalent	Cash and cash equivalent
66,838	26,567
2. Breakdown of assets and liabilities for subsidiaries newly consolidated by acquisition of their shares;	2. Breakdown of assets and liabilities for subsidiaries newly consolidated by acquisition of their shares;
<u>Millions of Yen</u>	<u>Millions of Yen</u>
(1) Apanda Inc.	(1) Alegria Corporation
Current assets	Current assets
181	151
Non current assets	Non current assets
53	21
Goodwill	Goodwill
96	211
Current liabilities	Current liabilities
(54)	(106)
Minority interest	Non current liabilities
(36)	(17)
Acquisition cost	Minority interest
239	(19)
Share previously owned	Acquisition cost
(17)	240
Cash and equivalent	Cash and equivalent
(139)	(137)
Expenditure for acquisition	Expenditure for acquisition
82	102
<u>Millions of Yen</u>	<u>Millions of Yen</u>
(2) Nissho Inter Life Co.,Ltd.	(2) IP4 Inc.
Current assets	Current assets
10,555	259
Non current assets	Non current assets
3,609	17
Goodwill	Goodwill
(314)	(49)
Current liabilities	Current liabilities
(7,710)	(58)
Non current liabilities	Minority interest
(643)	(65)
Minority interest	Acquisition cost
(2,877)	103
Acquisition cost	Cash and equivalent
2,619	(192)
Cash and equivalent	Expenditure for acquisition
(2,514)	(89)
Expenditure for acquisition	
105	
<u>Millions of Yen</u>	<u>Millions of Yen</u>
(3) Japan Multimedia Services Corporation	(3) Sammy Networks Co., Ltd.
Current assets	Current assets
1,420	750
Non current assets	Non current assets
111	83
Goodwill	Goodwill
162	1,715
Current liabilities	Current liabilities
(640)	(474)
Non current liabilities	Minority interest
(222)	(46)
Minority interest	Acquisition cost
(329)	2,029
Acquisition cost	Cash and equivalent
502	(123)
Share previously owned	Expenditure for acquisition
(68)	1,905
Cash and equivalent	
(1,132)	
Expenditure for acquisition	
(698)	

	<u>Millions of Yen</u>	
(4) Sammy Golf Entertainment		
Current assets	337	
Non current assets	728	
Goodwill	(3)	
Current liabilities	<u>(582)</u>	
Acquisition cost	480	
Cash and equivalent	<u>(282)</u>	
Expenditure for acquisition	<u>197</u>	
3. Significant non-cash transactions		3. Significant non-cash transactions
Not applicable		Not applicable

## SEGMENT INFORMATION

### A . Operations by product

Current fiscal year ( From April 1, 2003 to March 31, 2004 )

(Unit : Millions of yen)

	Pachinko Pachislot	Amusement equipment	Home TV game software	Others	Total	Corporate and elimination	Consolidated
Net sales -							
(1) Outside customers	226,624	7,779	4,864	11,958	251,226	-	251,226
(2) Inter segment	70	2	321	65	460	(460)	-
<b>Total</b>	<b>226,695</b>	<b>7,782</b>	<b>5,185</b>	<b>12,023</b>	<b>251,687</b>	<b>(460)</b>	<b>251,226</b>
Cost and expenses	142,097	9,433	10,234	12,475	174,240	5,309	179,550
Operating income (loss)	84,597	(1,651)	(5,048)	(451)	77,447	(5,770)	71,676
Assets	144,369	56,694	5,868	30,937	237,871	61,401	299,272
Depreciation	1,959	626	214	654	3,454	261	3,715
Capital expenditure	2,709	844	608	6,638	10,801	638	11,440

( Note ) 1. The Company has 4 operating segments based on its management control structure, and nature of products and market.

2. Main products and line of business by segment

(1) Pachinko and pachislot ... Manufacture and sell Pachinko and pachislot machines and design parlors

(2) Amusement equipment ... Manufacture, sell and rent game machines used in an amusement arcades

(3) Home TV game software ... Develop and sell home TV game software

(4) Others ... Operation of amusement arcades Management of amusement arcades, Produce and sell music CD, Development of computer graphics, License Management, Internet Music Contents provider, Development business of Commercial facilities and Rent business on real estate, Design and Construction of Commercial arcades Etc, Information Provider business

3. General corporate expenses of ¥ 5,770 million, which mainly consist of expenses incurred by the parent company's administrative department, are included in "Corporate and eliminations."

4. Corporate assets of ¥ 61,401 million, which mainly consist of cash and cash equivalent and corporate properties, are included in "Corporate and elimination."

Prior fiscal year ( From April 1, 2002 to March 31, 2003 )

(Unit : Millions of yen)

	Pachinko Pachislot	Amusement equipment	Home TV game software	Others	Total	Corporate and elimination	Consolidated
Net sales -							
(1) Outside customers	149,083	6,291	7,679	2,719	165,774	-	165,774
(2) Inter segment	14	1	703	25	744	(744)	-
<b>Total</b>	<b>149,098</b>	<b>6,293</b>	<b>8,382</b>	<b>2,744</b>	<b>166,518</b>	<b>(744)</b>	<b>165,774</b>
Cost and expenses	88,407	6,784	9,866	3,305	108,365	5,699	114,064
Operating income (loss)	60,690	(491)	(1,484)	(560)	58,153	(6,444)	51,709
Assets	64,842	8,825	3,914	3,764	81,347	31,526	112,873
Depreciation	1,484	649	156	44	2,334	363	2,697
Capital expenditure	1,458	185	665	128	2,437	574	3,012

( Note ) 1. The Company has 4 operating segments based on its management control structure, and nature of products and market.

2. Main products and line of business by segment

(1) Pachinko and pachislot ... Manufacture and sell Pachinko and pachislot machines and design parlors

(2) Amusement equipment ... Manufacture, sell and rent game machines used in an amusement arcades

(3) Home TV game software ... Develop and sell home TV game software

(4) Others ... Operation of amusement arcades Management of amusement arcades, Produce and sell music CD, Development of computer graphics, License Management, Internet Music Contents provider

3. General corporate expenses of ¥ 6,444 million, which mainly consist of expenses incurred by the parent company's administrative department, are included in "Corporate and eliminations."

4. Corporate assets of ¥ 31,526 million, which mainly consist of cash and cash equivalent, marketable securities, investment securities and corporate properties, are included in "Corporate and elimination."

### B . Geographical segment information

Geographical segment information was not presented as the sales and assets of consolidated domestic subsidiaries for the year ended March 31, 2004 exceed 90% of consolidated net sales and assets.

### C . Overseas sales

Overseas sales was not presented as the overseas sales of the Company and its consolidated subsidiaries for the year ended March 31, 2004 were less than 10% of consolidated net sales.

## LEASE TRANSACTIONS

Current year From April 1,2003 To March 31,2004				Prior year From April 1,2002 To March 31,2003			
A summary of finance leases which do not transfer ownership to lessee:				A summary of finance leases which do not transfer ownership to lessee:			
1.Acquisition cost, accumulated depreciation, year-end book value of the leased items (Unit: Millions of yen)				1.Acquisition cost, accumulated depreciation, year-end book value of the leased items (Unit: Millions of yen)			
	Acquisition cost	Accumulated depreciation	Book value at year-end		Acquisition cost	Accumulated depreciation	Book value at year-end
Tools and furniture	733	478	254	Tools and furniture	74	27	46
Machinery and equipments	257	125	131	Machinery and equipments	49	22	26
Software	236	126	109				
<b>Total</b>	<b>1,227</b>	<b>731</b>	<b>495</b>	<b>Total</b>	<b>123</b>	<b>50</b>	<b>73</b>
2.Outstanding minimum lease payments at year-end (Unit: Millions of Yen)				2.Outstanding minimum lease payments at year-end (Unit: Millions of Yen)			
Within one year		213		Within one year		28	
Exceeding one year		282		Exceeding one year		44	
<b>Total</b>		<b>495</b>		<b>Total</b>		<b>73</b>	
3.Payment of lease/Depreciation (Unit: Millions of Yen)				3.Payment of lease/Depreciation (Unit: Millions of Yen)			
Payment of lease		102		Payment of lease		35	
Depreciation		102		Depreciation		35	
4.Operating lease Outstanding minimum lease payments at year-end (Unit: Millions of Yen)				4.Operating lease Outstanding minimum lease payments at year-end (Unit: Millions of Yen)			
Within one year		46		Within one year		13	
Exceeding one year		163		Exceeding one year		8	
<b>Total</b>		<b>210</b>		<b>Total</b>		<b>21</b>	
5. Depreciation and Outstanding minimum lease payments at year-end							
<ul style="list-style-type: none"> <li>• Depreciation is computed using the straight-line method over the lease term to make residual value zero.</li> <li>• Outstanding minimum lease payments at year-end is computed with inclusive of interest since the percentage of the total assets at the end is not significant.</li> </ul>							

## DEFERRED TAXES

Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
1.Significant components of the deferred tax assets and liabilities are as follows: (Deferred tax assets)	1.Significant components of the deferred tax assets and liabilities are as follows: (Deferred tax assets)
(Unit : Millions of Yen)	(Unit : Millions of Yen)
(Current assets)	
Tax loss carryforward on a subsidiaries	Tax loss carryforward on a subsidiaries
5,271	3,416
Accrued enterprise tax	Accrued enterprise tax
2,388	1,088
Accrued bonuses	Accrued bonuses
564	413
Inventories	Inventories
3,538	2,040
Loss of revaluation of inventories	Other
1,718	271
Accounts payable	Sub-total
1,511	7,231
Other	
454	
Sub-total	
<u>15,447</u>	
(Non-current assets)	(Non-current assets)
Expensed tangible assets to be capitalized for tax purpose	Expensed tangible assets to be capitalized for tax purpose
525	714
Retirement benefits	Retirement benefits
818	563
Depreciation expense	Depreciation expense
1,542	490
Investment securities	Other
445	600
Bad debt	Sub-total
204	2,370
Other	Total deferred tax assets
273	9,601
Sub-total	Deferred tax valuation allowance
3,811	<u>(3,416)</u>
Total deferred tax assets	Net deferred tax assets
<u>19,259</u>	<u>6,184</u>
Deferred tax valuation allowance	
<u>(5,993)</u>	
Net deferred tax assets	
<u>13,265</u>	
(Deferred tax liabilities)	(Deferred tax liabilities)
Securities valuation allowance	Securities valuation allowance
<u>(6,921)</u>	<u>(388)</u>
Net deferred tax assets/liabilities	Net deferred tax assets/liabilities
<u>6,344</u>	<u>5,796</u>
2 . Significant factors attributing to the differences between the effective statutory tax rate and the tax rate actually imposed:	2 . Significant factors attributing to the differences between the effective statutory tax rate and the tax rate actually imposed:
(Unit : %)	(Unit : %)
Effective statutory tax rate	Effective statutory tax rate
40.7	42.0
( Adjustments )	( Adjustments )
Permanent differences such as entertainment expense	Permanent differences such as entertainment expense
0.3	0.5
Tax on undistributed earnings of family corporation	Inhabitant tax per capita
5.0	0.2
Change of business tax rate	Tax on undistributed earnings of family corporation
3.1	4.1
Valuation reserve	Other
1.4	3.0
Equity in losses of affiliates	Tax rate actually imposed
1.1	<u>49.8</u>
Amortization of good will	
0.4	
Other	
0.1	
Tax rate actually imposed	
<u>52.1</u>	

<p style="text-align: center;">Current year From April 1,2003 To March 31,2004</p>	<p style="text-align: center;">Prior year From April 1,2002 To March 31,2003</p>
	<p>3.Adjustments to the amounts of deferred tax assets and deferred tax liabilities due to the change in the tax rate of the corporation tax etc.</p> <p>Pursuant to the Amendments to the Local Tax Lawsof 2003, the capital-based enterprise tax on corporation will become effective from the fiscal year commencing on or after April 1, 2004, which will lower the standard tax rate for the income-based enterprise tax on corporation. Accordingly, the effective tax rate of 40.7% is used for the temporary differences etc. which are expected to reverse in the fiscal year commencing on or after April 1, 2004. This has resulted in a ¥72 million decrease in the net deferred tax assets.</p> <p>The changes in the net deferred tax assets due to such change in tax rate are calculated by applying the difference between the new and old tax rates to the temporary differences as of the end of the fiscal year.</p>



## FAIR VALUE OF MARKETABLE SECURITIES

Current fiscal year (From April 1, 2003 to March 31, 2004)

(1) Marketable securities with quoted market prices as of March 31, 2004 (Unit : Millions of Yen)

Security type	Current year (As of March31, 2004)		
	Acquisition cost	Balance Sheet Amount	Valuation gain/loss
Securities whose market value exceeds the Balance sheet amount:			
Stocks	955	18,597	17,642
Bonds	-	-	-
Other	-	-	-
Total	955	18,597	17,642

Security type	Current year (As of March31, 2004)		
	Acquisition cost	Balance Sheet Amount	Valuation gain/loss
Securities whose balance sheet amount does not exceed the acquisition cost:			
Stocks	579	459	(120)
Bonds	-	-	-
Other	-	-	-
Total	579	459	(120)

(2) Other securities sold during this fiscal year (April 1, 2003-March 31, 2004) (Unit : Millions of Yen)

Amount sold	Amount of gain on sale	Amount of loss on sale
116	51	174

(3) Unlisted securities without quoted market prices as of March 31, 2004

(Unit : Millions of Yen)

	Balance Sheet Amount
Unlisted stocks (excluding over the counter securities)	1,263
Convertible Bonds	100
Unlisted stocks of affiliated company (excluding over the counter securities)	47
Total	1,410

Prior fiscal year (From April 1, 2002 to March 31, 2003)

(1) Marketable securities with quoted market prices as of March 31, 2003

(Unit : Millions of Yen)

Security type	Prior year (As of March31, 2003)		
	Acquisition cost	Balance Sheet Amount	Valuation gain/loss
Securities whose balance sheet amount exceeds the acquisition cost			
Stocks	938	1,983	1,044
Bonds	-	-	-
Other	-	-	-
Total	938	1,983	1,044

Security type	Prior year (As of March31, 2003)		
	Acquisition cost	Balance Sheet Amount	Valuation gain/loss
Securities whose balance sheet amount does not exceed the acquisition cost			
Stocks	320	220	(99)
Bonds	-	-	-
Other	-	-	-
TOTAL	320	220	(99)

(Note) Investment securities were devalued by ¥ 297 million (¥ 153 million in other securities with quoted market prices, ¥ 143 million in other securities without quoted market prices) during this fiscal year.

(2) Other securities sold during this fiscal year (April 1, 2002-March 31, 2003) (Unit : Millions of Yen)

Amount sold	Amount of gain of sale	Amount of loss of sale
103	0	-

(3) Unlisted securities without quoted market prices as of March 31, 2003

(Unit : Millions of Yen)

	Balance Sheet Amount
Unlisted stocks (excluding over the counter securities)	723
Unlisted stocks of affiliated company (excluding over the counter securities)	100
	26
Total	849

### Derivative transactions

Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
<p>1. Derivative transactions</p> <p>(1) Derivative transaction that the company utilizes is interest rate swap.</p> <p>(2) The Company utilizes derivative financial instruments to reduce financial market risks. The Company does not use derivative financial instruments for speculative or trading purposes.</p> <p>(3) The Company utilizes swap agreements which exchange the variable rate of debt for fixed rate to hedge the effects of interest rate fluctuations. The company accounts for interest rate swaps based on the simplified method. Interest rate swaps are used to hedge interest rate risks on debts.</p> <p>(4) The company believes that the swap transactions used by the company do not have a significant exposure to the market interest fluctuation risks. Also, the risk of default by the counter parties to the interest rate swaps is mitigated as they are reputable domestic financial institutions.</p> <p>(5) The Company controls credit risk through credit approvals, limits and monitoring procedures.</p> <p>2. Fair value of derivative transactions As the hedge accounting is adopted, disclosure of such information is omitted as permitted per the disclosure rules.</p>	<p>Same as the left</p>

### Pension Accounting

Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
<p>1. Summary description of the pension plan The company has unfunded severance indemnities plan based on the regulation on pension benefit. Also, defined benefit pension plan has been adopted as a part of the severance plan since June 1, 1992.</p> <p>2. Actuarial assumptions Discount rate: 2.5% Expected long-term rate of return on plan assets: 1%</p>	<p>Same as the left</p> <p>2. Actuarial assumptions Discount rate: 3% Expected long-term rate of return on plan assets: 1%</p>

### Per share data

Current year From April 1,2003 To March 31,2004		Prior year From April 1,2002 To March 31,2003	
Equity per share	¥ 1,390.74	Equity per share	¥ 1,298.90
Net income per share	¥ 424.68	Net income per share	¥ 436.79
Net income per share (diluted)	¥ 417.97	Net income per share (diluted)	¥ 435.42
The company conducted a 1.5-for-1 stock split on February 27,2004. Per share data for the prior year would have been as follows if such share split up was executed at the beginning of the previous period;		New accounting standards for per share data have been adopted from this fiscal year. Per share data for the prior year would have been as follows if such new standards were applied;	
Equity per share	¥ 865.93	Equity per share	¥ 1,068.27
Net income per share	¥ 291.19	Net income per share	¥ 446.52
Net income per share (diluted)	¥ 290.28	Net income per share (diluted)	¥ 443.57

(Note) Net income per share and net income per share (diluted) are computed as follows:

	Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
Net income per share		
Net income (Millions of Yen)	32,196	23,066
Amount which does not belong to common shareholders (Millions of Yen)	437	336
(of which, bonus to directors) (Millions of Yen)	437	336
Net income for common stock (Millions of Yen)	31,758	22,730
Average numbers of shares issued and outstanding during fiscal year(Thousand)	74,782	52,038
Net income per share (diluted)		
Adjustment to net income	-	-
Increase of common stock (Thousand)	1,201	163
(of which, preemptive rights on common stock)(Thousand)	1,201	163
Description and number of common stock equivalents which were not included in the computation of net income per share (diluted) as they were anti-dilutive	Stock option (common stock) 489,000 approved by General Meeting on June 22, 2001 Stock option (common stock) 487,500 approved by General Meeting on June 21, 2002 The first Yen denominated convertible bond-type bonds with stock acquisition rights (common Stock)10,449,320 approved by Corporate resolution on February 12,2004	Stock option (common stock) 346,000 approved by General Meeting on June 22, 2001 Stock option (common stock) 332,000 approved by General Meeting on June 21, 2002

(Going concern assumption)

Not applicable

(Transaction with related parties)

CURRENT YEAR (From April 1, 2003 to March 31, 2004)

Attribution	Name of party	Address	Capital	Business affairs or Occupation	Owned percentage of right to vote
Director and close relatives	Mr.Takashi Hirayama	-	-	Director of Sammy CEO of Apanda Inc.	Direct -

Relationship		Trade	Amount (Millions of Yen)	Account title	Balance at the end of FY (Millions of Yen)
Director / additional post	In effect				
-	-	Assignment of stock	24	-	-

(Note)

Condition of transaction and the resolution policy

Calculation of transaction price is decided based on market value

## **5.PRODUCTION BY PRODUCT LINE**

(1)Results of production

( Unit : Millions of Yen )

	Current year From April 1,2003 To March 31,2004	Prior year From April 1,2002 To March 31,2003
	Amount	Amount
Pachislot and Pachinko	219,256	147,175
Amusement equipment	5,457	4,954
Total	224,713	152,130

(Note) Amounts indicated above are calculated based on sales price and do not include related consumption tax.

(2)Sales order backlog

The Company produces Pachislot and Pachinko machines based upon trends of sales order backlog because of short production time. However, as these products have a shorter life cycle with significant shipments required in their initial stage, the initial production is carried out by anticipating initial orders and the quantity of such initial production accounts for majority of total sales quantity. On the other hand, amusement equipment is produced by anticipating orders due to long production time required. For these reasons, the information as to sales order backlog is not considered reflective of the Company's operations and therefore not presented.

(3)Sales by product line

See Segment information.