

Annual Report
Financial Section 2004



 **ARUZE CORP.**

Management's Discussion and Analysis of Operation and Financial Condition (Consolidated)

Overview of Business

Sales Amount

While the revenue from pachinko and pachislot operations, which are the key business segment of the Aruze Group, decreased greatly by 35.4% from the previous fiscal year to 74,766 million yen, sales from the operation of amusement facilities increased by 0.6% from the previous period to 16,945 million yen, and that from video game machines increased by 90.2% to 5,567 million yen. The total consolidated sales amount, including revenues from other business segments, was 101,077 million yen (which was a 26.7% decrease from the previous fiscal year.)

Cost of Sales

Because of the increase in manufacturing costs caused by rebuilding returned "Gold X" and "Gold XR" machines, the cost of sales ratio increased by 10.9 % from the previous year to 61.9%. However, due to the decrease in the sales amount, the total amount of cost of sales decreased by 11.2% from the previous year to 62,523 million yen.

Selling, General and Administrative Expenses

As a result of our efforts to implement various measures for sales recovery and to regain market confidence in our products in connection with the defects of "Gold X", sales promotion expenses rose to 4,844 million yen. With the active development of new pachinko machines, R&D expenses increased as well (by 12.5% to 4,446 million yen.) On the other hand, sales commissions decreased by 57.4% from the previous year to 991 million yen and salaries and wages decreased by 2.4% to 4,710 million yen. Therefore, the total amount of selling, general and administrative expenses was 28,488 million yen, an increase of 14.4% from the previous year.

Net Income

In addition to the above, extraordinary losses were recorded in terms of inventory disposal losses of 1,733 million yen, provision for allowance for doubtful accounts of 1,915 million yen, and loss on devaluation of investment securities of 1,170 million yen. As a result, the net income was 156 million yen, a decrease of 99.1% from the previous year.

Thus, the EPS was 1.96 yen, which represents a decrease of 214.71 yen from the previous year, and the ROE decreased to 0.1%, 13.5% down from the previous year.

Overview of Finance

Assets

The total amount of consolidated assets was 185,472 million yen, a 9.3% drop from the previous year, which is accounted for by a decrease in trade notes and accounts receivable due to a decrease in Aruze Corporation's sales by 61.7% from the previous year to 19,100 million yen and a decrease in investment securities by 17.7% from the previous year to 33,027 million yen.

Liabilities

Short-borrowings and long-term debts were increased by 71.7% to 40,744 million yen, but due to a drop in the purchase amount, notes and accounts payable declined by 45.8% to 12,157 million yen. Also, income taxes decreased by 92.1% to 1,218 million yen because of a decrease in income before income taxes and minority interests. Thus, the amount of total liabilities was 61,036 million yen, a 13.9% drop.

Capital

The total amount of shareholders' equity decreased by 7.5% from the previous year to 118,293 million yen due to a decrease in retained earnings by 4,832 million yen as a result of the payment of dividends as well as a decrease in cumulative adjustment of foreign currency conversion by 3,785 million yen.

Thus, the equity ratio increased by 1.3% from the previous year to 63.8%.

Cash Flow

In this consolidated fiscal year, the outstanding amount of cash and cash equivalents (the "Funds") decreased by 84.4%, or 6,031 million yen, from the previous year to 32,566 million yen.

The condition of each cash flow and the major rise and fall factors in this fiscal year are as follows.

(Cash flows from operating activities)

The cash flows from operating activities was 10,100 million yen in expenditures. In the previous period, it was 25,442 million yen in proceeds. The sizable cash outflow accounted for an increase in accounts receivable of 57,543 million yen, while inventories and accounts payable decreased by 16,024 million yen and 17,763 million yen, respectively. This year's income before tax income taxes and minority interests also decreased by 34,411 million yen, and income taxes paid increased by 15,635 million yen.

(Cash flows from investing activities)

The cash flows from investing activities was 7,254 million yen in expenditures (a 25.7%, or 20,891 million yen, decrease from the previous year). This is mainly attributable to additional investments of 24,530 million yen in the overseas affiliated companies in the previous consolidated fiscal year.

(Cash flows from financing activities)

The cash flows from financing activities was 11,344 million yen in proceeds. In the previous period, it was 7,093 million yen in expenditures. This comes from the fact that while the net increase in short-term borrowings was 28,550 million yen, proceeds from long-term debts decreased by 5,050 million yen and the expenditure of the repayment of long-term debts increased by 3,525 million yen.

Capital Investments

In the current consolidated fiscal year, the Aruze Group spent 6,627 million yen on production facilities for pachislot and pachinko machines and on establishment of new amusement facilities.

In the pachislot and pachinko segment, we improved existing production facilities and acquired metal molds for new products.

In the amusement facilities segment, we opened 5 new facilities and invested in equipment for amusement facilities management.

The major facilities completed during this consolidated fiscal year include equipment for increased production of pachislot and pachinko machines and newly opened amusement facilities.

There was no major disposal and sale of facilities and equipment during the current consolidated fiscal year.

Research and Development Activities

The fundamental policy of the Aruze Group is in having creativity and foresight and in continuing to make something good and new at all times. As a global entertainment company that provides high-quality entertainment to people of all generations, our mission is to provide "excitement" to the society.

The R&D of the Aruze Group is centered on the pachinko and pachislot industry and the video machine industry. We mainly develop pachislot and pachinko machines, consumer games (for home use), amusement (for commercial use), and gaming devices.

Not content with conventional technologies, we have always taken up the challenge of new technologies. Exploiting the latest technology, we have continuously developed new, innovative products.

Our R&D staff now numbers 521, which is 33.3% of our workforce.

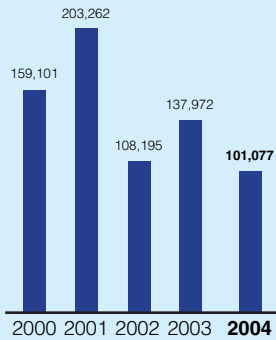
This fiscal year, total R&D expenses amounted to 4,876 million yen. We strive to develop more sophisticated technology, achieve higher efficiency, and reduce production cost for the audio and visual components of pachislot and pachinko machines and video game devices for business and home use.

Recognizing the arrival of the next generation of IT technologies, we are also making strides in the research and development of AI-IT computer systems for equipping telecommunication devices with artificial intelligence (AI) technologies and voice communication engines.

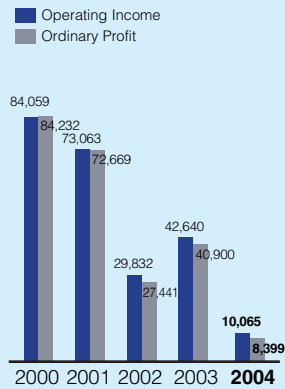
Depreciation and Amortization Expenses

Depreciation and Amortization Expenses increased 20.1% to 5,912 million yen.

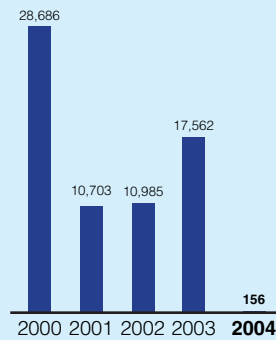
Net Sales
millions of yen



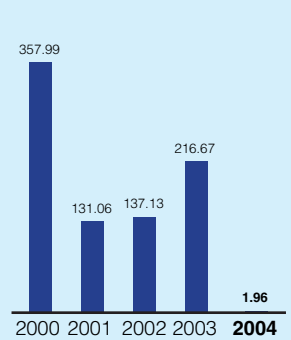
Operating Income/Ordinary Profit
millions of yen



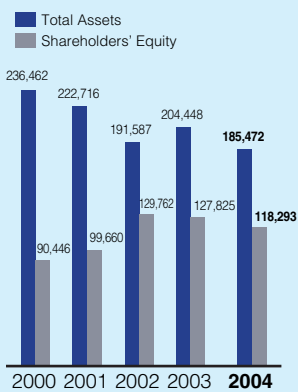
Net Income
millions of yen



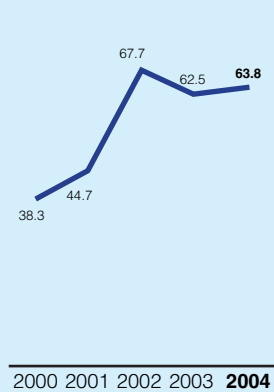
Earnings per Share (EPS)
yen



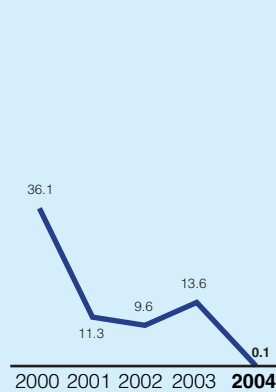
Total Assets/Shareholders' Equity
millions of yen



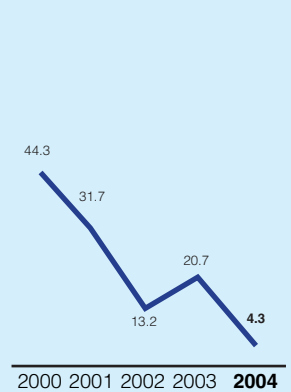
Equity Ratio
%



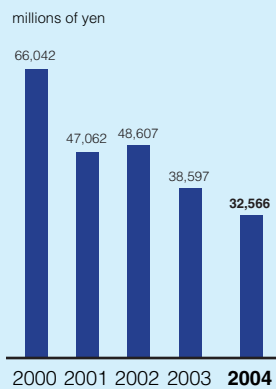
Return on Equity (ROE)
%



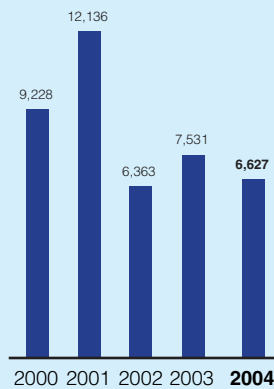
Return on Assets (ROA)
%



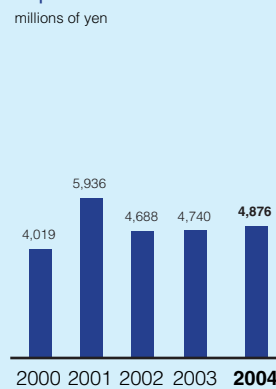
Cash and Cash Equivalents at End of Year
millions of yen



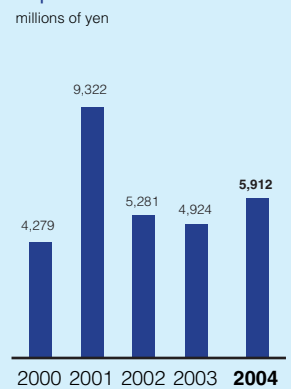
Capital Investment
millions of yen



Research and Development Expenses
millions of yen



Depreciation and Amortization Expenses
millions of yen



Consolidated Balance Sheets

March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Assets			
Current assets:			
Cash and bank deposits (Notes 3 and 10)	¥ 32,598	¥ 38,597	\$ 308,430
Trade notes and accounts receivable (Note 16)	19,100	49,857	180,717
Less: Allowance for doubtful accounts	(68)	(621)	(643)
Inventories (Note 3)	20,294	10,759	192,014
Deferred tax assets (Note 4)	2,327	2,032	22,017
Refundable income taxes	9,292	–	87,917
Prepaid expenses and other current assets (Note 16)	13,157	8,743	124,487
Total current assets	96,702	109,369	914,959
Property, plant and equipment, at cost (Note 3):			
Land	20,698	21,197	195,837
Buildings and structures	19,618	17,881	185,618
Machinery and equipment	18,218	15,448	172,372
Amusement facility equipment	10,721	9,733	101,438
Less: Accumulated depreciation	(27,858)	(24,528)	(263,582)
Property, plant and equipment, net	41,398	39,732	391,693
Investments and other assets (Note 16):			
Investment securities (Notes 3 and 11)	33,027	40,131	312,489
Long-term loans receivable	500	0	4,731
Goodwill	1,019	1,492	9,641
Deferred tax assets (Note 4)	–	1,445	–
Other assets (Notes 3 and 16)	16,461	13,562	155,748
Less: Allowance for doubtful accounts	(3,638)	(1,285)	(34,421)
Total investments and other assets	47,371	55,345	448,207
Total assets	¥ 185,472	¥ 204,448	\$1,754,868

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings (Note 3)	¥ 35,013	¥ 4,620	\$ 331,280
Current portion of long-term debt (Note 3)	3,107	12,761	29,397
Notes and accounts payable (Note 16):			
Trade	12,157	22,416	115,025
Other	2,188	2,413	20,702
Accrued income taxes	1,218	15,391	11,524
Other current liabilities	2,091	4,150	19,784
Total current liabilities	55,778	61,752	527,751
Long-term liabilities:			
Long-term debt (Note 3)	2,624	6,349	24,827
Deferred tax liabilities (Note 4)	48	–	454
Other long-term liabilities	2,584	2,816	24,449
Total long-term liabilities	5,257	9,166	49,740
Total liabilities	61,036	70,918	577,500
Minority interests	6,142	5,703	58,113
Contingent liabilities and litigation (Note 15)			
Shareholders' equity (Note 7):			
Common stock:			
Authorized – 324,820,000 shares;			
Issued – 80,195,000 shares	3,446	3,446	32,605
Additional paid-in capital	7,503	7,503	70,991
Retained earnings	111,426	116,258	1,054,272
Unrealized holding gain on securities	23	1	218
Translation adjustments	(2,270)	1,715	(21,478)
	120,129	128,924	1,136,617
Less: Treasury stock at cost: 291,000 shares in 2004 and 91,000 shares in 2003 (Note 8)	(1,835)	(1,099)	(17,362)
Total shareholders' equity	118,293	127,825	1,119,245
Total liabilities and shareholders' equity	¥ 185,472	¥ 204,448	\$1,754,868

Consolidated Statements of Income

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Net sales (Note 16)	¥ 101,077	¥ 137,972	¥ 108,195	\$ 956,353
Cost of sales	62,523	70,423	52,410	591,570
Gross profit	38,554	67,548	55,785	364,784
Selling, general and administrative expenses (Note 16)	28,488	24,907	25,952	269,543
Operating income	10,065	42,640	29,832	95,231
Other income (expenses) (Note 16):				
Interest and dividend income	138	134	184	1,306
Interest expense	(597)	(836)	(870)	(5,649)
Equity in losses of an affiliate	(1,811)	(1,884)	(2,225)	(17,135)
Loss on devaluation of investment securities	(1,170)	(34)	(12)	(11,070)
Provision for allowance for doubtful accounts	(1,915)	0	(58)	(18,119)
Loss on disposal of inventories	(1,733)	(170)	(1,153)	(16,397)
Other, net (Note 12)	549	(1,912)	(1,632)	5,194
	(6,539)	(4,702)	(5,769)	(61,870)
Income before income taxes and minority interests	3,526	37,937	24,063	33,362
Income taxes (Note 4):				
Current	1,680	19,691	8,740	15,896
Deferred	1,104	237	4,071	10,446
	2,785	19,928	12,812	26,351
Minority interests	(584)	(446)	(265)	(5,526)
Net income	¥ 156	¥ 17,562	¥ 10,985	\$ 1,476

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Common stock (Note 7):				
Balance at beginning and at end of year (80,195,000 shares)	¥ 3,446	¥ 3,446	¥ 3,446	\$ 32,605
Additional paid-in capital (Note 7):				
Balance at beginning and at end of year	¥ 7,503	¥ 7,503	¥ 7,503	\$ 70,991
Retained earnings (Note 7):				
Balance at beginning of year	¥ 116,258	¥ 114,080	¥ 85,887	\$1,099,991
Adjustments to retained earnings:				
Adjustments for inclusion/exclusion of subsidiaries in/from consolidation	(382)	(2)	22,188	(3,614)
Adjustment relating to an affiliate which changed its legal organization	—	(11,663)	—	—
As adjusted	115,876	102,415	108,076	1,096,376
Net income	156	17,562	10,985	1,476
Cash dividends paid	(4,399)	(3,604)	(4,806)	(41,622)
Bonuses to directors and statutory auditors	(206)	(115)	(175)	(1,949)
Balance at end of year	¥ 111,426	¥ 116,258	¥ 114,080	\$1,054,272
Unrealized holding gain on securities (Note 11):				
Balance at beginning of year	¥ 1	¥ 32	¥ —	\$ 9
Net changes during the year	22	(30)	32	208
Balance at end of year	¥ 23	¥ 1	¥ 32	\$ 218
Translation adjustments				
Balance at beginning of year	¥ 1,715	¥ 5,798	¥ 3,921	\$ 16,227
Net changes during the year	(3,985)	(4,083)	1,876	(37,705)
Balance at end of year	¥ (2,270)	¥ 1,715	¥ 5,798	\$ (21,478)
Treasury stock				
Balance at beginning of year	¥ (1,099)	¥ —	¥ —	\$ (10,398)
Net changes during the year	(736)	—	—	(6,964)
Balance at end of year	¥ (1,835)	¥ (1,099)	¥ —	\$ (17,362)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 3,526	¥ 37,937	¥ 24,063	\$ 33,362
Depreciation and amortization relating to:				
Property, plant and equipment	5,912	4,924	5,281	55,937
Goodwill	792	1,065	1,031	7,494
Other assets	—	—	0	—
Provision for allowance for doubtful accounts	1,827	103	199	17,286
Interest expense	597	836	870	5,649
Equity in losses of an affiliate	1,811	1,884	2,225	17,135
Loss on disposal of property, plant and equipment	188	640	684	1,779
Changes in operating assets and liabilities:				
Trade notes and accounts receivable	30,760	(26,783)	16,463	291,040
Inventories	(11,744)	4,280	713	(111,117)
Prepaid expenses and other current assets	(5,225)	2,535	(3,465)	(49,437)
Notes and accounts payable	(9,955)	8,095	(8,306)	(94,191)
Other current liabilities	(4,029)	(881)	(2,471)	(38,121)
Other noncurrent assets	(101)	(87)	(187)	(956)
Other noncurrent liabilities	49	(270)	84	464
Other	1,210	1,382	(625)	11,449
Subtotal	15,618	35,663	36,563	147,772
Interest and dividends received	137	132	178	1,296
Interest paid	(595)	(841)	(841)	(5,630)
Income taxes paid	(25,146)	(9,511)	(18,624)	(237,922)
Compensation paid	(115)	—	—	(1,088)
Net cash (used in) provided by operating activities	(10,100)	25,442	17,274	(95,572)
Cash flows from investing activities				
Purchases of investment securities	(42)	(24,999)	(4,551)	(397)
Proceeds from sales of investment securities	184	380	3,375	1,741
Purchases of property, plant and equipment	(5,835)	(3,634)	(6,127)	(55,209)
Proceeds from sales of property, plant and equipment	41	542	2,012	388
Net (increase) decrease in long-term loans receivable	(747)	68	(500)	(7,068)
Purchases of shares of subsidiaries	(89)	—	(21)	(842)
Other	(765)	(504)	654	(7,238)
Net cash used in investing activities	(7,254)	(28,145)	(5,159)	(68,635)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings	30,003	1,453	(6,920)	283,877
Proceeds from issuance of long-term debt	—	5,050	8,360	—
Repayment of long-term debt	(13,389)	(9,864)	(6,185)	(126,682)
Purchases of treasury stock	(736)	—	—	(6,964)
Cash dividends paid	(4,399)	(3,604)	(4,799)	(41,622)
Other	(133)	(127)	—	(1,258)
Net cash provided by (used in) financing activities	11,344	(7,093)	(9,545)	107,333
Effect of exchange rate changes on cash and cash equivalents	(2)	(213)	254	(19)
Net (decrease) increase in cash and cash equivalents	(6,013)	(10,009)	2,824	(56,893)
Cash and cash equivalents at beginning of year	38,597	48,607	47,062	365,191
Decrease arising from exclusion from consolidation	(18)	—	(1,279)	(170)
Cash and cash equivalents at end of year (Note 10)	¥ 32,566	¥ 38,597	¥ 48,607	\$ 308,128

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2004

1. Summary of Significant Accounting Policies

(a) Basis of preparation

The accompanying consolidated financial statements of ARUZE CORP. (the "Company") and consolidated subsidiaries collectively referred to as the "Group" are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 13 major subsidiaries in 2004, and 12 in 2003 and 2002, over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

ARUZE USA, INC., a consolidated subsidiary, is consolidated on the basis of a fiscal period ended December 31, which differs from that of the Company; however, the necessary adjustments have been made if the effect of the difference was material.

Investments in unconsolidated subsidiaries are stated at cost because their impact on the consolidated financial statements was immaterial.

Investments in affiliates (companies over which the Company has the ability to exercise significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated net income includes the Company's equity in the current net income or loss of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries have been revalued on acquisition and the excess of cost over underlying net assets at the dates of acquisition is being amortized over a period of five years on a straight-line basis.

(c) Foreign currency translation

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Gain or loss resulting from the settlement of these items on translation at such rates at the balance sheet date are credited or charged currently to operations.

Translation of accounts of foreign consolidated subsidiaries

The accounts of the foreign consolidated subsidiaries, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date of the subsidiaries. The components of shareholders' equity are translated at their historical exchange rates. The differences arising from translation are presented as translation adjustments in consolidated shareholders' equity and minority interests.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in their value as a result of changes in interest rates, are considered cash equivalents.

Under the accounting standard for statements of cash flows, the definitions of cash and cash equivalents in the consolidated statements of cash flows, and of cash and bank deposits in the consolidated balance sheets, differ with respect to certain components. A reconciliation between the cash definitions above is presented in Note 10.

(e) Securities

Available-for-sale ("other") securities with quoted market value are carried at market value, with unrealized gain, net of taxes, reported in a separate component of shareholders' equity, and with unrealized loss charged to income. The cost of securities sold is determined by the moving average method. Other securities whose market value is not available are stated at cost based on the moving average method.

(f) Inventories

Merchandise, products and raw materials

The Company and its domestic consolidated subsidiaries: at cost determined by the average method

Overseas consolidated subsidiaries: at the lower of cost or market, cost being determined by the moving average method

Work in process

The Company and its domestic consolidated subsidiaries: at cost determined by the average method

Foreign consolidated subsidiaries: at cost determined by the individual identification method

Supplies

The Company and all consolidated subsidiaries: at cost determined by the last purchase price method.

(g) Depreciation and amortization

Depreciation

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated by the declining-balance method at the rates prescribed in the Corporation Tax Law of Japan. However, buildings (excluding structures attached to the buildings) acquired on or subsequent to April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over the periods stipulated in the Corporation Tax Law.

Properties leased to customers, other than properties for the rental business, are depreciated by the straight-line method.

Depreciation of property, plant and equipment of the overseas consolidated subsidiaries is calculated by the straight-line method over the estimated useful lives of the respective assets.

Amortization

Software intended to be marketed for sale is amortized at the larger of either amounts calculated based on the estimated salable units or amounts allocated equally over the remaining useful lives of the assets (3 years). Costs for the development of software intended for internal use are amortized by the straight-line method over an estimated useful life of 5 years. Other software is amortized at the rates prescribed in the Corporation Tax Law.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an

amount sufficient to cover possible losses on the collection of receivables, and has been determined based on the Group's historical experience with write-offs plus an estimated amount for probable doubtful accounts based on a review of the collectibility of individual receivables.

(i) Accrued employees' bonuses

The allowance for employees' bonuses for the Company and the domestic subsidiaries represents a provision for the future payment of employees' bonuses. The allowance is provided at an estimate of the current portion of the anticipated total bonus payments.

(j) Leases

Noncancelable leases are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(k) Income taxes

The Group has adopted tax-effect accounting for income taxes in accordance with an accounting standard issued by the Business Accounting Deliberation Council of Japan (the "BADC"). This standard requires recognition of income taxes by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(l) Research and development costs

Research and development costs are charged to income when incurred.

(m) Derivatives

Derivatives positions are stated at fair value. Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. The related interest differential paid or received under interest-rate swaps is recognized in interest expense over the terms of the swap agreements if certain conditions are met.

(n) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 17.

2. Japanese Yen and U.S. Dollar Amounts

The U.S. dollar amounts presented in the accompanying consolidated financial statements represent the arithmetic results of translating Japanese yen into U.S. dollars at ¥105.69 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2004. The inclusion of U.S. dollar amounts is solely for the convenience of the reader and is not intended to imply that Japanese yen have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

3. Short-Term Borrowings and Long-Term Debt

Short-term borrowings substantially represent short-term borrowings from banks at average interest rates of 1.0% and 1.5% per annum at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans from banks, due through 2008 at an average interest rate of 1.9%	¥ 5,731	¥ 19,111	\$ 54,225
Less: Current portion	(3,107)	(12,761)	(29,397)
	¥ 2,624	¥ 6,349	\$ 24,827

The assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and bank deposits	¥ 32		\$ 303
Inventories	529		5,005
Buildings and structures	2,447		23,153
Land	8,256		78,115
Investment securities	5		47
Lease and guarantee deposits included in other assets	5,911		55,928
	¥ 17,452		\$ 165,124

The related debt for which the above assets were pledged as collateral at March 31, 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term borrowings	¥ 14,823		\$ 140,250
Current portion of long-term debt	2,949		27,902
Long-term debt	2,430		22,992
	¥ 20,202		\$ 191,144

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 3,107	\$29,397
2006	1,460	13,814
2007	828	7,834
2008	335	3,170
2009 and thereafter	–	–
	¥ 5,731	\$54,225

The Company has access to substantial sources of funds at three banks. The total unused committed lines of credit for finance arrangements amounted to ¥30,900 million (\$292,364 thousand) in the aggregate. These lines of credit have commitment fee requirements.

4. Income Taxes

Income taxes applicable to the Group comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 42% for the years ended March 31, 2004, 2003 and 2002.

The major components of deferred tax assets (liabilities) at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets – current:			
Accrued enterprise tax	¥ 113	¥ 1,223	\$ 1,069
Inventories	167	748	1,580
Accrued employees' bonuses	162	157	1,533
Operating loss carried forward	2,275	2,247	21,525
Research and development costs	302	185	2,857
Allowance for loss on a guarantee	844	–	7,986
Other	54	17	511
	3,920	4,580	37,090
Valuation allowance	(757)	(2,338)	(7,162)
Total deferred tax assets – current	3,163	2,242	29,927
Deferred tax liabilities – current:			
Additional enterprise tax	–	(197)	–
Refund of enterprise tax	(723)	–	(6,840)
Allowance for doubtful accounts	(35)	(5)	(331)
Other	(76)	(7)	(719)
Total deferred tax liabilities – current	(835)	(210)	(7,900)
Net deferred taxes – current	¥ 2,327	¥ 2,032	\$ 22,017

Deferred tax assets – noncurrent:			
Allowance for doubtful accounts	¥ 287	¥ 180	\$ 2,715
Valuation allowance for memberships	21	21	199
Loss on devaluation of real estate	769	753	7,276
Unrealized gain on properties leased to customers	554	462	5,242
Loss on devaluation of marketable securities	2	92	19
Research and development costs	43	–	407
Other	56	183	530
	1,735	1,694	16,416
Valuation allowance	(1,609)	(83)	(15,224)
Total deferred tax assets – noncurrent	125	1,610	1,183
Deferred tax liabilities – noncurrent:			
Additional enterprise tax	(135)	(134)	(1,277)
Other	(38)	(31)	(359)
Total deferred tax liabilities – noncurrent	(174)	(165)	(1,646)
Net deferred taxes – noncurrent	¥ (48)	¥ 1,445	\$ (454)

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2004, 2003 and 2002 is summarized as follows:

	2004	2003	2002
Statutory tax rate	41.8%	41.8%	41.8%
Reconciliation:			
Additional taxes assessed on undistributed earnings	1.8	4.3	0.9
Valuation allowance	(1.6)	0.3	3.4
Equity in losses of an affiliate	18.6	2.9	3.9
Amortization of goodwill	9.4	1.2	1.7
Other	9.0	2.0	1.5
Effective tax rates	79.0%	52.5%	53.2%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate for long-term temporary differences from 41.8% to 40.5% effective for fiscal years beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥37 million at March 31, 2003 and to increase income taxes-deferred by the same amount for the year ended March 31, 2003.

5. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	¥ 4,876	¥ 4,740	\$ 46,135

6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if lease accounting had been applied to finance leases currently accounted for as operating leases.

	Year ended March 31,		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Machinery and equipment:			
Acquisition costs	¥ 61	¥ 150	\$ 577
Accumulated depreciation	38	104	360
Net book value	22	45	208
Software:			
Acquisition costs	21	31	199
Accumulated depreciation	5	19	47
Net book value	16	11	151
Total:			
Acquisition costs	83	181	785
Accumulated depreciation	44	124	416
Net book value	¥ 39	¥ 57	\$ 369

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥36 million (\$341 thousand), ¥115 million and ¥184 million for the years ended March 31, 2004, 2003 and 2002, respectively.

Depreciation of the leased assets computed by the straight-line method over the respective lease terms and the interest portion included in these lease payments are summarized as follows:

	Year ended March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003	2002	2004
Depreciation	¥ 32	¥ 104	¥ 159	\$ 303
Interest expense	2	4	10	19

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for noncancelable operating leases and finance leases accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year or less	¥ 16	\$ 151
Due subsequent to one year	24	227
Total	¥ 40	\$ 378

7. Shareholders' Equity

In accordance with the Commercial Code, the Group has provided a legal reserve as an appropriation of retained earnings. The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal reserve until the sum of the reserve and additional paid-in capital equals 25% of the common stock account. The Code also provides that, to the extent that the sum of additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

8. Stock Option Plans

Stock option plan approved at a shareholders' meeting held on June 29, 1999

On June 29, 1999, the shareholders approved a stock option plan for certain key employees to purchase shares of the Company's common stock which had been purchased from stock exchanges by the Company in accordance with the Commercial Code of Japan. Under this plan, a maximum number of 130,000 shares may be granted to key vested employees whose status should be Acting Manager or higher.

The exercise price of each stock option is determined, subject to adjustment, at the higher of the average closing price of the Company's common stock announced by the Japan Securities Business Association in the month prior to the date of the granting of the options multiplied by a factor of 1.025, or the closing price of the shares of the Company's common stock on the date of the granting of the options.

The stock options outlined above are exercisable during the period from August 3, 1999 through August 2, 2004.

Stock option plan approved at a shareholders' meeting held on June 27, 2002

On June 27, 2002, the shareholders approved a stock option plan for directors, statutory auditors and employees of the Company and subsidiaries to purchase warrants on shares of the Company's common stock at advantageous prices.

The exercise price of each stock option is ¥302,000 per share.

The stock options outlined above will become exercisable during the period from June 27, 2004 through June 26, 2007.

Stock option plan approved at a shareholders' meeting held on June 26, 2003

On June 26, 2003, the shareholders approved a stock option plan for directors, statutory auditors and employees of the

Company and subsidiaries to purchase warrants on shares of the Company's common stock at advantageous prices.

The exercise price of each stock option is determined, subject to adjustment, at the higher of the average closing price of the Company's common stock announced by the Japan Securities Business Association in the month prior to the date of the granting of the options multiplied by a factor of 1.05, or the closing price of shares of the Company's common stock on the date of the granting of the options.

The stock options outlined above will become exercisable during the period from June 27, 2005 through June 26, 2008.

Stock option plan approved at a shareholders' meeting held on June 29, 2004

On June 29, 2004, the shareholders approved a stock option plan for directors, statutory auditors and employees of the Company and subsidiaries to purchase warrants on shares of the Company's common stock at advantageous prices.

The exercise price of each stock option is determined, subject to adjustment, at the higher of the average closing price of the Company's common stock announced by the Japan Securities Business Association in the month prior to the date of the granting of the options multiplied by a factor of 1.05, or the closing price of shares of the Company's common stock on the date of the granting of the options.

The stock options outlined above will become exercisable during the period from July 1, 2006 through June 30, 2009.

9. Amounts per Share

Until the year ended March 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted-average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock equivalents. Net assets per share were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of warrants for the years ended March 31, 2004 and 2003. Net assets per share at March 31, 2004 and 2003 were computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

The per share information presented below for the year ended 2002 has been recomputed and restated based on the new method of computation.

	Year ended March 31,			
	Yen		U.S. dollars	
	2004	2003	2002	2004
Net income:				
Basic	¥ 1.96	¥ 216.67	¥ 135.70	\$ 0.02
Diluted (*1)	—	—	—	—

	March 31,		
	Yen		U.S. dollars
	2004	2003	2004
Net assets	¥ 1,480.45	¥ 1,593.16	\$ 14.01

(*1) No diluted net income per share is presented since (1) the full dilution of common stock equivalents would have had

no dilutive effect for the years ended March 31, 2004 and 2003, and (2) there were no potentially dilutive common stock equivalents outstanding as of March 31, 2002.

10. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents at March 31, 2004, 2003 and 2002:

	Year ended March 31,			Thousands of U.S. dollars
	Millions of yen			
	2004	2003	2002	2004
Cash and bank deposits	¥ 32,598	¥ 38,597	¥ 48,757	\$308,430
Time deposits with a maturity of more than three months	(32)	—	(150)	(303)
Cash and cash equivalents	¥ 32,566	¥ 38,597	¥ 48,607	\$308,128

11. Investment Securities

The components of unrealized gain or loss on marketable securities classified as other securities at March 31, 2004 and 2003 are summarized as follows:

	March 31, 2004		
	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Other securities whose market value recorded in the balance sheets exceeds their acquisition costs:			
Equity securities	¥ 16	¥ 61	¥ 45
	16	61	45
Other securities whose market values recorded in the balance sheets does not exceed their acquisition costs:			
Equity securities	4	0	(3)
Other	34	34	—
	38	35	(3)
Total	¥ 55	¥ 97	¥ 41

	March 31, 2004		
	Thousands of U.S. dollars		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Other securities whose market value recorded in the balance sheets exceeds their acquisition costs:			
Equity securities	\$ 151	\$ 577	\$ 426
	151	577	426
Other securities whose market value recorded in the balance sheets does not exceed their acquisition costs:			
Equity securities	38	0	(28)
Other	322	322	—
	360	331	(28)
Total	\$ 520	\$ 918	\$ 388

Non-marketable securities classified as other securities at March 31, 2004 amounted to ¥357 million (\$3,378 thousand).

	March 31, 2003		
	Millions of yen		
	Acquisition costs	Carrying value	Unrealized gain (loss)
Other securities whose market value recorded in the balance sheets exceeds their acquisition costs:			
Equity securities	¥ 9	¥ 12	¥ 3
	9	12	3
Other securities whose market values recorded in the balance sheets does not exceed their acquisition costs:			
Equity securities	44	25	(19)
	44	25	(19)
Total	¥ 53	¥ 37	¥ (15)

Non-marketable securities classified as other securities at March 31, 2003 amounted to ¥1,869 million.

The redemption schedule at March 31, 2004 and 2003 for bonds with maturity dates is summarized as follows:

	March 31, 2004		
	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Corporate bonds	¥ —	¥ —	¥ 270
Total	¥ —	¥ —	¥ 270

	March 31, 2004		
	Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Corporate bonds	\$ —	\$ —	\$ 2,555
Total	\$ —	\$ —	\$ 2,555

	March 31, 2003		
	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Corporate bonds	¥ —	¥ 300	¥ 299
Total	¥ —	¥ 300	¥ 299

12. Other Income (Expenses)

The components of "Other, net" in "Other income (expenses)" for each of the three years in the period ended March 31, 2004 were as follows:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Loss on sales and disposal of property, plant and equipment	¥ (552)	¥ (1,128)	¥ (1,228)	\$ (5,223)
Loss on write-downs of inventories	(51)	(195)	(1,137)	(483)
Forfeit on cancellation of lease contracts	—	—	(218)	—
Other	1,152	(588)	952	10,900
Total	¥ 549	¥ (1,912)	¥ (1,632)	\$ 5,194

13. Derivatives

Certain consolidated subsidiaries enter into transactions involving derivative financial instruments in order to manage the

14. Segment Information

The business segments of the Group for the years ended March 31, 2004, 2003 and 2002 are outlined as follows:

Business segments

	Year ended March 31, 2004							
	Millions of yen							
	Pachinko slot/ Pachinko	Real estate	Amusement facilities management	Game machines	Other	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income:								
Sales to external customers	¥ 74,766	¥ 1,005	¥ 16,945	¥ 5,567	¥ 2,792	¥ 101,077	¥ —	¥ 101,077
Intra-segment sales	4	208	25	0	2,001	2,239	(2,239)	—
Total sales	74,771	1,213	16,970	5,568	4,793	103,317	(2,239)	101,077
Operating expenses	59,295	853	13,298	5,850	5,495	84,792	6,219	91,012
Operating income (loss)	¥ 15,475	¥ 360	¥ 3,672	¥ (282)	¥ (701)	¥ 18,524	¥ (8,458)	¥ 10,065
II. Total assets, depreciation and capital expenditures								
Total assets	¥ 58,019	¥ 19,104	¥ 14,704	¥ 6,147	¥ 7,171	¥ 105,147	¥ 80,324	¥ 185,472
Depreciation	2,778	97	2,199	412	57	5,545	367	5,912
Capital expenditures	1,451	847	3,248	278	284	6,110	297	6,408

risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. In accordance with the accounting standard for financial instruments, derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for hedging instruments which meet the criteria for deferral hedge accounting.

The Company and its domestic subsidiaries have developed hedging policies to control various aspects of their derivatives transactions including authorization levels and limits on the volume of transactions. Based on these policies, the Company and its domestic subsidiaries hedge against the risk arising from fluctuation in foreign currency exchange rates and interest rates. They have, however, omitted an assessment of the effectiveness of these hedges because they determined that there was substantially no risk on the underlying assets and liabilities hedged by foreign forward exchange contracts and interest-rate swap contracts as the effects arising from such hedging would be completely offset against any fluctuation in the respective foreign currency exchange rates or interest rates.

a) Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2004:

	March 31, 2004		
	Millions of yen		
	Notional amount	Fair value	Losses realized
Interest-rate swaps:			
Receive/floating and pay/fixed	¥ 8,000	¥ (365)	¥ (365)
Total	¥ 8,000	¥ (365)	¥ (365)

	March 31, 2004		
	Thousands of U.S. dollars		
	Notional amount	Fair value	Losses realized
Interest-rate swaps:			
Receive/floating and pay/fixed	\$ 75,693	\$ (3,453)	\$ (3,453)
Total	\$ 75,693	\$ (3,453)	\$ (3,453)

b) Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2003:

	March 31, 2003		
	Millions of yen		
	Notional amount	Fair value	Losses realized
Interest-rate swaps:			
Receive/floating and pay/fixed	¥ 8,000	¥ (588)	¥ (588)
Total	¥ 8,000	¥ (588)	¥ (588)

Year ended March 31, 2004								
Thousands of U.S. dollars								
	Pachinko slot/ Pachinko	Real estate	Amusement facilities management	Game machines	Other	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income:								
Sales to external customers	\$ 707,408	\$ 9,509	\$ 160,327	\$ 52,673	\$ 26,417	\$ 956,353	\$ -	\$ 956,353
Intra-segment sales	38	1,968	237	0	18,933	21,185	(21,185)	-
Total sales	707,456	11,477	160,564	52,682	45,350	977,548	(21,185)	956,353
Operating expenses	561,028	8,071	125,821	55,351	51,992	802,271	58,842	861,122
Operating income (loss)	\$ 146,419	\$ 3,406	\$ 34,743	\$ (2,668)	\$ (6,633)	\$ 175,267	\$ (80,026)	\$ 95,231
II. Total assets, depreciation and capital expenditures								
Total assets	\$ 548,954	\$ 180,755	\$ 139,124	\$ 58,161	\$ 67,849	\$ 994,862	\$ 759,996	\$ 1,754,868
Depreciation	26,284	918	20,806	3,898	539	52,465	3,472	55,937
Capital expenditures	13,729	8,014	30,731	2,630	2,687	57,811	2,810	60,630

Notes:

a) Basis of segmentation

(1) The Group's businesses are divided into five segments based on the internal classification of their products and merchandise and their sales markets.

(2) Major products and merchandise in each business segment:

Pachinko slot/Pachinko Pachinko slot, pachicom, pachinko, related parts and peripheral equipment

Real estate Leasing of real estate

Amusement facilities management Management of amusement facilities

Game machines Game machines for business or family use including the related software

Other Building maintenance, computer peripherals, and the design, lay-out, and construction of pachinko halls

b) Included in eliminations or unallocated amounts of operating expenses are certain unallocable amounts totaling ¥8,484 thousand (\$80,272 thousand), which consisted of expenses incurred in the administrative departments of ARUZE CORP. and SETA Corp.

c) Included in eliminations or unallocated amounts of total assets are certain unallocable amounts totaling ¥84,319 thousand (\$797,795 thousand), which consisted primarily of surplus funds (cash and marketable securities) of ARUZE CORP. and Adores, Inc., investments in foreign affiliates at the pre-opening stage, and property and equipment controlled by the administrative departments of these companies.

d) Amortization of and additions to long-term prepaid expenses have been included under depreciation and capital expenditures.

Year ended March 31, 2003								
Millions of yen								
	Pachinko slot/ Pachinko	Real estate	Amusement facilities management	Game machines	Other	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income								
Sales to external customers	¥ 115,672	¥ 574	¥ 16,839	¥ 2,927	¥ 1,957	¥ 137,972	¥ -	¥ 137,972
Inter-segment sales	-	163	16	907	100	1,187	(1,187)	-
Total sales	115,672	738	16,855	3,835	2,058	139,159	(1,187)	137,972
Operating expenses	66,550	334	13,002	3,723	3,626	87,237	8,093	95,331
Operating income (loss)	¥ 49,122	¥ 403	¥ 3,852	¥ 111	¥ (1,568)	¥ 51,922	¥ (9,281)	¥ 42,640
II. Total assets, depreciation and capital expenditures								
Total assets	¥ 74,750	¥ 14,226	¥ 16,080	¥ 5,896	¥ 5,213	¥ 116,167	¥ 88,280	¥ 204,448
Depreciation	2,264	68	1,853	295	20	4,502	422	4,924
Capital expenditures	532	84	2,736	558	54	3,967	278	4,245

Notes:

a) Included in eliminations or unallocated amounts of operating expenses are certain unallocable amounts totaling ¥6,810 thousand, which consisted of expenses incurred in the administrative departments of ARUZE CORP. and SETA Corp.

b) Included in eliminations or unallocated amounts of total assets are certain unallocable amounts totaling ¥95,128 thousand, which consisted primarily of surplus funds (cash and marketable securities) of ARUZE CORP. and Adores, Inc., investments in foreign affiliates at the pre-opening stage, and property and equipment controlled by the administrative departments of these companies.

c) Amortization of and additions to long-term prepaid expenses have been included under depreciation and capital expenditures.

Year ended March 31, 2002								
Millions of yen								
	Pachinko slot/ Pachi-com/ Pachinko	Real estate	Amusement facilities management	Game machines	Other	Total	Eliminations or unallocated amounts	Consolidated
I. Sales and operating income								
Sales to external customers	¥ 79,675	¥ 516	¥ 17,244	¥ 5,009	¥ 5,750	¥ 108,195	¥ -	¥ 108,195
Inter-segment sales	4	159	29	210	271	674	(674)	-
Total sales	79,679	675	17,273	5,219	6,021	108,869	(674)	108,195
Operating expenses	45,181	355	13,269	5,252	6,314	70,373	7,989	78,362
Operating income (loss)	¥ 34,497	¥ 320	¥ 4,003	¥ (33)	¥ (292)	¥ 38,496	¥ (8,663)	¥ 29,832
II. Total assets, depreciation and capital expenditures								
Total assets	¥ 53,326	¥ 14,628	¥ 15,901	¥ 5,616	¥ 7,213	¥ 96,685	¥ 94,901	¥ 191,587
Depreciation	2,536	68	1,811	391	4	4,812	468	5,281
Capital expenditures	2,926	5	1,746	378	2	5,059	1,304	6,363

Notes:

- a) Included in eliminations or unallocated amounts of operating expenses are certain unallocable amounts totaling ¥7,063 thousand, which consisted of expenses incurred in the administrative departments of ARUZE CORP. and SETA Corp.
- b) Included in eliminations or unallocated amounts of total assets are certain unallocable amounts totaling ¥100,885 thousand, which consisted primarily of surplus funds (cash and marketable securities) of ARUZE CORP., Adores, Inc. and SETA Corp., investments in foreign affiliates at the pre-opening stage, and property and equipment controlled by the administrative departments of these companies.
- c) Amortization of and additions to long-term prepaid expenses have been included under depreciation and capital expenditures.

Geographical segments

As permitted, the information on geographical segments for the years ended March 31, 2004, 2003 and 2002 has been omitted because the Japanese segment constituted more than 90% of total consolidated sales and assets.

Overseas sales

As permitted, the information on overseas sales for the years ended March 31, 2004, 2003 and 2002 has been omitted because sales in Japan constituted more than 90% of total consolidated sales.

15. Contingent Liabilities and Litigation

- (a) At March 31, 2004, contingent liabilities relating to the liquidization of trade notes receivable are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted	¥ 3,710	\$ 35,103
Accounts receivable relating to sales of trade notes receivable	575	5,440

- (b) Corporation and additional taxes of ¥1,289 million were levied for the year ended March 31, 1998 during a previous tax examination. The Company lodged an objection to this tax assessment with the Tokyo National Tax Claim Court (the "Claim Court"). As a result, the Claim Court issued a ruling on January 1, 2004 which decreased the original tax assessment; however, a difference of ¥1,273 million (\$12,045 thousand) remained between the tax amount assessed and the amount declared by the Company. The Company lodged an objection to the Claim Court's judgment with the Tokyo District Court to seek a reversal of the decision of the Claim Court. The Company may incur a loss of up to ¥2,002 million (\$18,942 thousand), including an additional assessment of inhabitants' taxes and enterprise tax, pending the ruling of the Tokyo District Court.

- (c) A lawsuit against the Company was filed by KM Enterprise K.K., which is 100% owned by a former director of the Company, claiming damages of U.S.\$30 million. This lawsuit was filed due to the fact that the Company was not able to obtain permission for the transfer shares of stock of Sigma Game, Inc., which was held by KM Enterprise K.K., although the Company and KM Enterprise K.K. had agreed to this transfer. This lawsuit is still in process and pending and no ruling on the monetary claim has been issued.

- (d) The Company filed a lawsuit against Shochiku Co., Ltd. with the Tokyo District Court on December 20, 2002 to seek the return of ¥653 million (\$6,178 thousand) of minimum guarantee money allocated to the Company. This guarantee money was paid by the Company to Shochiku when both companies agreed to purchase movie rights under a basic joint venture contract dated December 21, 2000. However, the contract was cancelled by mutual agreement between the Company and Shochiku on February 7, 2002. As a result of this cancellation, the Company may have incurred a loss of up to ¥536 million (\$5,071 thousand) on its investment in movie rights which were recorded as advance payments.

- (e) Mr. Eikichi Kawasaki, an owner of K.K. SNK (which is currently in the process of liquidation), a former subsidiary of the Company, filed a lawsuit against the

Company with the Osaka District Court on October 17, 2002 seeking the cancellation of his obligation for a loan of ¥1 billion (\$9,462 thousand) which the Company had made to K.K. SNK and which Mr. Eikichi Kawasaki had co-signed as guarantor. The Company subsequently filed a countersuit seeking the execution of this guarantee obligation. For accounting purposes, the legal ruling, which is still pending, will have no impact on the Company's financial position because this ¥1 billion was fully written off in previous years.

Mr. Kawasaki subsequently filed a second lawsuit against the Company with the Osaka District Court on October 28, 2002 seeking compensation of ¥6,791 million (\$64,254 thousand) relating to the bankruptcy of K.K. SNK, which he claimed was caused when the Company discontinued providing operating funds to K.K. SNK. In response, the Company filed a countersuit with the Osaka District Court on May 12, 2003 seeking compensation of over ¥6 billion (\$56,770 thousand) for the Company's loss incurred with respect to the bankruptcy of K.K. SNK, which, the Company claims, was intentionally caused by Mr. Kawasaki.

- (f) SNK Playmore, which claims the right to take over all copyrights from K.K. SNK (which is currently in the process of liquidation) filed a lawsuit against the Company with the Osaka District Court on March 26, 2002 seeking compensation of ¥5,668 million (\$53,629 thousand) and claiming piracy with respect to the Company's planning, development, production and marketing of pachinko slot machines and game related softwares.

The Osaka District Court issued a preliminary judgment in this case on January 15, 2004, ruling that the Company had used such copyrights without permission.

The Company filed a lawsuit against SNK Playmore with the Osaka District Court on May 12, 2003 to seek compensation for losses resulting from illegal actions under the conspiracy tort regarding the transfer of copyrights. Because this lawsuit is still in the preliminary stage, the ultimate judgment or settlement cannot be determined as of the date of this report.

16. Related Party Transactions

The Company has entered into significant related party transactions with companies controlled by the President of the Company and his relatives, and with the directors of the Company. These transactions were conducted at arm's-length prices.

The transactions between the Company and companies controlled by the President of the Company and his relatives for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

With Universal Distributing of Nevada, Inc., which is owned 100% by the President of the Company:

	Year ended March 31,			Thousands of U.S. dollars
	Millions of yen			
	2004	2003	2002	2004
Sales of spare parts	¥ -	¥ 6	¥ 647	\$ -
Rent for office space	¥ -	¥ -	¥ -	\$ -
Other income	¥ 12	¥ 15	¥ 11	\$ 114
Sundry expenses	¥ 1	¥ -	¥ -	\$ 9

	March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003		
Trade accounts receivable	¥ -	¥ 199	\$ -	
Other accounts receivable	¥ 0	¥ 3	\$ 0	

With Universal Distributors of Nevada SA (Pty) Ltd., a subsidiary of Universal Distributing of Nevada, Inc.:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Interest income	¥ 3	¥ -	¥ -	\$ 28

With Borderless Inc., which is owned 100% by the President of the Company:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Travel expenses	¥ 12	¥ 81	¥ -	\$ 114

	March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003		
Accounts payable	¥ 3	¥ 11	\$ 28	

With Pacific Gaming Pty. Ltd., a subsidiary of Universal Distributing of Nevada, Inc.:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Purchases of software for gaming machines	¥ -	¥ 400	¥ -	\$ -

With Transorbic Inc., which is owned 70% by the President of the Company:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Commission for travel agency services	¥ -	¥ -	¥ 1	\$ -

Transorbic Inc. was acquired by the President of the Company during the year ended March 31, 2002.

The transactions between the Company and the directors of the Company for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

With Kazuo Okada:	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Sale of assets	¥ -	¥ -	¥ 120	\$ -

With Katsunori Manabe:	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Collection of loans	¥ -	¥ -	¥ 2,100	\$ -
Interest income	¥ -	¥ -	¥ 9	\$ -

The transactions between the Company and unconsolidated subsidiaries and affiliates of the Company for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

With Maps Corporation, an affiliate of the Company:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Interest income	¥ 0	¥ -	¥ -	\$ 0

	March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003		
Short-term loans receivable	¥ 38	¥ -	\$ 360	
Other	¥ 0	¥ -	\$ 0	

With Nihon Shogi Network Co. Ltd., an affiliate of the Company:

	March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003		
Advance payment	¥ 9	¥ -	\$ 85	

With Pegasus Net Inc., an unconsolidated subsidiary of the Company:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Research and development costs	¥ -	¥ 110	¥ -	\$ -

Pegasus Net Inc. became a consolidated subsidiary of the Company effective the year ended March 31, 2003 because the Company purchased additional shares of common stock of Pegasus Net Inc. during the year ended March 31, 2003.

With P to PA, Inc., an affiliate of the Company:

	Year ended March 31,			
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	
Purchases of software	¥ -	¥ 70	¥ -	\$ -
Research and development costs	¥ -	¥ 30	¥ -	\$ -
Interest income	¥ -	¥ 3	¥ -	\$ -
Investment	¥ -	¥ 300	¥ -	\$ -

	March 31,			Thousands of U.S. dollars
	Millions of yen		2004	
	2004	2003		
Accrued revenue	¥ -	¥ 1	\$ -	
Long-term prepaid expenses	¥ -	¥ 18	\$ -	
Investments in bonds	¥ -	¥ 300	\$ -	

P to PA, Inc. became an affiliate of the Company effective the year ended March 31, 2003 because the Company purchased additional shares of common stock of P to PA, Inc. during the year ended March 31, 2003.

17. Subsequent Events

- (a) The following appropriations of retained earnings of the Company, which have not been reflected in the consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 = U.S.\$0.28 per share)	¥ 2,397	\$ 22,680

- (b) On June 29, 2004, the shareholders approved a stock option plan to grant warrants for the purchase of shares of the Company's common stock to the directors, statutory auditors and employees of the Company and its subsidiaries. See Note 8, "Stock Option Plans."

Report of Independent Accountants (Consolidated)

Report of Independent Auditors

**The Board of Directors
ARUZE CORP.**

We have audited the accompanying consolidated balance sheets of ARUZE CORP. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2004, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ARUZE CORP. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.



June 29, 2004

Corporate Profile

Company Overview

As of September 30, 2004

Company Name: ARUZE CORP.
 Head Office: Ariake Frontier Bldg. A, 3-1-25 Ariake,
 Koto-ku, Tokyo 135-0063, Japan
 Business Commenced: December 1969
 Incorporated: June 1973
 Paid-In Capital: 3,446,850,000 yen
 Number of Employees: 942 (as of March 31, 2004)

Offices: Hokkaido, Aomori, Morioka, Sendai,
 Koriyama, Kitakanto (Tochigi), Mito, Niigata,
 Saitama, Tokyo, Chiba, Kanagawa, Shizuoka,
 Nagoya, Kanazawa, Kyoto, Osaka, Kobe,
 Okayama, Hiroshima, Shikoku (Ehime),
 Fukuoka, Kumamoto, Oita, and Kagoshima

Factory: Yotsukaido (Chiba)

Business Activities: Planning, development, manufacture and sale
 of pachislot, pachinko and various other
 amusement machines

Banks (in alphabetical order): Aozora Bank, Ltd.
 Sumitomo Mitsui Banking Corporation
 and UFJ Bank Ltd.

Directors & Officers

As of September 22, 2004

President & Representative Director:
 Kazunari Anan

Chairman & Director: Kazuo Okada

Vice Presidents & Directors:
 Jun Fujimoto
 Noboru Hara

Director: Yoshito Hori

Outside Director: Hiroyuki Sawada

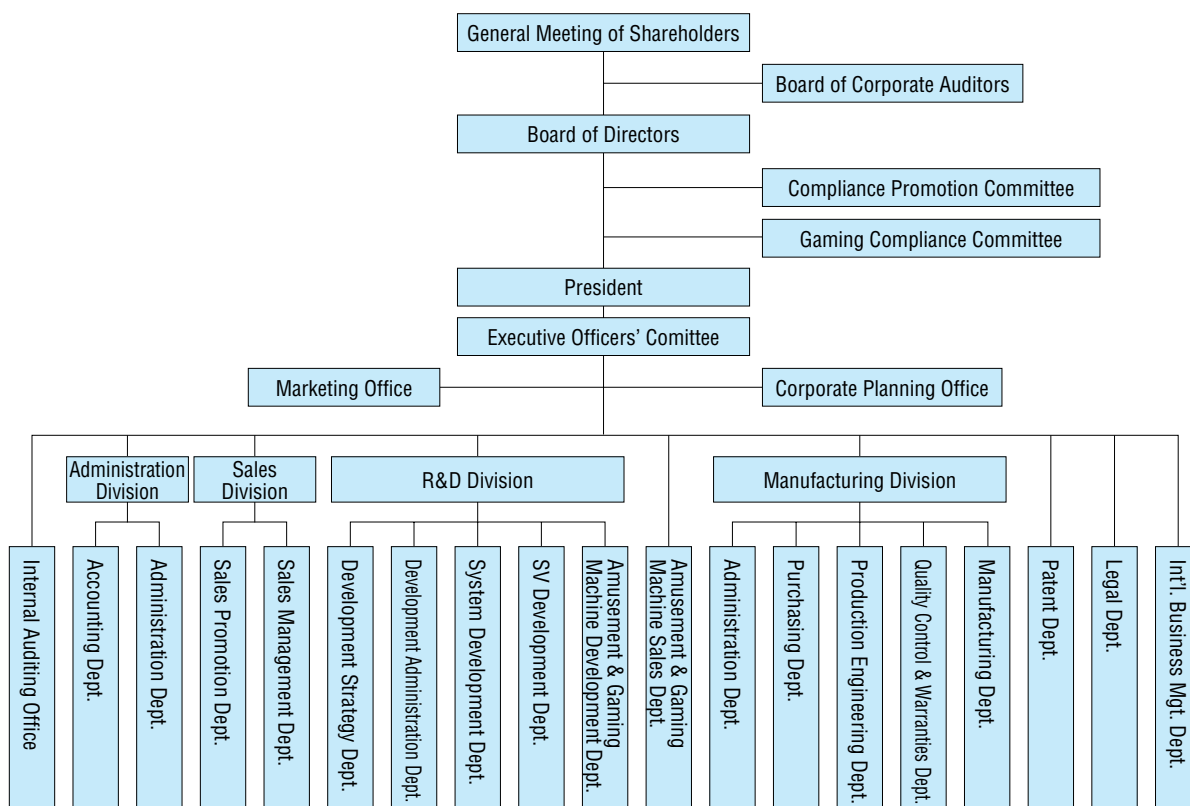
Corporate Auditor (Full-Time Duty):
 Koichi Yoshii

Corporate Auditors: Tatsumi Tamura
 Hajime Kishi
 Masataka Fuchigami

Executive Officers: Masayoshi Takabe
 Teruhiko Kobayashi
 Takashi Satowaki
 Tatsuo Hikiji
 Masaki Inoue
 Hiroomi Nabeshima
 Yoshiyuki Shoji
 Tsunenori Kawano
 Kenichi Tawara

Organizational Chart

As of September 22, 2004



ARUZE Group Data

ARUZE's Ownership of Voting Rights

Adores, Inc. (JASDAQ code: 4712)	59.4%
Plan, develop, market, design, construct and supervise the construction of amusement facilities, and directly operate them or support hall owners with consulting services for the operation of their facilities	
SETA Corp. (JASDAQ code: 4670)	61.4%
Plan and develop products and systems peripheral to Pachinko and Pachislot machines, as well as gaming software products for the home and commercial markets	
ELECO Ltd.	100.0%
Plan, develop and manufacture Pachislot machines	
Macy Sales Co., Ltd.	100.0%
Plan, develop and manufacture Pachislot and Pachinko (Pachi-com) machines	
Mizuho Corp.	100.0%
Plan, develop, manufacture and market Pachinko and Pachislot machines	
Japan Amusement Broadcasting Corp.	100.0%
Produce and broadcast programming on a digital TV channel devoted to Pachinko/Pachislot-oriented amusement and entertainment, including video software	
System Staff Co., Ltd.	100.0%
Provide building maintenance, and real estate leasing and management services	
Nautilus Inc.	100.0%
Develop gaming software for home use and visual contents	
Forest Entertainment	100.0%
Develop gaming software for home use and visual contents	
P to PA Co, Ltd.	61.4%
Develop conversational interface system.	
Y's Tech Co., Ltd.	90.9%
Manufacture of parts and molds for Pachislot and Pachinko machines, products for exports and domestic amusement equipment.	
Aruze USA, Inc.	100.0%
Management of investments in the U.S. (invested in Wynn Resorts, Limited., a hotel & casino operator)	

Stock Information

As of March 31, 2004

Total shares authorized to issue: 324,820,000

Note: The articles of incorporation state that, "When shares are retired, an equivalent number of shares shall be reduced."

Total outstanding shares: 80,195,000

Note: These are standard shares of ARUZE with no limits on rights.

Number of shareholders: 17,197**Principal shareholders:**

Name	Number of Shares Held	Voting rights as % of Total (%)
Kazuo Okada	34,451,500	42.96
Tomohiro Okada	24,143,000	30.12
Hiromi Okada	5,325,000	6.64
Hiroko Yokotsuka	2,449,000	3.05
The Master Trust Bank of Japan, Ltd.	412,800	0.51
AOZORA BANK, Ltd.	300,000	0.37
Banca Intessa Client Omnibus Account	278,300	0.35
ARUZE Employee Shareholding Association	261,043	0.33
UFJ Bank Ltd.	250,000	0.31
Commerzbank London Global Equities Customer Omnibus	244,000	0.30

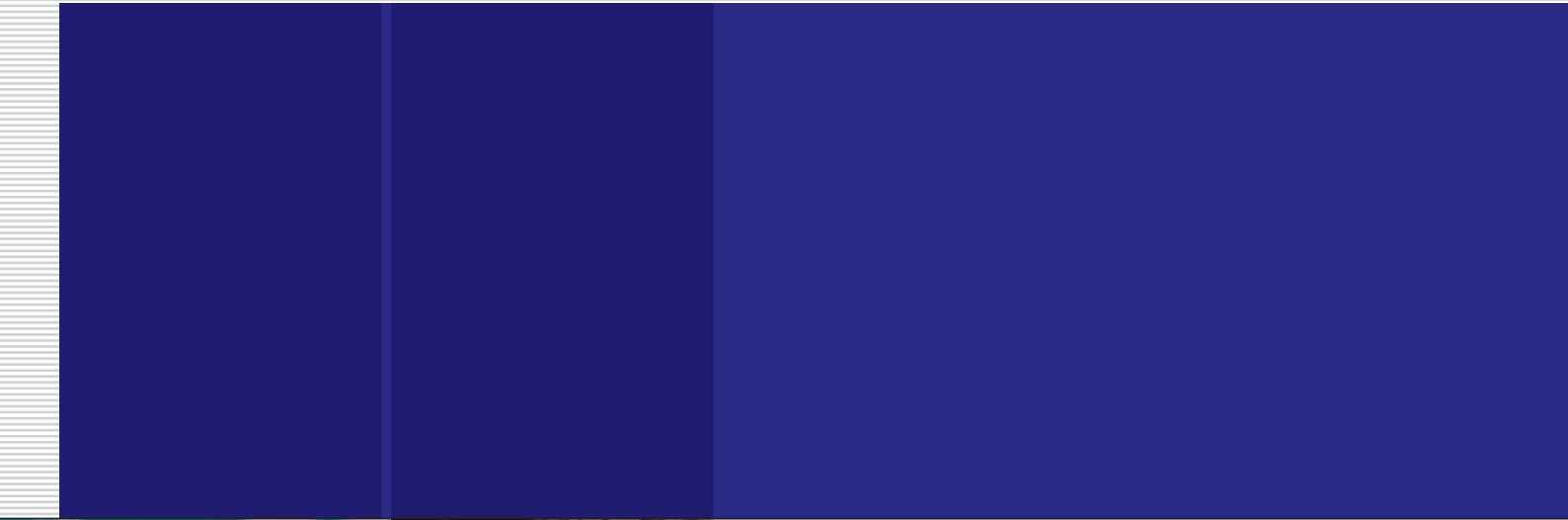
Note: Of the shares held by UFJ Trust Bank Ltd. 396,000 are in trust.

Number of shareholders by category

Individuals and others	16,899 (98.27%)
Other companies	201 (1.17%)
Foreign companies and others	70 (0.41%)
Financial institutions	14 (0.08%)
Securities companies	12 (0.07%)

Breakdown of shares held by shareholder category (hundred of shares)

Individuals and others	753,608 (93.97%)
Foreign companies and others	22,386 (2.79%)
Financial institutions	17,076 (2.13%)
Other companies	3,998 (0.50%)
Treasury stock	2,910 (0.36%)
Securities companies	1,976 (0.25%)



ARUZE CORP.

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