Attachment contents

1. Qualitative information regarding the consolidated business

(1) The progress of the consolidated business results including related qualitative information

During the three months period ended June 30, 2016, our industry saw signs of new developments in the home video game market. For example, at E3, one of the world's largest trade shows for computer and video games, held in the U.S. in June 2016, VR (virtual reality) games drew much attention. In particular, *RESIDENT EVIL 7 biohazard* (for PlayStation 4, Xbox One and PC), which offers an immersive VR gameplay experience utilizing PlayStation VR mode for the PlayStation 4, was in the spotlight.

In such an environment, the Group's business strategy prioritizes the second half of the fiscal year through measures such as releasing this fiscal year's major titles in the second half of the year in order to generate sizable sales in December and into the next calendar year. Therefore, during the first quarter under review, the business mainly focused on minor titles.

The resulting consolidated net sales for the three months period ended June 30, 2016 were 10,927 million yen (down 24.9% from the same term last year). The Company recorded an operating loss of 726 million yen for the quarter (compared with an operating income of 2,026 million yen for the same term last year). The Company also recorded an ordinary loss of 2,080 million yen due to foreign exchange losses caused by the rapidly rising yen (compared with an ordinary income of 2,135 million yen for the same term last year) and a net loss attributable to owners of the parent of 1,411 million yen (compared with a net income attributable to owners of the parent of 1,569 million yen for the same term last year).

Status of each operational department

① Digital Contents business
In the Digital Contents business, a series title *Phoenix Wright: Ace Attorney – Spirit of Justice* (for the Nintendo 3DS system) sold largely as planned with sales supported by core users. In addition, the Company released *Umbrella Corps* (for PlayStation 4 and PC), a title based on settings from *Resident Evil*, on June 23. However, as the first quarter corresponded to the off-launch season in the market launch cycle of major titles, sales were mostly generated by minor titles. Also, sales of catalog titles, whose profit margin is high, did not grow substantially.

Moreover, the Company has been trying to improve the challenges surrounding online games and mobile phone contents.

The resulting net sales were 6,740 million yen (up 7.1% from the same term last year). The Company recorded an operating loss of 8.0 million yen (down 99.2% from the same term last year).

② Arcade Operations business
In the Arcade Operations business, under the environment in which the regulations on the entrance to arcades in the nighttime were relaxed by the amendments to the Act on Control and Improvement of Amusement Business, etc. effective June 2016, efforts were made to capture a broad customer base by securing repeat customers and attracting persons of middle or advanced age and younger children with their parent through community-based arcade marketing to win the support of local residents such as holding various events and operating arcades in a manner to offer comfortable experience to customers.

To develop business opportunities, the Company also pushed forward with innovative new business formulas such as the opening in the arcade of a new “CharaCap” shop, which mainly sells character goods.

As there were no new openings or closures of arcades during the period under review, the total number of arcades remained unchanged from the end of the previous fiscal year at 34.

The resulting net sales were 2,157 million yen (up 11.6% from the same term last year) and operating income was 107 million yen (up 205.9% from the same term last year).

③ Amusement Equipments business

In the Pachinko & Pachislo sub-segment, the Company mainly focused on contracted product development except for the launch of *Super Street Fighter IV* as it plans to concentrate major business development efforts on the second half of the fiscal year. In the Arcade Games Sales sub-segment, business was generally weak as the Company focused on sales of existing products.

The resulting net sales were 1,662 million yen (down 72.5% from the same term last year). The Company recorded an operating loss of 61 million yen (compared with an operating income of 1,772 million yen for the same term last year).

④ Other Businesses

The net sales from Other Businesses, mainly consisting of publication of game guidebooks and sale of character merchandise, were 366 million yen (up 34.5% from the same term last year) and operating income was 126 million yen (up 152.9% from the same term last year).

(2) Explanation of the consolidated financial position

Total assets as of the end of the first quarter decreased by 1,992 million yen from the end of the previous fiscal year to 111,065 million yen.

Primary increase was 2,321 million yen in work-in-progress for game software. Primary decrease was 3,221 million yen in notes and accounts receivable, trade.

Total liabilities as of the end of the first quarter increased by 3,004 million yen from the end of the previous fiscal year to 40,892 million yen. Primary increase was 12,494 million yen in short-term borrowings. Primary decreases were followings: 6,130 million yen in accrued income taxes, 2,164 million yen in notes and accounts payable, trade and 875 million yen in accrued bonuses.

Net assets as of the end of the first quarter decreased by 4,996 million yen from the end of the previous fiscal year to 70,172 million yen. Primary decreases were followings: 2,133 million yen in cumulative translation adjustments which related to foreign exchange translation of the net assets of foreign consolidated subsidiaries, 1,411 million yen in net loss attributable to owners of the parent and 1,405 million yen in cash dividends.

(3) Qualitative information regarding the consolidated business forecasts

The forecast for the consolidated business results current fiscal year ending March 31, 2017 remains the same as what was projected at the financial results announcement on May 9, 2016.

2. Other information

(1) Transfer of major subsidiaries

There were no applicable subsidiary transfers.

(2) Use of special accounting methods for the quarterly consolidated financial statements

(Calculation of tax expense)

Tax expense for consolidated subsidiaries is calculated by determining a reasonable estimate of the effective tax rate after the application of tax-effect accounting for income before income taxes in the fiscal year, including the third quarter, and multiplying income before income taxes by this estimated effective tax rate.

(3) Change(s) in accounting policy (policies), accounting estimates and retrospective restatements for consolidated financial statements

(Change in accounting policy)

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In conjunction with the revision of the Corporation Tax Act, the Company has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force (PITF) Solution No. 32, June 17, 2016), effective from the first quarter under review, and has changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method.

This change in accounting policy has minimal impact on the Company's profit/loss for the first quarter under review.

(4) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016), effective from the first quarter under review.