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TSE 2nd Section

AQ INTERACTIVE Inc.

Summary of Business Results Meeting for the 3rd Quarter of Fiscal Year Ending March 31, 2011

8 March 2011

AQ INTERACTIVE Inc. (hereafter AQI or the Company) was launched in March 2000 as an enterprise for the product planning, development and sales of game software. The information provided below describes the changes in AQI's operating environment and its corporate profile, as well as a summary of the Q3 FY03/11 Business Results Meeting held on February 17, 2011.

Corporate Profile

AQI was established in March 2000 as an enterprise specializing in product planning, development and sales of game software. The Company listed on JASDAQ in February 2007. It then listed on the Tokyo Stock Exchange Second Section in March 2008. AQI is comprised of three main business lines. The first, Consumer Game Division, includes the product planning, development and sales of home game software. Its Network Content Division plans, develops and sells games for PCs and cellphones. The third, Arcade Game / Proprietary Sales Division, includes development and sales of arcade games.

The Company has six affiliated companies. Five are domestic subsidiaries: ARTOON Co., Ltd. cavia inc., feelplus Inc., MICRO CABIN INC. (as of Q4, MICRO CABIN is no longer a consolidated subsidiary due to 85% stock transfer made in January 14, 2011) and LINKTHINK INC. XSEED JKS, INC. is AQI's overseas subsidiary, engaging in the sales and marketing of AQI products in the North American market. The Consumer Game Division is currently establishing a product development regime as a Group of Companies that include AQI itself and four domestic consolidated subsidiaries, manned by 200-plus engineers (or some 250 if outsourced employees are included). The division has a broad client base: In hardware terms, it covers every console maker—Nintendo, SCE and Microsoft; in software terms, it caters to such developers as Microsoft, Nintendo, Konami, CAPCOM, and NAMCO BANDAI Holdings Inc.

Changes in AQI's Operating Environment

Although the gaming market has regained some of its vitality in recent years, it began to contract from 2008 because new hardware has taken a hit in terms of market acceptance. Moreover, in part because a disproportionate emphasis is now placed on sales of a select number of titles, it has become difficult to create new markets as in the past. As the hit on AQI's business of commissioned development of game software grew increasingly serious, the Company instituted various initiatives, including payroll cuts, to improve profitability from the first half of FY3/11.

AQI is also aiming to leverage its engineering expertise to differentiate itself in developing games for high-end consoles as Nintendo's Wii, PS3 and Xbox360, while strengthening overtures to the major software develops both in Japan and abroad, and reinforcing partnerships with hardware makers. At present, most software developers are doing the majority of their core development in-house, but because the market remains sluggish, that ratio has begun to decline. Given that the domestic market's maturity and saturation, AQI projects the majority of development projects will be farmed out. In order to succeed in this operating environment, the Company believes it is crucial to possess the advanced engineering expertise to handle not only large-scale development projects, but also be capable to act as a producer and director to plan and coordinate such projects. As explained earlier, in its post-restructuring phase, AQI's Group of Companies has maintained an engineering corps of 250-300 people capable of carrying out advanced development projects in response to the mid- to long-term needs of the market. This is possible because the Company—with total assets of ¥7.95 billion and an equity ratio of 83.6% as of December 2010—has a strong financial foundation.

In addition to a newly-revamped management system, AQI is fortifying initiatives that will maximize its strengths in its business operations. Incidentally, another change in the game software market is the emergence and expansion of network-based game services. Because consoles all come with internet connectivity as part of their standard package, a new business model has emerged that is driven by sales of downloaded game software and games using social networking services (SNS). As part of its network-based services, AQI launched the Network Content Division in FY3/10. One specific step was made in July 2009, when the Company launched an official Internet browser-based pay-to-play game that does not depend on special hardware or tools. The paid service has now reached the threshold of profitability. AQI will focus on fortifying this new business model by adding new items and offering special events to bolster its existing service lineup, and by launching new lineups as well.

FY3/11 Management Policy and Key Initiatives

At the start of FY3/11, AQI announced the following two management objectives: 1) transitioning to a profit-making regime and 2) developing the business foundations to ensure growth in the next fiscal year. The Company believes that it has made some progress toward achieving these goals. The Consumer Game and Arcade Game Divisions have been particularly proactive in transitioning to a profit-making regime as they are extensively tied to mature market domains. From a macro-environment point, the home game market—a former core business involving the Consumer Game Division—recorded an 18% year-on-year contraction in Japan in 2010, while sales posted a double-digit decline overseas, according to recent report from Fami-tsu Magazine. New hardware units, including the Nintendo 3DS, were expected to drive market growth, but have thus far failed to do so. Meanwhile, the Network Content Division is becoming a core operation as an increasing number of online games appear on the domestic and foreign markets, making the 2010 global market, including Japan, equal in size to the home game market.

Having recognized this trend—which was by confirmed the Network Content Division's solid performance in Q3—AQI redirected outlays previously allocated to existing development projects in order to strengthen the Company's business infrastructure from the next fiscal year onward. The Network Content Division is currently taking steps to ensure that its Browser Sangokushi game remains a consistent seller, while also launching follow-on games like Derby Master and Browser Puroyakyu. Unfortunately, Derby Master has not performed to expectations, whereas Browser Puroyakyu has been doing well so far in their initial post-launch phase. From April, when the new fiscal year starts, the Company will move aggressively into content development for cellphone-based games, a market AQI was slow to enter, and developing a regime that can release a new title at least once a month.

Q3 FY3/11 Consolidated Business Results and Full-Year Forecast

As seen in【Table 1】, the cumulative business results up to Q3 showed a ¥1,091 million increase in net profit and a ¥1,514 million increase in operating income on a yoy basis. The Network Content Division did particularly well, serving as a profit driver for the Company and turning a deficit of ¥652 million into a ¥862 million surplus. However, the Q3 (October-December 2010) operating margin declined to 6.6%. In addition, the Q4 (January-March 2011) operating margin forecast stands at 12.5%, far short of the 15.3% achieved in Q1 and 24.7% in Q2. The downward trend was the result of a strategic writing-off of expenses, including investment in FY3/12, under AQI's business restructuring program instituted in FY3/11. Among that written off in Q3: a total of ¥522 million in cost of sales to include a bad debt provision for the U.S. subsidiary's delayed debt recovery and a portion of R&D costs incurred by the Consumer Game and Network Content Divisions, as well as a one-time ¥157 million loss on cancellation of development projects and ¥66 million under an early retirement program in extraordinary loss. If the expenses had not been written off in cost of sales, operating margin would have been 25.3%, a trend consistent with the previous quarters.

Incidentally, AQI sold off 85% of its shares in MICRO CABIN INC., which was a 100% subsidiary that develops software for pachinko parlor game machines, in January 14, 2011. The Company's Q4 net income forecast was revised upward from ¥390 million to ¥500 million due to the posting of a one-time income that exceeded the loss incurred from the development project cancellation. As a result, shareholder return has been upgraded—the dividend per share has been raised from ¥2,200 (30% payout ratio) to ¥3,700 (40% payout ratio).

【Table 1】 Q3 FY3/11 Consolidated Business Results

Consolidated (¥million)	FY3/10			FY3/11				
	Q1-Q3	Fullyear	Composition Ratio	Q1-Q3	Q4 Fcst.	Full-Year Fcst.	Composition Ratio	YoY Chg.
Net Sales	**4,369**	**7,197**	**100.0%**	**5,460**	**1,500**	**6,900**	**100.0%**	**-4.1%**
Cost of Sales	**3,165**	**4,611**	**64.1%**	**2,791**	-	-	-	-
Development Cost Write-Off	**0**	**0**	**0.0%**	**482**	**0**	**482**	**7.0%**	-
Allowance for Doubtful Accounts	**0**	**0**	**0.0%**	**40**	**40**	**80**	**1.2%**	-
Gross Profit	1,203	2,586	35.9%	1,199	-	-	-	-
SG&A	**1,855**	**2,527**	**35.1%**	**538**	-	-	-	-
Personnel	487	634	8.8%	412	-	-	-	-
Advertisement	252	336	4.7%	**74**	-	-	-	-
R&D	484	608	8.4%	352	-	-	-	-
Operating Income	**△ 652**	**58**	**0.8%**	**862**	**188**	**1,050**	**15.2%**	**1710.3%**
Ordinary Income	**△ 659**	**63**	**0.9%**	**820**	**180**	**1,000**	**14.5%**	**1487.3%**
Extraordinary Income	0	65	0.9%	3	-	-	-	-
Gain on Sales of Subsidiary's Stock	**0**	**0**	**0.0%**	**0**	**200**	**200**	**2.9%**	-
Extraordinary Loss	**56**	**56**	**0.8%**	**229**	-	-	-	-
Loss on Cancellation of Development Projects	**16**	**16**	**0.2%**	**157**	**0**	**157**	**2.3%**	**881.3%**
Net Income	**△ 767**	**58**	**0.8%**	**316**	**185**	**500**	**7.2%**	**762.1%**

As for the Company's balance sheets, because the Network Content Division is performing well and its retrieval site operates on a one-to-two month basis, the profit to cash-in speed is accelerating. As a result, cash and deposits and short-term investment securities have increased, thus "the equivalent to cash and deposits" in a broad sense reached ¥4,359 million, an increase of ¥1,600 million on a yoy basis. Inventory assets fell sharply to ¥690 million, a decline of ¥360 million versus last fiscal year's end and a ¥569 million yoy decrease. While they do not include major titles, they do include minor titles, Network Content Division development projects, and titled developed under commission.

In terms of cash flows, those from operating activities showed a substantial improvement, from a deficit of ¥528 million to a surplus of ¥1,975 million on a yoy basis. This was due to growth in the Browser Sangokushi business and in August 2009, a Mixi version was launched for the social networking service. At the same period last year, membership stood at roughly 460,000 and the game finally began turning a profit on a monthly basis. Membership later grew to 800,000, but has since stabilized at some 600,000 at present, generating monthly sales of ¥200 million. This has led to the compounding of the surplus, but AQI is investing that in A-rated or higher CBs and CPs which will reach maturity in a maximum of one year. Since the Company is actively putting money into securities, investment securities and time deposits, it has acted as a negative factor for cash flows from investing activities.

Trends by Division: Consumer Game Division

Q3 (Oct-Dec) sales reached ¥645 million and an operating loss of ¥67 million. Of these figures, sales from the North American subsidiary was ¥90 million and operating income was nil. It is thus evident that the operating deficit was ¥67 million on domestic sales of ¥555 million. As to writing off the cost of sales as an expense, 【Table 2】 shows that ¥328 million was posted, of which a deficit of ¥40 million came from the North American subsidiary—meaning ¥288 million was written off as an expense for AQI's domestic operations. Thus, the Company's domestic operations generated ¥221 million in earnings (profit margin 38.2%). This includes ¥135 million in royalties from Super Smash Ball, a title developed for Nintendo in the past. As for the business unit, net sales of commissioned development projects was ¥490 million, while divisional income was ¥70 million, indicating that apart from the expense write-offs, the division's business regime was vastly improved.

The results of the Q3 cumulative total can be seen in 【Table 2】 and 【Table 3】. Of the ¥1,709 million in sales, ¥1,362 million was generated by the commissioned development project unit. The proprietary sales unit, meanwhile, saw a considerable decline in turnover as it sold only three titles in North America and none in Japan. The commissioned development project unit also saw sales fall by ¥540 million from ¥1,900 million yoy. This was due to the Company restructuring its workforce in Q1 in response to a market contraction. Still, if the expense write-off is excluded, the unit has basically transitioned to a profit regime.

Among the newly developed titles delivered in FY3/11 was Cubic Ninja, which AQI created for the Nintendo 3DS and will begin marketing from April 7, 2011. A foreign vendor has already been licensed to sell the title overseas. In addition, another title, Animal Resort, will also be released in April 2011.

Trends by Division: Network Content Division

While this segment has already written off expense for a portion of its titles under development in the first half of FY3/11, it did the same for Derby Master, an iPhone title (¥87 million) and several other games in Q3 (Oct-Dec). Another ¥38 million was written off through Browser Puroyakyu and Derby Master, which were released at the end of Q2, and other titles. While sales for the period was ¥835 million and operating income was ¥341 million, ¥800 million and some ¥500 million respective were generated by Browser Sangokushi. The segment is projected to post ¥700 million in sales and ¥380 million in operating income in Q4.

The Company has high expectations for Browser Puroyakyu, which became profitable from January 2011. Interest is high on the game, patterned on the Japanese professional baseball league, because it uses live-action cards featuring real players and users can create their own teams. AQI held a series of marketing events from December 2009 to January 2010 to promote Browser Sangokushi, and added new items to the game as well from April to May 2010. As a result, monthly net sales rose from ¥200 million to ¥250 million. After staging marketing events again this year, sales in January surpassed ¥280 million. Although AQI projected that sales would decline, it is actually exceeding forecasted figures.

Trends by Division: Arcade Game Division

Q3 (Oct-Dec) sales reached ¥380 million, but generated nothing in terms of operating income. In this segment, the development cost—¥40 million—for a portion of the Pokemon titles marketed direct was a written off expense. As seen in【Table 3】, a breakdown of Q1-Q3 net sales show that turnover was generated from the existing product lineup consisting of Pokemon Battrio for children, a small-craze game Cube Mall, and the Minna de Derby token game, while commissioned software development projects for pachinko units. In Q4, the Company expects sales of ¥150 million and zero operating income because MICRO CABIN Inc., which engages in pachinko software development, is no longer a consolidated subsidiary. AQI sold 85% of MICRO CABIN shares to FIELDS CORPORATION (2767 JASDAQ), which engages in the planning and sales of pachinko machines, for ¥756 million. FIELDS CORP. is currently upgrading its pachinko machine unit and is aiming to strengthen its content business to expand the firm's title lineup following its acquisition by Tsuburaya Production. By retaining 15% of MICRO CABIN shares, AQI may look into collaborative ventures with FIELDS in the future.

【Table 2】Business Results by Division / Expense Write-Off Trend

By Segment (¥ million)	FY3/10 Q1-Q3	FY3/10 Ratio	FY3/11 Q1-Q3	FY3/11 Q4 Fcst.	FY3/11 Full-Year Fcst.	FY3/11 Ratio	FY3/11 YoY Chg.
Net Sales	**7,197**	**100.0%**	**5,460**	**1,500**	**6,900**	**100.0%**	**-4.1%**
Consumer Game	4,057	56.4%	1,709	1,709	2,359	34.2%	-41.9%
Network Content	875	12.2%	2,430	2,430	3,130	45.4%	257.7%
Arcade Game	2,265	31.5%	1,320	1,320	1,470	21.3%	-35.1%
Expense Write-Off (CoGS)	**0**	**0.0%**	**522**	**40**	**562**	**8.1%**	**--**
Consumer Game	0	0.0%	328	40	368	5.3%	--
Network Content	0	0.0%	139	0	139	2.0%	--
Arcade Game	0	0.0%	55	0	55	0.8%	--
Operating Income	**58**	**0.8%**	**862**	**188**	**1,050**	**15.2%**	**1710.3%**
Consumer Game	△ 132	-1.8%	△ 102	△ 40	△ 142	-2.1%	7.6%
Network Content	324	4.5%	1,263	380	1,643	23.8%	407.1%
Arcade Game	374	5.2%	153	0	153	2.2%	-59.1%
Eliminations	△ 508	-7.1%	△ 452	△ 152	△ 604	-8.8%	18.9%
Operating Income (Before Write-Off)	**58**	**0.8%**	**1,384**	**228**	**1,612**	**23.4%**	**2679.3%**
Consumer Game	△ 132	-1.8%	226	0	226	3.3%	-271.2%
Network Content	324	4.5%	1,402	380	1,782	25.8%	450.0%
Arcade Game	374	5.2%	208	0	208	3.0%	-44.4%
Eliminations	△ 508	-7.1%	△ 452	△ 152	△ 604	-8.8%	18.9%
Expense Write-Off (Extraordinary Loss)	**0**	**0.0%**	**157**	**0**	**157**	**2.3%**	**--**
Consumer Game	0	0.0%	157	0	157	2.3%	--
Network Content	0	0.0%	0	0	0	0.0%	--
Arcade Game	0	0.0%	0	0	0	0.0%	--

【Table 3】Changes in Earnings by Division

By Segment (¥ million)	FY3/10 Q1-Q3	FY3/10 Ratio	FY3/11 Q1-Q3	FY3/11 Q4 Fcst.	FY3/11 Full-Year Fcst.	FY3/11 Ratio	FY3/11 YoY Chg.
Net Sales	**7,197**	**100.0%**	**5,460**	**1,499**	**6,959**	**100.0%**	**-3.3%**
Proprietary Sales	**3,483**	**48.4%**	**2,459**	**2,206**	**4,665**	**67.0%**	**33.9%**
Consumer Game	997	13.9%	346	189	535	7.7%	-46.3%
Network Content	875	12.2%	1,263	1,867	3,130	45.0%	--
Arcade Game	1,611	22.4%	850	150	1,000	14.4%	-37.9%
Commissional Development Project Sales	**3,712**	**51.6%**	**1,832**	**462**	**2,294**	**33.0%**	**-38.2%**
Consumer Game	3,059	42.5%	1,362	462	1,824	26.2%	-40.4%
Arcade Game	653	9.1%	470	0	470	6.8%	-28.0%

Q&A

Q1: What is the ratio of paying users to active users for the Network Content Division's Browser Sangokushi? And what is average unit price per user for the new Browser Puroyakyu service?

A1: Roughly 10% of Browser Sangokushi's active users pay for it. The average unit price per user for Browser Puroyakyu is four times that of Browser Sangokushi's ¥4,000.

Q2: Is it possible to cultivate new users for Browser Sangokushi?

A2: We are examining two ways to broaden the market. The first is to gain loyal users. We are planning to host user-appreciation events in March. To develop new users, we are looking to carry out listing ads. We are not planning to introduce any major change to the Browser Sangokushi for now, although we aim to roll out a cellphone service from April.

Q3: You said the AQI will be releasing new contents from its Network Content Division every month from April. Is the development framework already in place?

A3: We already have an outsourced team of software development engineers in place for the Galapagos smartphones. We expect that roughly half of the content we release from April will turn a profit.

Q4: What is your position on dividends and stock buybacks?

A4: If an upward revision is possible for this quarter, we intend to achieve a payout ratio of 40%. While you're probably referring to our surplus cash and deposits, we believe we need to upgrade our development expertise base even further and intend to keep a close on the trends of the consumer games market before we decide on how to maximize our cash on hand.

References

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Dec. 2010	54,356
No. of Treasury Stock	Dec. 2010	0
Market Value (¥million)	Mar. 8, 2011	7,099
BPS (¥)	Mar. 2010	118,061.49
ROE (%) ※1	Mar. 2010	0.9
ROA (%) ※2	Mar. 2010	0.7
PER (times)	FY3/11 est.	14.2
PCFR (times) ※3	Mar. 2010	17.7
PBR (times)	Mar. 2010	1.1
Share Price (¥)	Mar. 8, 2011	130,600
Unit Share (shares)	Mar. 8, 2011	1
Average Daily Volume (shares) ※4	Mar. 8, 2011	900

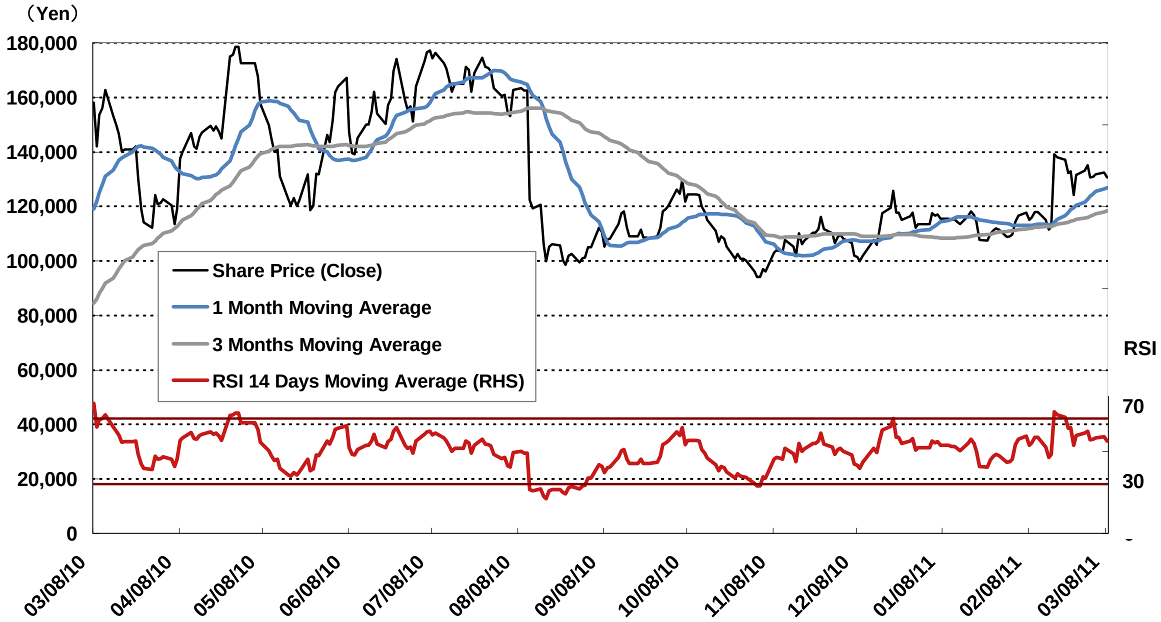
Key Financial Data (Consolidated)		
Total Assets (¥million)	Mar. 2010	7,780
Shareholders' Equity (¥million)	Mar. 2010	6,417
Interest-Bearing Debt (¥million)	Mar. 2010	447
Equity Ratio (%)	Mar. 2010	86.8
Ratio of Interest-Bearing Debt (%) ※5	Mar. 2010	7.0
Free Cash Flows (¥million) ※6	Mar. 2010	△ 792

※1 ROE=Current Net Income÷Shareholders' Equity
※2 ROA=Current Net Income÷Total Assets
※3 PCFR=Maket Value÷(Current Net Income+Depreciation)
※4 Average Daily Volume=Average Daily Volume for previous 12 months
※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity
※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY3/07	4,809	527	543	319	7,418.47	0.00
FY3/08	5,666	766	759	517	10,109.90	2,000.00
FY3/09	6,180	△ 7	13	△ 468	△ 8,625.05	0.00
FY3/10	7,197	58	63	58	1,076	1,500.00
1H FY3/11	3,598	739	696	237	4,365	0.00
FY3/11 fcst.	6,900	1,050	1,000	500	9,177	3,700.00

Note: FY3/11 forecast announced on Feb 16, 2011

Stock Price Charts and RSI



Source: Prepared by Trias Corp. with Bloomberg data
Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.
RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days + averaged share price decline for N days) x100