

Financial Results (Consolidated bases) ended March 31, 2003

Date of Issue:
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Company Name: CAPCOM Co., Ltd.
Company Code: 9697
(URL <http://www.capcom.co.jp/>)

Stock Exchange:
Location of Headquarters:

Tokyo, Osaka
Osaka Prefecture

Representative: Kenzo Tsujimoto, C.E.O. & President
Contact Person: Heiji Oshima, C.F.O. & Executive Vice President

Tel: (06)6920-3605

Approval of Financial Results by Board Members; May 12, 2003

Application of US Accounting Standard: None

1. Results of the Year ended March 31, 2003 (April 1, 2002 - March 31, 2003)

(1) Financial Results

Note: Numbers are rounded down at Million Yen

	Net Sales		Operating Income		Ordinary Income	
	Million Yen	%	Million Yen	%	Million Yen	%
Year Ended March 31, 2003	62,036	△1.1	6,680	△31.3	6,797	△26.6
Year Ended March 31, 2002	62,742	27.8	9,727	35.9	9,261	15.4

	Net Income		Earnings Per Share of Common Stock	Earning Per share of Common Stock (Assuming Full Diluted)
	Million Yen	%	Yen	Yen
Year Ended March 31, 2003	△19,598	—	△338.01	—
Year Ended March 31, 2002	4,912	△18.2	84.21	76.61

Note ① Investment Profit/Loss on Equity Method

Year Ended March 31, 2003 - Million yen Year Ended March 31, 2002 - Million yen

② Average Number of Shares of Each Terms (Consolidated Basis)

Year Ended March 31, 2003: 57,979,826 Year Ended March 31, 2002: 58,328,797

③ Change in Accounting Policies: Yes

④ Percentage represents change against corresponding period of the previous year on net sales, operating income, ordinary income and net income

(2) Financial Position

	Total Assets	Total Shareholders' Equity	Shareholders' Equity Ratio to Total Assets	Shareholders' Equity per Share
	Million Yen	Million Yen	%	Yen
As of March 31, 2003	106,648	42,888	40.2	753.47
As of March 31, 2002	128,512	68,233	53.1	1,168.51

Note: Number of shares outstanding:

Year Ended March 31, 2003: 56,920,514 Year Ended March 31, 2002: 58,393,645

(3) Cash Flows

	Cash Flows from Operating activities	Cash Flows from Investing activities	Cash Flows from Financing activities	Cash and Cash Equivalents at end of period
	Million Yen	Million Yen	Million Yen	Million Yen
Year Ended March 31, 2003	3,635	△2,329	△2,000	33,444
Year Ended March 31, 2002	3,315	△3,066	8,589	35,000

(4) Scope of Consolidation and Equity Method

Number of consolidated subsidiaries: 12

Number of unconsolidated subsidiaries (equity method is applied): 0

Number of affiliated companies (equity method is applied): 0

(5) Change in Scope of Consolidation and Equity Method

Consolidation: Increase 2, Decrease 0

Equity Method: Increase 0, Decrease 0

2. Forecast for the Fiscal Year ending March 31, 2004 (From April 1, 2003 to March 31, 2004)

	Net Sales	Ordinary Income	Net Income
	Million Yen	Million Yen	Million Yen
Six-month period ending Sept 30, 2003			
For Year ending March 31, 2004	22,350 63,000	1,550 7,300	900 4,200

(Reference) Expected Net Income per Share of Common Stock for Year ending March 31, 2004: 73.78 (Yen)

Note: These forecast are based on the Company's current assumptions and beliefs in light of the information currently available to it, and involve known and unknown risks and uncertainties. The Company's actual results may differ materially from above mentioned forecast.

Status of Capcom Corporate Group

Major businesses of Capcom corporate group (Capcom Co., Ltd. and its affiliated companies); positioning of each affiliated company within the business segments are as described below.

[Home Video Games]

This division develops and distributes home video game software. Capcom Co. Ltd., develops video game software. Capcom Entertainment, Inc.(consolidated subsidiary), Capcom Asia Co., Ltd.(consolidated subsidiary), Capcom Eurosoft Ltd.(consolidated subsidiary), CE Europe Ltd.(consolidated subsidiary), CEG Interactive Entertainment GmbH(consolidated subsidiary), and Capcom Co., Ltd. are responsible for distribution of the game software. Flagship Co., Ltd.(consolidated subsidiary) and Capcom Digital Studios, Inc. are also participating in development.

[Arcade Games]

This division develops, manufactures, and distributes game products for commercial customers. Capcom Co., Ltd. develops and manufactures products while Capcom Asia Co., Ltd. and Capcom Co., Ltd. are responsible for distribution of the products.

[Arcade Operations]

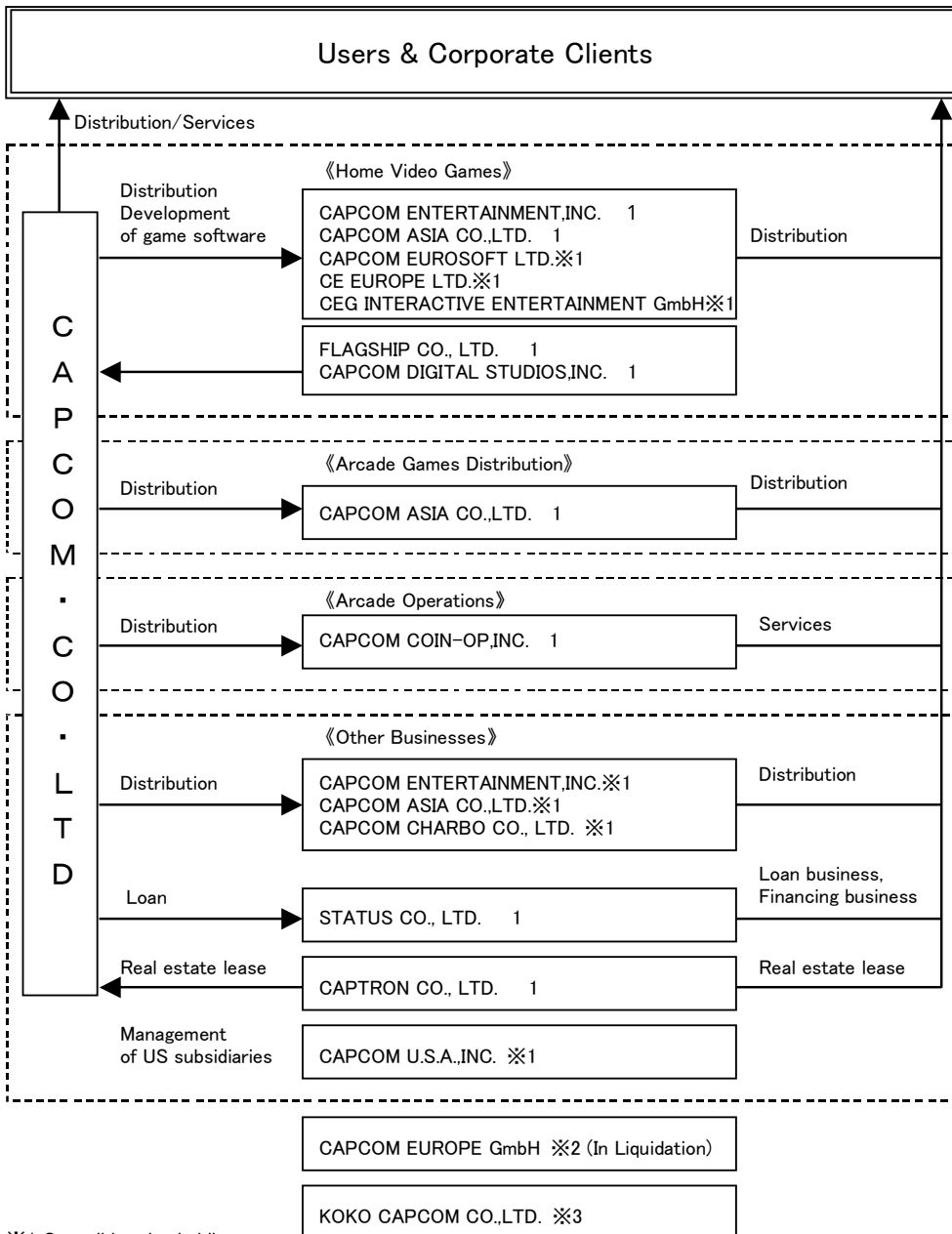
This division operates amusement facilities. Capcom Co., Ltd. and Capcom Coin-Op, Inc. conduct operations at these facilities. The amusement facility operation by Captron Co., Ltd. was divided and taken over by Capcom Co., Ltd. Capcom Coin-Op, Inc. will cease its arcade operation.

[Other Businesses]

Capcom Co., Ltd. conducts various licensing businesses. The Company licenses Capcom characters and game contents. Capcom Entertainment, Inc., Capcom Asia Co., Ltd., and Capcom Co., Ltd. are responsible for licensing. Status Co., Ltd.(consolidated subsidiary) provides casualty insurance services and financial services. Capcom Charbo Co., Ltd. (consolidated subsidiary) provides support services in mobile communications, including cell phones. In addition, Captron Co., Ltd. started a real estate leasing business during this mid-term fiscal period. Capcom USA, Inc.(consolidated subsidiary) is a holding company of its US and UK subsidiaries; Capcom Coin-Op, Inc., Capcom Entertainment, Inc., Capcom Digital Studio, Inc. and Capcom Eurosoft Ltd., and their respective managements are under the control of Capcom USA, Inc..

Other affiliated companies include Koko Capcom Co., Ltd.(affiliated company not consolidated for equity method), a developer and distributor of game software, and Capcom Europe GmbH (non-consolidated subsidiary not consolidated for equity method), currently being liquidated.

All the explanations described above are shown in the following organizational diagram.



※1 Consolidated subsidiary

※2 Non-consolidated subsidiary

※3 Affiliated companies not consolidated for equity method

Business Policy

1. Management Principle

Our principle is to be a creator of entertainment culture. Through development of highly creative software contents that excite people and stimulate their senses, we have been aiming to offer an entirely new level of game entertainment.

Our management objectives are also on strengthening relationships with shareholders, clients and our employees to satisfy demands and to bring about prosperous benefits.

2. Principle related to dividends

One of our priorities is on stable and continuous dividends to all shareholders. In order to enable us to implement the objective, we are striving to generate retained earnings in line with our future business strategies as well as our financial strength.

3. Business Targets

As financial conditions in Japan change, such as the implementation of new accounting standards, we believe “Cash-Flow Management” has become an important factor -- more important than to make up financial statements utilizing changes in accounting standards. We do not set actual target figures on specific fields because we understand “Cash-Flow Management” (real management that generates cash) as a very important factor for evaluating decision-making processes and corporate values.

4. Medium Term Business Strategy

In addition to the sharp rise in development costs, the video game industry is facing challenges. International competitions are getting fiercer struggling for survival being resulted in increase in mergers, acquisitions and business integrations as corporate restructuring becomes more intense.

Under this situation, we believe that establishing a management system capable of adapting to changes in the business environment is one of our most important managerial goals. In order for us to accomplish this goal, we will reinforce R&D to reform profit structure. We will also work on revitalizing the corporation in order to create corporate values by reforming organization and staff perception including implementing a performance-based incentive program and clarifying accountabilities for management, officers and staff.

As our medium-term business strategy, our management objectives are as shown in the following:

- (1) Focusing on our core business - developing and marketing creative home video game software - by concentrating our resources
- (2) Strengthening and exploring multi platform strategy for home video game software based on market demands.
- (3) Expanding arcade operations business, which has become the second largest source of business for us, in order to continuously secure stable revenues.
- (4) Expanding sales overseas by aggressive business deployment, including establishing overseas offices.
- (5) Pioneer business opportunities by enhancing our product contents to create new markets and expanding our share in existing markets.
- (6) Promoting and strengthening the Capcom Brand to create added value.
- (7) Realizing a stable cash flow for each fiscal term by streamlining financial aspects.

5. Issues To Be Addressed

As the video game industry reaches a turning point, we take the critical situation that we are facing seriously. We will implement immediate management reforms by verifying the causes of our hardships. We will also try to re-acknowledge our current challenges, and we believe that reviewing of R&D and a turnaround of marketing strategies are immediate key issues to be implemented.

We started reviewing our R&D activities, which is the core element of our business. In order to improve company quality, we are implementing reinforcement measures promoting performance-based remuneration program, speedy and efficient decision-making processes, organizational restructure, and responsible management.

We will continue pioneering new areas of product development. One of our new strategies for R&D is to utilize a middle-ware called ACR that enables the release of software for all video game platforms simultaneously. We will also explore the possibility of developing multi-platform products, depending on the market demands.

We will do our best to recover and regain our business productivity and by further promoting customer-oriented operations, reinforcing sales force, further improving arcade operations, developing new markets while enhancing market share in existing markets, cutting sales promotion and advertisement expenses, downsizing personnel, and lowering logistics costs.

6. Corporate Governance

(1) Basic understanding of Corporate Governance

As part of the management reformation, we have introduced the **“Operating Officer System”** for developing business flexibility and increasing management efficiency, which clearly separates the Board of Directors which focus on decision-making from the Operating Officers which implement and execute the operation of the Corporation. In addition, we retain three external directors as well as three external auditors for the purpose of enhancing both management monitoring and transparency.

(2) Current condition of measures for implementing corporate governance

1. Corporate Governance structure

■ We have introduced an corporate officer system for the corporate governance system

■ There are five internal directors out of eight board members.

Three external auditors out of four corporate auditors are in office.

■ We have voluntarily established the Remuneration Committee, headed by an external director, to determine fair and relevant compensation for directors. We also have the Compliance Committee, headed by an executive vice-president, for the purpose of building a corporate structure based on corporate governance.

■ Although no full-time staff has been assigned to assist external directors or auditors, three personnel from the secretary's office at the main office and two staff employees from our Tokyo branch office are assisting the external directors.

■ The Board of Directors has been vitalized and the management monitoring function has been reinforced by accepting advice and opinions from the external directors. This also helps to increase corporate value.

■ In addition to the Compliance Committee, we are in the process of establishing a risk management system reinforcing our internal control system in order to ensure the management monitoring function work.

■ One of our external directors is an attorney, who is a leading authority in the field, will provide advice and guidance for important issues or problems. This reinforces the supervisory function of the board of directors and ensures reliability and transparency.

2. Interests with external directors and external auditors.

One of our external directors by the name of Koichi Hori is the president of Dream Incubator Co. Ltd., which provides consulting services for the Company. No other external directors or external auditors have any personal relationship, capital relationship, business relationship, or other interest with the Company.

3. Condition on implementation of any activity promoting corporate governance of this fiscal year.

We appointed an external director at the last annual general meeting of shareholders who practices law in Japan in order to reinforce compliance function. As a result, we now have eight directors in total including three external directors.

We have set the Compliance Committee for the purpose of insuring the risk management system as well as complying with laws and corporate ethics.

Operating Results and Financial Status

1. Operating Results

(1) Overview of fiscal year 2002

In the fiscal year 2002, Japanese economy remained sluggish in throughout the year although the there were some sign of recovery on capital expenditures and consumer spending. This was due to the decline in the stock market, the unresolved non-performing loans problem in the financial sector, and adverse employment conditions caused by deflationary pressures, such as corporate downsizing and wage restraint, and sluggish exports.

As for the video game industry, the market reflected decreasing demand affected by a depressed desire for consumption, an entrenched used-software market, and a decrease of disposable income due to increase of expenses related to cell phone and Internet. In addition, M&A, business integration and co-operations as corporate restructuring for survival have been accelerated in the industry.

Although overseas markets showed steady progress, mainly in Europe and the United States, the business environment has reached a major turning point as the result of an expanding low-end software market and fiercer competition.

Meanwhile, the entire video game industry is striving to foster a healthy market. For example, as a part of the market advancement efforts, CERO (Computer Entertainment Rating Organization), which is an ethical review entity for game software, and the Game Amusement Society were founded.

As the structure of the video game industry is changing rapidly, we have expanded our R&D division and increased the product lineup, introducing software developed by other companies in order to stimulate the existing user demands. We have also been trying to improve our business performance through countrywide sales promotion campaigns, exploring new marketing channels, community-based arcade developments, and so on. We also released a new board game called CATAN in order to expand our business territory. As a result, this triggered a revival of the board game boom in Japan.

In addition, we have been promoting correlation with the media. This includes releasing the Hollywood movie "Resident Evil" and a the television program MEGAMAN Battle Network which are the film and the television adaptations of our popular software. This produced secondary effects such as enhancement of our brand recognition and our company image.

However, the net sales of this fiscal year period decreased to 62,036 million yen (down 1.1 % from the previous fiscal year).

Ordinary income decreased to 6,797 million yen (down 26.6 % from the previous fiscal year), due to low sales, posting reserve for loss on goods unsold, and increase of sales and general administrative expenses.

All of our land and buildings has been transferred to CAPTRON, one of our subsidiary companies, in order to achieve the efficient management of operations and revitalization of the entire CAPCOM group, and to improve financial transparency as well as to cope with the real estate appraisal loss.

In addition, we modified our R&D strategy with a quality-oriented approach by concentrating R&D resources to selected software development. After the thorough review of our software development lineup, we have decided to stop several software developments which seem to be difficult to produce expected profits. This caused a loss from ceasing development and the extraordinary loss of 36,850 million yen in total.

Net income for this fiscal year, regretfully, recorded the loss of 19,598 million yen, though corporate tax and other taxes were adjusted by applying tax effect accounting.

(2) Status of Each Operational Department

① Home Video Game Sales

We released new software titles for PlayStation 2, that employed Japanese “anime” drawing technique such as “Auto Modellista” the first racing game software by Capcom, “Clock Tower 3”, and “Breath of fire V Dragonquarter” under the depressed domestic market. Neither of these titles saw satisfactory sales growth. We also released “Resident Evil 0” (for Nintendo GameCube) and “Devil May Cry 2”(for PlayStation 2) which were the major titles of this fiscal year with great expectation. The sales of these two titles were not strong enough to meet our projection. In order to cope with a highly competitive environment, we released two more titles, namely “Chaos Legion” (for PlayStation 2) and “P. N. 03” (for Nintendo GameCube) that were not scheduled to be released in this term. However, neither of these titles could make up the sales decrease.

On the other hand, home video game software for Game Boy Advance such as “Megaman” series, including “MegamanZERO” and “Megaman Battle Network 3” and “Gyakuten Saiban 2” showed healthy sales results supported by strong popularity.

As for the overseas operations, the sales of “Resident Evil” (for Nintendo GameCube) made good sales. In addition, inexpensive software series for PlayStation2 such as “Onimusha Greatest Hits” and “Resident Evil Code Veronica X Greatest Hits” grew favorably, supported by a healthy US and European market.

However, total sales were weak due to most of the new titles not making sales as we expected.

As a result, net sales increased to 48,090 million yen (up 0.7 % from the previous fiscal year), and the operating income was 6,760 million yen (down 39.9 % from the previous fiscal year).

② Arcade Operations

The market environment of arcade operations had been leveled off previously. However, the market trend turned upward thanks to the effort towards vitalizing the market by the entire arcade industry: e.g., creating “Game Day” (November 23rd of every year) and holding events to celebrate this day. The arcade is gaining support and recognized as a convenient amusement facility by families and women.

Under the slogan of “Chiiki Ichiban Ten (No.1 Arcade in the Community)”, we have opened several arcades in large commercial complexes and have been implementing creative marketing activities such as holding various events to secure core customers and repeaters as well as to attract families. We also closed down unprofitable arcades for more efficient operations.

We opened a second arcade in Kyushu called “Plaza Capcom – Oita” in Oita and another arcade in “Plaza Capcom– Yachiyo” in Chiba. Both have contributed to increase of sales, and we closed nine unprofitable arcades.

The resulted net sales totaled 9,242 million yen (up 11.0 % from the previous fiscal year), and the operating income increased to 2,141 million yen (up 82.3 % from the previous fiscal year).

③ Arcade Game Sales

Although we released highly profitable prize-winning games such as “Mecha-tore” and “Bell-catcher Twin” for the purpose of re-establish earning models in the shrinking arcade game market, the net sales of this business segment was decreased due to the lack of powerful demand-generating products, escalating competition, and unsuccessful differentiation strategy.

Net sales decreased to 1,113 million yen (down 71.8 % from the previous fiscal year) and operating loss totaled 534 million yen.

④ Other Businesses

Other income was 3,743 million yen (up 21.5 % from the previous fiscal year) and this mainly derived from licensing royalties totaling 351 million yen (up 71.0 % from the previous fiscal year).

(3) Overview of Business Performance in Each Region

① Japan

Japanese domestic market showed slow growth with continuing economic sluggishness due to the lack of strong software products and diversified customer consumption.

We released new software titles for PlayStation 2 such as “Auto Modellista,” our first racing game, “Clock Tower 3”, and “Breath of Fire V Dragonquarter”. Neither of these titles saw satisfactory sales figures.

We also released the major titles of this fiscal year -- “Resident Evil 0” (for Nintendo GameCube), and “Devil May Cry 2”. The sales of these two titles were not strong enough to create sales growth under the sluggish market trend.

In order to overcome the highly competitive market, we released some inexpensive software and two new titles -- “Chaos LEGION” (for PlayStation 2) and “P. N. 03” (for Nintendo GameCube) -- that were not scheduled to be released in this term. However, neither of these titles could make up the sales decrease.

On the other hand, “Megaman” series (for Game Boy Advance), including “MegamanZero,” and “Megaman Battle Network 3” and “Gyakuten Saiban 2” showed healthy sales results supported by a firm popularity among end-users.

However, total sales were weakened since most of the new titles could not make enough sales as expected.

As for arcade operations, the “Chiiki Ichiban Ten (No.1 Arcade in the Community)” strategy has become successful and its business base has been steadily expanding.

The resulted net sales totaled 43,873 million yen (down 4.9 % from the previous fiscal year), and the operating income decreased to 6,037 million yen (down 30.8 % from the previous fiscal year).

② North America

The North American market underwent an expansion in both software and game platforms thanks to several major game titles becoming mega hits. This market should now become larger than film box-office sales.

Under these circumstances, the sales of “Resident Evil” (for Nintendo GameCube) and inexpensive titles for PlayStation 2, such as “Onimusha Greatest Hits” and “Resident Evil Code Veronica X Greatest Hits”, grew favorably. However, sales of the two major titles of this fiscal year -- “Devil May Cry 2”(for PlayStation 2) and “Resident Evil 0” (for Nintendo GameCube) -- were not strong enough to reach our projection.

As a result, the net sales increased to 16,417 million yen (up 15.3 % from the previous fiscal year), and the operating income was 2,159 million yen (down 9.0 % from the previous fiscal year).

③ Europe

The European market grew strongly in general especially in UK, excluding some countries like Germany that were suffered from serious flood damage last year, thanks to several game titles becoming big hits supported by increasing sales of game platform.

Under these circumstances, the sales of software like “Resident Evil” (for Nintendo GameCube) grew favorably. However, highly expected titles such as “Auto Modellista” (for PlayStation 2) and “Resident Evil 0”(for Nintendo GameCube) did not make satisfactory sales level.

As a result, the net sales increased to 7,819 million yen (up 7.6 % from the previous fiscal year) and the operating profit decreased to 666 million yen (down 36.1 % from the previous fiscal year).

⑤ Other Regions

Followed by Japan, US and European markets, we are expecting the Asian market to be growing. However, it may take years to see actual growth in this region because the marketing of home video game hardware has just begun, PC-based game has been already popular, and software piracy is prevalent in these countries.

Net sales were 647 million yen (up 3.3 % from the previous fiscal year) and the operating loss was 42 million yen.

2. Prospects for the Next Fiscal Year

The Japanese economy is projected to be uncertain, due to the delay in recovery from deflation, sluggish stock market, stagnant consumption, concern of economic slowdown in US, turbulent global situation and other factors.

In addition to the sluggish Japanese video game industry, the competition is forecast to become more and more intense especially in overseas markets, due to the aggressive marketing approaches by the US and European major game makers, as well as the rapid growth of Taiwan and Korean game makers already strong in online gaming.

In addition, skyrocketing R&D cost, the expanding used game software market, and the rapid price decline of products may stimulate competition and make s the market even more challenging.

The impact of SARS (Severe Acute Respiratory Syndrome) may reduce consumer spending. However, it might stimulate the sales of game software because consumers are expected to find video games to be an inexpensive, convenient, and safer form of entertainment as an alternative to traveling.

We will try our best to find ways to cope with the lawful used software market by creating new rules and systems for profit sharing with retailers.

We are projecting net sales of 63,000 million yen, the ordinary income of 7,300 million yen, and net loss of 4,200 million yen in consolidated business performance for next fiscal year.

3. Financial Conditions

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of this fiscal year period decreased by 33,444 million yen from the previous fiscal year to 1,555 million yen. Cash flow positions for each activity are as stated below.

(1) Cash flows from operating activities

Net cash increase from operating activities amounted to 3,635 million yen. Although net loss before income tax was 30,049 million yen due to the appraisal loss of land and buildings totaling 24,331 million yen and 3,285 million yen increase in the allowance for doubtful accounts, those were no cash associated.

(2) Cash flows from investing activities

Net cash decrease from investing activities amounted to 2,329 million yen. This decrease is attributable to the expense of 808 million yen for the acquisition of property, plant and equipment for amusement facilities and acquisition of treasury stock.

(3) Cash flows from financing activities

Net cash decrease from financing activities amounted to 2,000 million yen. This is attributable to the increase of 3,087 million yen related to acquisition of treasury-stock purchase.

Consolidated Balance Sheets

(Unit: Millions of Yen)

Account Title	Balance Sheet of Previous Fiscal Year (As of March 31, 2002)		Balance Sheet of This Fiscal Year (As of March 31, 2003)		Difference
	Amount	%	Amount	%	Amount
	(Assets)				
I Current assets					
1 Cash and cash equivalents	27,661		30,445		2,784
2 Notes and accounts receivable	15,240		15,566		326
3 Negotiable Securities	7,338		2,998		△4,339
4 Inventories	6,516		6,360		△156
5 Game software products in-progress	11,218		10,331		△887
6 Deferred income taxes	2,521		4,353		1,832
7 Short-term loans receivable	4,948		4,336		△611
8 Other	3,146		2,798		△347
9 Allowance for doubtful accounts	△1,717		△2,594		△877
Total current assets	76,874	59.8	74,597	69.9	△2,276
II Fixed assets					
(1) Tansible fixed assets					
1 Buildings and structures	7,400		4,709		△2,690
2 Machinery and vehicle	220		121		△99
3 Tool, fixture and furniture	709		722		12
4 Rental equipment	2,015		177		△1,837
5 Equipments for amusement facilities	2,335		1,949		△386
6 Land	26,499		4,700		△21,799
7 Construction-in-progress	45		27		△18
Total tansible fixed assets	39,227	30.5	12,408	11.6	△26,818
(2) Intansible fixed assets					
1 Other	1,084		1,151		67
Total intansible fixed assets	1,084	0.9	1,151	1.1	67
(3) Investments and other assets					
1 Investments in securities	2,053		2,029		△24
2 Long-term loans receivable	5,755		948		△4,806
3 Deferred income taxes	1,229		10,534		9,305
4 Claim in bankruptcy and reorganization	163		6,271		6,107
5 Other	6,662		5,308		△1,353
6 Allowance for doubtful accounts	△4,537		△6,603		△2,065
Total investments and other assets	11,326	8.8	18,489	17.4	7,163
Total fixed assets	51,637	40.2	32,050	30.1	△19,587
Total assets	128,512	100.0	106,648	100.0	△21,863

(Unit: Millions of Yen)

Account Title	Balance Sheet of Previous Fiscal Year (As of March 31, 2002)		Balance Sheet of This Fiscal Year (As of March 31, 2003)		Difference
	Amount	%	Amount	%	Amount
(Liabilities)					
I Current liabilities					
1 Notes and accounts payable	4,742		5,173		430
2 Short-term borrowings	8,780		7,505		△1,275
3 Accrued income taxes	1,435		649		△786
4 Accrued bonus	461		454		△7
5 Reserve for return goods	—		613		613
6 Other	4,981		5,922		941
Total current liabilities	20,402	15.9	20,317	19.1	△84
II Long-term liabilities					
1 Convertible bonds payable	37,264		37,262		△2
2 Long-term debt	87		3,570		3,482
3 Accrued retirement benefits for employees	705		803		98
4 Other	1,757		1,775		18
Total fixed liabilities	39,814	31.0	43,410	40.7	3,596
Total liabilities	60,216	46.9	63,728	59.8	3,511
(Minority Interest)					
Minority interest	62	0.0	31	0.0	△30
(Shareholders' Equity)					
I Common stock	27,580	21.5	—	—	△27,580
II Capital reserve	30,464	23.7	—	—	△30,464
III Retained earnings	8,776	6.8	—	—	△8,776
IV Unrealized loss on revaluation of securities	△94	△0.1	—	—	94
V Cumulative translation adjustments	1,551	1.2	—	—	△1,551
	68,278	53.1	—	—	△68,278
VI Treasury stock	△45	△0.0	—	—	45
Total shareholders' equity	68,233	53.1	—	—	△68,233
I Common stock	—	—	27,581	25.9	27,581
II Capital surplus	—	—	30,471	28.6	30,471
III Retained earnings	—	—	△12,049	△11.3	△12,049
IV Unrealized loss on revaluation of securities	—	—	△160	△0.2	△160
V Cumulative translation adjustments	—	—	142	0.1	142
	—	—	45,984	43.1	45,984
VI Treasury stock	—	—	△3,096	△2.9	△3,096
Total shareholders' equity	—	—	42,888	40.2	42,888
Total Liabilities, minority Interest and shareholders' equity	128,512	100.0	106,648	100.0	△21,863

Consolidated Statements of Income

(Unit: Millions of Yen)

Account Title	Income Statements of Previous Fiscal Year From April 1, 2001 To March 31, 2002			Income Statements of This Fiscal Year From April 1, 2002 To March 31, 2003			Difference
	Amount		%	Amount		%	Amount
I	Net sales	62,742	100.0		62,036	100.0	△ 706
II	Cost of sales	38,229	60.9		38,585	62.2	355
	Gross profit	24,513	39.1		23,451	37.8	△ 1,062
	Reserve for return goods	—			613	1.0	613
	Net gross profit balance	24,513	39.1		22,838	36.8	△ 1,675
III	Selling, general and administrative expenses	14,786	23.6		16,158	26.0	1,371
	Operating income	9,727	15.5		6,680	10.8	△ 3,047
IV	Other income						
1	Interest income	273			196		
2	Dividend income	3			3		
3	Rental income	108			49		
4	Gain on sale of treasury stock	9			—		
5	Exchange gain	126			145		
6	Other	130	650	1.0	88	483	0.8
V	Other expense						
1	Interest expense	325			254		
2	Bond issue expense	579			—		
3	Bond redemption expense	48			—		
4	Other	164	1,116	1.7	110	365	0.6
	Ordinary income		9,261	14.8		6,797	11.0
VI	Extraordinary gain						
1	Gain on sale of fixed asset	1			0		
2	Gain on sale of investment securities	5			—		
3	Gain on recovery of bad debts	31			—		
4	Gain on transfer of allowance for doubtful accounts	0	38	0.0	3	3	0.0
VII	Extraordinary loss						
1	Loss on sale of fixed asset	107			186		
2	Loss on revaluation of real estate	—			24,331		
3	Loss on revaluation of investment in securities	1,036			619		
4	Loss on sale of investment securities	0			—		
5	Loss on revaluation of other financial products	22			—		
6	Loss on sale or disposal of inventories	—			1,429		
7	Loss on suspension of product development	—			5,284		
8	Loss on consolidation of business	—			406		
9	Loss on revaluation of inventories	—			1,508		
10	Extraordinary retirement allowance	109			81		
11	Loss on transfer of allowance for doubtful accounts	603			2,708		
12	Other extraordinary loss	—	1,879	3.0	293	36,850	59.4
	Net profit or loss before taxes		7,420	11.8		△ 30,049	△ 48.4
	Corporate tax, local tax, and enterprise tax	2,753			1,105		
	Corporate tax refund from previous period	—			△ 221		
	Adjustment of Corporate tax and other tax	△ 276	2,476	3.9	△ 11,304	△ 10,420	△ 16.8
	Minority interest profit (Exemption)		31	0.1		△ 30	△ 0.0
	Net profit or loss		4,912	7.8		△ 19,598	△ 31.6
							△ 24,510

Consolidated Statements of Retained Earnings

(Unit: Millions of Yen)

Account Title	Previous fiscal year		This fiscal year		Difference Amount
	From April 1, 2001 To March 31, 2002		From April 1, 2002 To March 31, 2003		
	Amount		Amount		
I Beginning balance of retained earnings		5,218		—	△5,218
II Decrease in retained earnings					
1 Dividend	1,165		—		
2 Bonuses to directors	60		—		
3 Decrease in retained earnings by changing reporting entities	127	1,353	—	—	△1,353
III Net profit for this fiscal period		4,912		—	△4,912
IV Retained earnings					
Ending balance of this fiscal period		8,776		—	△8,776
(Capital surplus)					
I Beginning balance of capital surplus					
Beginning balance of capital reserve	—	—	30,464	30,464	30,464
II Increase in capital surplus					
1 Capitalization of convertible bond conversion	—		0		
2 Gain on sale of treasury stock	—	—	5	6	6
III Ending balance of capital surplus for this fiscal period		—		30,471	30,471
(Retained earnings)					
I Beginning balance of retained earnings					
Beginning balance of consolidated retained earnings	—	—	8,776	8,776	8,776
II Decrease in retained earnings					
1 Dividend	—		1,168		
2 Bonuses to directors	—		60		
3 Net loss	—	—	19,598	20,826	20,826
III Ending balance of retained earnings		—		△12,049	△12,049

Consolidated statements of cash flows

(Unit: Millions of Yen)

Account Title	Previous Fiscal Year	This Fiscal Year	Difference
	From April 1, 2001 To March 31, 2002	From April 1, 2002 To March 31, 2003	
	Amount	Amount	Amount
I Cash flows from operating activities			
1 Net profit or loss (Δ) before income taxes	7,420	Δ 30,049	Δ 37,469
2 Depreciation and amortization	2,172	2,202	30
3 Increase in allowance for doubtful accounts	943	3,285	2,341
4 Increase (decrease) in accrued bonuses and unpaid bonus (Δ reduction)	198	33	Δ 165
5 Increase in reserve for loss on goods unsold	-	613	613
6 Increase in accrued retirement benefits for employees	428	98	Δ 330
7 Interest revenue and dividend income	Δ 276	Δ 200	76
8 Interests paid	325	254	Δ 70
9 Exchange gain	-	Δ 62	Δ 62
10 Gain on sale of fixed assets	Δ 1	Δ 0	0
11 Loss on sale or disposal of fixed assets	107	186	79
12 Loss on revaluation of real estate	-	24,331	24,331
13 Gain on sale of treasury stock	Δ 9	-	9
14 Gain on sale of investment securities	Δ 5	-	5
15 Loss on sale of investment securities	0	-	Δ 0
16 Loss on revaluation of investment securities	1,036	619	Δ 416
17 Loss on revaluation of other financial products	22	5	Δ 17
18 Increase (decrease) in account receivable (Δ increase)	86	Δ 735	Δ 821
19 Increase (decrease) in inventories (Δ increase)	Δ 981	2,063	3,044
20 Increase in game software products in-progress (Δ increase)	Δ 2,489	887	3,376
21 Increase (decrease) in accounts payable (Δ reduction)	Δ 348	513	861
22 Increase (decrease) in other current assets (Δ increase)	Δ 1,846	24	1,870
23 Increase (decrease) in other current liabilities (Δ reduction)	Δ 95	1,074	1,169
24 Bonus paid to directors	Δ 60	Δ 60	-
25 Other	Δ 76	273	350
Sub total	6,550	5,358	Δ 1,191
26 Interest and dividend received	152	195	43
27 Interest payment	Δ 232	Δ 249	Δ 16
28 Corporate and other tax payment	Δ 3,155	Δ 1,670	1,485
Cash flows from operating activities	3,315	3,635	320
II Cash flows from investing activities			
1 Acquisition of property, plant and equipment	Δ 2,696	Δ 1,812	883
2 Proceeds from sale of property, plant and equipment	100	124	23
3 Acquisition of intangible fixed asset	Δ 484	Δ 356	128
4 Acquisition of investment securities	Δ 247	Δ 772	Δ 525
5 Proceeds from sales of investment securities	43	180	136
6 Expenditure for loans	Δ 28	Δ 78	Δ 50
7 Proceeds from collection of loans	258	97	Δ 160
8 Expenditure for other investing activities	Δ 398	Δ 142	256
9 Proceeds from other investing activities	385	430	44
Cash flows from investing activities	Δ 3,066	Δ 2,329	737
III Cash flows from financing activities			
1 Proceeds from short-term borrowings	8,682	-	Δ 8,682
2 Repayment of short-term borrowings	Δ 10,007	Δ 1,642	8,365
3 Proceeds from long-term borrowings	-	4,200	4,200
4 Repayment of long-term borrowings	Δ 120	Δ 348	Δ 228
5 Proceeds from convertible bond issue	25,000	-	Δ 25,000
6 Expenditure for conversion of convertible bond	Δ 0	Δ 0	0
7 Expenditure for redemption of convertible bond	Δ 13,865	-	13,865
8 Proceeds from sale of treasury stock	50	41	Δ 8
9 Acquisition of treasury stock	-	Δ 3,087	Δ 3,087
10 Dividend paid by parent company	Δ 1,151	Δ 1,164	Δ 12
Cash flows from financing activities	8,589	Δ 2,000	Δ 10,589
IV Effect of exchange rate changes on cash and cash equivalents	681	Δ 861	Δ 1,542
V Decrease in cash and cash equivalents	9,519	Δ 1,555	Δ 11,074
VI Beginning balance of cash and cash equivalents	25,675	35,000	9,324
VII Decrease in cash and cash equivalents by changing reporting entities	Δ 194	-	194
Ending balance of cash and cash equivalents	35,000	33,444	Δ 1,555

(Segment Information)

(A) Operating segments

Previous fiscal year (from April 1, 2001 to March 31, 2002)

Unit: Millions of Yen

	Home video games	Arcade games	Arcade operations	Other businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1)External customers	47,769	3,564	8,327	3,081	62,742	(---	62,742
(2)Inter-segment sale or transfer	--	389	--	0	389	(389)	--
Total	47,769	3,954	8,327	3,082	63,132	(389)	62,742
operating expense	36,512	4,410	7,152	2,876	50,951	2,063	53,015
operating profit or loss (Δ)	11,257	Δ 456	1,174	205	12,180	(2,453)	9,727

(Note)

1. Business segments above are split based upon for internal management disposition.
2. Principal products and operations of each business segment
 - (1) Home vide games: This sales division develops and distributes home video game software.
 - (2) Arcade games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
 - (3) Arcade operations: This division operates amusement facilities.
 - (4) Other businesses: Other businesses include licensing business and arcade game rental business.
3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 2,458 million yen. The major part of this expense is related to corporate management.

This fiscal year (from April 1, 2002 to March 31, 2003)

Unit: Millions of Yen

	Home video games	Arcade games	Arcade operations	Other businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1)External customers	48,090	959	9,242	3,743	62,036	(---	62,036
(2)Inter-segment sale or transfer	—	154	—	—	154	(154)	—
Total	48,090	1,113	9,242	3,743	62,190	(154)	62,036
operating expense	41,329	1,648	7,101	3,392	53,471	1,884	55,356
operating profit or loss (Δ)	6,760	Δ534	2,141	351	8,718	(2,038)	6,680

(Note)

1. Business segments above are split based upon for internal management disposition.
2. Principal products and operations of each business segment
 - (1) Home vide games: This sales division develops and distributes home video game software.
 - (2) Arcade games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
 - (3) Arcade operations: This division operates amusement facilities.
 - (4) Other businesses: Other businesses include licensing business and arcade game rental business.
3. Among operating expenses, undistributed operating expenses to each business segment above is included in the "Elimination and corporate" amounted to 2,069 million yen. The major part of this expense is related to corporate management.

(B) Geographic segments

Previous fiscal year (from April 1, 2001 to March 31, 2002)

Unit: Millions of Yen

	Japan	North America	Europe	Other Regions	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	40,666	14,236	7,266	573	62,742	(---	62,742
(2) Inter-segment sale or transfer	5,472	5	—	53	5,531	(5,531)	—
Total	46,138	14,241	7,266	626	68,274	(5,531)	62,742
operating expense	37,408	11,868	6,224	585	56,087	(3,071)	53,015
operating profit	8,730	2,373	1,042	41	12,186	(2,459)	9,727

(Note)

1. The segmentation of country or region is based on the geographical proximity.
2. Major countries and regions that are not in Japan
 - (1) North America: United States of America
 - (2) Europe: European countries
 - (3) Other regions: Asia and others
3. Among operating expenses, undistributed operating expenses to these business segment above is included in the "Elimination and corporate" amounted to 2,458 million yen. The major part of this expense is related to corporate management.

This fiscal year (from April 1, 2002 to March 31, 2003)

Unit: Millions of Yen

	Japan	North America	Europe	Other Regions	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(3) External customers	37,191	16,417	7,819	607	62,036	(—)	62,036
(4) Inter-segment sale or transfer	6,682	—	—	39	6,722	(6,722)	—
Total	43,873	16,417	7,819	647	68,758	(6,722)	62,036
operating expense	37,835	14,258	7,153	690	59,937	(4,581)	55,356
operating profit	6,037	2,159	666	△42	8,820	(2,140)	6,680

(Note)

1. The segmentation of country or region is based on the geographical proximity.
2. Major countries and regions that are not in Japan
 - (1) North America: United States of America
 - (2) Europe: European countries
 - (3) Other regions: Asia and others
3. Among operating expenses, undistributed operating expenses to these business segment above is included in the "Elimination and corporate" amounted to 2,069 million yen. The major part of this expense is related to corporate management.