

Mid-Term Financial Results (Consolidated bases) ended September 30, 2003

Date of Issue:  
November 14, 2003  
Tokyo, Osaka  
Osaka Prefecture

Company Name: CAPCOM Co., Ltd.

Stock Exchange:

Company Code: 9697

Location of Headquarters:

(URL <http://www.capcom.co.jp/>)

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Approval of Mid-Term Financial Results by Board Members; November 14, 2003

Application of US Accounting Standard: None

1. Results of the Mid-Term ended September 30, 2003 (April 1, 2003 – September 30, 2003)

(1) Financial Results

Note: Numbers are rounded down at Million Yen

	Net Sales		Operating Income		Ordinary Income	
	Million Yen	%	Million Yen	%	Million Yen	%
Mid-Term Ended Sept. 30, 2003	22,452	△12.5	1,844	26.3	1,570	3.8
Mid-Term Ended Sept. 30, 2002	25,658	9.8	1,459	△38.6	1,513	△37.0
Year Ended March 31, 2003	62,036		6,680		6,797	

	Net Income		Earnings Per Share of Common Stock		Earning Per share of Common Stock (Assuming Full Diluted)	
	Million Yen	%	Yen	Yen	Yen	Yen
Mid-Term Ended Sept. 30, 2003	919	—	16.14		14.30	
Mid-Term Ended Sept. 30, 2002	△17,315	—	△296.40		—	
Year Ended March 31, 2003	△19,598		△338.01		—	

Note ① Investment Profit/Loss on Equity Method

Mid-Term Ended Sept. 30, 2003 – Million yen Mid-Term Ended Sept. 30, 2002 – Million yen Year Ended March 31, 2003 – Million yen

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

Mid-Term Ended Sept. 30, 2003: 56,920,101 Mid-Term Ended Sept. 30, 2002: 58,417,966 Year Ended March 31, 2003: 57,979,826

③ Change in Accounting Policies: None

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
Mid-Term Ended Sept. 30, 2003	105,882	42,401	40.0	744.93
Mid-Term Ended Sept. 30, 2002	112,019	49,283	44.0	843.48
As of March 31, 2003	106,648	42,888	40.2	753.47

Note: Number of shares outstanding:

Mid-Term Ended Sept. 30, 2003: 56,919,689 Mid-Term Ended Sept. 30, 2002: 58,428,987 Year Ended March 31, 2003: 56,920,514

(3) Cash Flows

	Cash Flows from Operating	Cash Flows from Investing	Cash Flows from Financing	Cash and Cash Equivalents at end of period
	Million Yen	Million Yen	Million Yen	Million Yen
Mid-Term Ended Sept. 30, 2003	△565	△4,947	1,258	28,148
Mid-Term Ended Sept. 30, 2002	△1,090	△1,429	2,924	34,761
Year Ended March 31, 2003	3,635	△2,329	△2,000	33,444

(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 0, 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
For Year ending March 31, 2004	63,000	7,300	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 Studio 8, Inc. are also participating in development.

### [ Arcade Operations ]

This division operates amusement facilities. Capcom Co., Ltd. and Capcom Coin-Op., Inc. (consolidated subsidiary) conduct operations at these facilities. Unprofitable arcade operation in North America was decided to be closed.

### [ Arcade Games ]

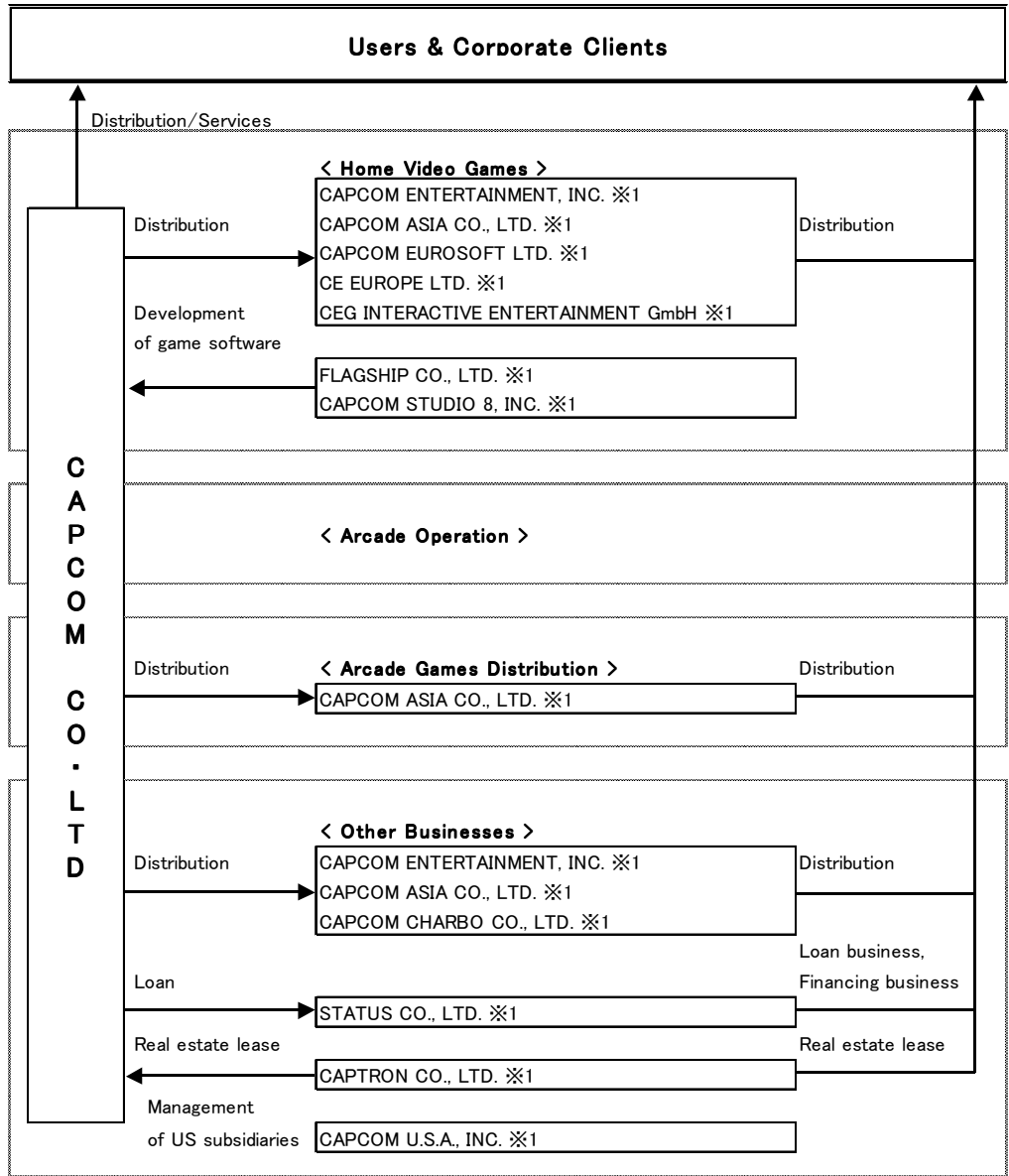
This division develops, manufactures, and distributes game products for commercial customers. Capcom Co., Ltd. develops and manufactures products while Capcom Asia Co., Ltd. and Capcom Co., Ltd. are responsible for distribution of the products.

### [ 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. (consolidated subsidiary) is responsible for a real estate leasing business. Capcom USA, Inc.(consolidated subsidiary) is a holding company of its US and UK subsidiaries; Capcom Coin-Op, Inc., Capcom Entertainment, Inc., Capcom Studio 8, 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

Note: Capcom Digital Studios, Inc. changed company name to Capcom Studio 8, Inc. as of May 5, 2003.

# 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 severe 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 reformation of the industry structure advances, we are determined to build up an advantageous position by 1) introducing software that precisely grasps user demands through an in-depth market analysis and by 2) improving customer satisfaction. We are also aiming to increase sales through sales enhancement in the steadily expanding European and US markets. Our strategies to achieve this goal include releasing highly appealing new titles that closely meet the taste of users overseas and exploring new market outlets. In addition, a variety of online-ready software including "Resident Evil Outbreak" (for PlayStation 2) and "Monster Hunter" (for PlayStation 2) will be introduced, responding to the advances in internet and other network technology. Thus, we will look ahead to changes in surrounding business circumstances in order to steadily make a strategic move.

We are working on the film adaptations of "Onimusha" and "Devil May Cry" to follow "Resident Evil", which became the biggest hit ever as for the movie production of game software in Japan. We are seeking collaboration opportunities with the film industry to take advantage of the synergy effect of movies and video games, which leads to an increase in sales.

In addition to implementing these measures which address changes in the market environment, we will coordinate overall business vectors to realize our growth projection and to win the survival battle with our competitors. We will promote group-wide strategic business development from a mid-to-long term perspective, while focusing on the improvement of our operation base through global business management.

## 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 four internal directors out of seven 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, certain employees from the secretary’s office at the main office and 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 value perceived by the shareholders.

■ 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 is entered into consulting agreement with 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 seven 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 & Financial Status

### 1. Operating Results

#### (1) Overview of the Six-Month Period Ended September 30, 2003

The Japanese economy during this six-month period started to see signs of a gradual upward trend towards recovery from the worst conditions, thanks to rising stock prices, export recovery, and capital expenditure pickup. However, unemployment was still hovering at a high rate and consumer spending continued to lag.

As for the video game industry, the size of the market was at a standstill due to the lack of flagship software titles, the diversification of consumer spending, and the maturation of the domestic market. On the other hand, as broadband access (high-speed and high-capacity communication) became widely available, we started to see more companies expanding their business territory and establishing a new profit base by revitalizing their business portion of online games.

Foreign markets underwent a firm growth due largely to the European and US markets which were invigorated by sport games and licensed properties based on popular movies.

Under these circumstances, Capcom initiated a company-wide fundamental structural reform to reconstruct our profit structure by re-examining development systems, strengthening marketing strategies, and pushing through substantial organizational modifications. Additionally, we put most of our efforts into the expansion of business through nation-wide sales promotion campaigns, sales meeting improvements, and the event marking the 15<sup>th</sup> anniversary of the birth of “Street Fighter”, the title that had established the foundation for the company growth.

The resulting net sales for this six-month period were 22,452 million yen (down 12.5% from the same term last year).

We achieved ordinary income of 1,570 million yen (up 3.8% from the same term last year) and the mid-term net income of 919 million yen through the reduction of sales and administrative expense.



## (2) Status of Each Operational Department

### Home Video Game Sales

“Viewtiful Joe” (for Nintendo GameCube) and the publisher title called “Fire ProWrestling Z” (for PlayStation2) showed a healthy growth.

Among imported publishing titles, “Grand Theft Auto III” (for PlayStation2), which swept the market in both US and Europe, made a steady start.

However, we were still forced to struggle with most of our other software titles, including “Megaman X7” and “Gregory Horror Show” for PlayStation2, which did not meet projected sales. The delay on the release of software titles also adversely affected sales performance: middle-class titles will not be released until the latter part of the fiscal year.

In overseas markets, “Megaman Battle Network 3”(for Game Boy Advance) achieved steady sales due to the strength of its established brand name. This branding power resulted, in part, from the media-mix strategy we implemented. One of the examples of this strategy was the broadcast of a TV program in the US marking the 15<sup>th</sup> anniversary of the birth of “Megaman”. Our lower-priced software also performed favorably. However the overall sales of home video games were weakened due to the fact that there were many small-scale titles, but no big flagship software title in the six-month period.

The resulting net sales decreased to 13,409 million yen (down 28.5% from the same term last year), and the operating income was 481 million yen (down 69.1% from the same term last year).

### Arcade Operations

The market size progressed further than it had in recent years, suggesting a recovery in Arcade Operations.

In order to stimulate demand, we concentrated our efforts towards pulling in more customers by organizing various events and remodeling stores to attract families and female customers. We pursued profit increases by implementing a scrap-and-build plan. We opened “Plaza Capcom Nara” (Nara Prefecture) and “Plaza Capcom Morioka” (Iwate Prefecture) in a commercial complex while closing one store in Japan and two stores in the US.

The resulting net sales increased to 4,679 million yen (up 3.0% from the same term last year), and the operating income went up to 1,115 million yen (up 15.3% from the same term last year) as well.

## Arcade Game Sales

In this business segment, we sold medal games, such as “Asian Kitchen” to amusement facilities that have been popular among consumers as an “easy entertainment”. These medal games appeal to a diverse customer base, including families, thus providing amusement facilities with high marquee value.

The “Mobile Suit Z Gundam A.E.U.G vs. TITANS” was a sequel to the mega-hit “Mobile Suit Gundam Federation vs. Zeon DX”. This video game, which boasts perennial favorites, showed a healthy growth on a steady customer base, serving as a growth engine for our sales. The resulting net sales increased to 2,751 million yen (up 245.8% from the same term last year), and the operating income was 1,060 million yen.

## Other Businesses

The net sales from other businesses, mainly licensing royalties, were 1,656 million yen (up 0.6% from the same term last year), and the operating income was 370 million yen (down 9.7% from the same term last year).

### (3) Overview of Business Performance in Each Region

#### Japan

Even under the Japanese sluggish market, “Viewtiful Joe” (for Nintendo GameCube) and the publisher title “Fire ProWrestling Z” (for PlayStation2) performed well. “Grand Theft Auto III” (for PlayStation2), which swept over the market in both US and Europe, also made a steady start among imported publishing titles.

However, we were still forced to struggle with most of our other software titles, including “Megaman X7” and “Gregory Horror Show” for PlayStation2, which did not meet the projected sales. The release of middle-class titles was postponed until the latter half of the fiscal year, burdening sales performance.

In Arcade Operations, our aggressive marquee efforts such as the “Chiiki Ichiban Ten (No.1 Arcade in the Regional Community)” strategy took effect and we successfully attracted more family and female customers. In addition, we pursued profit increases through the “scrap-and-build” plan.

In arcade game sales, the “Mobile Suit Z Gundam A.E.U.G vs. TITANS”, which boasts perennial favorites, showed a healthy growth on a steady customer base, and served as a growth engine for our sales.

The resulting net sales were 17,219 million yen (down 2.9% from the same term last year), and the operating income was 3,232 million yen (up 62.0% from the same term last year).

## North America

The North America market, the largest in the world, showed a favorable upward trend last year, outrunning the film box-office market.

Under these circumstances, the Megaman series, headed by “Megaman Battle Network 3” (for Game Boy Advance), achieved a steady sales growth partly attributable to the aggressive promotion activities including TV broadcast of the program which marked the 15<sup>th</sup> anniversary of the birth of “Megaman”. “Chaos Legion” (for PlayStation 2) and lower-priced software also performed favorably, while other hoped-for software including “Dino Crisis 3” (for Xbox) saw sluggish growth.

The resulting net sales were 4,655 million yen (down 34.4% from the same term last year), and the operating loss was 308 million yen.

## Europe

The European market is the second largest market in the world after the US; the “Games Convention” (in Germany), one of two major game tradeshows in Europe besides ECTS of UK, was a great success. Although on the lower-end of the pricing scale, our software for PlayStation2 boosted its deep-rooted popularity. Sales were weak because “Chaos Legion” (for PlayStation2) and “P. N. 03” (for Nintendo GameCube) saw sluggish growth, and there were many small-scale titles, but no big flagship software rollout.

The resulting net sales were 2,425 million yen (down 31.1% from the same term last year), and the operating income was 142 million yen (down 56.9% from the same term last year).

## Other Regions

Asia is a vital market for online games for PCs, and the full-scale proliferation of home video games is yet to come. However, competition for the Asian market has intensified due to the increased presence of Korean gaming companies: Korea supports its gaming industry with public-private cooperation. Also, fierce competition arises toward Chinese market which is expected to become a giant market in the future. The home video game markets in these areas are still in the very early stage, and they generally remained weak.

The resulting net sales were 155 million yen (down 38.7% from the same term last year), and the operating loss was 8 million yen.

## 2. Prospects for the Next Year

The Japanese domestic market has been leveling-off for last few years. However, the game software business is expected to have a full-fledged harvest season from this year through next year as the profusion of hardware completes its first round. We expect that inter-enterprise competition will get even more intensified as these companies accelerate their overseas operations, try to capture light-users, and get into the price-cutting war. It may be possible that the current alignment of the market share will be redrawn. In addition, the network game permeation will expand and the new profit model that involves telecommunication companies or cell phones will be established, along with the improvement of the telecommunication infrastructure.

We are projecting net sales of 63,000 million yen, the ordinary income of 7,300 million yen, and the net profit of 4,200 million yen for the current fiscal year.

## 3. Financial Conditions

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of this six-month period decreased by 5,296 million yen from the previous fiscal year end to 28,148 million yen. Cash flow positions for each activity are as stated below.

### (1) Cash Flows From Operating Activities

Net cash decrease from operating activities amounted to 565 million yen, an increase of 525 million yen from the same term last year, though the profit before income tax increased. This is due mainly to cash outflows including a 2,957 million yen increase in the game software products in progress, game titles to be released in the future.

### (2) Cash Flows From Investing Activities

Net cash expense from investing activities amounted to 4,947 million yen, a decrease of 3,518 million yen from the same term last year. This is attributable to the expense of 3,733 million yen for acquiring tangible fixed assets, such as buildings and equipment for amusement facilities.

### (3) Cash Flows From Financing Activities

Net cash increase from financing activities amounted to 1,258 million yen, a decrease of 1,665 million yen from the same term last year. This is due mainly to the income of 2,800 million yen from long-term debt.

#### 4. Trends of Cash Flow Indicators

	Year ended March 2002	Six-Month Period ended Sept. 2002	Year ended March 2003	Six-Month Period ended Sept. 2003
Ratio of capital stock(%)	53.1	44.0	40.2	40.0
Ratio of capital stock based on fair market value(%)	157.6	145.0	55.1	74.2
Debt amortization schedule (number of years)	6.5		6.5	
Interest coverage ratio (times)	14.2		14.6	

Ratio of capital stock = Capital stock / Total assets

Ratio of capital stock based on fair market value = Total of the capital stock at market price / Total assets

Debt amortization schedule = Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio = Cash flows from operating activities / Interest payments

(1) Indicators are calculated using financial numbers in consolidated basis.

(2) Cash flows from operating activities use the “cash flows from operating activities” in the (six-month) consolidated statements of cash flows. The interest-bearing debt refers to the debts posted in the (six-month) consolidated balance sheets for which we are paying interests.

(3) Cash flows from operating activities were negative both in the six-month period ended September 2002 and the current six-month period ended September 2003, thus the debt amortization schedule and the interest coverage ratio are not listed for these periods.

## Mid-Term Consolidated Balance Sheets

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period (As of September 30, 2002)		This Mid-Term Fiscal Period (As of September 30, 2003)		Balance Sheet of Previous Fiscal Year (As of March 31, 2003)	
	Amount	%	Amount	%	Amount	%
	(Assets)					
<b>I Current assets</b>						
1 Cash and cash equivalents	32,594		27,590		30,445	
2 Notes and accounts receivable	15,174		10,476		15,566	
3 Negotiable Securities	2,167		557		2,998	
4 Inventories	5,208		7,008		6,360	
5 Game software products in-progress	13,549		13,288		10,331	
6 Deferred income taxes	4,473		3,553		4,353	
7 Short-term loans receivable	4,223		4,324		4,336	
8 Other	2,689		4,403		2,798	
9 Allowance for doubtful accounts	△2,462		△504		△2,594	
Total current assets	77,616	69.3	70,699	66.8	74,597	69.9
<b>II Fixed assets</b>						
<b>(1) Tansible fixed assets</b>						
1 Buildings and structures	4,949		7,277		4,709	
2 Machinery and vehicle	184		132		121	
3 Tool,fixture and furniture	796		715		722	
4 Rental equipment	2,034		158		177	
5 Equipments for amusement facilities	2,376		2,234		1,949	
6 Land	4,702		4,475		4,700	
7 Construction-in-progress	16		5		27	
Total tansible fixed assets	15,061	13.5	14,999	14.1	12,408	11.6
<b>(2) Intansible fixed assets</b>						
1 Other	1,164		1,052		1,151	
Total intansible fixed assets	1,164	1.0	1,052	1.0	1,151	1.1
<b>(3) Investments and other assets</b>						
1 Investments in securities	2,053		2,409		2,029	
2 Long-term loans receivable	6,203		928		948	
3 Deferred income taxes	9,881		10,613		10,534	
4 Claim in bankruptcy and reorganization	145		116		6,271	
5 Other	6,483		5,532		5,308	
6 Allowance for doubtful accounts	△6,589		△470		△6,603	
Total investments and other assets	18,176	16.2	19,131	18.1	18,489	17.4
Total fixed assets	34,402	30.7	35,183	33.2	32,050	30.1
Total assets	112,019	100.0	105,882	100.0	106,648	100.0

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period (As of September 30, 2002)		This Mid-Term Fiscal Period (As of September 30, 2003)		Balance Sheet of Previous Fiscal Year (As of March 31, 2003)	
	Amount	%	Amount	%	Amount	%
	(Liabilities)					
I Current liabilities						
1 Notes and accounts payable	4,266		5,525		5,173	
2 Short-term borrowings	8,538		7,024		7,505	
3 Accrued income taxes	28		203		649	
4 Accrued bonus	334		339		454	
5 Reserve for return goods	348		375		613	
6 Other	5,615		5,426		5,922	
Total current liabilities	19,133	17.1	18,895	17.9	20,317	19.1
II Long-term liabilities						
1 Convertible bonds payable	37,262		37,262		37,262	
2 Long-term debt	3,807		5,880		3,570	
3 Deferred taxes debt	—		89		—	
4 Accrued retirement benefits for employees	760		822		803	
5 Other	1,726		532		1,775	
Total fixed liabilities	43,556	38.9	44,585	42.1	43,410	40.7
Total liabilities	62,690	56.0	63,481	60.0	63,728	59.8
(Minority Interest)						
Minority interest	45	0.0	—	—	31	0.0
(Shareholders' Equity)						
I Common stock	27,581	24.6	27,581	26.0	27,581	25.9
II Capital surplus	30,471	27.2	24,852	23.4	30,471	28.6
III Retained earnings	△9,182	△8.2	△6,080	△5.7	△12,049	△ 11.3
IV Unrealized profit and loss on revaluation of securities	△20	△0.0	130	0.1	△160	△ 0.2
V Cumulative translation adjustments	457	0.4	△985	△0.9	142	0.1
VI Treasury stock	△23	△0.0	△3,097	△2.9	△3,096	△ 2.9
Total shareholders' equity	49,283	44.0	42,401	40.0	42,888	40.2
Total Liabilities, minority Interest and shareholders' equity	112,019	100.0	105,882	100.0	106,648	100.0

**Mid-Term Consolidated Statements of Income**

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period From April 1, 2002 To September 30, 2002		This Mid-Term Fiscal Period From April, 2003 To September 30, 2003		Previous Fiscal Year From April 1, 2002 To March 31, 2003	
	Amount	%	Amount	%	Amount	%
	I Net sales	25,658	100.0	22,452	100.0	62,036
II Cost of sales	15,729	61.3	14,522	64.7	38,585	62.2
Gross profit	9,929	38.7	7,929	35.3	23,451	37.8
Reserve for return goods	348	1.4	—	—	613	1.0
Reserve adjustment for return goods	—	—	237	1.1	—	—
Net gross profit balance	9,580	37.3	8,167	36.4	22,838	36.8
III Selling, general and administrative expenses	8,120	31.6	6,323	28.2	16,158	26.0
Operating income	1,459	5.7	1,844	8.2	6,680	10.8
IV Other income						
1 Interest income	102		105		196	
2 Dividend income	3		2		3	
3 Rental income	49		—		49	
4 Exchange gain	—		—		145	
5 Other	69	224	40	148	88	483
		0.9		0.7		0.8
V Other expense						
1 Interest expense	106		131		254	
2 Exchange loss	—		240		—	
3 Other	64	171	49	422	110	365
		0.7		1.9		0.6
Ordinary income	1,513	5.9	1,570	7.0	6,797	11.0
VI Extraordinary gain						
1 Gain on sale of fixed asset	0		13		0	
2 Gain on transfer of allowance for doubtful accounts	—	0	10	24	3	3
		0.0		0.1		0.0
VII Extraordinary loss						
1 Loss on sale of fixed asset	46		45		186	
2 Loss on revaluation of real estate	24,331		—		24,331	
3 Loss on revaluation of investment in securities	219		—		619	
4 Loss on sale or disposal of inventories	1,389		—		1,429	
5 Loss on suspension of product development	516		—		5,284	
6 Loss on consolidation of business	304		—		406	
7 Loss on revaluation of inventories	—		—		1,508	
8 Extraordinary retirement allowance	—		—		81	
9 Loss on transfer of allowance for doubtful accounts	2,375		—		2,708	
11 Other extraordinary loss	271	29,456	—	45	293	36,850
		114.8		0.2		59.4
Net profit or loss before taxes	△27,943	△108.9	1,548	6.9	△30,049	△48.4
Corporate tax, local tax, and enterprise tax	316		26		1,105	
Corporate tax refund from previous period	△221		—		△221	
Adjustment of Corporate tax and other tax	△10,705	△10,611	617	644	△11,304	△10,420
Minority interest loss		16		15		30
Minority interest loss		0.0		0.1		0.0
Net profit or loss	△17,315	△67.5	919	4.1	△19,598	△31.6



## Mid-Term Consolidated Statements of Retained Earnings

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Period From April 1, 2002 To September 30, 2002		This Mid-Term Fiscal Period From April 1, 2003 To September 30, 2003		Previous Fiscal Year From April 1, 2002 To March 31, 2003	
	Amount		Amount		Amount	
(Capital surplus )						
I Beginning balance of retained earnings			30,471			
Beginning balance of capital reserve	30,464	30,464			30,464	30,464
II Increase in capital surplus						
1 Capitalization of convertible bond conversion	0		—		0	
2 Gain on sale of treasury stock	5	6	—	—	5	6
III Decrease in retained earnings						
1 Dividend	—		569		—	
2 Loss on sale of treasury stock	—		0		—	
3 Decrease in capital and capital reserve	—	—	5,049	5,619	—	—
IV Retained earnings						
Ending balance of this mid-term fiscal period		30,471		24,852		30,471
(Retained earnings)						
I Beginning balance of retained earnings			△12,049			
Beginning balance of consolidated retained earnings	8,776	8,776			8,776	8,776
II Increase in retained earnings						
1 Mid-Term Net profit	—		919		—	
2 Decrease in capital and capital reserve	—	—	5,049	5,968	—	—
III Decrease in retained earnings						
1 Dividend	583		—		1,168	
2 Bonuses to directors	60		—		60	
3 Net loss	17,315	17,959	—	—	19,598	20,826
IV Ending balance of retained earnings		△9,182		△6,080		△12,049

## Mid-Term Consolidated Statements of Cash Flows

(Unit: Millions of Yen)

Account Title	Previous Mid-Term Fiscal Year	This Mid-Term Fiscal Year	Previous Fiscal Year
	From April 1, 2002 To September 30, 2002	From April 1, 2003 To September 30, 2003	From April 1, 2002 To March 31, 2003
	Amount	Amount	Amount
<b>I Cash flows from operating activities</b>			
1 Net profit or loss (△) before income taxes	△ 27,943	1,548	△ 30,049
2 Depreciation and amortization	1,043	908	2,202
3 Increase(decrease) in allowance for doubtful accounts (△reduction)	3,110	△ 9	3,285
4 Increase (decrease) in accrued bonuses and unpaid bonus (△reduction)	△ 61	△ 200	33
5 Increase(decrease) in reserve for loss on goods unsold (△reduction)	348	△ 237	613
6 Interest revenue and dividend income	△ 105	△ 107	△ 200
7 Interests paid	106	131	254
8 Gain on sale of fixed assets	△ 0	△ 13	△ 0
9 Loss on sale or disposal of fixed assets	46	45	186
10 Loss on revaluation of real estate	24,331	—	24,331
11 Loss on revaluation of investment securities	219	—	619
12 Loss on revaluation of other financial products	4	1	5
13 Increase (decrease) in account receivable (△increase)	△ 256	2,867	△ 735
14 Increase (decrease) in inventories (△increase)	1,256	△ 758	2,063
15 Increase(decrease) in game software products in-progress (△increase)	△ 2,331	△ 2,957	887
16 Increase (decrease) in accounts payable (△reduction)	△ 396	397	513
17 Increase (decrease) in other current assets (△increase)	306	△ 1,643	24
18 Increase (decrease) in other current liabilities (△reduction)	670	△ 294	1,074
19 Bonus paid to directors	△ 60	—	△ 60
20 Other	△ 158	212	309
Sub total	130	△ 110	5,358
21 Interest and dividend received	107	109	195
22 Interest payment	△ 101	△ 132	△ 249
23 Corporate and other tax payment	△ 1,227	△ 432	△ 1,670
Cash flows from operating activities	△ 1,090	△ 565	3,635
<b>II Cash flows from investing activities</b>			
1 Acquisition of property, plant and equipment	△ 1,251	△ 3,733	△ 1,812
2 Proceeds from sale of property, plant and equipment	58	286	124
3 Acquisition of intangible fixed asset	△ 214	△ 48	△ 356
4 Acquisition of investment securities	△ 92	—	△ 772
5 Proceeds from sales of investment securities	—	—	180
6 Expenditure for loans	—	—	△ 78
7 Proceeds from collection of loans	0	32	97
8 Return of guarantee	—	△ 1,200	—
9 Expenditure for other investing activities	△ 124	△ 349	△ 142
10 Proceeds from other investing activities	195	65	430
Cash flows from investing activities	△ 1,429	△ 4,947	△ 2,329
<b>III Cash flows from financing activities</b>			
1 Repayment of short-term borrowings	△ 641	△ 911	△ 1,642
2 Proceeds from long-term borrowings	4,200	2,800	4,200
3 Repayment of long-term borrowings	△ 79	△ 60	△ 348
4 Expenditure for conversion of convertible bond	△ 0	—	△ 0
5 Proceeds from sale of treasury stock	41	—	41
6 Acquisition of treasury stock	△ 14	△ 1	△ 3,087
7 Dividend paid by parent company	△ 583	△ 569	△ 1,164
Cash flows from financing activities	2,924	1,258	△ 2,000
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	△ 642	△ 1,042	△ 861
<b>V Decrease in cash and cash equivalents</b>	△ 238	△ 5,296	△ 1,555
<b>VI Beginning balance of cash and cash equivalents</b>	35,000	33,444	35,000
Ending balance of cash and cash equivalents	34,761	28,148	33,444

(Segment Information)

(A) Operating segments

Six-Month Period ended September 2002 (from April 1, 2002 to September 30, 2002)

Unit: Millions of Yen

	Home video games	Arcade games	Arcade operation	Other businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	18,753	713	4,544	1,646	25,658	(--)	25,658
(2) Inter-segment sale or transfer	—	82	—	—	82	(82)	—
Total	18,753	795	4,544	1,646	25,741	(82)	25,658
operating expense	17,197	1,060	3,576	1,236	23,070	1,128	24,199
operating profit or loss (Δ)	1,556	Δ264	968	410	2,670	(1,211)	1,459

(Note)

1. Business segments above are split based upon for internal management disposition.
2. Principal products and operations of each business segment
  - (1) Home video 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 1,212 million yen. The major part of this expense is related to corporate management.

Six-Month Period ended September 2003 (from April 1, 2003 to September 30, 2003)

Unit: Millions of Yen

	Home video games	Arcade operation	Arcade games	Other businesses	Total	Elimination and corporate	Consolidated total
Net sales and operating profit or loss							
Net Sales							
(1) External customers	13,409	4,679	2,706	1,656	22,452	(---)	22,452
(2) Inter-segment sale or transfer	—	—	44	—	44	(44)	—
Total	13,409	4,679	2,751	1,656	22,497	(44)	22,452
operating expense	12,928	3,563	1,691	1,285	19,468	1,138	20,607
operating profit or loss ( $\Delta$ )	481	1,115	1,060	370	3,028	(1,183)	1,844

(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 operations: This division operates amusement facilities.
  - (3) Arcade games: This sales division develops, manufactures, and distributes commercial game equipments and integrated circuit boards.
  - (4) Other businesses: Other businesses include licensing business.
3. Among operating expenses, undistributed operating expenses to each business segment above is included in the “Elimination and corporate” amounted to 1,196 million yen. The major part of this expense is related to corporate management.

Year ended March 2003 (from April 1, 2002 to March 31, 2003)

Unit: Millions of Yen

	Home video games	Arcade games	Arcade operation	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 ( $\Delta$ )	6,760	$\Delta$ 534	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

Six-Month Period ended September 2002 (from April 1, 2002 to September 30, 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	14,809	7,098	3,518	232	25,658	(--)	25,658
(2) Inter-segment sale or transfer	2,923	—	—	21	2,944	(2,944)	—
Total	17,733	7,098	3,518	253	28,603	(2,944)	25,658
operating expense	15,738	6,719	3,188	301	25,947	(1,747)	24,199
operating profit	1,995	378	329	△47	2,656	(1,197)	1,459

(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 1,212 million yen. The major part of this expense is related to corporate management.

Six-Month Period ended September 2003 (from April 1, 2003 to September 30, 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							
(1) External customers	15,215	4,655	2,425	155	22,452	(--)	22,452
(2) Inter-segment sale or transfer	2,004	—	—	—	2,004	(2,004)	—
Total	17,219	4,655	2,425	155	24,456	(2,004)	22,452
operating expense	13,986	4,963	2,283	163	21,397	(790)	20,607
operating profit	3,232	△308	142	△8	3,058	(1,213)	1,844

(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 1,196 million yen. The major part of this expense is related to corporate management.

Year ended March 2003 (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							
(1) External customers	37,191	16,417	7,819	607	62,036	(--)	62,036
(2) 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.