

Annual Report 2001



**CAPCOM**

## PROFILE

A leading company in the entertainment industry, Capcom develops, publishes and distributes a variety of software games for both home video platforms and arcade machines.

Since the foundation of the company in 1979, Capcom has taken a leading role in the entertainment software industry and continues to be highly profitable, leading-edge company. More than 60% of sales was generated from home entertainment software as of the end of March 2001

Blockbuster brands such as the Street Fighter, Mega Man, Resident Evil, and Dino Crisis series continue to build company's reputation as a premier publisher in the industry, and our R&D staff, which accounts for 60% of all staff, is focusing on developing new genres on top of building on its strong record in such genres as action, fighting and survival horror. Launched in January 2001, our ONIMUSHA™, the first million unit title for the PlayStation® 2 platform in Japan, achieved yet another remarkable result in the industry.

Among the company's overall strategies, our R&D strategy is highly recognized as making Capcom one of the key players in determining the trend of next-generation platforms. Consequently, Capcom's strategy is spotlighted inside and outside the industry.

Capcom is always strengthening its structure in order to improve profitability and striving for revision and reform. Some of these reforms include building a direct sales distribution organization, establishing an in-house company system and an R&D incentive system based on profit contribution by division, and introducing Enterprise Resource Planning. In the current fiscal year, Capcom will introduce such mega-hit titles as Devil May Cry™ to the market and aggressively target next-generation platforms, such as GAMECUBE™ and Xbox™, by introducing highly creative content.

## CONTENTS

<b>Company Profile</b>
<b>1 Financial Highlights</b>
<b>2 President's Message</b>
<b>4 Review of Operations</b>
<b>8 Research &amp; Development</b>
<b>10 Overseas Operations</b>
<b>12 Business Evaluation and Analysis</b>
<b>14 Five Year Summary</b>
<b>15 Report of Independent Accountants</b>
<b>16 Consolidated Balance Sheets</b>
<b>18 Consolidated Statements of Income</b>
<b>19 Consolidated Statements of Shareholders' Equity</b>
<b>20 Consolidated Statements of Cash Flows</b>
<b>21 Notes to Consolidated Financial Statements</b>
<b>28 Corporate Information</b>

# FINANCIAL HIGHLIGHTS

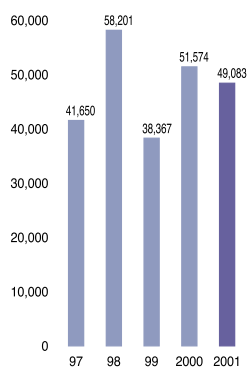
CAPCOM Co., Ltd.

Years ended March 31, 2001 and 2000

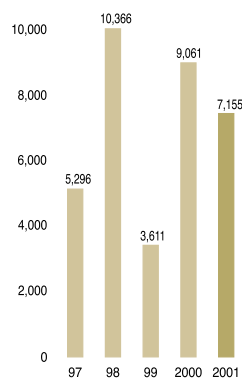
Consolidated basis	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Net sales .....	<b>¥49,083</b>	¥51,574	<b>\$395,831</b>
Operating income .....	<b>7,155</b>	9,061	<b>57,702</b>
Net income .....	<b>6,007</b>	9,700	<b>48,444</b>
Total assets .....	<b>113,493</b>	107,776	<b>915,266</b>
Total shareholders' equity .....	<b>62,966</b>	51,320	<b>507,790</b>
Amounts per share (in yen and U.S. dollars):			
Net income .....	<b>¥109.90</b>	¥273.01	<b>\$0.89</b>
Net income-diluted .....	<b>98.47</b>	237.78	<b>0.79</b>
Cash dividends applicable to the year .....	<b>20.00</b>	20.00	<b>0.16</b>

Note: U.S. dollar amounts are translated from yen at the rate of ¥124=US\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2001.

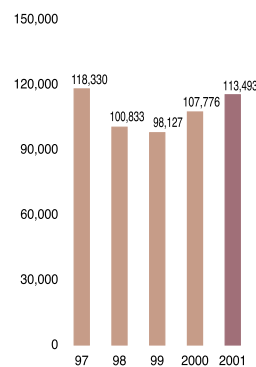
**Net Sales**  
(Millions of yen)



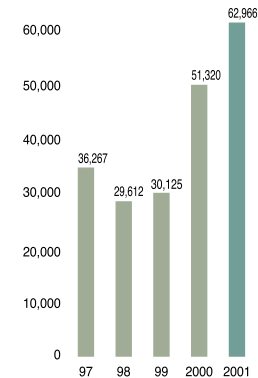
**Operating Income**  
(Millions of yen)



**Total Assets**  
(Millions of yen)



**Total Shareholders' Equity**  
(Millions of yen)



## PRESIDENT'S MESSAGE



Our current objectives are focused on the following areas;

- 1) to develop highly creative game software as a leading content provider,
- 2) to strengthen the Capcom Brand,
- 3) to strengthen and explore the network business structure with a view for Internet market expansion.

We are also stabilizing cash flow with selective utilization of resources to make products that meet changes in the expanding market.

Through these objectives we are striving to be the number one publishing company in the entertainment industry to enhance our market share. This goal is being achieved through highly creative content and an ample product line-up created by our talented R&D staff and high technology. We strongly believe that end-users really enjoy our products.

The current market environment is regarded as a transition period to next-generation platforms. Particularly in the latter part of this year, GAMECUBE™ by Nintendo and Xbox™ by Microsoft will be available in the market, which will be revitalized by these new platforms. Along with the advancement of technology, there will be more high-quality graphic software like our ONIMUSHA™ available in the market, which will help explore another amusement field that allows end-users to enjoy simulation of virtuality as well as reality.

Under such a market environment, we are getting back to our origins as a software company by creating an “entertainment culture” through amusing “game” software that enables us to entertain more people regardless of ages and gender.

The following are our strategies for weathering the competitive market situation and we are quite confident of realizing our objectives.

### **1. Direct Sales Distribution:**

Our direct sales distribution network has been in place since September 2000 in Japan and November 2000 in Europe. We expect that building a direct sales distribution network on a worldwide basis will improve gross margin as well as operating margin.

In addition, we will be able to anticipate end-user demands and make an immediate sales response. This will also improve sales of software that the market has been waiting for as well as expand business opportunities.

### **2. Multi-platform Strategy:**

In light of the introduction of advanced, multifunction platforms, we are further pursuing a multi-platform strategy to expand our supply of content to more end-users and to enhance R&D efficiency. This strategy will be bolstered by development of our emulator program for different platforms.

### **3. Publishing Strategy:**

Since last fiscal year, we have been pushing our publishing strategy to satisfy different end-users demands and to broaden our software line-up through other third-parties alliances.

### **4. Network Business Strategy:**

We firmly believe that the entertainment industry is heading into the network game era and this market will be as big as the current game software market. Other industries are considering network business opportunities, and consumer electrical appliances and book publishers are entering the field. However, it is still

premature for us to identify a business model for a full-fledged network game market because of the required communication infrastructure, higher Internet servers costs including maintenance, and the necessity of restructuring the distribution system for content as well as on-line sales. The infrastructure has not yet progressed enough to resolve these issues. Nevertheless, we are addressing the network business well ahead of other competitors to take stock of the necessary steps to satisfy the future demands of this market.

We have released network game software that is compatible with the matching services provided by KDDI Corporation in 2000 (MARVEL™ VS. CAPCOM® and other game software titles as well as Internet-feature game software like DIABLO® II for personal computers.

We have also started to offer game content, music, and distribution of characters compatible with NTT DoCoMo, Inc.'s i-mode services and hand-held game platform.

Since July 2000, we began content distribution to mobile phones in Hong Kong, Taiwan, and other Asian countries in alliance with regional telephone carriers.

### **5. Streamlining In-Company Structure:**

We are striving to streamline our company structure to improve our profitability and efficiency for the purpose of enhancing corporate value, meeting market requirements and change in the accounting rules in Japan. The following are exemplifications of our improvement efforts.

1) Introduction in 1996 of an R&D incentive program based on profit contribution by division and establishment of a title profit monitoring system.

2) Introduction of a Stock Option Plan.

3) Introduction of an Officer Structure to delegate authority to the work place.

4) Introduction of an In-House Company system in consultation with The Boston Consulting Group and introduction of Enterprise Resource Planning in consultation with PricewaterhouseCoopers Consultants Co., Ltd. to improve management efficiency.

In addition to these improvements, since June 2001, we have newly appointed two outside directors to strengthen our corporate governance and promote understanding of its principles throughout the company.

### **6. Medium-term business targets:**

On the basis of the previously mentioned strategies and measures, we have set the following performance targets for the fiscal year ending March 2005. Net sales of ¥100 billion, operating income of ¥21 billion and net income of ¥12 billion.

By that time, the third convertible bond will have matured and our equity ratio will have risen to 90% because Capcom will have zero interest bearing liabilities. We recognize that these objectives are high hurdles to overcome, but we are striving to clear them through implementation of the above strategies.

President  
**Kenzo Tsujimoto**

## REVIEW OF OPERATIONS

### HOME VIDEO GAMES

Although the market had been looking forward to the launch of the next-generation platforms PlayStation® 2 in March 2000, the consequent contraction in PlayStation® market and the termination of production of Dreamcast™ during the fiscal year under review underscored the arrival of a period of transition.

Despite this difficult environment, we scored another million-seller hit in the action adventure genre in which Capcom holds an overwhelming market share.

Launched in January 2001 in Japan, ONIMUSHA™ has become extremely popular because of its high degree of perfection. It is the first game software for PlayStation® 2 platform to reach one million unit sales.

DINO CRISIS™2 for PlayStation® found strong grass roots support during the fiscal year under review, becoming a million seller like its predecessor.

In the Japanese market, sales of RESIDENT EVIL™ CODE: Veronica X, for PlayStation® 2 and MEGA MAN™ ZERO, which we introduced at the same time that the new GAMEBOY ADVANCE® came on the market, got off to strong starts.

Also, DIABLO® II scored an extraordinary hit on the personal computer game market.

Overseas, ONIMUSHA™ sold extremely well in the United States, becoming the best selling action game in March 2001. Moreover, MARVEL™ VS. CAPCOM® 2 and RESIDENT EVIL SURVIVOR™ also had good sales runs. In contrast, the peaking of the popularity of PlayStation® and the sudden drop off in Dreamcast™ market were reflected in the performance of other products, sales of which were generally down.

Consequently, sales of the Home Video Games Division decreased 11.3%, to ¥31,727 million, accounting for 64.6% of consolidated net sales. The division's operating income dropped 39.1%, to ¥7,404 million.

### Outlook

Capcom is one of the leading game software companies in the world in units sold and number of software titles. We hold a 5.2% share of the Japanese home video games market and a 3.0% share of the U.S. market. In anticipation of the full line-up of such next-generation game platforms as PlayStation® 2, GAMEBOY ADVANCE®, GAMECUBE™, and Xbox™ that be on the market in the next fiscal year, we are further concentrating our business resources on the home video market.

To expand our product line-up, we are continuing to introduce new versions of our million seller series, RESIDENT EVIL™, DINO CRISIS™,



and ONIMUSHA™, launching games in all genres, including sports and role-playing games (RPGs), and increasing the titles that we offer as a publisher.

In our platform strategy, we remain committed to creating game software for all available platforms under our multi-platform strategy. Using emulator software, we expect to further increase game development efficiency.

We have reformed our sales organizations in Japan, and Europe to put direct distribution systems in place for all our product line-ups. By taking back the distributors' profit margins, we have increased sales

and profits while also making it possible to expand sales rapidly according to user needs and to reduce lost sales opportunities for software with expected good sales.

Through the above measures, we are targeting further growth in market share.



Breath of Fire™ IV for PlayStation®



DINO CRISIS™ 2 for PlayStation®



ONIMUSHA™ for PlayStation® 2



RESIDENT EVIL™ CODE: Veronica X for PlayStation® 2



## ARCADE GAMES

These operations develop and manufacture arcade game software and hardware for sales or rental to amusement facility operators.

The division faced a difficult business climate posed by the decline in the core video game market and lackluster overseas markets. Demand from arcade operators was weak as they restrained their capital investment in consideration of falling personal consumption.

In Japan, however, MOBILE SUIT GUNDAM THE EARTH FEDERATION VS. THE PRINCIPALITY OF ZEON, CAPCOM® VS. SNK, and a few other games were popular. Among new products, the mobile phone battery recharger Charbo showed greater than expected sales power, proving

that there was a strong need in the market. In contrast, Chaku Melo Collection and Internet-based Town Server AZ-NAVI machines met increasing resistance in the market due to lack of content, and will have to alter their strategies.

As in Japan, arcade game sales floated at low levels in overseas markets. Nevertheless, divisional sales jumped 40.2%, to ¥7,531 million. At ¥57 million, operating loss improved ¥1,970 million from the previous fiscal year. Arcade game sales accounted for 15.3% of consolidated net sales.

### Outlook

Unable to differentiate itself from the home video market, the arcade game market is experiencing a slow but unstoppable decline. Since these conditions are expected to continue, we are also cutting back on our development of new machines. Keeping a close eye on the market, we are planning to develop prize and other games instead of arcade video games.



Plaza Capcom Niihama



## OTHERS INCLUDING AMUSEMENT FACILITIES

Within the others category, a large performance gap has emerged between amusement facilities. Despite the poor market conditions and lack of a hit product, some of our amusement facilities built in combination with a shopping center have met with strong success.

During the fiscal year under review, we worked to attract customers with facilities that are clean, bright, fun, and comfortable. We focused our attention on building a base of core users as well as attracting families and young women. To build profitability, we increased our emphasis on the development of regionally oriented facilities, aiming to be the number one amusement center in each region. To that end, we have mainly focused our efforts on locations in shopping center, which have strong customer drawing power. During the fiscal year, we opened four amusement centers. Among them, Plaza Capcom Isogo in Kanagawa Prefecture is a city-ori-

ented combination facility designed around a U.S. West Coast motif, and Plaza Capcom Kochi, in Kochi Prefecture, is both the first and the largest such facility in the Shikoku region. We also closed five unprofitable centers as part of ongoing efforts to increase efficiency. Overseas, we opened one center in the United States during the fiscal year.

As a result, sales of this division decreased 5.2%, to ¥10,248 million, and operating income increased 117.3%, to ¥1,798 million. This division's sales accounted for 20.9% of consolidated net sales.

### Outlook

Under the banner of "number one in each region," we will continue to open centers and increase our profitability. As a new sales channel, we have opened the new business concept store DIGILOG LABO (similar to Internet-café) that features high-speed Internet access. We expect to develop a new customer base through this new type of amusement center.



Plaza Capcom Isogo



CAPCOM® VS. SNK



Mobile phone battery recharger "Charbo"



DIGILOG LABO



Plaza Capcom Kochi

## RESEARCH AND DEVELOPMENT

Capcom's large team of game software creators gives the Company top class development capabilities in the interactive entertainment industry. In addition to our development centers in Osaka, Tokyo, and Nagoya, our Tokyo-based subsidiary Flagship Corporation provides screenplay and planning capabilities. Our U.S. subsidiary Capcom Digital Studios, Inc. designs screenplays for the U.S. market.

Our research and development (R&D) staff accounts for 60% of our overall staff. They are game planners, character, background, sound, and program creators, and technicians developing and maintaining our systems and equipment. In a very real sense, their creative talent represents our greatest business asset. Capcom game software development capabilities depend on raising these development skills to a new level through intense in-house competition. Complementing its goal of accumulating game development know-how, Capcom has established

an R&D organization that gives top priority to nurturing its people. From among our staff, we choose individuals with great depth of experience to be producers, who manage specialists on each project. This Producer System provides a great incentive to the R&D staff.

With the emergence of PlayStation® 2, GAMEBOY ADVANCE®, GAMECUBE™, Xbox™, and other next-generation platforms, we have been quick out of the blocks, focusing our business resources on developing home video games for these platforms. Working to develop talented game software creators as well as leading-edge technology, we are strengthening our R&D organization.

Our Multi-Platform strategy has an important role to play in that process. Continuing to supply game software for multiple platforms helps us avoid the risk that sales will fluctuate substantially according to the popularity of the hardware. Moreover, by developing emulator software for different platforms, we will be able to launch a single game software for



different platforms at the same time, an attractive feature for users. This technology will also contribute to reducing development and advertising costs, and make it possible to network different game platforms.

The introduction of a Title Profit Monitoring system for each title within our producer system has also enabled thorough management of production costs. In addition, we reduce fixed costs where possible by outsourcing. Based on this overall management of costs, we are targeting an operating profit goal of more than double the sum of development and sales promotional costs. To motivate our employees, we have introduced an annual salary system, an

R&D incentive system based on a profit sharing system for development teams, and a Stock Option Plan.

Our R&D organization and development technology continues to prove its worth. Last year, ONIMUSHA™ for PlayStation® 2 took top prize in a computer animation festival held by SIGGRAPH, a global computer graphics association. ONIMUSHA™ also became the first million-seller title for PlayStation® 2 platform in Japan.



Program



Design



Sound



“PS”、“PS2” and “PlayStation” are registered trademarks of Sony Computer Entertainment Inc.



Xbox™ Microsoft, Xbox, and the Xbox Logos are either registered trademarks or trademarks of Microsoft Corporation in the United States and/or other countries.



**NINTENDO GAMECUBE.**

GAMECUBE IS TRADEMARK OF NINTENDO

**NINTENDO GAMECUBE.**

GAMECUBE IS TRADEMARK OF NINTENDO CO., LTD.



**GAME BOY ADVANCE.**

GAME BOY ADVANCE IS TRADEMARK OF NINTENDO

**GAME BOY ADVANCE.**

GAME BOY ADVANCE IS TRADEMARK OF NINTENDO CO., LTD.

## OVERSEAS OPERATIONS

The global amusement industry is estimated to be a ¥5 trillion market. Among Japanese game software developers, Capcom is active on a worldwide basis, holding down the number 5 position for market share in its domestic market and the number one position for Japanese third parties in the U.S. market in calendar 2000. During the fiscal year, Capcom significantly boosted its name brand recognition around the world by taking first prize in a computer animation festival held by SIGGRAPH, a global computer graphics association, with ONIMUSHA™ for PlayStation® 2.

Continuing to amaze people and stimulate their imaginations worldwide, we will work to further strengthen and expand the Capcom brand globally.

### North America

The U.S. market was at a standstill during the fiscal year under review due to the slowdown in the U.S. economy and the lead up to the introduction of next-generation platforms. Nevertheless, sales were firm for MARVEL™ VS. CAPCOM®2 for Dreamcast™ and RESIDENT EVIL

SURVIVOR™ for PlayStation®. These favorable performances were boosted by the introduction in March 2001 of ONIMUSHA™ for PlayStation®2, which posted an excellent sales start. However, the lack of a mega hit similar to RESIDENT EVIL™3 for PlayStation® in the previous fiscal year impacted negatively on sales, which fell 25.8%, to ¥13,326 million. Operating profit amounted to ¥3,023 million, down 34.0%.

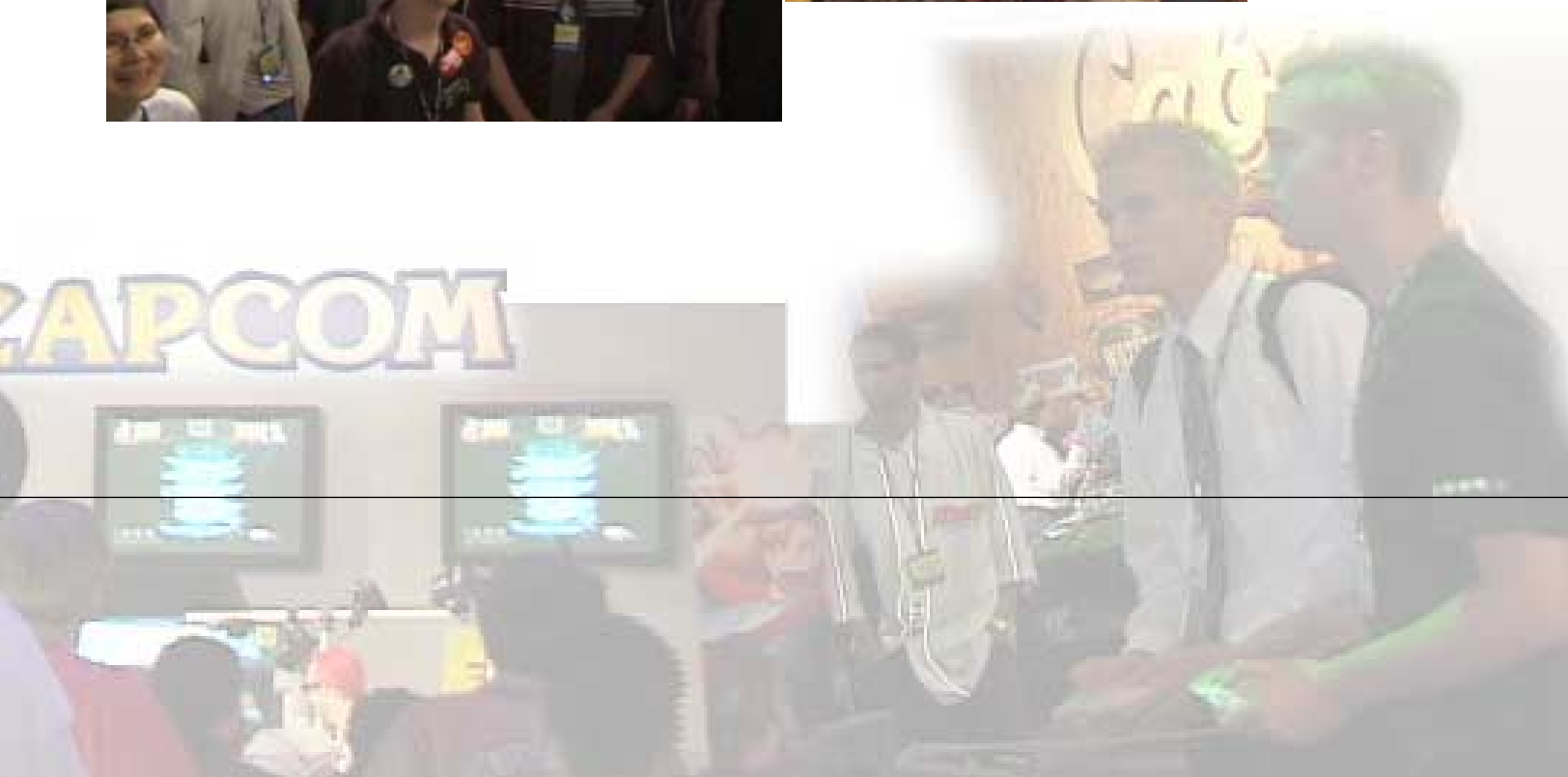
### Europe

The direct sales distribution system set up in Europe in November 2000 began operations in earnest in the United Kingdom in February 2001 with the introduction of STREET FIGHTER™ EX3 for PlayStation® 2. Outside the United Kingdom, we are strengthening our European sales distribution through Electronic Arts® Inc. Due to the lack of vitality in the market, however, performance declined during the fiscal year under review.



## Asia

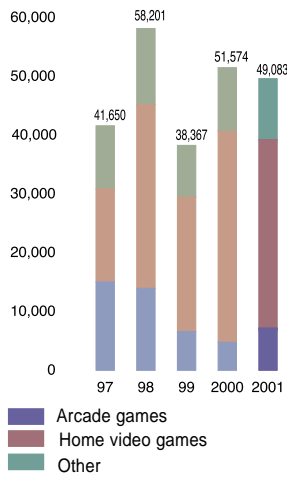
The Asian market was also lack-luster, continuing to suffer from the problem of a black-market for illegal copies. Beginning with the fiscal year under review, Capcom started supplying game and characters content services for mobile phones in South-east Asia, including Hong Kong and Taiwan. With a view on developing the network game content requirements, we will pursue our business opportunities in the market.



## BUSINESS EVALUATION AND ANALYSIS

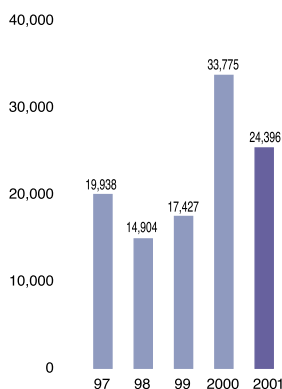
### Net Sales by Business Segment

(Millions of yen)



### Working Capital

(Millions of yen)



The fiscal year ended March 31, 2001 was a year of transition to the next-generation platforms. Despite the weak market, Capcom managed to hold the decline in consolidated net sales to 4.8%, at ¥49,083 million. Net income amounted to ¥6,007 million, down 38.1%.

### GENERAL OVERVIEW OF EACH BUSINESS SEGMENT

#### Home Video Games

The home video game market was in transition during the fiscal year under review, as game players and software companies awaited the launches of next-generation game platforms. This put considerable downward pressure on sales of game software for the soon-to-be-outdated hardware. The market received another shock with the announcement of the termination of production of Sega's Dreamcast™. Nevertheless, there was still some activity in the market thanks to the software being introduced for PlayStation®2. Capcom unveiled ONIMUSHA™ in Japan in January 2001, which went on to become the first million seller hit for PlayStation®2 platform. Introduced in the United States in March 2001, ONIMUSHA™ was the top selling game software.

Among other strong performers, DINO CRISIS™ 2 for PlayStation® became a million seller and RESIDENT EVIL™ CODE: Veronica X, for PlayStation® 2 and MEGA MAN™ ZERO for GAMEBOY ADVANCE® achieved impressive launches in the domestic market. Coupled with buoyant introductions of MARVEL™ VS. CAPCOM®2 and RESIDENT EVIL SURVIVOR™ in the U.S. market, these new sales helped cover the substantial declines in sales for older platforms. Home video sales decreased 11.3%, to ¥31,727 million while operating income fell 39.1%, to ¥7,404 million.

#### Arcade Games

The domestic and overseas markets continued to falter under weakening economic conditions in Japan and overseas and the growing competition from the home video game market. In Japan, demand remained firm for the more popular games, such as MOBILE SUIT GUNDAM THE EARTH FEDERATION VS. THE PRINCIPALITY OF ZEON, CAPCOM® VS. SNK. The mobile phone battery recharger Charbo was a surprise hit during the fiscal year under review, posting greater than expected sales. On the other hand, sales of Chaku Melo Collection and Internet-based Town Server AZ-NAVI machines fell out of favor amid a ballooning content market. Despite these difficult conditions, sales soared 40.2%, to ¥7,531 million and operating loss declined to ¥57 million, improving ¥1,970 million from the previous fiscal year.

#### Others

Despite stagnant personal consumption, amusement centers located in areas with higher traffic, such as shopping centers have been performing well. During the fiscal year, we continued to emphasize regionally oriented facilities, aiming to be the number one amusement center in each region. During the fiscal year, we opened four amusement centers, including Plaza Capcom Isogo, a city-oriented combination facility designed around a U.S. West Coast motif, and Plaza Capcom Kochi, the first and the largest such facility in the Shikoku region. We also closed five unprofitable centers as part of ongoing efforts to increase efficiency. Overseas, we opened one center in the United States during the fiscal year.

Consequently, revenues, including sales of contents for LCDs of pachinko machines decreased 5.2%, to ¥10,248 million. Operating profit increased 117.3%, to ¥1,798 million.

## FINANCIAL POSITION

Total assets at the end of the term advanced 5.3%, to ¥113,493 million. This increase resulted mainly from growth in notes and accounts receivable—trade, short-term loans receivable, and decrease in deferred income taxes.

The total of current liabilities and long-term liabilities contracted 10.5%, to ¥50,497 million. Among current liabilities, the current portion of long-term liabilities rose substantially to ¥14,458 million. Reflecting this redemption, long-term debt fell 62.3%, to ¥12,515 million.

At the fiscal year-end, shareholders' equity expanded 22.7%, to ¥62,966 million due to increases in common stock and capital surplus from the conversion of convertible bonds in shares and to greater retained earnings.

## CASH FLOW

Net income declined ¥3,693 million from the previous fiscal year, to ¥6,007 million. Cash and cash equivalents at the fiscal year-end, therefore, fell ¥1,763 million, to ¥25,676 million.

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥3,653 million, a decline of ¥10,600 million from the previous fiscal year. This decrease primarily resulted from an increase of ¥5,469 million in notes and accounts receivable—trade related to sales of RESIDENT EVIL™ CODE: Veronica X for PlayStation®2, which was introduced in March 2001, and other game software.

### Cash Flows from Investing Activities

Net cash used in investing activities was ¥4,548 million, down ¥7,886 million from the previous fiscal year. This drop can be mainly attributed to ¥1,830 million expense for acquisition of property, plant and equipment related to new amusement facilities, and to a ¥1,686 million increase in short-term loans.

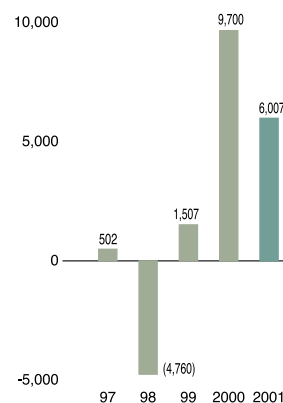
### Cash Flows from Financing Activities

Net cash used in financing amounted to ¥1,769 million, principally due to the net repayment of short-term borrowing and current portion of long-term debt and cash dividends paid.

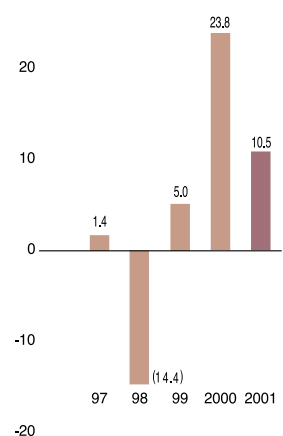
## OUTLOOK

In the market that is being polarized into winner and losers, Capcom has remained viable by raising the level of customer satisfaction with its game software and maintaining a competitive advantage. These results have been achieved by revising its business composition according to shifts in the business environment and by focusing its development resources on home video games, its field of core competence. Strengthening its corporate structure by expanding globally as a group, upgrading its development organization, raising the operating efficiency of each division, and cutting costs, Capcom is building a new foundation for the 21st century.

**Net Income**  
(Millions of yen)



**Return on Equity**  
(Percent)



## FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
	2001	2000	1999	1998	1997	2001
Net sales	<b>49,083</b>	51,574	38,367	58,201	41,650	<b>395,831</b>
Operating income	<b>7,155</b>	9,061	3,611	10,366	5,296	<b>57,702</b>
Income before income taxes	<b>7,127</b>	8,712	2,085	(3,696)	3,995	<b>57,476</b>
Net income	<b>6,007</b>	9,700	1,507	(4,760)	502	<b>48,444</b>
	Yen					U.S. dollars
Earnings per share	<b>109.90</b>	273.01	43.00	(135.24)	14.29	<b>0.89</b>
Cash dividends per share	<b>20.00</b>	20.00	20.00	20.00	53.00	<b>0.16</b>
Shareholders' equity per share	<b>1,081.62</b>	1,372.16	862.96	841.35	1,030.42	<b>8.72</b>
	Millions of yen					Thousands of U.S. dollars
Total assets	<b>113,493</b>	107,776	98,127	100,833	118,330	<b>915,266</b>
Total shareholders' equity	<b>62,966</b>	51,320	30,125	29,612	36,267	<b>507,790</b>
Depreciation & amortization	<b>2,411</b>	2,623	2,818	3,243	3,833	<b>19,444</b>
Capital expenditure	<b>2,939</b>	2,695	2,862	2,557	2,092	<b>23,702</b>
R&D expenses	<b>1,461</b>	1,390	1,414	2,948	2,611	<b>11,782</b>
ROE (%)	<b>10.5</b>	23.8	5.0	(14.4)	1.4	
ROA (%)	<b>5.4</b>	9.4	1.5	(4.3)	0.4	
Net worth ratio (%)	<b>55.5</b>	47.6	30.7	29.4	30.6	
Net sales by business segment:						
Arcade games	<b>7,531</b>	5,370	7,177	13,834	15,138	<b>60,734</b>
Home video games	<b>31,727</b>	35,753	22,451	31,453	15,904	<b>255,863</b>
Other	<b>10,248</b>	10,812	9,148	13,347	10,765	<b>82,645</b>



## REPORT OF INDEPENDENT ACCOUNTANTS

June 22, 2001

To the Board of Directors and  
Shareholders of  
Capcom Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Capcom Co., Ltd. and its consolidated subsidiaries at March 31, 2001 and 2000, and the results of their income and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.

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

The amounts expressed in U.S. dollars have been provided solely for the convenience of readers and have been translated on the basis set forth in Note 1 to the accompanying financial statements.



(Notice to readers)

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accordingly the accompanying consolidated balance sheets and related consolidated statements of income, shareholders' equity and cash flows, and their utilization, are not designed for those who are not informed about Japanese accounting principles, procedures and practices.

The standards, procedures and practices utilized in Japan to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than Japan.

# CONSOLIDATED BALANCE SHEETS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Current assets:</b>			
Cash and cash equivalents	¥25,676	¥27,439	\$207,065
Notes and accounts receivable –			
Trade	15,390	9,378	124,113
Other	422	235	3,403
Allowance for doubtful accounts	(2,455)	(2,843)	(19,798)
Short-term loans receivable	5,337	3,602	43,040
Inventories (Note 4)	4,964	5,493	40,032
Capitalized development costs	8,729	8,873	70,395
Prepaid expenses	639	927	5,153
Deferred income taxes (Note 8)	1,513	1,821	12,202
Other	20	318	161
<b>Total current assets</b>	<b>60,235</b>	<b>55,243</b>	<b>485,766</b>
<b>Investments and other assets:</b>			
Investments in securities (Note 5)	2,768	2,646	22,323
Long-term loans receivable	8,134	8,226	65,597
Long-term prepaid expenses	181	476	1,460
Deferred income taxes (Note 8)	2,278	33	18,371
Other	6,810	6,309	54,918
Allowance for doubtful accounts	(5,104)	(4,590)	(41,161)
<b>Total investments and other assets</b>	<b>15,067</b>	<b>13,100</b>	<b>121,508</b>
<b>Property, plant and equipment</b> (Notes 6 and 7):			
Land	26,493	26,480	213,653
Buildings and structures	13,388	13,351	107,968
Machinery and equipment	13,097	12,960	105,621
Construction in progress	—	9	—
Accumulated depreciation	(14,787)	(14,531)	(119,250)
<b>Total property, plant and equipment</b>	<b>38,191</b>	<b>38,269</b>	<b>307,992</b>
<b>Cumulative translation adjustments</b>	<b>—</b>	<b>1,164</b>	<b>—</b>
<b>Total assets</b>	<b>¥113,493</b>	<b>¥107,776</b>	<b>\$915,266</b>

The accompanying notes are an integral part of these statements.

<b>Liabilities and Shareholders' equity</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	<b>2001</b>	2000	<b>2001</b>
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	<b>¥9,886</b>	¥11,120	<b>\$79,726</b>
Current portion of long-term debt (Note 7)	<b>14,458</b>	186	<b>116,597</b>
Notes and accounts payable	<b>5,024</b>	4,210	<b>40,516</b>
Accrued expenses	<b>1,751</b>	2,612	<b>14,121</b>
Accrued income taxes (Note 8)	<b>2,233</b>	118	<b>18,008</b>
Other	<b>2,487</b>	3,222	<b>20,056</b>
<b>Total current liabilities</b>	<b>35,839</b>	21,468	<b>289,024</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	<b>12,515</b>	33,163	<b>100,927</b>
Accrued retirement benefits for employees (Note 9)	<b>277</b>	214	<b>2,234</b>
Other	<b>1,866</b>	1,581	<b>15,049</b>
<b>Total long-term liabilities</b>	<b>14,658</b>	34,958	<b>118,210</b>
<b>Minority interest in a consolidated subsidiary</b>	<b>30</b>	30	<b>242</b>
<b>Shareholders' equity</b> (Note 10):			
Common stock, ¥50 par value –			
Authorized – 150,000,000 shares			
Issued – 58,308,777 shares	<b>27,370</b>	24,268	<b>220,726</b>
Capital surplus	<b>30,255</b>	27,154	<b>243,992</b>
Retained earnings	<b>5,219</b>	213	<b>42,089</b>
Unrealized loss on revaluation of securities	<b>(160)</b>	—	<b>(1,290)</b>
Cumulative translation adjustments	<b>369</b>	—	<b>2,976</b>
Treasury stock (Note 11)	<b>(87)</b>	(315)	<b>(703)</b>
<b>Total shareholders' equity</b>	<b>62,966</b>	51,320	<b>507,790</b>
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>¥113,493</b>	¥107,776	<b>\$915,266</b>

# CONSOLIDATED STATEMENTS OF INCOME

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Net sales</b>	<b>¥49,083</b>	¥51,574	<b>\$395,831</b>
<b>Cost of sales</b>	<b>29,765</b>	30,107	<b>240,041</b>
<b>Gross profit</b>	<b>19,318</b>	21,467	<b>155,790</b>
Selling, general and administrative expenses	<b>10,702</b>	11,016	<b>86,306</b>
Research and development expenses	<b>1,461</b>	1,390	<b>11,782</b>
<b>Operating income</b>	<b>7,155</b>	9,061	<b>57,702</b>
<b>Other income (expense):</b>			
Interest and dividend income	<b>552</b>	339	<b>4,452</b>
Interest expense	<b>(426)</b>	(529)	<b>(3,435)</b>
Exchange gain (loss), net	<b>100</b>	(385)	<b>806</b>
Allowance for doubtful accounts	<b>(559)</b>	—	<b>(4,508)</b>
Loss on sale or disposal of property, plant and equipment	<b>(124)</b>	(300)	<b>(1,000)</b>
Write-off of investments in securities	<b>(18)</b>	(124)	<b>(145)</b>
Gain on sale of treasury stock	<b>368</b>	235	<b>2,968</b>
Other, net	<b>79</b>	415	<b>636</b>
<b>Income before income taxes</b>	<b>7,127</b>	8,712	<b>57,476</b>
<b>Income taxes (Note 8):</b>			
Current	<b>2,557</b>	784	<b>20,621</b>
Deferred	<b>(1,437)</b>	(1,774)	<b>(11,589)</b>
	<b>1,120</b>	(990)	<b>9,032</b>
Minority interest in a consolidated subsidiary	<b>0</b>	2	<b>0</b>
<b>Net income</b>	<b>¥6,007</b>	¥9,700	<b>\$48,444</b>
Per share data	Yen		U.S. dollars
	<b>2001</b>	2000	<b>2001</b>
Net income	<b>¥109.90</b>	¥273.01	<b>\$0.89</b>
Net income-diluted	<b>98.47</b>	237.78	<b>0.79</b>
Cash dividends paid	<b>20.00</b>	20.00	<b>0.16</b>

The accompanying notes are an integral part of these statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Common stock:</b>			
Balance at beginning of year	¥24,268	¥18,211	\$195,710
Shares issued upon conversion of bonds	3,102	6,057	25,016
<b>Balance at end of year</b>	<b>¥27,370</b>	<b>¥24,268</b>	<b>\$220,726</b>
<b>Capital surplus:</b>			
Balance at beginning of year	¥27,154	¥21,098	\$218,984
Excess of principal amount of bonds converted over the amount credited to common stock issued	3,101	6,056	25,008
<b>Balance at end of year</b>	<b>¥30,255</b>	<b>¥27,154</b>	<b>\$243,992</b>
<b>Retained earnings</b> (accumulated deficit):			
Balance at beginning of year	¥213	(¥8,786)	\$1,718
Net income for the year	6,007	9,700	48,444
Cash dividends	(941)	(701)	(7,589)
Bonuses to directors and statutory auditors	(60)	—	(484)
<b>Balance at end of year</b>	<b>¥5,219</b>	<b>¥213</b>	<b>\$42,089</b>
<b>Unrealized loss on revaluation of securities</b>	<b>(¥160)</b>	<b>—</b>	<b>(\$1,290)</b>
<b>Cumulative translation adjustments</b>	<b>¥369</b>	<b>—</b>	<b>\$2,976</b>
<b>Treasury stock</b>	<b>(¥87)</b>	<b>(¥315)</b>	<b>(\$703)</b>

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<b>Cash flows from operating activities:</b>			
Net income	<b>¥6,007</b>	¥9,700	<b>\$48,444</b>
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	<b>2,411</b>	2,623	<b>19,444</b>
Allowance for doubtful accounts	<b>(56)</b>	923	<b>(452)</b>
(Increase) in notes and accounts receivable	<b>(5,469)</b>	(1,613)	<b>(44,105)</b>
Decrease (increase) in inventories	<b>393</b>	(992)	<b>3,169</b>
Increase in notes and accounts payable	<b>723</b>	1,447	<b>5,831</b>
Other	<b>(356)</b>	2,165	<b>(2,871)</b>
Total adjustments	<b>(2,354)</b>	4,553	<b>(18,984)</b>
<b>Net cash provided by operating activities</b>	<b>3,653</b>	14,253	<b>29,460</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of facilities	<b>186</b>	497	<b>1,500</b>
Acquisition of property, plant and equipment	<b>(1,830)</b>	(2,895)	<b>(14,758)</b>
(Increase) in short-term loans receivable	<b>(1,686)</b>	(244)	<b>(13,597)</b>
Decrease in long-term loans	<b>—</b>	6,798	<b>—</b>
Other	<b>(1,218)</b>	(818)	<b>(9,822)</b>
<b>Net cash provided by (used in) investing activities</b>	<b>(4,548)</b>	3,338	<b>(36,677)</b>
<b>Cash flows from financing activities:</b>			
Net repayment of short-term borrowings and current portion of long-term debt	<b>(1,234)</b>	(1,230)	<b>(9,952)</b>
Repayments of long-term debt	<b>(189)</b>	(158)	<b>(1,524)</b>
Cash dividends paid	<b>(941)</b>	(701)	<b>(7,589)</b>
Other	<b>595</b>	319	<b>4,799</b>
<b>Net cash used in financing activities</b>	<b>(1,769)</b>	(1,770)	<b>(14,266)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>901</b>	(408)	<b>7,266</b>
<b>Net increase (decrease) in cash</b>	<b>(1,763)</b>	15,413	<b>(14,217)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>27,439</b>	12,026	<b>221,282</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥25,676</b>	¥27,439	<b>\$207,065</b>

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

YEARS ENDED MARCH 31, 2001 AND 2000

## **1 MAJOR POLICIES IN PREPARING CONSOLIDATED FINANCIAL STATEMENTS:**

The accompanying consolidated financial statements which are a translation of those publicly issued in Japan, after modification to enhance readers' understanding, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

In addition, the notes to the consolidated financial statements include financial information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

The U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars. The amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures. The rate of ¥124=U.S.\$1, the approximate current rate prevailing on March 31, 2001, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

## **2 SIGNIFICANT ACCOUNTING POLICIES:**

### **(1) Principles of consolidation**

The consolidated financial statements consist of the accounts of Capcom Co., Ltd. and its 10 subsidiaries (the "Companies") at the relevant balance sheet date. All significant inter-company transactions and accounts are eliminated.

### **(2) Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, which can be withdrawn at least at the face amount at any time without penalty.

### **(3) Translation of foreign currencies**

Effective from April 1, 2000, the Companies adopted the amended "Accounting Standard for Foreign currency Transactions, etc."

The new standard requires all foreign currency monetary assets and liabilities to be translated into Japanese yen at the rates prevailing at the balance sheet date.

Income and expenses in foreign currency were translated at the rates prevailing at the time of the transactions. Resulting exchange gains or losses were credited or charged to income as incurred. Prior to adoption of this standard, long-term monetary assets and liabilities in foreign currencies are translated into Japanese yen at historical rate.

As a result of adoption of this standard, there was no effect on the Companies' results of operations because the company and its domestic consolidated subsidiaries did not hold or carry long-term monetary items.

In preparing the consolidated financial statements, assets and liabilities of foreign subsidiaries are translated into Japanese yen at the rates in effect at the balance sheet date. Income and expenses of foreign subsidiaries are translated into Japanese yen at the monthly average rate for the year then ended. Shareholders' equity in foreign subsidiaries is translated into Japanese yen at the rates prevailing at the time when the transactions occurred. Cumulative translation adjustments, which result from the above translation procedures, were credited to "Shareholder's equity" as consolidated balance sheet at March 31, 2001. Prior to adoption of this standard, cumulative translation adjustments were charged to "Assets" or "Liabilities".

### **(4) Inventories**

Inventories are stated at the lower of cost or market value, cost being principally determined by the average cost method.

Capitalized development costs of game software, including the development costs incurred at subcontractors, for 32-bit, 64-bit and 128-bit game machines are stated at accumulated cost on a specific project basis.

Production, print and certain advertising costs relating to specific motion picture titles comprise motion picture film costs and are presented as inventories.

The motion picture film costs are amortized in proportion to the revenue earned to total estimated revenue. Unamortized motion picture film costs are compared with the estimated net realizable value on an individual film basis and a write-down is recorded if required.

### **(5) Financial instruments**

#### **(Securities)**

In accordance with the new accounting standard in Japan the "Accounting Standard for Financial Instruments", effective from April 1, 2000, marketable securities and investments in securities are classified into three categories; held-to-maturity, trading, or available-for-sale securities. Available-for-sale securities are stated at fair value with unrealized gains or losses being recorded as a component of shareholders' equity, net of applicable taxes.

The effect of adoption of this standard was to increase income before income taxes for the year ended March 31, 2001 by ¥304 million (\$2,452 thousand).

For the year ended March 31, 2000, marketable equity securities and other marketable securities both of current and non-current nature are stated at the lower of cost or market value. Other security investments are stated at cost. The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.

#### **(Golf club memberships)**

The above standard requires an impairment loss on deposits for golf club memberships to be realized.

The effect of adoption of this standard was to decrease income before income taxes for the year ended March 31, 2001 by ¥406 million (\$3,274 thousand).

For the year ended March 31, 2000, deposits for golf club membership were stated at cost.

#### (6) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining balance method at rates based on the estimated useful lives of the assets, except for buildings, which is computed by the straight-line method.

#### (7) Income taxes

The income statements of the Companies include many income and expense items for financial reporting purposes which, are not currently deductible or taxable. With respect to all such temporary differences, the Companies follow the practice of inter-period tax allocation based on methods generally accepted in the respective country where each entity is located.

#### (8) Accrued retirement benefits for employees

The company and its domestic consolidated subsidiaries have unfunded lump-sum benefit plans and funded non-contributory pension plans, generally covering all employees. Under the terms of the company and its domestic subsidiaries' retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefits are, in general, based on the length of service, basic salary at the time of retirement, and reason for retirement.

The non-contributory pension plans of the company and its domestic subsidiaries, which cover those employees who have served with those companies for more than 10 years and have already reached the age of 45, generally provide for pension payments for a period of ten years subsequent to retirement (or a lump-sum payment at the retiring employees' option). The annual charge for current service costs in respect of these plans is determined actuarially and funded currently through outside trustees.

For the year ended March 31, 2001, in accordance with the new accounting standard in Japan the "Accounting Standard for Employees' Retirement Benefits", effective from April 1, 2000, a company is required to recognize a pension liability to cover the amount of projected benefit obligations in excess of plan assets at fair value, taking into consideration unrecognized items, plus previously recognized unfunded accrued retirement benefits. The effect of adoption of this standard was to decrease income before income taxes for the year ended March 31, 2001 by ¥9 million (\$73 thousand).

#### (9) Revenue recognition

Revenue from sales of products are recognized when products are shipped to customers.

Motion picture revenue is recognized on the date of theatrical exhibition.

#### (10) Research and development expenses

Research and development expenses for the improvement of existing products or development of products other than capitalized costs of game software for 32-bit, 64-bit and 128-bit

game machines, including basic research and development costs, are charged to income when incurred.

#### (11) Per share data

The computation of net income per share is based on the weighted average number of common stock shares outstanding during each year. Cash dividends per share are based on the number of shares outstanding at the end of each period and reflect the appropriations applicable to each period rather than to the period in which shareholders' approval is obtained (Note 12).

#### (12) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

### 3 CASH FLOW INFORMATION:

Cash payments for interest expenses for the years ended March 31, 2001 and 2000 amounted to ¥419 million (\$3,379 thousand) and ¥551 million, respectively and cash payments for income taxes for the years ended March 31, 2001 and 2000 amounted to ¥481 million (\$3,879 thousand) and ¥873 million, respectively.

### 4 INVENTORIES:

Inventories at March 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods and merchandise	¥1,772	¥1,277	\$14,290
Work in process	67	64	540
Raw materials	1,534	2,407	12,371
Supplies	181	220	1,460
Films	1,410	1,525	11,371
	<u>¥4,964</u>	<u>¥5,493</u>	<u>\$40,032</u>

### 5 SECURITIES:

The following is a summary of investments in securities classified as available-for-sale securities at March 31, 2001.

	Millions of yen			Book value (Estimated fair value)
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	1,923	30	(306)	1,647
Total	<u>1,923</u>	<u>30</u>	<u>(306)</u>	<u>1,647</u>

	Thousands of U.S. dollars			Book value (Estimated fair value)
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	15,508	242	(2,468)	13,282
Total	<u>15,508</u>	<u>242</u>	<u>(2,468)</u>	<u>13,282</u>



At March 31, 2000 the cost and market value of marketable equity securities wholly included in investments in securities (non-current assets) are presented below.

	Millions of yen
	2000
Cost	¥1,885
Market value	5,109
Unrealized gain (loss)	¥3,224

Represented by:

Gross unrealized gains	¥3,225
Gross unrealized losses	(1)

## 6 PROPERTY, PLANT AND EQUIPMENT:

Depreciation charges for the years ended March 31, 2001 and 2000 amounted to ¥2,058 million (\$16,597 thousand) and ¥2,208 million, respectively. Estimated useful lives of the major classes of depreciable assets ranged from 3 to 50 years (principally 47 years) for buildings and structures and from 3 to 20 years (principally 3 years) for machinery and equipment.

## 7 SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Bank overdrafts with interest ranging from 0.840% to 1.625% per annum	¥9,586	\$77,307
Notes payable with interest of 1.180% per annum	300	2,419
	<b>¥9,886</b>	<b>\$79,726</b>

Long-term debt at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Convertible bonds		
0.8% due 2001	¥14,261	\$115,008
1.0% due 2005	12,288	99,097
Loans payable to banks and other financial institutions due 2001 – 2003, with interest ranging from 1.292% – 5.900%		
Secured	97	782
Unsecured	327	2,637
	<b>¥26,973</b>	<b>\$217,524</b>
Less portion due within one year	<b>(14,458)</b>	<b>(116,597)</b>
	<b>¥12,515</b>	<b>\$100,927</b>

The aggregate annual maturities of long-term debt as at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
2002 (current portion)	¥14,458	\$116,597
2003	139	1,121
2004	88	709
2005	12,288	99,097
	<b>¥26,973</b>	<b>\$217,524</b>

The 0.8% convertible bonds due 2001 were issued on June 17, 1994 and are convertible into common stock at a conversion price of ¥3,321.30 per share. These convertible bonds are redeemable at the company's option in the period from October 1, 1998 to September 27, 2001 as provided in the indentures.

The 1.0% convertible bonds due 2005 were issued on June 17, 1994 and are convertible into common stock at a conversion price of ¥3,321.30 per share. These convertible bonds are redeemable at the company's option in the period from October 1, 2000 to September 29, 2005 as provided in the indentures.

At March 31, 2001, the following assets were pledged as collateral for long-term debt and other liabilities.

	Millions of yen	Thousands of U.S. dollars
Land	¥6,101	\$49,202
Buildings and structures, net of accumulated depreciation	609	4,911
	<b>¥6,710</b>	<b>\$54,113</b>

## 8 INCOME TAXES:

The Companies are subject to several taxes based on income which, in aggregate, resulted in a normal effective tax rate of approximately 42% in Japan in the periods ended March 31, 2001 and 2000.

Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income are as follows:

	2001	2000
Normal effective tax rate	42.0%	42.0%
Utilization of tax loss carry forward	–	(36.0)
Change in valuation allowance	(31.2)	(18.2)
Other	4.9	0.8
Income tax rate per statements of income	<b>15.7%</b>	<b>(11.4%)</b>

The significant components of deferred tax assets at March 31, 2001 and 2000 are as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets			
Tax loss carry forward of a foreign subsidiary	¥ –	¥1,518	\$ –
Accrued expenses	506	177	4,081
Accrued enterprise taxes	167	–	1,347
Inventories	374	64	3,016
Allowance for doubtful accounts	384	–	3,097
Other	82	62	661
Total deferred tax assets	¥1,513	¥1,821	\$12,202

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets			
Accrued retirement benefits for employees	¥14	¥14	\$113
Tax loss carry forward of a foreign subsidiary	1,998	–	16,113
Unrealized loss on revaluation of securities	116	–	935
Other	150	19	1,210
Total deferred tax assets	¥2,278	¥33	\$18,371

Filing of a consolidated tax return by a group of corporations is not permitted in Japan, irrespective of the percentage of ownership.

## 9 ACCRUED RETIREMENT BENEFITS FOR EMPLOYEES:

Amounts charged to income for the year ended March 31, 2000 with respect to the pension plan and retirement allowances were ¥ 159 million.

Pension assets (based on the latest available information) of the pension plan at March 31, 2000 amounted to ¥ 451 million.

The following tables set forth the changes in projected benefit obligations, plan assets and funded status of the company and its domestic consolidated subsidiaries at March 31, 2001.

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Projected benefit obligations at end of year	¥1,333	\$10,750
Fair value of plan assets at end of year	469	3,782

Funded status:

Projected benefit obligations in excess of plan assets	864	6,968
Unrecognized transition obligation	515	4,153
Unrecognized actuarial differences	72	581
Accrued pension liability recognized in the consolidated balance sheet	¥277	\$2,234

Retirement pension costs of the company and its domestic consolidated subsidiaries for the year ended March 31, 2001 were as follows.

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Service cost	¥121	\$976
Interest cost	42	339
Expected return on plan assets	(16)	(129)
Amortization:		
Transition obligation	37	298
Net periodic benefit costs	¥184	\$1,484

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2001 were as follows:

Method of attributing the projected benefit obligations to periods of service	Straight-line basis
Discount rate	3.5%
Long-term rate of return on plan assets	3.5%
Amortization period for transition obligation	15 years
Amortization period for actuarial differences	13 years

## 10 COMMON STOCK:

Changes in the number of issued shares of common stock during the years ended March 31, 2001 and 2000 are summarized below:

	Thousands of shares	
	2001	2000
Balance at beginning of year	37,627	35,196
Issued upon conversion of bonds	1,868	2,431
Stock split	18,814	–
Balance at end of year	58,309	37,627

The stock split was resolved upon by the Board of Directors and represented distributions of new shares of the company's common stock to the existing shareholders without consideration, which did not require any accounting entries.

The stock split was made on May 19, 2000 to the shareholders registered as of March 31, 2000, in the ratio of 0.5 shares for every one share held based on the resolution passed by the Board of Directors of the company on February 28, 2000.

## 11 TREASURY STOCK:

During the year ended March 31, 1999, the company introduced a management incentive plan or scheme giving the company's directors and employees an option to acquire the common stock of the company as defined.

The company held 94,100 shares of the common stock of the company by ¥87 million (\$702 thousand) which were outstanding at March 31, 2001 and included in "Treasury stock" in the accompanying balance sheet.

## 12 APPROPRIATION OF RETAINED EARNINGS AND LEGAL RESERVE:

The Japanese Commercial Code requires that all appropriations of retained earnings except for interim cash dividends, to be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of retained earnings is not accrued in the financial statements for the year to which it relates, but is recorded in the subsequent accounting year after shareholders' approval has been obtained.

The following appropriations of retained earnings of the Company were proposed and resolved at the general meeting of shareholders held on June 22, 2001.

	Millions of yen	Thousands of U.S. dollars
Balance at March 31, 2001	<b>¥3,878</b>	<b>\$31,274</b>
Appropriations –		
Transfer to legal reserve	<b>(64)</b>	<b>(516)</b>
Cash dividends (¥10 per share outstanding at March 31, 2001)	<b>(582)</b>	<b>(4,693)</b>
Bonuses to directors and statutory auditors	<b>(60)</b>	<b>(484)</b>
General reserve	<b>(1,500)</b>	<b>(12,097)</b>
Balance after appropriations	<b>¥1,672</b>	<b>\$13,484</b>

The Japanese Commercial Code provides that an amount equal to at least 10% of cash disbursements (principally, dividends and bonuses to directors and statutory auditors) appropriated from the retained earnings of each period must be appropriated as a legal reserve until such reserve equals 25% of the common stock account. This reserve may be used to reduce a deficit or it may be transferred to the stated capital by appropriate legal procedures.

## 13 SEGMENT INFORMATION:

### (1) Business segments

The Companies operate principally within three business segments; arcade games, home video games and other. The arcade game segment develops, manufactures, distributes and/or rents arcade game software and hardware to amusement facility operators. The home video games segment develops and distributes home video game software. The other seg-

ment mainly comprises the operation of amusement facilities. The following tables present certain information regarding the business segments for the years ended March 31, 2001 and 2000.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Net sales:</b>			
Arcade games –			
Customers	<b>¥ 7,108</b>	¥5,009	<b>\$ 57,323</b>
Inter-segment	<b>423</b>	361	<b>3,411</b>
	<b>7,531</b>	5,370	<b>60,734</b>
Home video games –			
Customers	<b>31,727</b>	35,753	<b>255,863</b>
Other –			
Customers	<b>10,248</b>	10,812	<b>82,645</b>
Sub-total	<b>49,506</b>	51,935	<b>399,242</b>
Eliminations	<b>(423)</b>	(361)	<b>(3,411)</b>
Consolidated	<b>¥49,083</b>	¥51,574	<b>\$395,831</b>

### Cost of sales and direct expenses:

Arcade games	<b>¥7,588</b>	¥7,397	<b>\$61,194</b>
Home video games	<b>24,323</b>	23,603	<b>196,153</b>
Other	<b>8,450</b>	9,985	<b>68,145</b>
Sub-total	<b>40,361</b>	40,985	<b>325,492</b>
Corporate expenses and eliminations	<b>1,567</b>	1,528	<b>12,637</b>
Consolidated	<b>¥41,928</b>	¥42,513	<b>\$338,129</b>

### Operating income (loss):

Arcade games	<b>(¥57)</b>	(¥2,027)	<b>(\$460)</b>
Home video games	<b>7,404</b>	12,150	<b>59,710</b>
Other	<b>1,798</b>	827	<b>14,500</b>
Sub-total	<b>9,145</b>	10,950	<b>73,750</b>
Eliminations	<b>(1,990)</b>	(1,889)	<b>(16,048)</b>
Consolidated	<b>¥7,155</b>	¥9,061	<b>\$57,702</b>

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Total assets:</b>			
Arcade games	<b>¥18,822</b>	¥18,386	<b>\$151,790</b>
Home video games	<b>32,860</b>	26,964	<b>265,000</b>
Other	<b>22,457</b>	20,196	<b>181,105</b>
Sub-total	<b>74,139</b>	65,546	<b>597,895</b>
Corporate assets and eliminations	<b>39,354</b>	42,230	<b>317,371</b>
Consolidated	<b>¥113,493</b>	¥107,776	<b>\$915,266</b>

**Depreciation:**

Arcade games	<b>¥860</b>	¥956	<b>\$6,936</b>
Home video games	<b>269</b>	284	<b>2,169</b>
Other	<b>1,043</b>	1,123	<b>8,411</b>
Sub-total	<b>2,172</b>	2,363	<b>17,516</b>
Corporate expenses and eliminations	<b>239</b>	260	<b>1,928</b>
Consolidated	<b>¥2,411</b>	¥2,623	<b>\$19,444</b>

**Capital expenditure:**

Arcade games	<b>¥559</b>	¥755	<b>\$4,508</b>
Home video games	<b>295</b>	340	<b>2,379</b>
Other	<b>1,387</b>	1,546	<b>11,186</b>
Sub-total	<b>2,241</b>	2,641	<b>18,073</b>
Corporate expenditure and eliminations	<b>698</b>	54	<b>5,629</b>
Consolidated	<b>¥2,939</b>	¥2,695	<b>\$23,702</b>

**(2) Geographic areas**

The following tables present certain information regarding operations by geographic area for the years ended March 31, 2001 and 2000.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Net sales:</b>			
Japan –			
Customers	<b>¥34,839</b>	¥32,863	<b>\$280,960</b>
Inter-segment	<b>3,757</b>	5,212	<b>30,298</b>
	<b>38,596</b>	38,075	<b>311,258</b>
North America –			
Customers	<b>13,326</b>	17,958	<b>107,468</b>
Inter-segment	<b>0</b>	8	<b>0</b>
	<b>13,326</b>	17,966	<b>107,468</b>
Other –			
Customers	<b>918</b>	754	<b>7,403</b>
Inter-segment	<b>48</b>	99	<b>387</b>
	<b>966</b>	<b>853</b>	<b>7,790</b>
Sub-total	<b>52,888</b>	<b>56,894</b>	<b>426,516</b>
Eliminations	<b>(3,805)</b>	<b>(5,320)</b>	<b>(30,685)</b>
Consolidated	<b>¥49,083</b>	<b>¥51,574</b>	<b>\$395,831</b>
<b>Cost of sales and direct expenses:</b>			
Japan	<b>¥32,583</b>	¥31,442	<b>\$262,766</b>
North America	<b>10,303</b>	13,385	<b>83,089</b>
Other	<b>922</b>	1,011	<b>7,435</b>
Sub-total	<b>43,808</b>	45,838	<b>353,290</b>
Eliminations	<b>(1,880)</b>	(3,325)	<b>(15,161)</b>
Consolidated	<b>¥41,928</b>	¥42,513	<b>\$338,129</b>

**Operating profit (loss):**

Japan	<b>¥6,013</b>	¥6,633	<b>\$48,492</b>
North America	<b>3,023</b>	4,581	<b>24,379</b>
Other	<b>44</b>	(158)	<b>355</b>
Sub-total	<b>9,080</b>	11,056	<b>73,226</b>
Eliminations	<b>(1,925)</b>	(1,995)	<b>(15,524)</b>
Consolidated	<b>¥7,155</b>	¥9,061	<b>\$57,702</b>

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Total assets:</b>			
Japan	<b>¥66,584</b>	¥60,806	<b>\$536,968</b>
North America	<b>9,241</b>	6,346	<b>74,524</b>
Other	<b>1,121</b>	842	<b>9,040</b>
Sub-total	<b>76,946</b>	67,994	<b>620,532</b>
Corporate assets and eliminations	<b>36,547</b>	39,782	<b>294,734</b>
Consolidated	<b>¥113,493</b>	¥107,776	<b>\$915,266</b>

**(3) Foreign sales**

The following table presents certain information regarding sales of the Companies outside Japan for the years ended March 31, 2001 and 2000.

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
<b>Net sales:</b>			
North America	<b>¥12,431</b>	¥16,178	<b>\$100,250</b>
Other	<b>2,764</b>	4,476	<b>22,290</b>
	<b>¥15,195</b>	¥20,654	<b>\$122,540</b>
		Percentage	
		<b>2001</b>	2000
Percentage of such sales included in consolidated net sales		<b>31.0%</b>	40.0%

**14 LEASES:****(a) Financing leases**

Lease transactions as a lessee  
 Payments in respect of financing leases which do not transfer ownership of the leased assets to the lessee for the years ended March 31, 2001 and 2000 are ¥1,237 million (\$9,976 thousand) and ¥1,278 million, respectively.

Future lease payments for financing leases which do not transfer ownership of the leased assets, including amounts representing interest, at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	<b>¥1,100</b>	¥1,026	<b>\$8,871</b>
Due later	<b>1,218</b>	1,312	<b>9,823</b>
	<b>¥2,318</b>	¥2,338	<b>\$18,694</b>

**(b) Operating leases**

Future lease payments under non-cancelable operating leases at March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	<b>¥546</b>	¥546	<b>\$4,403</b>
Due later	<b>2,429</b>	2,975	<b>19,589</b>
	<b>¥2,975</b>	¥3,521	<b>\$23,992</b>

## CORPORATE INFORMATION

### CORPORATE DATA

Name of Company: Capcom Co., Ltd.  
Date of Establishment: May 30, 1979  
Paid-in Capital: ¥27,370 million  
(US\$220,726 thousand)  
End of Term: March 31  
Number of Employees: 1,150 (Consolidated basis)

Head Office: 3-1-3 Uchihirano-machi, Chuo-ku, Osaka  
540-0037, Japan  
Phone: 06-6920-3611  
Fax: 06-6920-5108  
Website: <http://www.capcom.co.jp/>

Tokyo Branch: Shinjuku Mitsui Building  
2-1-1 Nishi Shinjuku, Shinjuku-ku,  
Tokyo 163-0411, Japan  
Phone: 03-3340-0710  
Fax: 03-3340-0711

(As of March 31, 2001)

### DIRECTORS AND STATUTORY AUDITORS

President: Kenzo Tsujimoto  
Executive Vice President: Heiji Oshima  
Senior Managing Directors: Haruhiro Tsujimoto  
Yoshiki Okamoto

Directors: Tamio Oda  
Kyouji Kitamura  
Kouichi Hori

Corporate Auditors: Shoji Yamaguchi  
Shigeo Konishi  
Morio Kuroda  
Yoshio Nakayama

(As of June 30, 2001)

### CONSOLIDATED SUBSIDIARIES

#### CAPCOM U.S.A., Inc.

475 Oakmead Parkway, Sunnyvale,  
California 94086, U.S.A.  
Phone: 1-408-774-0500  
Fax: 1-408-774-3994  
Website: <http://www.capcom.com/>

#### CAPTRON Co., Ltd.

3-1-3 Uchihirano-machi  
Chuo-ku, Osaka  
540-0037, Japan  
Phone: 81-6-6920-3637  
Fax: 81-6-6920-5138

#### STATUS Co., Ltd.

3-1-3 Uchihirano-machi, Chuo-ku, Osaka  
540-0037, Japan  
Phone: 81-6-6920-3655  
Fax: 81-6-6920-5154

#### CAPCOM ASIA Co., Ltd.

Units 1205-6, 12/F, New East Ocean Centre  
9 Science Museum Rd., T.S.T. East, Kowloon,  
Hong Kong  
Phone: 852-2366-1001  
Fax: 852-2366-1985  
Website: <http://www.capcomasia.com.hk/>

#### CAPCOM COIN-OP, Inc.

475 Oakmead Parkway, Sunnyvale, California 94086,  
U.S.A.  
Phone: 1-408-774-0500  
Fax: 1-408-522-5331

#### CAPCOM ENTERTAINMENT, Inc.

475 Oakmead Parkway, Sunnyvale, California 94086,  
U.S.A.  
Phone: 1-408-774-0500  
Fax: 1-408-774-3995

#### CAPCOM DIGITAL STUDIOS, Inc.

475 Oakmead Parkway, Sunnyvale, California 94086,  
U.S.A.  
Phone: 1-408-774-0500  
Fax: 1-408-774-3995

#### FLAGSHIP Co., Ltd

6th Floor, Nakano F Building  
4-44-18 Honmachi, Nakano-ku, Tokyo  
164-0012, Japan  
Phone: 81-3-5328-8071  
Fax: 81-3-5328-8072

#### CAPCOM EUROSOFTE LTD.

9th Floor, 26-28 Hammersmith Grove,  
Hammersmith, London W6 7EN  
England  
Phone: 44 (0)20-8741-1774  
Fax: 44 (0)20-8741-4176



CAPCOM Co., Ltd.  
3-1-3 Uchihirano-machi, Chuo-ku, Osaka 540-0037, Japan  
Phone: 81-6-6920-3611 Fax: 81-6-6920-5108 Website: <http://www.capcom.co.jp/>

Printed in Japan

