ANNUAL REPORT 2003

Year ended March 31,2003

COMMITTED TO AN ENTIRELY NEW WORLD OF SENSATION AND EXCITEMENT

CAPCOM

Company Profile

The background of CAPCOM comes from I.R.M. Corporation founded in 1979 with objectives to develop, manufacture and distribute electronic applied game machines. It was succeeded by CAPCOM CO., LTD., founded in 1983, when is its foundation year.

From 1984 CAPCOM entered into development and sales of coin-operated game software and expanded its operation to build a worldwide distribution network. Here are some high-lights from the past;

In 1991 “STREET FIGHTER Ⅱ” was released for coin-operated game machines. It is well known as leading software, enhancing the “Fighting” genre to a new level and it was popular among the players across the world. After that, various “STREET FIGHTER” series as home video game also get million sales.

In order to meet with market environments and market demands we have also been strengthening the home entertainment field.

In 1996, “RESIDENT EVIL” for PlayStation was released, lasting over one year among very competitive market conditions, finally resulting in remarkable sales as well as opening the new genre “horror-action adventure”.

Thus, CAPCOM has been pushing the frontiers in developing new fields and solidifying its status in the amusement industry.

With more movie-oriented choreography, vivid graphics and realistic movements, game software content exceeding over million unit sales, such as “ONIMUSHA”, “Devil May Cry” and others, have been produced. The 20th anniversary of CAPCOM is in June 2003, CAPCOM is more striving to produce contents that deliver more innovative impressions and excitement to customers across the world, through its creative activities to immediately meet the demand of end users.

CONTENTS

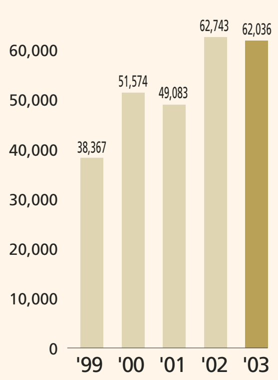
Financial Highlights

CAPCOM CO., LTD. and Its Consolidated Subsidiaries — Years Ended March 31, 2003 and 2002

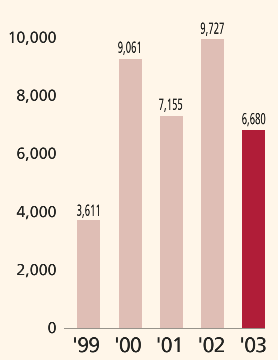
Consolidated basis	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Net sales	**¥ 62,036**	¥ 62,743	**$516,966**
Operating income	**6,680**	9,727	**55,667**
Net income (loss)	**(19,598)**	4,912	**(163,317)**
Total assets	**106,648**	128,512	**888,733**
Total shareholders' equity	**42,888**	68,233	**357,400**
Amounts per share (in yen and U.S. dollars)			
Net income (loss)	**(¥ 338.01)**	¥ 84.21	**($ 2.82)**
Net income - diluted	—	76.61	—
Cash dividends applicable to the year	**20.00**	20.00	**0.17**

Note: U.S. dollar amounts are translated from yen at the rate of ¥120=US$1 , the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.

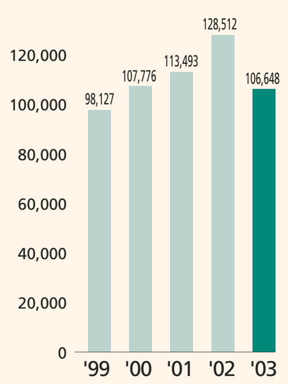
Net Sales
(Millions of yen)



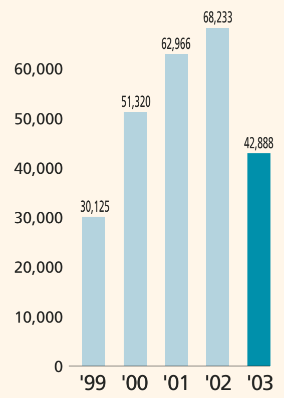
Operating Income
(Millions of yen)



Total Assets
(Millions of yen)



Total Shareholders' Equity
(Millions of yen)



Our Vision

Kenzo Tsujimoto
President and CEO
CAPCOM CO., LTD.

Operational and Financial Review of Fiscal Year 2002 (Consolidation basis)

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

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

Meanwhile, the entire video game industry is striving to foster a healthy market. For example, as a part of the

impression

Message from President and CEO

market advancement efforts, CERO (Computer Entertainment Rating Organization), which is an ethical review entity for game software, and the Game Amusement Society were founded.

As the structure of the video game industry is changing rapidly, we increased the product lineup, introducing software developed by other companies in order to stimulate the existing user demands. We have also been trying to improve our business performance through countrywide sales promotion campaigns, exploring new marketing channels, community-based arcade developments, and so on.

In addition, we have been promoting correlation with the media. This includes releasing the Hollywood movie "RESIDENT EVIL" and the television program "Mega Man: NT Warrior" which are the film and the television adaptations of our popular software. This produced secondary effects such as enhancement of our brand recognition and our company image.

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

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

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

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

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

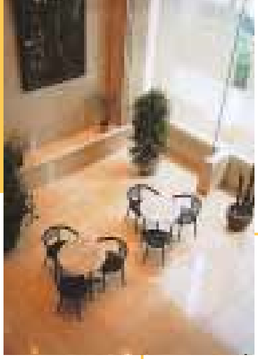
The Japanese economy is projected to be uncertain, due to the delay in recovery from deflation, sluggish stock market, stagnant consumption, concern of economic slowdown in U.S., turbulent global situation and other factors.

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

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

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

Committed to an Entirely New World of Sensation and Excitement



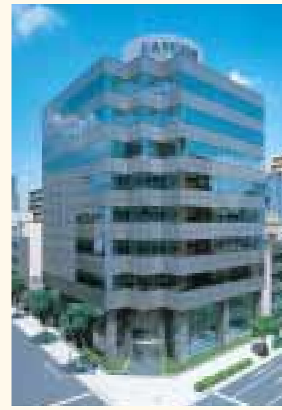
Management Principle

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.

We will work on revitalizing the corporation by establishing higher profitable structure capable of adapting to changes in the business environment.

In addition to the sharp rise in development costs, the video game industry is facing challenges. International competitions are getting fiercer struggling for survival being resulted in increase in mergers, acquisitions and business integrations as corporate restructuring becomes more intense.
Under this situation, we will implement immediate management reforms by verifying the causes of our hardships to survive in international competition.
And 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 started reviewing our R&D activities, which is the core element of our business. In order to improve company quality, we are implementing reinforcement measures promoting performance-based remuneration program, speedy and efficient decision-making processes, organizational restructure, and responsible management.
We will do our utmost efforts to recover and regain our business productivity and by further promoting customer-oriented operations, reinforcing sales force, further improving arcade operations, developing new markets while enhancing market share in existing markets, cutting expenses, lowering logistics costs, and increasing management efficiency.

Message from President and CEO



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

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

We build a corporate structure based on corporate governance and ensure reliability.

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 (include an attorney) as well as three external auditors for the purpose of enhancing management monitoring.

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

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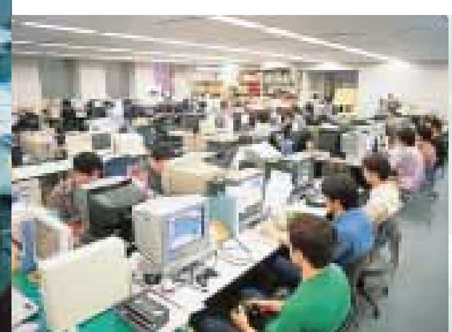
Kenzo Tsujimoto
President and CEO
CAPCOM CO., LTD.

Research and Development

To create unprecedented game contents with the aim of appealing to customers around the world

CAPCOM has been demonstrating its first-rate R&D capabilities in the market through products, such as "RESIDENT EVIL", "ONIMUSHA", and "Devil May Cry". These have been taking up the challenge to fascinate customers around the world through their innovative and creative capabilities, appealing equally in Japan, North America and Europe. Currently R&D bases are located in Japan, as the major base as well as a controlling center, in the United States and in Korea. R&D staff in the United States, as well as in Korea, is focusing their efforts on creating such contents that are appealing to their region, featuring regional characteristics and tastes.

The market of the video game industry is at a major turning point, due to diversified customer consumption and stiffer market competition. Under such circumstances we are enhancing the process of R&D efficiency together applying the outside developing know-how, and maximizing the use of human resources to facilitate higher technology development.



Enhanced R&D structure to secure higher profitability and Multi platform strategy

Our development process for each game are under control of Producers in the company. The producers are held responsible for coordination of each different process of development, such as concept creation, plot creation, character design, programming and sound creation. They are also held accountable for R&D budget control, and costs related to the game software. To increase profitability of developing contents and secure higher quality of our products, it is pre-requisite for our R&D process to tighten measurements on title progress by application of measurement tools for all titles, and taking all necessary steps on title progress. CAPCOM now takes up the challenge to strengthen the marketing system by enhancing analysis, assortment and integration of marketing information. At the same time, timely feed-back on R&D process based on analysis, competitors and users, to achieve Mid-term R&D process control and strategy on releasing contents. Moreover, we aim at exploitation of new genre, and promoting middleware “ACR” Strategy, and Multi-Platform Strategy in consideration of hardware penetration.

GAME BOY ADVANCE SP

GAME BOY ADVANCE

"PS2"

Xbox™

NINTENDO GAMECUBE

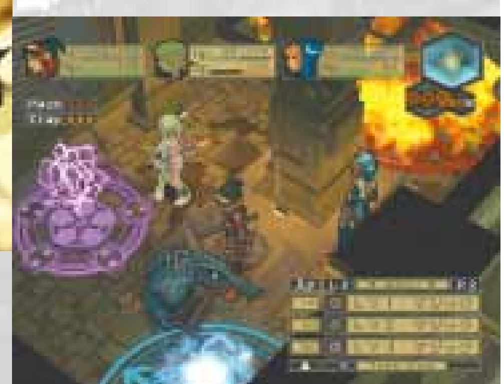
Operating Results

Home Video Games

We released new software titles for PlayStation 2, that employed Japanese "anime" drawing technique such as "auto modellista" the first racing game software by CAPCOM, "CLOCK TOWER 3", and "BREATH OF FIRE V DRAGON QUARTER" under the depressed domestic market. Neither of these titles saw satisfactory sales growth. We also released "RESIDENT EVIL 0" (for NINTENDO GAMECUBE) and "Devil May Cry 2" (for PlayStation 2) which were the major titles of this fiscal year with great expectation. The sales of these two titles were not strong enough to meet our projection. In order to cope with a highly competitive environment, we released two more titles, namely "CHAOS LEGION" (for PlayStation 2) and "P. N. 03" (for NINTENDO GAMECUBE) that were not scheduled to be released in this term. However, neither of these titles could make up the sales decrease.

On the other hand, home video game software for GAMEBOY ADVANCE such as "MEGAMAN" series, including "MEGAMAN ZERO" and "MEGAMAN BATTLE NETWORK 3" and "GYAKUTEN SAIBAN 2" showed healthy sales results supported by strong popularity. We are also released a new board game called "Catan" in order to expand our territory. As a result, this triggered a revival of the

Devil May Cry 2



BREATH OF FIRE V DRAGON QUARTER

CHAOS LEGION

RESIDENT EVIL 0

Catan

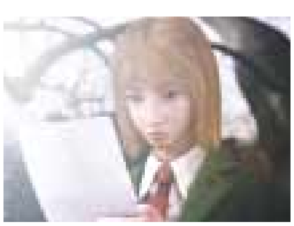
board game boom in Japan.

As for the overseas operations, the sales of “RESIDENT EVIL” (for NINTENDO GAMECUBE) made good sales. In addition, inexpensive software series for PlayStation 2 such as “ONIMUSHA GREATEST HITS” and “RESIDENT EVIL CODE: Veronica X GREATEST HITS” grew favorably, supported by a healthy U.S. and European market.

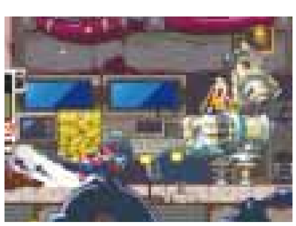
However, total sales were weak due to most of the new titles not making sales as we expected.

As a result, net sales increased to 48,090 million yen (up 0.7 % from the previous fiscal year) , and the operating income was 6,761 million yen (down 39.9 % from the previous fiscal year) .

We are continuing our incessant efforts to strengthen the R&D, Marketing, and Sales Strategy, especially in U.S. and European markets to increase higher profitability in each region. We are developing software to meet U.S. and European market flavors and we also work on total coordination of marketing to be consistent through the markets together with each regional accountable persons.



CLOCK TOWER 3



MEGAMAN ZERO

GYAKUTEN SAIBAN 2

auto modellista

Arcade Operations

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

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

We opened a second arcade in Kyushu called "PLAZA CAPCOM-OITA" in Oita and another arcade in "PLAZA CAPCOM-YACHIYO" in Chiba. Both have contributed to increase of sales, and we closed nine unprofitable arcades.

The resulted net sales totaled 9,243 million yen (up 11.0 % from the previous fiscal year), and the operating income increased to 2,141 million yen (up 82.4 % from the previous fiscal year).

PLAZA CAPCOM-OITA

Arcade Games

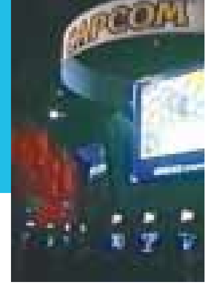
Although we released highly profitable prize-winning games such as "Mecha-tore" and "Bell-catcher Twin" for the purpose of re-establish earning models in the shrinking arcade game market, the net sales of this business segment was decreased due to the lack of powerful demand-generating products, escalating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

Net sales decreased to 1,114 million yen (down 71.8% from the previous fiscal year) and operating loss totaled 534 million yen.

Other

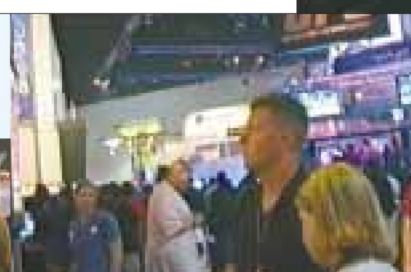
Net sales was 3,744 million yen (up 21.4 % from the previous fiscal year and this mainly derived from licensing royalties) and operating income was 351 million yen (up 70.4 % from the previous fiscal year) .

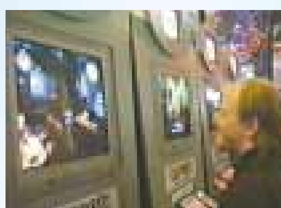
PLAZA CAPCOM-YACHIYO



Overseas Operations

Beginning with establishing CAPCOM U.S.A., Inc., in August of 1985, CAPCOM have been expanding its overseas bases in European areas as well as in Asia in order to increase sales and explore business opportunities. Out of total shipped units of 16,300 thousand this fiscal year, 10,600 thousand units are in overseas markets and importance of market values are increasing year by year as demonstrated by software units to be nearly 80% counting with U.S. and European markets.





North America

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

Under these circumstances, the sales of "RESIDENT EVIL" (for NINTENDO GAMECUBE) and inexpensive titles for PlayStation 2, such as "ONIMUSHA GREATEST HITS" and "RESIDENT EVIL CODE: Veronica X GREATEST HITS", grew favorably. However, sales of the two major titles of this fiscal year — "Devil May Cry 2" (for PlayStation 2) and "RESIDENT EVIL 0" (for NINTENDO GAMECUBE) — were not strong enough to reach our projection.

As a result, the net sales increased to 16,418 million yen (up 15.3 % from the previous fiscal year), and the operating income was 2,160 million yen (down 9.0 % from the previous fiscal year).

Europe

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

Under these circumstances, the sales of software like "RESIDENT EVIL" (for NINTENDO GAMECUBE) grew favorably. However, highly expected titles such as "auto modellista" (for PlayStation 2) and "RESIDENT EVIL 0" (for NINTENDO GAMECUBE) did not make satisfactory sales level.

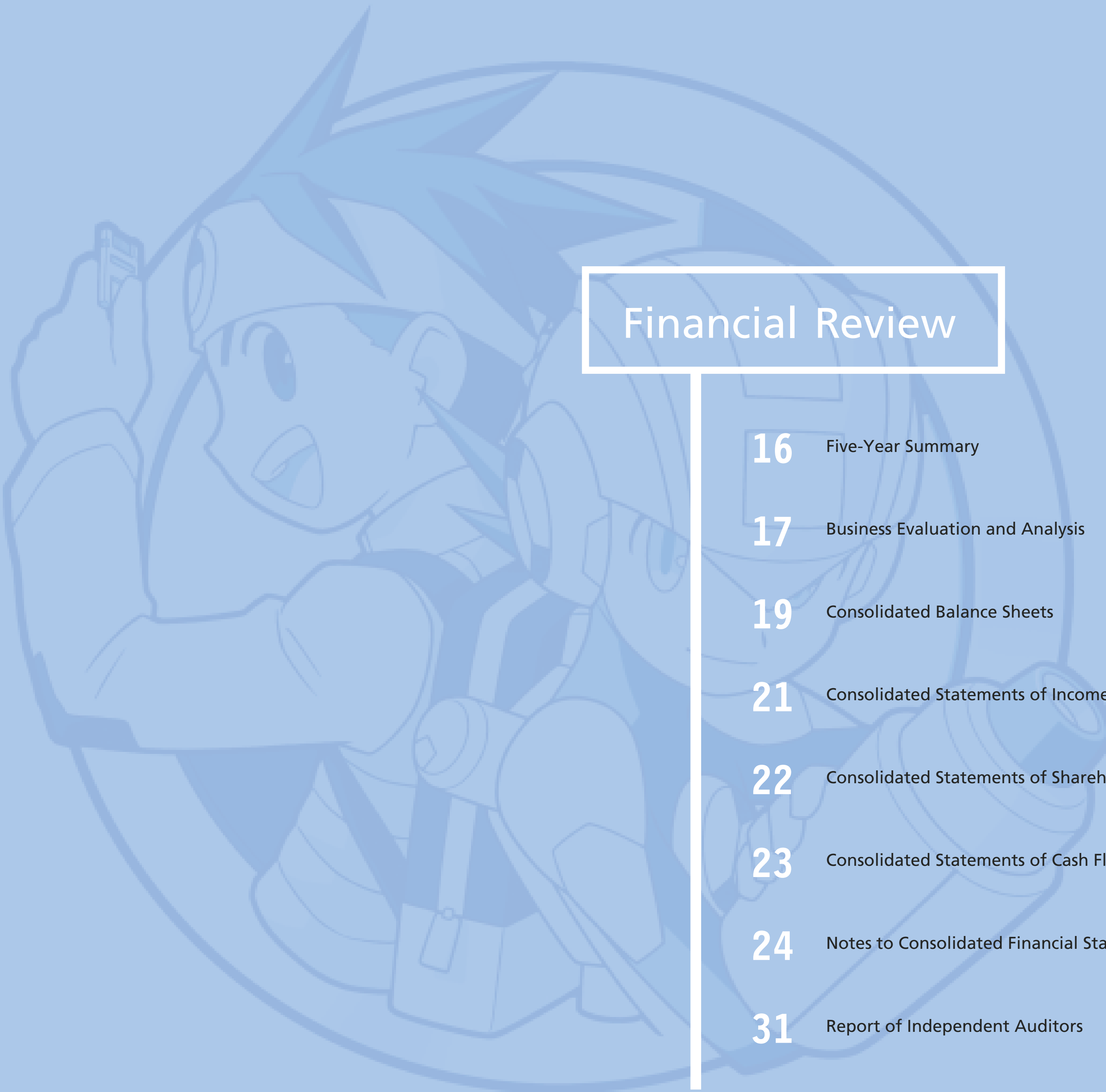
As a result, the net sales increased to 7,820 million yen (up 7.6 % from the previous fiscal year) and the operating profit decreased to 666 million yen (down 36.1 % from the previous fiscal year).

Other

Followed by Japan, U.S. and European markets, we are expecting the Asian market to be growing.

However, it may take years to see actual growth in this region because the marketing of home video game hardware has just begun, PC-based game has been already popular, and software piracy is prevalent in these countries.

Net sales were 648 million yen (up 3.5 % from the previous fiscal year) and the operating loss was 42 million yen.



Financial Review

Five-Year Summary

	Millions of yen					Thousands of U.S. dollars(Note 1)
	2003	2002	2001	2000	1999	**2003**
Net sales	**¥ 62,036**	¥ 62,743	¥ 49,083	¥ 51,574	¥ 38,367	**$516,966**
Operating income	**6,680**	9,727	7,155	9,061	3,611	**55,667**
Income (loss) before income taxes	**(30,049)**	7,420	7,127	8,712	2,085	**(250,408)**
Net income (loss)	**(19,598)**	4,912	6,007	9,700	1,507	**(163,317)**
	Yen					U.S. dollars (Note 1)
Earnings per share (Note 2)	**(¥ 338.01)**	¥ 84.21	¥ 109.90	¥ 273.01	¥ 43.00	**($ 2.82)**
Cash dividends per share	**20.00**	20.00	20.00	20.00	20.00	**0.17**
Shareholders' equity per share	**753.47**	1,168.51	1,081.62	1,372.16	862.96	**6.28**
	Millions of yen					Thousands of U.S. dollars(Note 1)
Total assets	**¥106,648**	¥128,512	¥113,493	¥107,776	¥ 98,127	**$888,733**
Total shareholders' equity	**42,888**	68,233	62,966	51,320	30,125	**357,400**
Depreciation & amortization	**2,203**	2,172	2,411	2,623	2,818	**18,358**
Capital expenditure	**2,290**	4,182	2,939	2,695	2,862	**19,083**
R&D expenses	**1,151**	1,067	1,461	1,390	1,414	**9,591**
ROE	**(35.3%)**	7.5%	10.5%	23.8%	5.0%	
ROA	**(16.7)**	4.1	5.4	9.4	1.5	
Net worth ratio	**40.2**	53.1	55.5	47.6	30.7	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥120= US$1, the approximate exchangerate prevailing on the Tokyo Foreign Exchange Market on March 31, 2003.

2. Amounts per share are computed based upon weighted average number of shares of common stock outstanding during each fiscal year and adjusted for the effect of the stock splits.

Business Evaluation and Analysis

Financial Statement

The net sales of this fiscal year period decreased to 62,036 million yen (down 1.1 % from the previous fiscal year). Ordinary income decreased to 6,797 million yen (down 26.6 % from the previous fiscal year), due to low sales, posting reserve for loss on goods unsold, and increase of sales and general administrative expenses.

All of our land and buildings has been transferred to CAPTRON, one of our subsidiary companies, in order to achieve the efficient management of operations and revitalization of the entire CAPCOM group, and to improve financial transparency as well as to cope with the real estate appraisal loss. In addition, we modified our R&D strategy with a quality-oriented approach by concentrating R&D resources to selected software development. After the thorough review of our software development lineup, we have decided to stop several software developments which seem to be difficult to produce expected profits.

This caused a loss from ceasing development and the extraordinary loss of 36,850 million yen in total.

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

Overview of Each Business Segment

Home Video Games

We released new software titles for PlayStation 2, that employed Japanese “anime” drawing technique such as “auto modellista” the first racing game software by CAPCOM, “CLOCK TOWER 3”, and “BREATH OF FIRE V DRAGON QUARTER” under the depressed domestic market. Neither of these titles saw satisfactory sales growth. We also released “RESIDENT EVIL 0” (for NINTENDO GAMECUBE) and “Devil May Cry 2” (for PlayStation 2) which were the major titles of this fiscal year with great expectation. The sales of these two titles were not strong enough to meet our projection.

On the other hand, home video game software for GAMEBOY ADVANCE such as “MEGAMAN” series,including “MEGAMAN ZERO” and “MEGAMAN BATTLE NETWORK 3” and “GYAKUTEN SAIBAN 2” showed healthy sales results supported by strong popularity.

As for the overseas operations, the sales of “RESIDENT EVIL” (for NINTENDO GAMECUBE) made good sales. In addition, inexpensive software series for PlayStation 2 such as “ONIMUSHA GREATEST HITS” and “RESIDENT EVIL CODE: Veronica X GREATEST HITS” grew favorably, supported by a healthy U.S. and European market.

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

As a result, net sales increased to 48,090 million yen (up 0.7 % from the previous fiscal year), and the operating income was 6,761 million yen (down 39.9 % from the previous fiscal year).

Arcade Operations

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

The resulted net sales totaled 9,243 million yen (up 11.0 % from the previous fiscal year), and the operating income increased to 2,141 million yen (up 82.4 % from the previous fiscal year).

Arcade Games

Although we released highly profitable prize-winning games such as “Mecha-tore” and “Bell-catcher Twin” for the purpose of re-establish earning models in the shrinking arcade game market, the net sales of this business segment was decreased due to the lack of powerful demand-generating products, escalating competition, and unsuccessful differentiation strategy. Net sales decreased to 1,114 million yen (down 71.8% from the previous fiscal year) and operating loss totaled 534 million yen.

Other

Net sales was 3,744 million yen (up 21.4 % from the previous fiscal year and this mainly derived from licensing royalties) and operating income was 351 million yen (up 70.4 % from the previous fiscal year).

Financial Position

Cash and cash equivalents (hereafter referred to as “Cash”) as of the end of this fiscal year period decreased by 33,445 million yen from the previous fiscal year to 1,555 million yen. Cash flow positions for each activity are as stated below.

Cash Flows

(1) Cash flows from operating activities

Net cash increase from operating activities amounted to 3,636 million yen. Although net loss before income tax was 30,049 million yen due to the appraisal loss of land and buildings totaling 24,332 million yen and 3,286 million yen increase in the allowance for doubtful accounts, those were no cash associated.

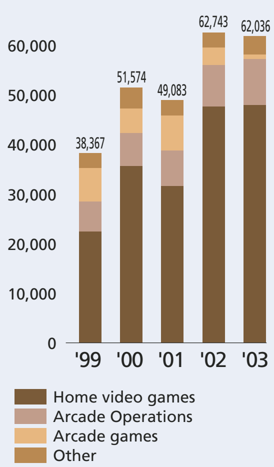
(2) Cash flows from investing activities

Net cash decrease from investing activities amounted to 2,329 million yen. This decrease is attributable to the expense of 809 million yen for the acquisition of property, plant and equipment for amusement facilities.

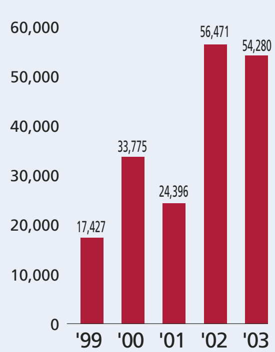
(3) Cash flows from financing activities

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

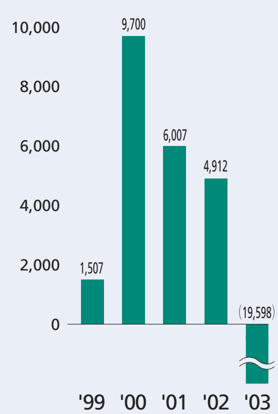
Net Sales by Business Segment
(Millions of yen)



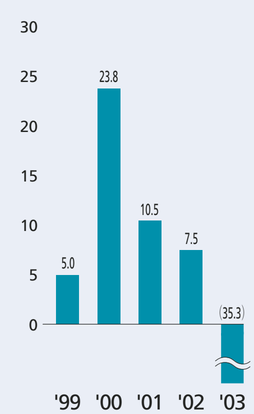
Working Capital
(Millions of yen)



Net Income (Loss)
(Millions of yen)



Return On Equity
(Percent)



Consolidated Balance Sheets

CAPCOM Co., Ltd. and Its Consolidated Subsidiaries

March 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents (Note 3)	**¥ 33,445**	¥ 35,000	**$278,709**
Notes and accounts receivable -			
Trade	**15,567**	15,240	**129,725**
Other	**1,363**	637	**11,358**
Allowance for doubtful accounts	**(2,595)**	(1,717)	**(21,625)**
Short-term loans receivable	**4,337**	4,948	**36,142**
Inventories (Note 4)	**6,361**	6,517	**53,008**
Capitalized development costs	**10,331**	11,218	**86,092**
Prepaid expenses	**405**	2,174	**3,375**
Deferred income taxes (Note 9)	**4,354**	2,522	**36,283**
Other	**1,030**	335	**8,583**
Total current assets	74,598	76,874	621,650
Investments and other assets:			
Investments in securities (Note 5)	**1,782**	2,006	**14,850**
Investments in an unconsolidated company and affiliated companies	**804**	604	**6,700**
Long-term loans receivable	**7,220**	5,919	**60,167**
Long-term prepaid expenses	**124**	101	**1,033**
Deferred income taxes (Note 9)	**10,535**	1,230	**87,792**
Other	**5,780**	7,089	**48,166**
Allowance for doubtful accounts	**(6,604)**	(4,538)	**(55,033)**
Total investments and other assets	19,641	12,411	163,675
Property, plant and equipment (Note 6):			
Land (Note 7)	**4,701**	26,500	**39,175**
Buildings and structures (Note 7)	**5,290**	13,417	**44,083**
Machinery and equipment	**10,752**	13,920	**89,600**
Construction-in-progress	**27**	45	**225**
Accumulated depreciation	**(8,361)**	(14,655)	**(69,675)**
Total property, plant and equipment	12,409	39,227	103,408
Total assets	¥106,648	¥128,512	$888,733

The accompanying notes are an integral part of these statements.

Liabilities, minority interest and shareholders' equity	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars(Note 1) 2003
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 6,997**	¥ 8,640	**$ 58,309**
Current portion of long-term debt (Note 7)	**508**	141	**4,233**
Notes and accounts payable	**5,174**	4,743	**43,118**
Accrued expenses	**2,371**	2,109	**19,758**
Accrued income taxes (Note 9)	**649**	1,436	**5,408**
Allowance for sales returns	**613**	—	**5,108**
Other	**4,006**	3,334	**33,383**
Total current liabilities	20,318	20,403	169,317
Long-term liabilities:			
Long-term debt (Note 7)	**40,832**	37,352	**340,267**
Accrued retirement benefits for employees (Note 10)	**804**	705	**6,700**
Other	**1,775**	1,757	**14,791**
Total long-term liabilities	43,411	39,814	361,758
Minority interest in a consolidated subsidiary	31	62	258
Shareholders' equity:			
Common stock, (Note 11)			
Authorized - 150,000,000 shares			
Issued - 58,435,819 shares at March 31, 2003	**27,581**	—	**229,842**
Issued - 58,435,217 shares at March 31, 2002	**—**	27,580	**—**
Additional paid - in capital (Notes 11 and 12)	**30,472**	30,465	**253,933**
Retained earnings (Accumulated deficit) (Notes 11 and 12)	**(12,050)**	8,777	**(100,417)**
Unrealized holding gains and losses			
on available-for-sale securities (Notes 5 and 12)	**(161)**	(94)	**(1,342)**
Cumulative translation adjustments	**143**	1,551	**1,192**
Treasury stock (Note 13)	**(3,097)**	(46)	**(25,808)**
Total shareholders' equity	42,888	68,233	357,400
Total liabilities, minority interest and shareholders' equity	¥106,648	¥128,512	$888,733

Consolidated Statements of Income

CAPCOM Co., Ltd. and Its Consolidated Subsidiaries

Year Ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales	**¥ 62,036**	¥ 62,743	**$516,966**
Cost of sales	**39,198**	38,229	**326,650**
Gross profit	**22,838**	24,514	**190,316**
Selling, general and administrative expenses	**15,007**	13,720	**125,058**
Research and development expenses	**1,151**	1,067	**9,591**
Operating income	**6,680**	9,727	**55,667**
Other income (expense):			
Interest and dividend income	**200**	277	**1,667**
Interest expense	**(255)**	(325)	**(2,125)**
Exchange gain, net	**145**	127	**1,208**
Provision for allowance for doubtful accounts	**(2,709)**	(603)	**(22,575)**
Loss on sale or disposal of property, plant and equipment	**(187)**	(108)	**(1,558)**
Loss on disposal of inventories	**(1,429)**	—	**(11,908)**
Loss on disposal of capitalized development costs	**(5,284)**	—	**(44,033)**
Loss on write-down of investments in securities	**(619)**	(1,036)	**(5,158)**
Loss on write-down of land and buildings	**(24,332)**	—	**(202,767)**
Loss on write-down of inventories	**(1,508)**	—	**(12,567)**
Bond issue expenses	**—**	(579)	**—**
Other, net	**(751)**	(60)	**(6,259)**
Income (loss) before income taxes	**(30,049)**	7,420	**(250,408)**
Income taxes (Note 9):			
Current	**1,105**	2,753	**9,209**
Prior year adjustment	**(221)**	—	**(1,842)**
Deferred	**(11,304)**	(277)	**(94,200)**
	(10,420)	2,476	**(86,833)**
Minority interest in net income (losses) of a consolidated subsidiary	**(31)**	32	**(258)**
Net income (loss)	**(¥ 19,598)**	¥ 4,912	**($163,317)**

	Yen		U.S. dollars
Per share data	**2003**	2002	**2003**
Net income (loss)	**(¥ 338.01)**	¥ 84.21	**($ 2.82)**
Net income-diluted	**—**	76.61	**—**
Cash dividends paid	**20.00**	20.00	**0.17**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

CAPCOM Co., Ltd. and Its Consolidated Subsidiaries

Year Ended March 31

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2003	2002	**2003**
Common stock:			
Balance at beginning of year	**¥ 27,580**	¥ 27,370	**$229,834**
Shares issued upon conversion of bonds	**1**	210	**8**
Balance at end of year	**¥ 27,581**	¥ 27,580	**$229,842**
Additional paid - in capital:			
Balance at beginning of year	**¥ 30,465**	¥ 30,255	**$253,875**
Excess of principal amount of bonds converted over the amount credited to common stock issued	**1**	210	**8**
Gain on sale of treasury stock	**6**	—	**50**
Balance at end of year	**¥ 30,472**	¥ 30,465	**$253,933**
Retained earnings:			
Balance at beginning of year	**¥ 8,777**	¥ 5,219	**$ 73,142**
Net income (loss) for the year	**(19,598)**	4,912	**(163,317)**
Cash dividends	**(1,169)**	(1,166)	**(9,742)**
Bonuses to directors and statutory auditors	**(60)**	(60)	**(500)**
Effect of changes in reporting entities	**—**	(128)	**—**
Balance at end of year	**(¥ 12,050)**	¥ 8,777	**($100,417)**
Unrealized holding gains and losses on available-for-sale securities	**(¥ 161)**	(¥ 94)	**($ 1,342)**
Cumulative translation adjustments	**¥ 143**	¥ 1,551	**$ 1,192**
Treasury stock	**(¥ 3,097)**	(¥ 46)	**($ 25,808)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

CAPCOM Co., Ltd. and Its Consolidated Subsidiaries

Year Ended March 31

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2003	2002	**2003**
Cash flows from operating activities:			
Income (loss) before income taxes	(¥ 30,049)	¥ 7,420	($250,408)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities -			
Depreciation and amortization	**2,203**	2,172	**18,358**
Loss on write-down of land and buildings	**24,332**	—	**202,767**
Loss on write-down of investments in securities	**619**	1,036	**5,158**
Increase in allowance for doubtful accounts	**3,286**	944	**27,383**
Increase in allowance for sales return	**613**	—	**5,108**
Decrease (increase) in notes and accounts receivable	**(736)**	86	**(6,133)**
Decrease (increase) in inventories	**2,064**	(981)	**17,200**
Decrease(increase) in capitalized development costs	**887**	(2,489)	**7,392**
Increase (decrease) in notes and accounts payable	**513**	(349)	**4,275**
Increase in accrued retirement benefits for employees	**98**	428	**817**
Other, net	**(194)**	(4,951)	**(1,617)**
Total adjustments	**33,685**	(4,104)	**280,708**
Net cash provided by operating activities	3,636	3,316	30,300
Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(1,812)**	(2,696)	**(15,100)**
Proceeds from sale of property, plant and equipment	**125**	101	**1,042**
Acquisition of investments in securities	**(773)**	(200)	**(6,442)**
Acquisition of investment in an affiliated company	**—**	(47)	**—**
Proceeds from sale of investments in securities	**180**	43	**1,500**
Decrease (increase) in short-term loans receivable	**(79)**	212	**(658)**
Decrease in long-term loans receivable	**97**	18	**808**
Other, net	**(67)**	(498)	**(558)**
Net cash used in investing activities	(2,329)	(3,067)	(19,408)
Cash flows from financing activities:			
Net repayment of short-term borrowings	**(1,642)**	(1,325)	**(13,683)**
Borrowings of long-term debt	**4,200**	—	**35,000**
Repayment of long-term debt	**(349)**	(13,985)	**(2,908)**
Extension of long term debt	**—**	25,000	**—**
Payment for purchase of treasury stock	**(3,087)**	—	**(25,725)**
Cash dividends paid	**(1,164)**	(1,151)	**(9,700)**
Other, net	**42**	50	**350**
Net cash provided by (used in) financing activities	(2,000)	8,589	(16,666)
Effect of exchange rate changes on cash and cash equivalents	(862)	681	(7,183)
Net increase (decrease) in cash and cash equivalents	(1,555)	9,519	(12,957)
Changes in reporting entities	—	(195)	—
Cash and cash equivalents at beginning of year	35,000	25,676	291,666
Cash and cash equivalents at end of year	¥ 33,445	¥ 35,000	$278,709

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

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 rate of ¥120=U.S.$ 1, the approximate current rate prevailing on March 31, 2003, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements. These U.S. dollar amounts are included solely for convenience and should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into, U.S. dollars at this or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of Capcom Co., Ltd. (hereinafter referred to as the "Company") and, with minor exceptions, those of its 12 majority-owned subsidiaries (all 13 companies being referred to collectively as the"Companies") at the relevant balance sheet date. All significant inter-company transactions and accounts has been eliminated.
The investment in an unconsolidated subsidiary and 20% to 50% owned companies (hereinafter referred to as the "Affiliated companies") are stated at cost due to immateriality.
In the case of a change in reporting entities, the consolidated financial statements are not restated, but the effect of the change on retained earnings at the beginning of the period is directly debited or credited to retained earnings during the period.

(2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of change in value.

(3) Translation of foreign currencies

All foreign currency monetary assets and liabilities are translated into Japanese yen at the rates prevailing at the balance sheet date. Income and expenses in foreign currency are translated at the rates prevailing at the time of the transactions. The resulting exchange gains or losses are credited or charged to income as incurred. 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, resulting from the above translation procedures, have been reported as a separate component of "Shareholders' equity" on the consolidated balance sheet.

(4) Inventories and capitalized development costs

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

Motion picture film costs, comprising production, print and certain advertising costs relating to specific motion picture titles are presented as inventories.

Motion picture film costs are amortized using a ratio representing the proportion of 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 rewritten-down if required.

Capitalized development costs for game software, including development costs incurred by subcontractors for game machines are stated at accumulated cost on a specific project basis.

(5) Financial instruments

①Investments in securities

Available-for-sale securities with market quotations are stated at fair value at the fiscal year end. Net unrealized gains or losses on these securities are recorded as a separate component of "Shareholders' equity" at the net of applicable taxes amount. The cost of securities sold is determined based on the average cost of all such securities held at the time of sale.
Other securities without market quotations are stated at cost, cost being determined by the average cost method.

②Hedge accounting

The Companies mainly uses the deferral method of hedge accounting for interest rate swaps.

a. Hedging instruments and hedged items

Hedging instruments	: Derivative transactions (Interest rate swaps)
Hedged items	: Items with exposure to fluctuations in market interest rates (Variable interest payable with regard to long-term debt)

b. Hedging policy
In accordance with the risk management policy defined in the Company's internal accounting rules, the Company hedges the risk of changes in interest rates.

c. Method of assessing the effectiveness of hedging
For interest rate swap transactions, the Company assesses the effectiveness of its hedging by computing the ratio between the amount of change accumulated, from the beginning to date, in the cash flows of the hedged items and that of the hedging instruments.

(6) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. The Company and domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful lives of the respective assets, except for buildings(excluding leasehold improvements and auxiliary facilities attached to buildings), where it is computed using the straight-line method. Foreign subsidiaries compute depreciation on a straight-line basis according in accordance with the accounting standards of the countries in which they are located.

(7) Accounting for leases

Capital leases, which not transfer ownership of the leased assets to the lessee at the end of the lease term, are principally accounted for as operating leases.

(8) Allowance for sales returns

An allowance for sales returns is provided for estimated losses on resulting from sales returns subsequent to the balance sheet date based on prior loss experience.

During the year ended March 31, 2003, the Company changed its method of accounting for losses resulting from sales returns from recognizing such losses at the time of actual receipt of the product returns to providing an allowance for future sales returns based on prior loss experience at the fiscal year end. As a result, "Gross profit" and "Operating income" in 2003 decreased by ¥ 613 million ($ 5,108 thousand) and "Loss before income taxes" increased by ¥ 613 million ($ 5,108 thousand) compared with the amounts that would have been reported had the previous accounting method been applied consistently.

(9) Income taxes

The statements of income 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 countries where each entity is located.

(10) Accrued retirement benefits for employees

Accrued retirement benefits for employees are calculated based on the estimated amount of projected benefit obligations and the fair value of the plan assets at the year-end. The unrecognized net transition obligation is amortized over 15 years. Unrecognized actuarial net gains or losses are amortized over 13 years, the average remaining service period, commencing from the period following that in which they arise.

(11) Revenue recognition

Revenue from the sale of products is recognized when those products are shipped to customers.

Motion picture revenue is recognized on the date of showing.

(12) Research and development expenses

Research and development expenses (including basic research and development expenses) for the improvement of existing products or the development of products, other than the capitalized cost of game software for 64-bit and 128-bit game machines, are charged to income when incurred.

(13) 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 shareholder approval is obtained.

(14) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(15) Reclassifications

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

(16) Adoption of new standards

①Accounting Standard for Treasury Stock and Reversal of Legal Reserve, etc.

Effective from the year ended March 31, 2003, the Company adopted the new Japanese accounting standard “Accounting for Treasury Stock and Reversal of Legal Reserve, etc.” (Corporate Accounting Standard, No.1 issued by the Corporate Accounting Standards Committee on February 21, 2002). The effect of this change on profit and loss was immaterial.

②Accounting Standard for Earnings per Share

Effective from the year ended March 31, 2003, the Company adopted the new Japanese accounting standard “Accounting for Earnings per Share” (Corporate Accounting Standard No.2 issued by the Corporate Accounting Standards Committee on September 25, 2002) and “Guidelines for the Application of Accounting for Earnings per Share” (Corporate Accounting Standard No.4 issued by the Corporate Accounting Standards Committee on September 25, 2002). The effect of this change was immaterial.

3. CASH FLOW INFORMATION:

Cash and cash equivalents at March 31, 2003 and 2002 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash and deposits	**¥30,446**	¥27,662	**$253,717**
Commercial paper	**2,999**	7,338	**24,992**
	¥33,445	¥35,000	**$278,709**

Cash payments in respect of interest and income taxes, and major non-cash investing and financial activities for the years ended March 31 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash payments during the year in respect of -			
Interest	**¥ 249**	¥ 233	**$ 2,075**
Income taxes	**¥ 1,670**	¥ 3,155	**$ 13,917**
Non-cash investing and financial activities -			
Conversion of bonds			
Increase of common stock	**¥ 1**	¥ 210	**$ 8**
Increase of additional paid-in capital	**¥ 1**	¥ 210	**$ 8**

4. INVENTORIES:

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods and merchandise	**¥ 3,465**	¥ 3,344	**$ 28,875**
Work-in-process	**110**	100	**917**
Raw materials	**1,296**	1,164	**10,800**
Supplies	**603**	625	**5,025**
Films	**887**	1,284	**7,391**
Total	**¥ 6,361**	¥ 6,517	**$ 53,008**

5. SECURITIES:

The following tables contain a summary of investments in securities that were classified as available-for-sale securities at March 31, 2003 and 2002.

As of March 31, 2003 — Millions of yen

	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	612	2	(163)	451

As of March 31, 2003 — Thousands of U.S. dollars

	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	5,099	17	(1,358)	3,758

As of March 31, 2002 — Millions of yen

	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
Equity securities	849	—	(163)	686

6. PROPERTY, PLANT AND EQUIPMENT:

Depreciation charges for the years ended March 31, 2003 and 2002 amounted to ¥1,968 million ($16,400 thousands) and ¥1,903 million, respectively. The 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 of ¥6,997 million ($58,309 thousands) at March 31, 2003, bearing interest ranging from 0.84% to 1.375% per annum, comprised bank overdrafts.

Long-term debt at March 31, 2003 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Convertible bonds		
1.0% interest-due 2005	¥12,262	$102,184
No interest-due 2007	10,000	83,333
No interest-due 2009	15,000	125,000
Loans payable to banks and other financial institutions due 2002–2003, with interest ranging from 0.696% - 1.800%		
Secured	3,990	33,250
Unsecured	88	733
	¥41,340	$344,500
Less:portion due within one year	(508)	(4,233)
Total	¥40,832	$340,267

The aggregate annual maturities of long-term debt as at March 31, 2003 were as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
2004(current portion)	¥ 508	$ 4,233
2005	420	3,500
2006	12,682	105,684
2007	10,420	86,833
2008 and thereafter	17,310	144,250
Total	¥41,340	$344,500

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.

The no interest convertible bonds, due 2007, were issued on December 20, 2001 and are convertible into common stock at a conversion price of ¥4,037.00 per share. From February 1, 2002 the Company can redeem all of the bonds, if the closing price of the shares for each of the 20 consecutive trading days is more than 130% of the conversion price in effect on each such trading day.

The no interest convertible bonds, due 2009, were issued on December 20, 2001 and are convertible into common stock at a conversion price of ¥3,774.00 per share. From February 1, 2002 the Company can redeem all of the bonds, if the closing price of the shares for each of the 20 consecutive trading days is more than 130% of the conversion price in effect on each such trading day.

At March 31, 2003, the following assets were pledged as collateral for long-term debt and other liabilities:

	Millions of yen	Thousands of U.S. dollars
Land	¥3,902	$32,517
Buildings and structures, net of accumulated depreciation	3,451	28,758
Total	¥7,353	$61,275

8. DERIVATIVE FINANCIAL INSTRUMENTS:

The Companies use derivative financial instruments ("derivatives") to reduce their exposure to the adverse impact of fluctuations in interest rates. The principal derivatives used by the Companies are interest rate swaps.

The derivatives are subject to market risk and credit risk. Market risk means that gains or losses in the value of the derivatives could result from fluctuations in interest rates. Gains or losses on the derivatives are, however, effectively offset by gains and losses on the underlying liabilities since they also result from fluctuations in interest rates.

Credit risk means that the Companies are exposed to losses which could result from the default of counter parties. The Company believes, however, that risk of loss due to default from counter parties is extremely small because the Companies limit their dealings with counter parties to only financial institutions with higher credit ratings.

9. INCOME TAXES:

The Company is subject to several taxes based on income which, in aggregate, resulted in a statutory tax rate of approximately 42% in the periods ended March 31, 2003 and 2002.
In 2003, a reconciliation of the difference between the statutory tax rate and the effective income tax rate was not prepared due to "Loss before income taxes" amounting to ¥30,049 million. The reconciliation for 2002 is as follows.

	2002
Statutory tax rate	42.0%
Change in valuation allowance	(6.0)
Other	(2.6)
Effective income tax rate per statements of income	33.4%

The significant components of deferred tax assets at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Inventories	**¥ 516**	¥ 189	**$ 4,300**
Allowance for doubtful accounts	**2,351**	1,677	**19,592**
Accrued expenses	**1,249**	541	**10,408**
Accrued enterprise taxes	**—**	123	**—**
Accrued retirement benefits for employees	**254**	189	**2,117**
Unrealized loss on revaluation of securities	**65**	68	**544**
Loss on disposal of capitalized development costs	**1,798**	—	**14,983**
Tax loss carry forwards in parent company	**9,930**	—	**82,750**
Tax loss carry forwards in consolidated subsidiaries	**1,204**	2,806	**10,033**
Other	**838**	228	**6,984**
Sub-total	**18,205**	5,821	**151,711**
Less:valuation allowance	**(3,316)**	(2,069)	**(27,636)**
Deferred tax assets	**¥14,889**	¥3,752	**$124,075**

10. 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's 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 is, 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 employee's option). The annual charge for current service costs in respect of these plans is determined actuarially and funded currently through outside trustees.

The following tables set forth the changes in the projected benefit obligations, plan assets and funded status of the Company and its domestic consolidated subsidiaries at March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligations at end of year	**¥ 1,976**	¥ 1,929	**$ 16,467**
Fair value of plan assets at end of year	**467**	503	**3,892**
Funded status:			
Projected benefit obligations in excess of plan assets	**1,509**	1,426	**12,575**
Unrecognized transition obligation	**442**	479	**3,683**
Unrecognized actuarial differences	**263**	242	**2,192**
Accrued pension liability recognized in the consolidated balance sheet	**¥ 804**	¥ 705	**$ 6,700**

Retirement and pension costs of the Company and its domestic consolidated subsidiaries for the years ended March 31, 2003 and 2002 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 158**	¥ 497	**$ 1,317**
Interest cost	**48**	52	**400**
Expected return on plan assets	**(18)**	(16)	**(150)**
Amortization:			
Transition obligation	**37**	37	**308**
Actuarial differences	**19**	14	**158**
Allowance for early retirement	**82**	109	**684**
Net periodic benefit costs	**¥ 326**	¥ 693	**$ 2,717**

The assumptions used of account for the defined benefit plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Method of attributing the projected benefit obligations to periods of service	Straight-line basis	Straight-line basis
Discount rate	**2.5%**	2.5%
Long-term rate of return on plan assets	**2.5%**	3.5%
Amortization period for transition obligation	**15years**	15years
Amortization period for actuarial differences	**13years**	13years

11. COMMON STOCK, ADDITIONAL PAID-IN CAPITAL AND RETAINED EARNINGS:

Changes in the number of issued shares of common stock during the years ended March 31, 2003 and 2002 are summarized below:

	Thousands of shares	
	2003	2002
Balance at beginning of year	**58,435**	58,309
Issued upon conversion of bonds	**1**	126
Balance at end of year	**58,436**	58,435

On the accompanying consolidated financial statements, "Additional paid-in capital" consists of the capital reserve pursuant to the Japanese Commercial Code, amounts transferred from common stock and/or the capital reserve and proceeds from the resale of treasury stock in excess of their cost (collectively, the "other capital reserves") etc. and "Retained earnings (Accumulated deficit)" consists of the earned reserve pursuant to the Japanese Commercial Code, voluntary reserves, unappropriated retained earnings (undisposed accumulated deficit), etc.

12. APPROPRIATION OF UNAPPROPRIATED RETAINED EARNINGS OR OTHER CAPITAL RESERVES AND LEGAL RESERVE:

The Japanese Commercial Code requires that all appropriations of unappropriated retained earnings, except for interim cash dividends, be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of unappropriated 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 shareholder approval has been obtained.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and directors bonuses etc. paid be appropriated and set aside as the earned reserve. No further appropriation is required when the sum of the earned reserve and the capital reserve pursuant to the Japanese Commercial Code (collectively, the "legal reserves") equals 25% of common stock. The legal reserves may be used to eliminate or reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code. In addition,unrealized holding gains on available-for-sale securities, net of related taxes, are not available for distribution as cash dividends or bonuses to directors and/or statutory auditors. Under the amended Japanese Commercial Code, amounts transferred from common stock and/or the capital reserve is available for distribution as cash dividends.

The following disposal of accumulated deficit and appropriations of other capital reserves of the Company were proposed and resolved at the general meeting of shareholders held on June 20, 2003.

(1) Disposal of accumulated deficit —

	Millions of yen	Thousands of U.S. dollars
Balance of accumulated deficit at March 31, 2003	**(¥12,050)**	**($100,417)**
Disposal -		
Reversal of general reserve	**7,000**	**58,334**
Reversal of other capital reserves (amounts transferred from capital reserve)	**5,050**	**42,083**
Balance of accumulated deficit after disposal	**¥ 0**	**$ 0**

(2) Appropriation of other capital reserves —

	Millions of yen	Thousands of U.S. dollars
Balance of other capital reserves at March 31, 2003	**¥23,006**	**$191,717**
Appropriations D		
Cash dividends (¥10 per share outstanding at March 31, 2003)	**(569)**	**(4,742)**
Reversal of the balance of amounts transferred from the capital reserve for elimination of the accumulated deficit	**(5,050)**	**(42,083)**
Balance of other capital reserves after appropriations	**¥17,387**	**$144,892**

13. TREASURY STOCK:

Under the amended Japanese Commercial Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stock does not exceed the maximum amount available for dividends. Treasury stock is stated at cost within "Shareholders' equity" on the accompanying consolidated balance sheets. Net gains on the resale of treasury stock are included in "Additional paid-in capital" on the accompanying consolidated balance sheets.

1,515,405 of the Company's common stock shares were outstanding at March 31, 2003.

14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES:

Balances due to and transactions of the Company with related parties other than consolidated subsidiaries for the years ended March 31, 2003 and 2002 can be summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
An affiliated company:			
KOKO CAPCOM CO., LTD.			
Accounts receivable-Trade	**¥ 176**	¥ 94	**$ 1,467**
Net sales	**¥ 265**	¥ 94	**$ 2,208**

15. SEGMENT INFORMATION:

(1) Business segments

The Companies have four business segments. The "Home video games" segment develops and distributes home video game software. The "Arcade games" segment develops, manufactures and distributes arcade game software and hardware to amusement facility operators. The "Arcade operations" segment operates amusement facilities. The "Other segment" mainly comprises the distribution of motion picture films and rented battery chargers.

The following tables present certain information regarding the business segments for the years ended March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales:			
Home video games:			
Customers	¥ 48,090	¥ 47,769	$400,750
Arcade games:			
Customers	960	3,565	8,000
Inter-segment	154	389	1,283
	1,114	3,954	9,283
Arcade operations:			
Customers	9,243	8,327	77,025
Other:			
Customers	3,744	3,082	31,200
Inter-segment	–	1	–
	3,744	3,083	31,200
Sub-total	62,191	63,133	518,258
Eliminations and corporate	(155)	(390)	(1,292)
Consolidated	¥ 62,036	¥ 62,743	$516,966
Cost of sales and direct expenses:			
Home video games	¥ 41,329	¥ 36,512	$344,408
Arcade games	1,648	4,410	13,733
Arcade operations	7,102	7,153	59,183
Other	3,393	2,877	28,275
Sub-total	53,472	50,952	445,599
Eliminations and corporate	1,884	2,064	15,700
Consolidated	¥ 55,356	¥ 53,016	$461,299
Operating income (loss):			
Home video games	¥ 6,761	¥ 11,257	$ 56,342
Arcade games	(534)	(456)	(4,450)
Arcade operations	2,141	1,174	17,842
Other	351	206	2,925
Sub-total	8,719	12,181	72,659
Eliminations and corporate	(2,039)	(2,454)	(16,992)
Consolidated	¥ 6,680	¥ 9,727	$ 55,667

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Total assets:			
Home video games	¥ 38,742	¥ 42,717	$322,850
Arcade games	5,225	12,545	43,542
Arcade operations	7,217	9,757	60,142
Other	14,708	16,357	122,566
Sub-total	65,892	81,376	549,100
Eliminations and corporate	40,756	47,136	339,633
Consolidated	¥106,648	¥128,512	$888,733

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Depreciation:			
Home video games	¥ 461	¥ 400	$ 3,842
Arcade games	78	226	650
Arcade operations	1,033	1,086	8,608
Other	264	72	2,200
Sub-total	1,836	1,784	15,300
Eliminations and corporate	367	388	3,058
Consolidated	¥ 2,203	¥ 2,172	$ 18,358
Capital expenditure:			
Home video games	¥ 570	¥ 379	$ 4,750
Arcade games	30	90	250
Arcade operations	809	1,098	6,742
Other	577	2,086	4,808
Sub-total	1,986	3,653	16,550
Eliminations and corporate	304	529	2,533
Consolidated	¥ 2,290	¥ 4,182	$ 19,083

(2) Geographic areas

The following tables present certain geographic area information for the years ended March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales:			
Japan:			
Customers	¥37,191	¥40,666	$309,925
Inter-segment	6,682	5,473	55,683
	43,873	46,139	365,608
North America:			
Customers	16,418	14,236	136,817
Inter-segment	–	6	–
	16,418	14,242	136,817
Europe:			
Customers	7,820	7,267	65,167
Other:			
Customers	608	573	5,067
Inter-segment	40	53	333
	648	626	5,400
Sub-total	68,759	68,274	572,992
Eliminations and corporate	(6,723)	(5,531)	(56,026)
Consolidated	¥62,036	¥62,743	$516,966

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cost of sales and direct expenses:			
Japan	¥ 37,836	¥ 37,409	$315,300
North America	14,258	11,869	118,816
Europe	7,154	6,224	59,617
Other	690	586	5,750
Sub-total	59,938	56,088	499,483
Eliminations and corporate	(4,582)	(3,072)	(38,184)
Consolidated	¥ 55,356	¥ 53,016	$461,299
Operating income (loss):			
Japan	¥ 6,037	¥ 8,730	$ 50,308
North America	2,160	2,373	18,001
Europe	666	1,043	5,550
Other	(42)	40	(350)
Sub-total	8,821	12,186	73,509
Eliminations and corporate	(2,141)	(2,459)	(17,842)
Consolidated	¥ 6,680	¥ 9,727	$ 55,667

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Total assets:			
Japan	¥ 50,950	¥ 70,377	$424,583
North America	11,279	9,969	93,992
Europe	7,034	3,231	58,617
Other	302	345	2,516
Sub-total	69,565	83,922	579,708
Eliminations and corporate	37,083	44,590	309,025
Consolidated	¥106,648	¥128,512	$888,733

(3) Foreign sales
The following table presents certain information regarding sales of the Companies outside Japan for the years ended March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales:			
North America	¥ 17,419	¥ 15,337	$145,158
Europe	8,081	7,410	67,342
Other	816	782	6,800
	¥ 26,316	¥ 23,529	$219,300

	Percentage	
	2003	2002
Percentage of such sales included in consolidated net sales	42.4%	37.5%

16. LEASES:

(1) Financing leases
Lease transactions as a lessee

Payments in respect of financing leases that do not transfer ownership of the leased assets to the lessee, for the years ended March 31, 2003 and 2002 were ¥1,183 million ($9,858 thousand) and ¥1,207 million, respectively.

The future lease payments at March 31, 2003 excluding amounts representing interest and the future lease payments at March 31, 2002 including amounts representing interest are as shown below. The change of calculation method is due to the increase in materiality to the balances of "Property, plant and equipment".

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 886	¥ 936	$ 7,383
Due after more than one year	748	806	6,233
	¥ 1,634	¥ 1,742	$ 13,616

(2) Operating leases
Future lease payments under non-cancelable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 546	¥ 546	$ 4,550
Due after more than one year	1,336	1,883	11,133
	¥ 1,882	¥ 2,429	$ 15,683

Report of Independent Auditors

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, 2003 and 2002, 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 audits 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 audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 2(8) to the consolidated financial statements, the Company has changed its accounting policy for sales returns.

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 Note1 to the accompanying consolidated financial statements.

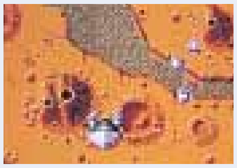
PricewaterhouseCoopers

June 20, 2003

(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.

History



1979 Established I.R.M Corporation with objectives of developing and selling electric applied game machines in Matsubara, Osaka.

1983 Established old CAPCOM CO., LTD. in Hirano, Osaka.

1984 Releasing “VULGUS” for the first arcade video game.

1985 Established CAPCOM U.S.A., INC. in California, U.S.A. Initiated producing home video games.

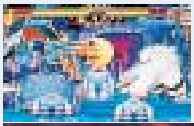
1989 Corporate name was changed into CAPCOM CO., LTD. and a head office was moved to Higashi-ku, Osaka.

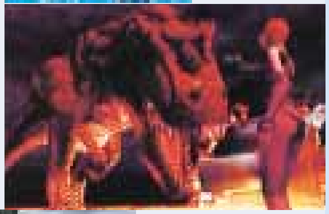
1990 Stocks registered as OTC securities with the Japan Securities Dealers Association

1991 Released “STREET FIGHTER II ” for arcade video game.

1993 Stock was listed on the Second Section of the Osaka Securities Exchange.

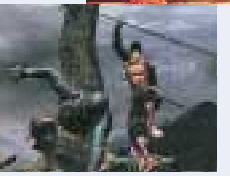
1994 Constructed head office which was relocated to Uchihirano-machi, Chuo-ku, Osaka.





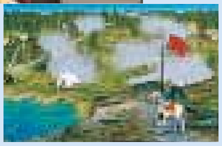
1996 Released “RESIDENT EVIL” for PlayStation.

1999 Stock changed list on the First Section of the Osaka Securities Exchange.



2000 Stock was listed on the First Section of the Tokyo Stock Exchange.

2001 Released “ONIMUSHA” and “Devil May Cry” for PlayStation 2.



2002 Established CE EUROPE LTD. in U.K.

2003 Established CEG INTERACTIVE ENTERTAINMENT GmbH in Germany.

Corporate Information

Corporate Data

Name of Company :	CAPCOM CO., LTD.
Date of Establishment :	May 30,1979
Principal Businesses :	Planning, development, sale of game software and management of amusement arcades
Paid-in Capital :	¥27,581 million (US$229,842 thousand)
Number of Shares Issued :	58,435,819 shares
End of Term :	March 31
Number of Employees :	1,305 (Consolidated) 1,162 (Non-consolidated)
Stock Listings :	Tokyo Stock Exchange , Osaka Securities Exchange

(As of March 31, 2003)

Head Office :	3-1-3 Uchihirano-machi, Chuo-ku, Osaka 540-0037, Japan TEL : 81-6-6920-3611 FAX : 81-6-6920-5100 http://www.capcom.co.jp/
Research & Development Office :	3-2-8 Uchihirano-machi, Chuo-ku, Osaka 540-0037, Japan TEL : 81-6-6920-7600 FAX : 81-6-6920-7698
Tokyo Branch :	2-1-1 Nishi Shinjuku, Shinjuku-ku, Tokyo 163-0411, Japan TEL : 81-3-3340-0710 FAX : 81-3-3340-0711

Directors and Corporate Auditors

President and CEO :	Kenzo Tsujimoto
Executive Vice President and CFO :	Heiji Oshima
Senior Managing Director and COO :	Haruhiro Tsujimoto
Managing Director :	Tamio Oda
Directors :	Kyouji Kitamura Kouichi Hori Masanao Iechika
Standing Corporate Auditors :	Shoji Yamaguchi Shigeo Konishi
Corporate Auditors :	Morio Kuroda Yoshio Nakayama

(As of June 20, 2003)

Consolidated Subsidiaries

CAPCOM U.S.A., INC.
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http://www.capcom.com/

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TEL : 1-408-774-0500
FAX : 1-408-522-5331

CAPCOM ENTERTAINMENT, INC.
475 Oakmead Parkway, Sunnyvale,California 94085, U.S.A.
TEL : 1-408-774-0500
FAX : 1-408-774-3995

CAPCOM STUDIO 8 ,INC.
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STATUS CO., LTD.
3-1-3 Uchihirano-machi, Chuo-ku,Osaka 540-0037, Japan
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FAX : 81-6-6920-5154

CAPTRON CO., LTD.
3-1-3 Uchihirano-machi, Chuo-ku,Osaka 540-0037, Japan
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FAX : 852-2366-1985
http://www.capcomasia.com.hk/

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2-1-1 Nishi Shinjuku, Shinjuku-ku,Tokyo 164-0012, Japan
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London W6 7HA, U.K.
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