

COMPANY PROFILE



Capcom is a corporation who provides "infinite media" that transmits unlimited excitement, embodying the world of imagination and delivering it to users. By crossing all linguistic and cultural barriers, we help to build a bridge of communication between the people of the world. Opening up a new dimension of creativity with flowing originality and superior technique, we are boldly taking up the challenge to transcend all information media.

Capcom is involved in numerous areas of the amusement industry. Having established our place in the arcade game industry with the *Streetfighter* series, we also produce and sell arcade machines, home video games and manage amusement facilities. Since our start in May 1979, we have taken a leading role in the game software industry and have continued to respond to the demands and expectations of modern society. In October 1993, our shares were listed on the second section of the Osaka Stock Exchange. Subsequently we have succeeded in producing one hit after another, and the release of *Resident Evil* in March 1996 established a new genre, "Survival Horror", which is unrivaled by our competitors. The outstanding *Resident Evil* Series, which has worldwide popularity overseas as well as in Japan, has contributed enormously to Capcom's growth.

With the 21st century just around the corner, we are aware that a uniform approach will not enable us to fully respond to consumers' increasingly diversified needs. Dedicated to inspiring each and every person, we will be entirely flexible in selling and renting both arcade games and home video games, as well as venturing into new fields. We will continue our commitment to offering people access to the world of innovative entertainment.

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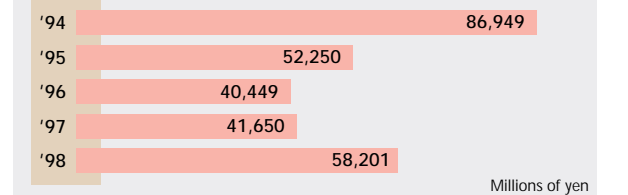


FINANCIAL HIGHLIGHTS

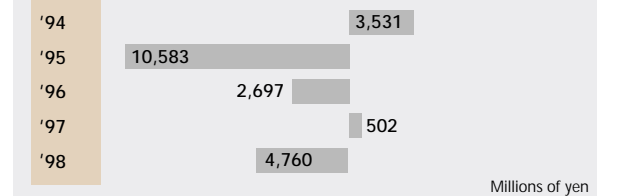
	Millions of yen		Thousands of U.S. dollars (Note)
	1998	1997	1998
Net sales	¥ 58,201	¥ 41,650	\$ 440,917
Net income (loss)	(4,760)	502	(36,061)
Shareholders' equity	¥ 29,612	36,267	224,333
Amounts per share (in yen and dollars)			
Net income (loss)	(¥ 135.24)	¥14.29	(\$ 1.02)
Cash dividends	20.00	53.00	0.15
Total assets	¥ 100,833	¥ 118,330	\$ 763,886

Note : U.S.dollar amounts are translated from yen, for convenience only, at the rate of ¥132 to \$1. Amounts per share are computed based on weighted average method and are retroactively adjusted for the effect of the stock splits.

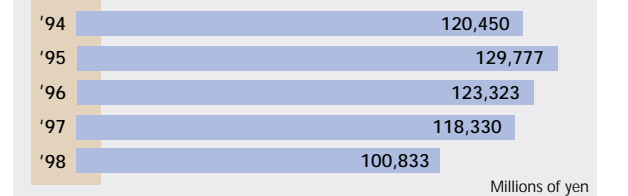
Net Sales



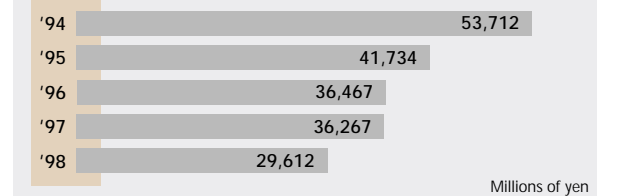
Net Income (Loss)



Total Assets



Shareholders' Equity



PRESIDENT'S MESSAGE



For Capcom, fiscal 1997 was an excellent year in which we continued to expand our net sales and market share. On a global scale, sales growth and market potential are expected to increase in the software industry, one of the key industries of the 21st century. In particular, the rapidly increasing popularity of 32-bit game machines has been an important factor in Capcom's favor, and we will utilize our expertise in the interactive entertainment world to further position the company in the consumer and arcade game markets.

Net sales and operating income have grown annually for three straight years, and we are pleased to report increased earnings this term as well. Total income on a consolidated basis rose from ¥41,650 million to ¥58,201 million, an increase of 39.7% over the last term, and operating income was up 94.7% from ¥5,353 million to ¥10,423 million, one of Capcom's highest profits. These results are indicative of Capcom's top-class earning power in the software industry.

On a net profit basis, we recorded a deficit balance of ¥4,760 million as a result of a total of ¥13,000 million in special losses, due to asset appraisal of our subsidiaries and a focus on cash flow in order to improve our financial balance. The special losses include ¥8,000 million required to liquidate our subsidiary Capcom Mexico, ¥3,000 million in reserves for credit to our finance subsidiary, ¥2,000 million in reserves for credit to our overseas business agent. This term's readjustments of doubtful assets have contributed enormously to improving operational control and efficiency, and we have disposed of the majority of worthless assets and unprofitable divisions. As a result, our financial balance has improved. Owing to our good performance, cash flow has strengthened remarkably and we were able to redeem this term's convertible bonds of ¥11,546 million as well as last term's mortgage bonds and convertible bonds of ¥6,537 million, which further contributed to improved performance. Furthermore, with cash flow predicted to increase ¥8-10 billion annually, we will be able to provide the capital to repay ¥25 billion in convertible bonds redeemable in September 2001.



In the home video game hardware market, Sony Computer Entertainment clearly emerged as the leader this term. Nintendo is close behind with formidable sales of its popular N64 console, while Sega is now focusing on the launch of its new 128-bit Dreamcast system this fall in Japan. In light of these circumstances, we will continue to increase development efforts for the PlayStation, but following a recent licensing agreement with Nintendo, we also plan to release our first N64 product next term. As hardware transitions take place, we will continue our multi-platform strategy to flexibly develop products that offer variety, quality and a long life span.

Our premier product, *Resident Evil 2*, was undeniably one of the industry's most successful products this year, selling more than 3.6 million units in the first two months of its release, with sales rivaling that of major motion pictures. Towards the end of this term, total sales of the *Resident Evil* series amounted to over 7.5 million units, and its popularity has stirred excitement across the globe. Its predecessor, *Resident Evil*, gave birth to "survival horror", one of the most popular genres to date. While other software developers and publishers have had successes in duplicating this style, it was *Resident Evil* that clearly paved the way. *Resident Evil* sets the standard for 32-bit game machines, fully utilizing the system's outstanding performance in game requisites such as visual effects, sound reproduction and screenplay. Furthermore, *Resident Evil 2* has been the driving force in positioning the PlayStation as the leading console in the home video game hardware market. An undeniable leader in the market, Capcom continues to drive sales by releasing innovative series for home video game software such as the *Resident Evil* series, our ever popular *Mega Man* series and the unforgettable *Street Fighter* line.

Marketing and public relations efforts have been stepped up to improve Capcom's visibility. We continue to emphasize the importance of strategic product release timing as an effective sales device, and the distribution knowledge used to create Capcom's mega-hits is being utilized on our entire line. Another key element to Capcom's success is retailer relationships. Always the innovator, we are introducing an industry first sales promotion program for the American market called *Fighter's Edge*, which offers advantages to the consumer for purchasing multiple Capcom fighting games and benefits the retailer by generating store traffic. This program will also breathe new life into Capcom's product catalogue by providing

advertising support for every fighting game. This type of original thinking, coupled with our strong key retailer relationships, allows for excellent product display, quality in-store promotions and valuable pre-order benefits.

This term our domestic and North American operations have experienced remarkable success, as a result of our global marketing efforts combined with the excellence of our software. We anticipate that next term's release of *Resident Evil 2* in Europe will largely increase our revenue in the region. Our success is supported by our strength in the R&D field. The R&D division anticipates changing times and values and concentrates on developing new products to respond to market needs, aiming to develop outstanding software games that surpass *Resident Evil*. Capcom Digital Studios, our R&D base in North America, is working on developing and publishing original products to suit the American consumer. The expertise of our R&D staff will contribute enormously to Capcom's growth.

Creativity, our forte, has broadened through years of developing arcade game software. Using cutting-edge technology and ideas, we produce arcade games first and then utilize the same know-how in developing home video games to produce high-quality, best-selling home games. It is the multiple effects of our accumulated expertise in both fields that has built the Capcom of today. Popular game properties such as the *Street Fighter* series has secured a firm position for Capcom in this highly-competitive industry.

We utilize this same expertise in amusement facility management. The convergence of entertainment is especially prevalent in this field as the classic arcade is replaced with venues that encompass other forms of entertainment including bars, restaurants, shopping centers and indoor sports centers. Additionally, the development of family entertainment centers is moving forward. Our first location in the US that incorporates this concept is a recently opened and improved Nickel City, a new amusement facility with a theme integrated into the local community. Nickel City has succeeded in attracting a large customer base, offering services that meet players' expectations, and contributing to the development of the region by providing safe facilities at an extremely low price. Our continued awareness of the changing times, and our commitment to providing users with the high-quality products and services they require, allows us to adapt and excel in this ever-changing market.

Licensing showed excellent growth and continues to be an important aspect of our business. In an effort to better leverage our properties, we have established and continue to maintain numerous solid licensing relationships with various corporations. As a recent example, the success of the *Resident Evil* series has peaked interest from Hollywood with plans for a feature film underway.

Capcom leads the industry through our unwavering commitment of providing end users with products that immerse them into a world of superior entertainment. This pledge to the customer guarantees that we will continue to produce best-selling products that meet the highest industry standards through continued technology investments. Considering the breadth of the market, we must continue to address the varied interests of the consumer by providing a diverse lineup of products, and for this purpose we are working with cutting-edge technology to develop the highest quality and most entertaining properties.

When all is said and done, it is our employees that sustain our role as an industry leader. Their continued passion for excellence in product management, creativity, technological expertise and consumer awareness is unparalleled. My sincerest thanks to all of Capcom's employees and you, our stockholders, for your support as we continue to demonstrate our ingenuity and expertise in one of the most exhilarating industries in the world.



Kenzo Tsujimoto
President

CAPCOM'S WORLD



CREATING GAMES THAT FULFILL PLAYERS' CRITERIA

Here we introduce the extent of Capcom's perfection through the ultimate interactive video game, *Resident Evil 2*.

1. SHARING VALUES WITH THE PLAYER

The player's action changes the course of the story. Either of the two leading characters can be selected and the system allows the player to switch back and forth between the two. This results in an intricate sequence of alternating companions who crack the mystery, while maintaining complete control. Ultimately, it is up to the player to decide how the story ends. Capcom believes in producing games that draw on the players' imagination and creativity. Since we allow such flexibility, we cater to the players' desire to be the infinite "game-master"



2. MEETING PLAYERS' EXPECTATIONS WITH HIGH-QUALITY GAMES



Resident Evil 2 is an adventure game in which the player hunts for and destroys all the rooms in which there are zombies. The player searches for the escape route while solving the mystery of the virus and eliminating the enemies on the way. The unprecedented scare-factor has contributed towards establishing a new industry genre: "survival horror". This large-scale game with its complex and interesting story has even succeeded in attracting female fans who

tend to make up only a small portion of the growing market.

"There are professionals drawing pictures, creating programs and composing music for video games, but not writing screenplays. We would like to improve the standard of screenplays throughout the video game industry." (Yoshiki Okamoto, President, Flagship)

RESIDENT EVIL 2

This term Capcom brought in a number of well-known screenwriters with television and film experience and set up a new company, Flagship, to specialize in plotting new video games. The specialist screenwriters include Hirohisa Masuda (*Power Ranger, Kikaida*) and Shozo Uehara (*Ultraman*). On a par with movies, Capcom's exciting screenplays broaden the player's horizon and contribute to market growth.

3. CREATIVITY WITHOUT COMPROMISE

There are more zombies and weapons in *Resident Evil 2* than the original. The movement of both humans and monsters has been greatly improved. The stereoscopic 3D polygon technique makes the graphics even more realistic, allowing the player to feel that he or she is really there. The submerging sound and cinematic gameplay raises the level of fear, enhancing the true to life feeling of the "survival horror" genre.

In cooperation with Sony Music Entertainment Intermedia (SIM), Capcom ventured into the music world with the establishment of Suleputer, a music software production and marketing label set up within the Multimedia Department of the R&D Division.



Using VIDEO GAMES

TO DEVELOP SENSORY

Awareness

At Capcom we consider video games a medium for helping players to enrich their perceptiveness. Our true to life games enable the player to develop their senses through maximum enjoyment. This type of sensory development can be found by reading novels and comic strips or by watching movies and animated cartoons.

CAPCOM'S MANAGEMENT GOALS

- Producing large quantities of high-quality software.
- Delivering the benefit of software games to more users.
- Financial management with emphasis on cash flow.
- Cultivating professional human resources.



DIVISIONS

ARCADE GAME DIVISION

The return of old favorites this term ensured that the popular *Marvel Super Heroes vs. Streetfighter* and *Marvel vs. Capcom Clash of Super Heroes* would be successful at home and abroad. *Vampire Savior* also enjoyed good sales due to its strong following. The unique *Rival Schools* with elaborately devised characters made headway in the competitive fighting game market. However, net sales were down slightly in this division since the release of other leading games was held back until next term.



ARCADE GAME RENTAL DIVISION

Capcom game machines can be found around the country in a variety of locations, including video stores, convenience stores and shopping centers. During this term we focused on consolidating and reorganizing rental machines and increasing the number of games in profitable, well-patronized locations to improve profitability. Through our explicit product strategy and efficient development of arcade locations, we endeavored to increase repeat orders and stimulate the demand for new business. Despite our efforts, results were sluggish due to a fall in the customer unit price and a static market.



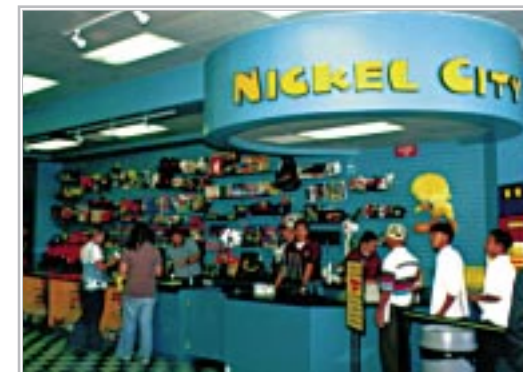
HOME VIDEO GAME DIVISION

The second installment in the "survival horror" series *Resident Evil 2* was released in the home console market this term and was an instant blockbuster. Capcom experienced record-breaking sales with *Resident Evil 2*, selling 3.6 million units in the first two months. Incorporating computer graphics with 3D polygons, realistic images and movie-like production techniques, *Resident Evil 2* boasts a degree of excellence that transcends the first game. The title gained overwhelming popularity among fans around the world. The additional release of *Resident Evil Director's Cut* anchored the popular *Resident Evil* series as one of Capcom's leading franchises. *Megaman X4* and *Megaman 8* enjoyed solid sales due to a nationwide campaign to commemorate Megaman's 10th anniversary. *Breath of Fire III*, another addition to a popular series, has also done well. As a result, the home video game division recorded a substantial increase in revenue.



AMUSEMENT FACILITIES DIVISION

Capcom creates clean amusement facilities with a pleasant atmosphere in harmony with our concept of "managing clean, bright and fun facilities". At present, we manage 50 facilities in Japan, 7 overseas, and are striving to unearth demand and develop new customer business. Our new facilities include Plaza Capcom Pal Pal, Plaza Capcom Yokosuka (a Las Vegas-style facility and our first in a city shopping mall) and the recently renovated Capcom Circus. Several more facilities are scheduled to open within the year. Our commitment to attracting families to our establishment distinguishes our amusement facilities from others. In particular, Nickel City in San Jose, California is enjoying great success in the region as a new social and recreation spot. When it comes to managing dreamlike amusement facilities, Capcom is on the leading edge.



A WORLD OF CREATIVITY



CREATORS ADHERE TO A HIGH-QUALITY SOURCE

Production of one game takes at least one year to finish, and sometimes takes several years. Graphics are drawn repeatedly to achieve the most appealing pictures, while the program is modified to give a sense of split-second action. Perfectionists produce Capcom's games. These games are typically regarded highly among the editorial community.

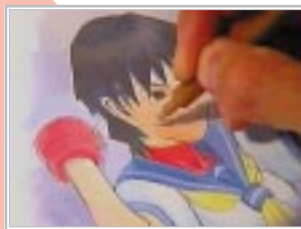
If the creators are not satisfied, we can't expect the players to be.

LATEST EQUIPMENT AND GREATER MANPOWER TO ENHANCE DEVELOPMENT

The genius of Capcom's top quality creators are Capcom's greatest resources. Our development and research



staff, whose work includes game planning, character design, setting design, sound production and program design, constitutes 60% of the total work force. Even before the establishment of the screenplay-planning company, Flagship, we endeavored to develop games using our innovative methodology. We have continually succeeded in creating



high-grade original games. All these specialists are supported by highly-experienced producers and cutting-edge machinery installed at our Research and Development Building.

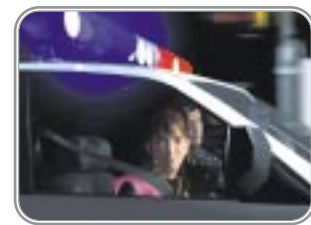
SWEEPING POPULARITY FOR HOME VIDEO GAMES

Having succeeded in the arcade game business, we began to make inroads in the home video game market. Over ten years ago, Capcom began an OEM contract with Nintendo Co., Ltd. Now, we are fully confident in our ability to fulfill the needs of consumers who require higher quality and a wider variety for home video games. The advent of the first 16-bit and later

a 32-bit home video game machine has accelerated our involvement in the home video game market. Most of the arcade software we have produced using our own "CP System" can be converted to be used on home video game consoles. Moreover, we have accumulated the knowledge necessary for producing these games.

CAPCOM'S UNIQUE FLAIR FOR CREATIVITY

Drawing from our gold mine of creative power, we will work to stay ahead of our competitors and bring our creativity into full play. Whether it be in graphics, character formation, screenplay, music, game design, Capcom will maintain its leadership role.



OVERSEAS OPERATION

There are no cultural or national boundaries when it comes to good-quality software, and this is shown by Capcom's rising international position in the game and entertainment world. Accordingly, we have an increasing responsibility to respond to customers' needs by developing outstanding and interesting software. We continue in our efforts to provide the best products and service through our sales network that covers the globe.



NORTH AMERICA

The Capcom USA consolidated group consists of Capcom USA, the holding company, Capcom Coin-Op which sells arcade game machines and operates amusement facilities, Capcom Entertainment which sells home video products, and Capcom Digital Studios, which develops games for the US market. As a result of the past restructuring of our US operations, we have been able to expand the business efficiently and improve our position in the market. This term we posted the highest income in the company's history, which was supported by Capcom Entertainment's favorable returns.

ASIA

Capcom Asia carries an important role in the Asian region and we anticipate high potential in this market. Capcom Asia aims to discover potential markets and increase popularity in Asia while balancing business between the arcade game and consumer game markets.



EUROPE

We have achieved a firm position in the European game market through our sales network at Capcom Europe. The release of *Resident Evil 2* in Europe next term is expected to increase our revenue in the region.

This term we decided to close down Capcom Mexico. Although we have had long-term goals to maintain our overseas operations, in light of the current financial situation and the impact of changes in the industry, we consider it necessary to improve our financial balance. This includes repaying short-term credit. It will take time to rectify the cumulative losses which accompanied the currency crisis in Mexico. We took action to liquidate the company and since then our Mexican division has experienced satisfactory results and remained in the black during fiscal 1997. We will change our policy to expand sales through an agency, ensuring smooth sales activity in the Mexican market.



CORPORATE HISTORY

1979

May. Capcom is established as a manufacturer and distributor of electronic game machines.

1983

Oct. Tokyo branch office opens.

1985

Jul. A contract is concluded with Nintendo Co., Ltd. for the sale of Nintendo Entertainment System software.

Aug. Capcom USA is established in California.

1988

May. An important contract is concluded with Walt Disney Company for the development and marketing of games featuring Disney characters.

Jul. The CP System, Capcom's unique hardware system for arcade game machines, is put on the market.

1989

Apr. Capcom enters the rental arcade game machine business.

May. Matsubara Works opens in Osaka Prefecture.

1990

Mar. The head office building opens.

Oct. Over-the-counter trading of Capcom stock begins.

Dec. Employee recreation facilities in Mie Prefecture are completed.

1991

Feb. Sapporo sales office opens.

Apr. Fukuoka sales office opens.

Nov. Convertible bonds due 1996 (SF100 million) payable in Swiss francs are issued.

1992

Feb. Hirano Works opens in Osaka Prefecture. Capcom Europe GmbH is established in Germany to spearhead sales for the European region.

Jul. Sendai sales office opens.

Sep. Nagoya sales office opens.

Oct. Convertible bonds due 1996 (¥20 billion) are issued. Okayama sales office opens.

1993

Mar. Contract with Sega Enterprises is concluded for the manufacture and sale of video game software.

Apr. Capcom enters the amusement facilities business.

May. Convertible bonds due 1997 (¥12 billion) are issued.

Jul. Capcom Asia Company Ltd. is established in Hong Kong to lead sales for the China and Southeast Asia region. Niigata sales office opens.

Aug. Trading unit changes from 1,000 to 100.

Oct. The company's stock is listed in the second section of the Osaka Stock Exchange. Capcom Mexico S.A. DE C.V. is established, bringing the company into the growing Central and South American markets.

1994

May. Ueno Works opens in Mie Prefecture.

Jun. Convertible bonds due 2001 (¥25 billion) are issued. Convertible bonds due 2005 (¥20 billion) are issued.

Jul. New head office opens.

Aug. Release of the animated movie *Street Fighter II*.

Dec. Release of the action movie *Street Fighter*.

1995

Jun. Capcom Coin-Op Inc., Capcom Entertainment, Inc. and Capcom Digital Studios, Inc. are established with Capcom USA as the holding company.

Aug. Matsubara Works is merged into Ueno Works and shuts down.

1996

Mar. Construction of Research and Development Building begins.

Dec. Hirano Works is merged into Ueno Works and shuts down.

FINANCIAL REVIEW

NET SALES

Total net sales increased ¥16,551 million (39.7%) from last term's ¥41,650 million to ¥58,201 million, mainly due to increased sales in the Home Video Game Division following the launch of *Resident Evil 2* and other software.

NET INCOME (LOSS)

We recorded a net loss of ¥4,760 million, a decrease of ¥5,262 million over last term, as a result of special losses totaling ¥13 billion which were essential this term in order to carry out measures to improve our financial balance including appraisal of the assets of our subsidiaries.

TOTAL ASSETS

Although we increased our cash enormously this term, current assets were down 29.0% from last term's ¥54,305 million to ¥38,559 million, resulting from consolidation to scale down our inventory and sales of securities. As a result, total assets decreased 14.8% to ¥100,833 million.

TOTAL SHAREHOLDERS' EQUITY

Total Shareholders' Equity decreased 18.4% from last term's ¥36,267 million to ¥29,612 million. As a result, deficit at the end of the term amounted to ¥10,345 million due to the net loss of ¥4,760 million as well as an increase in dividends payable.



CONSOLIDATED BALANCE SHEETS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Current assets:			
Cash and time deposits	¥ 12,974	¥ 4,574	\$ 98,288
Marketable securities	—	6,351	—
Notes and accounts receivable —			
Trade	8,064	9,167	61,091
Other	2,454	2,893	18,591
Allowance for doubtful accounts	(2,512)	(1,752)	(19,030)
Short-term loans receivable	1,712	13,215	12,970
Inventories (Note 4)	10,784	15,988	81,697
Prepaid expenses	2,789	2,342	21,129
Deferred income taxes	4	674	30
Other	2,290	853	17,348
Total current assets	38,559	54,305	292,114
Investments and other assets:			
Investments in securities (Note 5)	2,375	2,465	17,992
Long-term loans receivable (Note 6)	20,696	8,978	156,788
Long-term prepaid expenses	1,374	2,015	10,409
Deferred income taxes	396	586	3,000
Other	5,524	5,676	41,848
Allowance for doubtful accounts (Note 6)	(8,482)	(287)	(64,257)
Total investments and other assets	21,883	19,433	165,780
Property, plant and equipment (Notes 7 and 8):			
Land	26,298	26,375	199,227
Buildings and structures	13,706	14,308	103,833
Machinery and equipment	14,991	17,610	113,568
Construction in progress	13	2	98
Accumulated depreciation	(15,511)	(16,647)	(117,507)
Total property, plant and equipment	39,497	41,648	299,219
Excess cost over net assets of acquired subsidiaries	114	170	864
Translation adjustments	780	2,774	5,909
Total assets	¥ 100,833	¥ 118,330	\$ 763,886

The accompanying notes are an integral part of these statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Current liabilities:			
Short-term borrowings (Note 8)	¥ 14,279	¥ 13,739	\$ 108,174
Current portion of long-term debt (Note 8)	386	11,994	2,924
Notes and accounts payable	4,229	3,115	32,038
Accrued expenses	1,765	1,714	13,371
Accrued income taxes (Note 9)	130	1,999	985
Other	2,866	1,806	21,712
Total current liabilities	23,655	34,367	179,204
Long-term liabilities:			
Long-term debt (Note 8)	45,786	46,242	346,864
Accrued retirement allowances (Note 10)	130	94	985
Other	1,628	1,360	12,333
Total long-term liabilities	47,544	47,696	360,182
Minority interest in a consolidated subsidiary	22	—	167
Shareholders' equity (Notes 11 and 12):			
Common stock, ¥50 par value —			
Authorized — 69,000,000 shares			
Issued — 35,196,011 shares	18,211	18,211	137,962
Capital surplus	21,098	21,098	159,833
Legal reserve	648	458	4,909
Accumulated deficit	(10,345)	(3,500)	(78,371)
Treasury stock	—	—	—
Total shareholders' equity	29,612	36,267	224,333
Total liabilities and shareholders' equity	¥ 100,833	¥ 118,330	\$ 763,886

CONSOLIDATED STATEMENTS OF OPERATIONS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Net sales	¥ 58,201	¥ 41,650	\$ 440,917
Cost of sales	33,300	23,069	252,273
Gross profit	24,901	18,581	188,644
Selling, general and administrative expenses	11,542	10,631	87,439
Research and development expenses	2,936	2,597	22,243
Operating income	10,423	5,353	78,962
Other income (expense):			
Interest and dividend income	743	1,021	5,629
Interest expenses	(1,001)	(1,379)	(7,583)
Exchange gain, net	623	1,877	4,720
Loss on sales or disposition of property, plant and equipment	(311)	(278)	(2,356)
Write off of investments in securities	(670)	—	(5,076)
Special losses, mainly for liquidation of an unconsolidated subsidiary (Note 13)	(12,867)	—	(97,478)
Loss from discontinued operations	—	(1,641)	—
Other, net	(579)	(901)	(4,386)
Income (loss) before income taxes	(3,639)	4,052	(27,568)
Income taxes (Note 9):			
Current	160	2,766	1,212
Deferred	912	727	6,909
	1,072	3,493	8,121
Amortization of excess cost over net assets of acquired subsidiaries	(57)	(57)	(432)
Minority interest in a consolidated subsidiary, credit	8	—	60
Net income (loss)	(¥ 4,760)	¥ 502	(\$ 36,061)

Per share amounts:

	Millions of yen		U.S. dollars
Net income (loss)	(¥ 135.24)	¥ 14.29	(\$ 1.02)
Cash dividends paid	20.00	53.00	0.15

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Common stock:			
Balance at beginning of year	¥ 18,211	¥ 18,210	\$ 137,962
Shares issued upon conversion of bonds	—	1	—
Balance at end of year	18,211	18,211	137,962
Capital surplus:			
Balance at beginning of year	21,098	21,097	159,833
Excess of principal amount of bonds converted over the amount credited to common stock issued	—	1	—
Balance at end of year	21,098	21,098	159,833
Legal reserve:			
Balance at beginning of year	458	388	3,470
Transfer from retained earnings	190	70	1,439
Balance at end of year	648	458	4,909
Accumulated deficit:			
Balance at beginning of year	(3,500)	(3,228)	(26,515)
Net income (loss) for the year	(4,760)	502	(36,061)
Cash dividends	(1,865)	(704)	(14,129)
Bonuses to directors and statutory auditors	(30)	—	(227)
Transfer to legal reserve	(190)	(70)	(1,439)
Balance at end of year	(¥ 10,345)	(¥ 3,500)	(\$ 78,371)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Cash flows from operating activities:			
Net income (loss)	(¥ 4,760)	¥ 502	(\$ 36,060)
Adjustments to reconcile net income (loss) to net cash provided by operating activities —			
Depreciation and amortization	3,157	3,884	23,916
Provision for doubtful accounts	4,007	—	30,356
Liquidation losses of an unconsolidated subsidiary	7,558	—	57,256
Decrease (increase) in notes and accounts receivable	(447)	5,304	(3,386)
Decrease in inventories	4,919	385	37,265
Increase (decrease) in notes and accounts payable	1,115	(98)	8,447
Other	(506)	(271)	(3,833)
Total adjustments	19,803	9,204	150,021
Net cash provided by operating activities	15,043	9,706	113,961
Cash flows from investing activities:			
Proceeds from sales of facilities	1,454	6,793	11,015
Capital expenditures	(2,490)	(2,338)	(18,863)
Decrease (increase) in short-term loans receivable	1,123	(674)	8,508
Decrease (increase) in marketable securities	6,351	(4,983)	48,114
Increase in long-term loans receivable	(1,067)	(7,142)	(8,084)
Other	311	769	2,356
Net cash provided by (used in) investing activities	5,682	(7,575)	43,046
Cash flows from financing activities:			
Net borrowings (repayments) of short-term borrowings and current portion of long-term debt	(11,068)	6,543	(83,848)
Proceeds from long-term debt	154	67	1,167
Repayments of long-term debt	(610)	(11,123)	(4,621)
Cash dividends paid	(1,895)	(704)	(14,356)
Other	1,361	945	10,310
Net cash used in financing activities	(12,058)	(4,272)	(91,348)
Translation adjustment	(267)	(1,664)	(2,023)
Net increase (decrease) in cash	8,400	(3,805)	63,636
Cash and time deposits at beginning of year	4,574	8,379	34,652
Cash and time deposits at end of year	¥ 12,974	¥ 4,574	\$ 98,288

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

1. MAJOR POLICIES IN PREPARING CONSOLIDATED FINANCIAL STATEMENTS:

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan and are a translation of those publicly issued in Japan after modification to enhance foreign readers' understanding.

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. As 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 ¥132=US\$1, the approximate current rate prevailing on March 31, 1998, 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) Consolidation and accounting for investments in affiliates

The consolidated financial statements consist of the accounts of Capcom Co., Ltd. (the "Company") and, with minor exceptions, those of its majority-owned subsidiaries at the relevant balance sheet date. All significant inter-company transactions and accounts are eliminated.

During the year ended March 31, 1998 the financial statements of CAPCOM MEXICO S.A. DE C.V. were excluded from the consolidation because the Company commenced liquidation procedure of that company.

In case of reporting entity change, the consolidated financial statements have not been restated, but the effect of the change was charged to income as write off of investments in securities.

Investments in unconsolidated subsidiaries are accounted for on a cost basis because their effect on the consolidated financial statements is insignificant.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized on a straight line method over a 5-year period, with the exception of minor differences which are charged or credited to income in the period of acquisition.

(2) Revenue recognition

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

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

(3) Statement of cash flows

A portion of cash in excess of daily requirements is invested in temporary cash investments, mainly consisting of time deposits, which are low risk short-term financial instruments readily convertible to known amounts of cash. The Company deems the time deposits as cash equivalents for the purposes of the statement of cash flows.

(4) Translation of foreign currencies

Foreign currency amounts are translated into Japanese yen at the rates prevailing at the relevant balance sheet date for short-term assets and liabilities and at historical rates for long-term assets and liabilities. When the historical exchange rates differ significantly from the year-end rates, the year-end rates are used to translate the long-term assets or liabilities. Receivable and payable in foreign currency hedged by forward exchange contracts are translated into Japanese yen at the contracted rates of exchange. Income and expenses in foreign currencies are translated at the rates prevailing at the time of the transactions. Resulting exchange gains or losses are credited or charged to income as incurred.

All of assets, liabilities, income and expenses of foreign subsidiaries in the financial statements of foreign subsidiaries are translated into Japanese yen at the rates in effect at the balance sheet date, except for shareholders' equity which are translated at the rates prevailing at the time when transaction occurred and the resulting translation differences are debited or credited to the translation adjustments accounts of the consolidated financial statements.

(5) Marketable securities and investments in securities

Marketable equity securities and other marketable securities both of current and non-current nature are stated at the lower of cost or market. 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.

(6) Inventories

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

Capitalized development costs of game software for 32-bit and 64-bit game machines are stated at 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 film costs are amortized in proportion to the revenue earned to total estimated revenue. Unamortized film costs are evaluated in relation to the estimated future revenue.

(7) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed by the declining balance method at rates based on estimated useful lives of the assets.

Significant renewals and additions are capitalized at cost. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

(8) Research and development expenses

Research and development expenses for improvement of existing products or development of products other than capitalized costs of game software for 32-bit and 64-bit game machines, including basic research and development costs, are charged to income when incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

(9) Pension plan and accrued retirement allowances

The Company has a non-contributory pension plan which covers those employees who have served with the Company for more than 10 years and have reached at the age of 45. In consideration of contributions, a trust banking corporation provides approximately 50% portion of retirement allowances as annuity payments over a 10-year period subsequent to retirement (or a lump-sum payment at retiring employees' option); the remaining portion will be paid by the Company at lump-sum.

The Company's policy is to accrue and fund pension costs in accordance with amounts permitted by tax regulations, which approximate amounts determined actuarially. Pension expenses for the plan include amortization of past service cost over 5 years. The amount of annuity of lump-sum varies based on current basic rate of pay, length of services and conditions under which the employees retire.

The employees of the Company not covered by the above pension plan are also entitled to lump-sum indemnities when they separate from the Company. For these employees and the portion not covered by the pension plan for the employees expected to qualify to receive the annuity payments, the Company accrues retirement allowances at 40%, which is stipulated in the Japanese Corporation Tax Law, of the amounts which would be required if all employees voluntarily retired at the balance sheet date.

(10) Income taxes

The income statements of the Company and its consolidated subsidiaries include many items for financial reporting purposes which, in the case of costs and expenses, are not currently deductible and, in the case of income, are not currently taxable. With respect to all such timing differences, the Company and its consolidated subsidiaries follow the practice of inter-period tax allocation based on the methods generally accepted in the respective country where each entity is located.

(11) Amounts per share

The computation of net income per share is based on the weighted average number of common stock outstanding during each year, after appropriate retroactive adjustment for the effect of the stock splits made by the Company to the shareholders registered on or prior to March 31, 1998. Cash dividends per share are based on the number of shares outstanding at the end of each period after retroactive adjustment for the effect of the stock splits mentioned above and reflect the appropriations applicable to each period rather than to the period in which shareholders' approval is obtained (Note 12).

3. CASH FLOW INFORMATION:

Cash payments for interest expenses for the years ended March 31, 1998 and 1997 amounted to ¥1,019 million (\$7,721 thousand) and ¥1,380 million, respectively and cash payments for income taxes for the years ended March 31, 1998 and 1997 amounted to ¥2,575 million (\$19,515 thousand) and ¥2,681 million respectively.

4. INVENTORIES:

Inventories at March 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Finished goods and merchandise	¥ 1,685	¥ 988	\$ 12,765
Work in process	360	687	2,728
Capitalized development costs	3,533	3,080	26,765
Raw materials	2,499	6,289	18,932
Supplies	521	912	3,947
Films	2,186	4,032	16,560
	¥ 10,784	¥ 15,988	\$ 81,697

5. MARKETABLE EQUITY SECURITIES:

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

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Cost	¥ 1,454	¥ 1,924	\$ 11,015
Market	1,451	1,936	10,992
Unrealized gain (loss)	(¥ 3)	¥ 12	(\$ 23)
Represented by:			
Gross unrealized gains	¥ —	¥ 19	\$ —
Gross unrealized losses	3	7	23

6. LONG-TERM LOANS RECEIVABLE:

At March 31, 1998, long-term loans receivables contain loans receivable from an unconsolidated subsidiary, CAPCOM MEXICO S.A. DE C.V., amounted to ¥5,551 million (\$42,053 thousand) to which allowance for doubtful account was provided by ¥5,151 million (\$39,022 thousand) because the Company commenced the liquidation procedures of that subsidiary.

In addition to above, short-term loans receivable from certain borrowers whose financial conditions were deteriorating were transferred to long-term loans receivable during the year ended March 31, 1998 and allowance for doubtful accounts was provided by ¥3,141 million (\$23,795 thousand) in addition to write off of some such loans amounting to ¥2,031 million (\$15,387 thousand).

7. PROPERTY, PLANT AND EQUIPMENT:

Depreciation charges for the years ended March 31, 1998 and 1997 amounted to ¥2,610 million (\$19,773 thousand) and ¥3,267 million, respectively. Estimated useful lives of the major classes of depreciable assets ranged from 3 to 65 years (principally 60 years) for buildings and structures and from 2 to 15 years (principally 3 years) for machinery and equipment.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings at March 31, 1998 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	Bank overdraft with interest ranging from 1.30% to 2.375% per annum	¥ 7,360
Unsecured loan payable to banks with interest 1.625% per annum	6,069	45,977
Notes payable with interest ranging from 1.625% to 1.875% per annum	850	6,440
	¥ 14,279	\$ 108,174

Long-term debt at March 31, 1998 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	0.8% convertible bonds due 2001	¥ 25,000
1.0% convertible bonds due 2005	19,866	150,500
Loans payable to banks and other financial institutions due 1998 - 2005, with interest at 1.5625% - 15.275%		
Secured	438	3,318
Unsecured	868	6,576
	¥ 46,172	\$ 349,788
Less portion due within one year	(386)	(2,924)
	¥ 45,786	\$ 346,864

The aggregate annual maturates of long-term debt as at March 31, 1998 were as follows:

	Millions of yen	Thousands of U.S. dollars
	1999 (current portion)	¥ 386
2000	677	5,129
2001	95	720
2002	25,096	190,121
2003	19,900	150,758
Thereafter	18	136
	¥ 46,172	\$ 349,788

The 0.8% convertible bonds 2001 were issued on June 17, 1994 and are convertible into common stock at conversion price of ¥4,982 per share. These convertible bonds are redeemable at 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 convertible into common stock at conversion price of ¥4,982 per share. These convertible bonds are redeemable at Company's option in the period from October 1, 2000 to September 29, 2005 as provided in the indentures.

At March 31, 1998 the following assets were pledged as collateral for short-term borrowings and long-term debt.

	Millions of yen	Thousands of U.S. dollars
	Land	¥ 6,107
Buildings and structures, net of accumulated depreciation	821	6,220
	¥ 6,928	\$ 52,485

9. INCOME TAXES:

The Company and its Japanese consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate effective statutory tax rates of approximately 52%. The ordinary relationship between income tax expenses and pretax accounting income is distorted by a number of items including various tax credits, tax effect to timing differences, permanent non-deductibility of certain expenses and operating losses incurred by the consolidated subsidiaries.

The substantial difference between the tax rate in the income statements and the effective statutory tax rates for the years ended March 31, 1998 and 1997 was caused by the operating losses of consolidated subsidiaries.

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

10. PENSION PLAN AND ACCRUED RETIREMENT ALLOWANCES:

The amounts charged to income for the years ended March 31, 1998 and 1997 with respect to the pension plan and retirement allowances were ¥93 million (\$704 thousand) and ¥103 million, respectively.

Pension assets (based on the latest available information) of the pension plan at March 31, 1998 and 1997 amounted to ¥290 million (\$2,197 thousand) and ¥255 million, respectively.

Unamortized past service costs of pension plan have been substantially amortized.

11. COMMON STOCK:

The changes in the number of issued shares of common stock of the Company during the years ended March 31, 1998 and 1997 are summarized below:

	Thousands of shares	
	1998	1997
Balance at beginning of year	35,196	35,195
Issued upon conversion	—	1
Balance at end of year	35,196	35,196

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CAPCOM CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES ● MARCH 31, 1998 AND 1997

12. APPROPRIATION OF RETAINED EARNINGS AND LEGAL RESERVE:

The Japanese Commercial Code provides that all appropriations of retained earnings, except for interim cash dividends, must 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 shareholder 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 26, 1998.

	Millions of yen	Thousands of U.S. dollars
Balance at March 31, 1998	¥ 1,507	\$ 11,417
Appropriations —		
Transfer to legal reserve	(35)	(265)
Cash dividends (¥10 per share outstanding at March 31, 1998)	(352)	(2,667)
Balance after appropriations	¥ 1,120	\$ 8,485

The Japanese Commercial Code provides that an amount equal to at least 10% of cash disbursement (principally, dividends and directors' bonuses) for appropriation of retained earnings of each period 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 stated capital by appropriate legal procedures.

13. SPECIAL LOSSES, MAINLY FOR LIQUIDATION OF AN UNCONSOLIDATED SUBSIDIARY:

Special losses for the year ended March 31, 1998 comprised as follows:

	Millions of yen	Thousands of U.S. dollars
Liquidation losses of a subsidiary, CAPCOM MEXICO S.A. DE C.V. excluded from 1998 consolidation	¥ 7,791	\$ 59,023
Allowance for doubtful accounts of a consolidated subsidiary	3,045	23,068
Write off of short-term loans to an overseas business agent	2,031	15,387
	¥ 12,867	\$ 97,478

14. SEGMENT INFORMATION:

(1) Business segment

The Company and its consolidated subsidiaries 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 other segment mainly comprises the

operation of amusement facilities. The following tables present certain information regarding the business segments for the years ended March 31, 1998 and 1997.

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Net sales:			
Arcade games —			
Customers	¥ 13,402	¥ 15,081	\$101,530
Intersegment	432	57	3,273
	13,834	15,138	104,803
Home video games —			
Customers	31,453	15,904	238,280
Other —			
Customers	13,347	10,665	101,113
Intersegment	—	100	—
	13,347	10,765	101,113
Sub-total	58,634	41,807	444,196
Eliminations	(433)	(157)	(3,282)
Consolidated	¥ 58,201	¥ 41,650	\$440,917

	Millions of yen	Thousands of U.S. dollars
Cost of sales and direct expenses:		
Arcade games	¥ 12,864	¥ 11,317
Home video games	19,737	11,921
Other	13,410	10,436
Sub-total	46,011	33,674
Corporate expenses and eliminations	1,767	2,623
Consolidated	¥ 47,778	¥ 36,297

	Millions of yen	Thousands of U.S. dollars
Operating income (loss):		
Arcade games	¥ 970	¥ 3,821
Home video games	11,716	3,983
Other	(63)	329
Sub-total	12,623	8,133
Adjustments	(2,200)	(2,780)
Consolidated	¥ 10,423	¥ 5,353

	Millions of yen	Thousands of U.S. dollars
Total assets:		
Arcade games	¥ 23,271	¥ 40,081
Home video games	19,245	16,685
Other	21,607	15,278
Sub-total	64,123	72,044
Corporate assets and eliminations	36,710	46,286
Consolidated	¥100,833	¥118,330

	Millions of yen	Thousands of U.S. dollars
Depreciation:		
Arcade games	¥ 1,406	¥ 1,827
Home video games	389	532
Other	1,195	1,065
Sub-total	2,990	3,424
Corporate assets and eliminations	253	409
Consolidated	¥ 3,243	¥ 3,833

	Millions of yen	Thousands of U.S. dollars
Capital expenditure:		
Arcade games	¥ 1,041	¥ 1,403
Home video games	84	114
Other	1,370	523
Sub-total	2,495	2,040
Corporate assets and eliminations	62	52
Consolidated	¥ 2,557	¥ 2,092

(2) Geographic area

The following tables present certain information regarding operations by geographic area for the years ended March 31, 1998 and 1997.

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Net sales:			
Japan —			
Customers	¥ 44,722	¥ 32,687	\$338,803
Intersegment	4,009	4,443	30,371
	48,731	37,130	369,174
North America —			
Customers	11,781	5,753	89,242
Intersegment	57	374	432
	11,838	6,127	89,681
Other —			
Customers	1,699	3,211	12,871
Intersegment	299	34	2,266
	1,998	3,245	15,137
Sub-total	62,567	46,502	473,992
Eliminations	(4,366)	(4,852)	(33,075)
Consolidated	¥ 58,201	¥ 41,650	\$440,917

	Millions of yen	Thousands of U.S. dollars
Costs of sales and direct expenses:		
Japan	¥ 38,201	¥ 28,202
North America	10,229	7,070
Other	1,634	2,444
Sub-total	50,064	37,716
Adjustments	(2,286)	(1,419)
Consolidated	¥ 47,778	¥ 36,297

	Millions of yen	Thousands of U.S. dollars
Operating profit (loss):		
Japan	¥ 10,530	¥ 8,928
North America	1,609	(943)
Other	364	801
Sub-total	12,503	8,786
Adjustments	(2,080)	(3,433)
Consolidated	¥ 10,423	¥ 5,353

	Millions of yen	Thousands of U.S. dollars
Total assets:		
Japan	¥ 62,031	¥ 71,845
North America	5,852	4,973
Other	850	8,735
Sub-total	68,733	85,553
Corporate assets and eliminations	32,100	32,777
Consolidated	¥100,833	¥118,330

(3) Foreign sales

The following table presents certain information regarding the sales outside Japan of the Company and its consolidated subsidiaries for the years ended March 31, 1998 and 1997.

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Net sales:			
North America	¥ 13,636	¥ 11,755	\$103,303
Other	3,635	2,399	27,538
	¥ 17,271	¥ 14,154	\$130,841

Percentage of such sales in consolidated net sales	Percentage	
	29.7%	34.0%

15. LEASES:

Payments of financing leases which do not transfer ownership of the leased assets to the lessee for the years ended March 31, 1998 and 1997 were ¥1,053 million (\$ 7,977 thousand) and ¥821 million.

The future lease payments for financing leases which do not transfer ownership of the leased assets including amounts representing interest, at March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 1,015	\$ 7,689
Due later	1,486	11,258
	¥ 2,501	\$ 18,947

The future lease payments under noncancellable operating leases, including amounts representing interest, at March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 546	\$ 4,136
Due later	4,068	30,818
	¥ 4,614	\$ 34,954

REPORT OF INDEPENDENT ACCOUNTANTS

Osaka Center Building
1-3, Kyutaro-machi 4-chome
Chuo-ku, Osaka 541-0056

Price Waterhouse



June 26, 1998

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

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, 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, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity 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 did not audit the financial statements of certain subsidiaries, which statements reflect total assets of ¥15,592 million and ¥21,909 million at March 31, 1998 and 1997, respectively, and total revenues of ¥12,369 million and ¥7,758 million for the years ended March 31, 1998 and 1997, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits of these statements in accordance with generally accepted auditing standard 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 and the reports of the other auditors provide a reasonable basis for the opinion expressed above.

CORPORATE INFORMATION

(As of June 30, 1998)

DIRECTORS AND STATUTORY AUDITORS

President: Kenzo Tsujimoto
Executive Vice President : Tadashi Aikawa
Senior Managing Director: Heiji Oshima
Managing Directors: Takashi Aoki
Yoshiki Okamoto
Directors: Masatoshi Yoshida
Haruhiro Tsujimoto
Noritaka Funamizu
Statutory Auditors: Morio Kuroda
Fumiaki Kawamoto
Shizuhiko Yamamoto
Tadashi Kadowaki

CORPORATE DATA

Date of Establishment: May 30, 1979
Paid-in Capital: ¥18,211 million
(US \$137,962 thousand)
End of Term: March 31
Number of Employees: 946

Head Office:

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Fax: 1-408-774-3994

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STATUS Co., Ltd.

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CAPCOM EUROPE GmbH

Kurfuersten Strasse 30, 8F, 40211
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Unit 901-902, 9/F Houston Center,
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A.C.A. Co., Ltd.

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CAPCOM ENTERTAINMENT, Inc.

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CAPCOM DIGITAL STUDIOS, Inc.

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