

Consolidated balance sheets

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2020	March 31, 2021	March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Assets			
Current assets:			
Cash on hand and in banks (Notes 12 and 14)	65,657	71,239	647,636
Notes and accounts receivable - trade (Note 14)	15,959	25,096	228,150
Merchandise and finished goods	1,557	2,005	18,233
Work in progress	883	897	8,154
Raw materials and supplies	258	850	7,727
Work in progress for game software	21,222	24,443	222,212
Other	3,320	2,896	26,329
Allowance for doubtful accounts	(31)	(37)	(340)
Total current assets	108,829	127,391	1,158,103
Fixed assets:			
Tangible fixed assets, net of accumulated depreciation (Note 8(1))			
Buildings and structures, net	10,644	10,666	96,969
Machinery and vehicles, net	14	11	109
Tools, fixtures and furniture, net	1,445	1,401	12,743
Equipment for amusement facilities, net	1,879	1,628	14,804
Land	5,235	5,235	47,595
Leased assets, net (Note 13(1))	1,118	1,141	10,379
Construction in progress	509	1,230	11,184
Total tangible fixed assets	20,847	21,316	193,786
Intangible assets	351	1,229	11,174
Investments and other assets			
Investments in securities (Note 15)	415	589	5,354
Claims in bankruptcy and reorganization	19	19	174
Lease deposits (Note 14)	4,134	4,140	37,636
Deferred tax assets (Note 17)	7,906	8,089	73,545
Other	996	969	8,813
Allowance for doubtful accounts	(32)	(32)	(294)
Total investments and other assets	13,438	13,775	125,231
Total fixed assets	34,636	36,321	330,192
Total assets	143,466	163,712	1,488,296

The accompanying notes are an integral part of these financial statements.

Consolidated balance sheets

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2020	March 31, 2021	March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Liabilities			
Current liabilities:			
Notes and accounts payable - trade (Note 14)	3,461	2,820	25,638
Electronically recorded monetary liabilities (Note 14)	2,383	882	8,022
Current portion of long-term borrowings (Notes 14 and 25)	4,129	727	6,617
Lease obligations (Note 25)	502	594	5,407
Accrued income taxes	5,612	6,957	63,248
Accrued bonuses	3,130	4,056	36,877
Deferred revenues	7,642	6,673	60,665
Other	9,000	9,878	89,801
Total current liabilities	35,863	32,590	296,278
Long-term liabilities:			
Long-term borrowings (Notes 14 and 25)	2,606	4,878	44,352
Lease obligations (Note 25)	690	630	5,732
Deferred tax liabilities (Note 17)	4	1	17
Liabilities for retirement benefits for employees (Note 16)	3,212	3,468	31,529
Asset retirement obligations (Notes 18 and 25)	656	671	6,107
Other	697	676	6,149
Total long-term liabilities	7,868	10,327	93,889
Total liabilities	43,731	42,918	390,168
Net assets			
Shareholders' equity:			
Common stock	33,239	33,239	302,175
Capital surplus	21,329	21,329	193,900
Retained earnings	74,275	93,861	853,283
Treasury stock	(27,458)	(27,461)	(249,653)
Total shareholders' equity	101,385	120,967	1,099,706
Accumulated other comprehensive income:			
Net unrealized gain or loss on securities, net of tax	(106)	56	514
Cumulative translation adjustments	(1,306)	(10)	(98)
Accumulated adjustments for retirement benefits	(237)	(219)	(1,993)
Total accumulated other comprehensive income	(1,650)	(173)	(1,578)
Total net assets	99,735	120,794	1,098,127
Total liabilities and net assets	143,466	163,712	1,488,296

The accompanying notes are an integral part of these financial statements.

Consolidated statements of income

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2019 to March 31, 2020	April 1, 2020 to March 31, 2021	April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net sales	81,591	95,308	866,444
Cost of sales (Note 9(1))	40,643	42,567	386,974
Gross profit	40,947	52,741	479,469
Selling, general and administrative expenses (Notes 9(2) and (3))	18,119	18,145	164,960
Operating income	22,827	34,596	314,509
Non-operating income:			
Interest income	271	65	597
Dividend income	18	19	175
Exchange gains, net	-	611	5,561
Subsidy income	86	52	476
Compensation for damage	-	130	1,188
Other	104	155	1,412
Total non-operating income:	480	1,035	9,412
Non-operating expenses:			
Interest expense	74	72	659
Commission fees	69	46	425
Exchange loss, net	93	-	-
Loss on liquidation of subsidiaries	-	452	4,112
Other	113	214	1,951
Total non-operating expenses	350	786	7,148
Ordinary income	22,957	34,845	316,773
Special losses:			
Loss on sales and/or disposal of fixed assets (Note 9(4))	62	16	149
Loss on sales of investments in securities	4	-	-
Total special losses	67	16	149
Net income before income taxes	22,890	34,828	316,624
Income taxes - current	8,472	10,084	91,676
Income taxes - deferred (Note 17)	(1,531)	(179)	(1,629)
Total income taxes	6,941	9,905	90,046
Net income	15,949	24,923	226,578
Net income attributable to owners of the parent	15,949	24,923	226,578

The accompanying notes are an integral part of these financial statements.

Consolidated statements of comprehensive income

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income	15,949	24,923	226,578
Other comprehensive income (Note 10)			
Net unrealized gain or loss on securities, net of tax	(133)	163	1,482
Cumulative translation adjustments	(592)	1,295	11,779
Adjustments for retirement benefits	34	17	162
Total other comprehensive income	(691)	1,476	13,423
Comprehensive income	15,257	26,400	240,001
Comprehensive income attributable to:			
Owners of the parent	15,257	26,400	240,001
Non-controlling interests	-	-	-

The accompanying notes are an integral part of these financial statements.

Consolidated statements of changes in net assets

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2019	33,239	21,328	62,595	(27,456)	89,708
Changes of items during the current fiscal year					
Cash dividends (Note 11(1))			(4,270)		(4,270)
Net income attributable to owners of the parent			15,949		15,949
Repurchase of treasury stock				(2)	(2)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	-	0	11,679	(2)	11,677
Balance as of March 31, 2020	33,239	21,329	74,275	(27,458)	101,385

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2019	26	(713)	(271)	(958)	88,749
Changes of items during the previous fiscal year					
Cash dividends (Note 11(1))					(4,270)
Net income attributable to owners of the parent					15,949
Repurchase of treasury stock					(2)
Disposal of treasury stock					0
Net changes of items other than shareholders' equity	(133)	(592)	34	(691)	(691)
Total changes of items during the current fiscal year	(133)	(592)	34	(691)	10,985
Balance as of March 31, 2020	(106)	(1,306)	(237)	(1,650)	99,735

The accompanying notes are an integral part of these financial statements.

Consolidated statements of changes in net assets

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2020	33,239	21,329	74,275	(27,458)	101,385
Changes of items during the current fiscal year					
Cash dividends (Note 11(2))			(5,337)		(5,337)
Net income attributable to owners of the parent			24,923		24,923
Repurchase of treasury stock				(3)	(3)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity					
Total changes of items during the current fiscal year	-	-	19,586	(3)	19,582
Balance as of March 31, 2021	33,239	21,329	93,861	(27,461)	120,967

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2020	(106)	(1,306)	(237)	(1,650)	99,735
Changes of items during the fiscal year					
Cash dividends (Note 11(2))					(5,337)
Net income attributable to owners of the parent					24,923
Repurchase of treasury stock					(3)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity	163	1,295	17	1,476	1,476
Total changes of items during the current fiscal year	163	1,295	17	1,476	21,058
Balance as of March 31, 2021	56	(10)	(219)	(173)	120,794

(Thousands of U.S. dollars)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2020	302,175	193,900	675,228	(249,619)	921,684
Changes of items during the fiscal year					
Cash dividends (Note 11(2))			(48,522)		(48,522)
Net income attributable to owners of the parent			226,578		226,578
Repurchase of treasury stock				(33)	(33)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity					
Total changes of items during the fiscal year	-	-	178,055	(33)	178,021
Balance as of March 31, 2021	302,175	193,900	853,283	(249,653)	1,099,706

	Accumulated other comprehensive income				Total net assets
	Net unrealized gain on securities, net of tax	Cumulative translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
Balance as of April 1, 2020	(967)	(11,878)	(2,155)	(15,001)	906,682
Changes of items during the fiscal year					
Cash dividends (Note 11(2))					(48,522)
Net income attributable to owners of the parent					226,578
Repurchase of treasury stock					(33)
Disposal of treasury stock					-
Net changes of items other than shareholders' equity	1,482	11,779	162	13,423	13,423
Total changes of items during the fiscal year	1,482	11,779	162	13,423	191,445
Balance as of March 31, 2021	514	(98)	(1,993)	(1,578)	1,098,127

The accompanying notes are an integral part of these financial statements.

Consolidated statements of cash flows

	Previous fiscal year	Current fiscal year	Current fiscal year
	April 1, 2019 to March 31, 2020 Millions of yen	April 1, 2020 to March 31, 2021 Millions of yen	April 1, 2020 to March 31, 2021 Thousands of U.S. dollars
Cash flows from operating activities:			
Net income before income taxes	22,890	34,828	316,624
Depreciation and amortization	2,795	2,791	25,378
Increase (decrease) in allowance for doubtful accounts	(25)	5	46
Increase in accrued bonuses	49	912	8,292
Increase in liabilities for retirement benefits for employees	258	281	2,557
Interest and dividend income	(289)	(85)	(773)
Interest expense	74	72	659
Exchange (gain) loss, net	180	(37)	(345)
Loss on sales and/or disposal of fixed assets	62	16	149
Decrease in accounts receivable - trade	(2,117)	(9,028)	(82,076)
Decrease in inventories	(256)	(997)	(9,069)
Decrease in work in progress for game software	(4,293)	(3,213)	(29,213)
(Decrease) increase in notes and accounts payable - trade	749	(2,233)	(20,307)
(Decrease) increase in deferred revenue	6,107	(1,077)	(9,791)
Other	2,418	527	4,794
Subtotal	28,605	22,761	206,924
Interest and dividends received	265	99	905
Interest paid	(75)	(72)	(661)
Income taxes paid	(6,515)	(8,162)	(74,208)
Net cash provided by operating activities	22,279	14,625	132,959
Cash flows from investing activities:			
Payments into time deposits	(6,019)	(13,742)	(124,930)
Proceeds from withdrawal of time deposits	-	12,660	115,094
Payments for acquisitions of tangible fixed assets	(2,273)	(2,305)	(20,961)
Proceeds from sales of tangible fixed assets	0	1	13
Payments for acquisitions of intangible assets	(65)	(817)	(7,430)
Payments for purchase of investments in securities	(10)	(15)	(139)
Proceeds from sales of investments in securities	3	-	-
Payments for other investing activities	(213)	(51)	(468)
Proceeds from other investing activities	140	37	337
Net cash used in investing activities	(8,437)	(4,233)	(38,483)
Cash flows from financing activities:			
Proceeds from long-term borrowings	-	3,000	27,272
Repayments of long-term borrowings	(1,579)	(4,129)	(37,538)
Repayments of lease obligations	(505)	(500)	(4,552)
Payments for repurchase of treasury stock	(1)	(3)	(33)
Dividends paid by parent company	(4,265)	(5,331)	(48,469)
Net cash used in financing activities	(6,351)	(6,965)	(63,321)
Effect of exchange rate changes on cash and cash equivalents	(823)	944	8,587
Net change in cash and cash equivalents	6,667	4,371	39,742
Cash and cash equivalents at beginning of year	53,004	59,672	542,474
Cash and cash equivalents at end of year (Note 12)	59,672	64,043	582,216

The accompanying notes are an integral part of these financial statements.

1. Major policies in preparing the consolidated financial statements:

The accompanying consolidated financial statements of CAPCOM CO., LTD. (the "Company") and its subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Financial Instruments and Exchange Act.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of translation into U.S. dollars, it is rounded down to the nearest 1 thousand U.S. dollars).

The rate of ¥110 to U.S.\$1.00, the approximate current rate of exchange prevailing on March 31, 2021, 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, have been or could be converted into U.S. dollars at this or any other rate.

2. Summary of significant accounting policies:

(1) Principles of consolidation

The consolidated financial statements consist of the accounts of the Company and its 12 majority owned subsidiaries (the "Companies") at the relevant balance sheet date. All significant intercompany transactions and accounts have been eliminated.

The investments in 20% to 50% owned companies (affiliated companies) are, with minor exceptions, accounted for under the equity method.

The 12 subsidiaries are as follows:

CAPCOM U.S.A., INC. (U.S.A.)
BEELINE INTERACTIVE, INC. (U.S.A.)
CE EUROPE LTD. (U.K.)
CAPCOM ENTERTAINMENT GERMANY GmbH (Germany)
CAPCOM ENTERTAINMENT FRANCE SAS (France)
CAPCOM SINGAPORE PTE. Ltd. (Singapore)
CAPCOM ASIA CO., LTD. (Hong Kong)
CAPCOM TAIWAN CO., LTD. (Taiwan)
CAPCOM MAINTENANCE SERVICE CO., LTD. (Japan)
K2 CO., LTD. (Japan)
ENTERRISE CO., LTD. (Japan)
ADELION CO., LTD. (Japan)

An affiliated company accounted for under the equity method is as follows:

STREET FIGHTER FILM, LLC (U.S.A.)

CAPCOM MEDIA VENTUERS, INC. has been excluded from the scope of consolidation due to its merger with the surviving company, CAPCOM U.S.A., Inc. during the current fiscal year.

ADELION CO., LTD. and CAPCOM SINGAPORE PTE. LTD., have been included in the scope of consolidation due to foundation during the current fiscal year.

CAPCOM GAME STUDIO VANCOUVER, INC. and BEELINE INTERACTIVE CANADA, INC. have been excluded from the scope of consolidation due to their liquidation during the current fiscal year.

(2) Investments in securities

Available-for-sale securities whose fair values are readily determinable 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 "Net assets," at the net of tax 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 whose fair values are not readily determinable are stated at cost, cost being determined by the average cost method.

(3) Inventories ("Merchandise and finished goods," "Work in progress," "Raw materials and supplies") and "Work in progress for game software"

Inventories are stated at the acquisition cost, determined principally by the moving average cost method. Inventories are stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

Work in progress for game software, including development costs incurred by subcontractors for game machines, is stated at accumulated cost on a specific project basis. Work in progress for game software is stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amounts.

(4) Tangible fixed assets, except for leased assets

Tangible fixed assets are stated at cost. The Company and its domestic subsidiaries compute depreciation of tangible fixed assets using the declining balance method at rates based on the estimated useful life of the respective asset, except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings), for which depreciation is computed using the straight-line method. Foreign subsidiaries, except for some subsidiaries, compute depreciation on a straight-line basis.

The primary useful lives are as follows:

Buildings and structures	3-50 years
Equipment for amusement facilities	3-20 years

(5) Intangible assets, except for leased assets

Amortization of intangible assets is computed by the straight-line method. The amortization period, except that for computer software, is based upon the individual estimated useful life of the asset. The amortization period for computer software is based upon the estimated period of internal use (5 years.)

(6) Leased assets

Leases that do not transfer ownership of the leased assets to the lessee

Depreciation of such leased assets is computed by the straight-line method with the lease term regarded as useful life and the residual value at zero. If there is a contract on guaranteed residual value for the lease, such guaranteed residual value is used as the accounting residual one. Effective from the beginning of the fiscal year ended March 31 2020, foreign subsidiaries of the Company preparing financial statements based on International Financial Reporting Standard have adopted International Financial Reporting Standards No. 16 "Leases" ("IFRS 16") as described in "Change in accounting policies." IFRS 16 requires lessees to present all the leases as assets and liabilities on the balance sheet in principle and depreciate right-of-use assets using the straight-line method. Furthermore, leases under IFRS 16 are classified as finance leases.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is calculated based on the prior loss experience and the estimated amount of probable individual bad debts at the fiscal year end. This amount is considered sufficient to cover possible losses on collection.

(8) Accrued bonuses

Accrued bonuses are stated at the estimated amount of the bonus to be paid to employees based on their services provided during the fiscal year.

(9) Attributing retirement benefits to service periods and amortizing liabilities unrealized in profit or loss

In calculating projected benefit obligations, attributing retirement benefits to service periods is based on benefit formula method. Actuarial net gains or losses are amortized over 13 to 14 years, commencing from the following year in which they arise.

(10) Significant revenue and cost recognition

① Revenue recognition for game content

a. Information related to contracts and performance obligations

Major updating or other similar events after the release date are planned for some game software titles with online features among those which the Company sold to customers. Such events include the release of game content items which customers can play free of charge, and these releases are announced to and anticipated by customers. The Company assumes that it has an obligation to release these free download content items (Free DLCs) in future to customers. Therefore, Free DLCs for those yet to be released are not recognized as revenue at the end of consolidated fiscal year.

b. Information on the calculation of the transaction price and

c. information on the calculation of the amount to be allocated to performance obligations

The Company identifies distinct performance obligations for the "Full Game," which becomes available for playing on the release date, and "Free DLCs," which are additionally provided after the release date through major updating or other similar events, and allocates the transaction price of a game software title sold to customers to the Full Game and Free DLCs, based on their stand-alone selling prices. But the stand-alone selling prices of Full Game and Free DLCs were not directly observable. Therefore, the Company selected game software titles with charged downloadable content items (Charged DLCs) similar to the applicable game software titles by considering the game genres, details of the Full Game and DLCs, and distribution methods, and calculates the average ratio of the selling prices of Charged DLCs to the total of the selling prices of the Full Game and Charged DLCs (selling price ratio). The Company determined the transaction price of Free DLCs by multiplying the selling price of game software sold by the Company to customers by the selling price ratio.

d. Information on the time of satisfaction of performance obligations

The Company assumes that performance obligation is satisfied when Free DLC is provided to customers and made them available to play. Therefore, revenue from Free DLCs for those yet to be provided is deferred, recognized as sales over the planned period of Free DLC distribution after the date of provision based on the fact that it is released.

② Cost of game software production

Game software is produced by a combination of software functioning as program and multi-game content such as images and sound data. Since the Company consider both software and content as nonseparable, the primary economic value is based on content. Overall, the cost of game software is booked as work in progress for game software when commercialization has been authorized at the company. The cost of production capitalized as assets is booked as cost of sales based on expected sales revenue.

(11) Cash and cash equivalents in the consolidated statements of cash flows

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 an insignificant risk of change in value.

(12) Other

Accounting for consumption taxes

Consumption taxes on goods and services are not included in the revenue and expense amounts in the accompanying consolidated statements of income.

3. Significant accounting estimates

(1) Revenue recognition of free download contents

① Deferred revenue of free download contents
on the consolidated financial statement for the current fiscal year

Of the ¥6,673 million (\$60,665 thousands) stated as deferred revenue in the consolidated balance sheet for the current fiscal year, the amount of deferred revenue provided to free download contents for those yet to be released at the end of the current fiscal year was ¥6,385 million (\$58,048 thousands).

② Information on significant accounting estimates for identified items

a. Estimate calculation method b. Major assumption for estimation
It is the same as the content described in Note 2 (10) ①, "Summary of significant accounting policies - Significant revenue and cost recognition - Revenue recognition for game content".

c. The impact on the consolidated financial statement for the next fiscal year

The amount stated on the consolidated balance sheet for the current fiscal year will be recognized as sales in the next fiscal year.

(2) Valuation of work in progress for game software

① Work in progress for game software stated on the consolidated financial statement for the current fiscal year

Out of the work in progress for game software of ¥24,443 million (\$222,212 thousand) stated on the consolidated balance sheet for the current fiscal year, the Company decided that game titles of ¥4,774 million (\$43,407 thousand) that could have a significant impact on the consolidated financial statement for the next fiscal year as a result of comprehensively taking into account materiality in value by title and possibility of reviewing the planned sales revenue.

② Information on significant accounting estimates

a. Estimate calculation method

Work in progress for game software is stated at cost with the book value reduction method based on a decline in profitability for balance sheet carrying amount. For game software titles yet to be released, the Company reduces the carrying amounts to the net selling price, which is reasonably estimated by deducting the estimated additional development costs and the estimated direct selling expenses from the planned sales revenue, in the case that the carrying amounts for game software exceed the net selling price. For released game software titles, in the case that the actual sales revenue is significantly below the plan continuously or remarkable decline in revenue is expected, the Company reviews the planned sales revenue and reasonably review the net selling price, which is calculated by deducting the estimated additional development cost and the estimated direct selling expenses from the reviewed planned sales revenue, and then reduces the carrying amounts to the renewed net selling price.

b. Major assumptions for estimation

The number of units sold and the selling price, which are the basis for the estimates of the planned sales revenue were judged by management subjectively based on the forecast of console markets and user's purchase trends, among others, and by referring to the reputation of previous and similar titles, price strategies, and method for distribution to customers, among others.

c. Impact on the consolidated financial statement for the next fiscal year

The Company considers that the elements used for the major assumptions to calculate work in progress for game software are reasonable. However, in the case of market shifts and unexpected changes in economic and business preconditions, there is a possibility that the carrying amount of work in progress for game software for the next fiscal year might be affected. As the margin of safety ratio (financial indicator to measure how far the planned sales revenue exceeds the break even sales) for the titles described in "① Work in progress for game software stated on the consolidated financial statement for the current fiscal year" is around 20% on average, there is a possibility of a reduction in the carrying amount for work in progress for game software if the margin of safety ratio for the titles in question is below 20%.

4. Unapplied accounting standards, etc., to be applied to the Companies

- (1) Accounting Standard for Revenue Recognition, etc.
"Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 29, March 31, 2020)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)
- (i) Overview
This is a comprehensive accounting standard for revenue recognition.
Revenue recognition takes the following five steps.
Step 1: Identify the contract(s) with a customer
Step 2: Identify the separate performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations
Step 5: Recognize revenue when the entity satisfies a performance obligation
- (ii) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022
- (iii) Effects of application of the Guidance
The impact is now under examination.
- (2) Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)
- (i) Overview
To enhance comparability with internationally accepted accounting standards, Accounting Standard for Fair Value Measurement and Implementation Guidance on Accounting Standard for Fair Value Measurement ("Fair Value Measurement Accounting Standard, etc.") have been developed and the guidance on methods of fair value calculation, etc., has been clearly stated. Fair Value Measurement Accounting Standard, etc., will be applied to the fair value for the following items.
- Financial instruments in Accounting Standard for Financial Instruments
 - Inventories held for short-term trading purposes in Accounting Standard for Measurement of Inventories
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments has been revised and the disclosure guidance on the notes to the breakdown of the fair value of financial instruments has been clearly stated.
- (ii) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022
- (iii) Effects of application of the Guidance
The impact is now under examination.

5. Unapplied accounting standards, etc., to be applied to foreign subsidiaries

- (1) Leases (US GAAP ASU 2016-02)
- (i) Overview
This accounting standard requires the lessee to present assets and liabilities for all leases in principle.
- (ii) Effective date
To be adopted from the beginning of the fiscal year ending March 31 2023
- (iii) Effects of application of the Guidance
The impact is now under examination.

6. Change in presentation

(Adoption of Accounting Standard for Disclosure of Accounting Estimates)

"Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) is applied at the current fiscal year, note related to significant accounting estimates is stated in the Consolidated Financial Statements.
However, in accordance with the transitional treatment stipulated in the provisions of paragraph 11 of the Accounting Standard for Disclosure of Accounting Estimates, the content related to the previous fiscal year is not stated in the notes.

7. Additional information

(Accounting Estimates taking into account the impact of the new coronavirus infection spreading)

With the new coronavirus infection spreading, the Companies have introduced telework for all employees. In the Arcade operation business, the Companies have changed business hours for some amusement stores or temporarily closed others. Under the assumption that the spread of the infectious disease would continue until the first half of 2021, the Companies reflected this assumption in the accounting estimates on accounting treatments, such as realizabilities of deferred tax assets, etc. It will negatively affect the Companies' business results and financial positions if the spread of the new coronavirus continues.

(Adoption of Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

"Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020) is applied at the current fiscal year and disclose "Significant revenue and cost recognition"

8. Notes to consolidated balance sheets

(1) Accumulated depreciation of tangible fixed assets

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021	Current fiscal year March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Accumulated depreciation of tangible fixed assets	22,065	23,573	214,304

(Note) The above balances include the accumulated impairment loss on tangible fixed assets.

(2) Overdraft agreements and credit line agreements

The Company has entered into overdraft agreements for the purpose of efficient and sustainable financing and improving the efficiency of funds operations and the Company's financial flexibility.

The Company had entered into credit line agreements of ¥20,000 million at the end of the previous fiscal year, but the agreement expired at the end of the current fiscal year.

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021	Current fiscal year March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of overdraft limit and credit line	26,700	6,700	60,909
Borrowings	-	-	-
Unexercised balance	26,700	6,700	60,909

9. Notes to consolidated statements of income

(1) The amount of book value reduction based on a decline in profitability including in "Cost of Sales"

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	6,754	943	8,574

(2) Major items and the amounts under "Selling, general and administrative expenses"

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Advertising expenses	3,080	2,684	24,406
Promotion expenses	1,172	493	4,488
Salaries for directors and employees	4,719	4,717	42,890
Provision for accrued bonuses	1,037	1,662	15,111

(3) Research and development expenses included in general and administrative expenses

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	1,253	1,461	13,282

(4) The breakdown of "Loss on sales and/or disposal of fixed assets"

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Buildings and structures	8	2	26
Tools, fixtures and furniture	7	(0)	(1)
Equipment for amusement facilities	30	13	123
Software	15	0	0
Total	62	16	149

10. Notes to consolidated statements of comprehensive income

Amount of recycling and income tax effect associated with other comprehensive income

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net unrealized gain or loss on securities			
Amount arising during the fiscal year	(133)	163	1,482
Amount of recycling	-	-	-
Net gain before the effect of income taxes	(133)	163	1,482
Effect of income taxes	-	-	-
Net unrealized gain or loss on securities, net of tax	(133)	163	1,482
Cumulative translation adjustment			
Amount arising during the fiscal year	(591)	937	8,525
Amount of recycling	(0)	357	3,253
Adjustments for cumulative translation adjustment	(592)	1,295	11,779
Adjustments for retirement benefits			
Amount arising during the fiscal year	5	(17)	(161)
Amount of recycling	43	43	394
Net gain before the effect of income taxes	49	25	233
Effect of income taxes	(15)	(7)	(71)
Adjustments for retirement benefits, net of tax	34	17	162
Total other comprehensive income	(691)	1,476	13,423

11. Notes to consolidated statements of changes in net assets

(1) Previous fiscal year (April 1, 2019 to March 31, 2020)

① Number of outstanding shares

Type of shares	Number of shares as of April 1, 2019	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2020
Common stock (thousand shares)	135,446	-	-	135,446

(Note) There was no increase or decrease in the current fiscal year.

② Number of treasury stocks

Type of shares	Number of shares as of April 1, 2019	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2020
Common stock (thousand shares)	28,695	0	0	28,695

(Note) 1. The increase was due to purchases of less-than-one-unit shares.

0 thousand shares

2. The decrease was due to sales of less-than-one-unit shares.

0 thousand shares

③ Dividend

(i) Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2019	Common stock	¥2,135 million	20	March 31, 2019	June 18, 2019
Board of Directors' meeting held on October 29, 2019	Common stock	¥2,135 million	20	September 30, 2019	November 14, 2019

(ii) Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Source of dividends	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2020	Common stock	Retained earnings	¥2,668 million	25	March 31, 2020	June 18, 2020

(2) Current fiscal year (April 1, 2020 to March 31, 2021)

① Number of outstanding shares

Type of shares	Number of shares as of April 1, 2020	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2021
Common stock (thousand shares)	135,446	-	-	135,446

(Note) There was no increase or decrease in the current fiscal year.

② Number of treasury stocks

Type of shares	Number of shares as of April 1, 2020	Increase in the number of shares	Decrease in the number of shares	Number of shares as of March 31, 2021
Common stock (thousand shares)	28,695	0	-	28,696

(Note) The increase was due to purchases of less-than-one-unit shares.

0 thousand shares

③ Dividend

(i) Amount of dividends paid

Resolution	Type of shares	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 17, 2020	Common stock	¥2,668 million	25	March 31, 2020	June 18, 2020
Board of Directors' meeting held on October 29, 2020	Common stock	¥2,668 million	25	September 30, 2020	November 13, 2020

Resolution	Type of shares	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 17, 2020	Common stock	\$24,261 thousand	0.23	March 31, 2020	June 18, 2020
Board of Directors' meeting held on October 29, 2020	Common stock	\$24,261 thousand	0.23	September 30, 2020	November 13, 2020

(ii) Dividends whose effective date was to be after the end of current fiscal year and record date was included in the current fiscal year.

Resolution	Type of shares	Source of dividends	Amount of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2021	Common stock	Retained earnings	¥4,910 million	46	March 31, 2021	June 23, 2021

Resolution	Type of shares	Source of dividends	Amount of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 22, 2021	Common stock	Retained earnings	\$44,640 thousand	0.42	March 31, 2021	June 23, 2021

(Note) With an effective date of April 1, 2021, the Company performed a 2-for-1 stock split of its common stock, but "dividend per share" was calculated based on the amount before the stock split.

12. Notes to consolidated statements of cash flows

Cash and cash equivalents at end of year

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	65,657	71,239	647,636
Time deposits with maturities over three months	(5,985)	(7,196)	(65,419)
Cash and cash equivalents	<u>59,672</u>	<u>64,043</u>	<u>582,216</u>

13. Accounting for leases

(1) Capital leases

Capital leases which do not transfer ownership of the leased assets to the lessee

• Leased assets:

Tangible fixed assets

Major assets are equipment for amusement facilities for the "Arcade operations" segment and office rent for some subsidiaries.

• Depreciation method:

See Note 2(6), "Summary of significant accounting policies - Leased assets."

(2) Operating leases

① Future lease payments

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021	Current fiscal year March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Due within one year	360	389	3,542
Due over one year	1,521	1,279	11,635
Total	1,882	1,669	15,178

14. Financial instruments

(1) Conditions of financial instruments

① Management policy

The Companies' fund management policy is to invest in financial instruments that have high levels of safety concerning the repayment of the principal and the receipt of interest, taking safety, liquidity (negotiability, marketability) and profitability into consideration. The Companies raise funds through borrowings from financial institutions, such as banks, etc. The Companies also utilize derivative financial instruments in order to hedge foreign currency exchange risk and interest fluctuation rate risk and do not enter into derivative financial instruments for speculative purposes.

② Financial instruments, risks, and risk management

Notes and accounts receivable - trade are exposed to the credit risk of customers. To minimize the risk, the Companies regularly monitor the credit status of major customers as well as perform due date control and balance control for each customer according to the importance of the business in accordance with credit exposure management rules.

Lease deposits are mainly related to lease agreements, which are exposed to the credit risk of lessors. The Companies make the best effort to understand the credit conditions of the lessors when the Companies start transactions with the lessors and renew the agreements, or timely in other situations.

The investments in securities the Company holds consist mainly of listed equity securities of its business partners. These securities are exposed to stock price volatility risk. To minimize such risk, the Company states the fair value of these securities on a quarterly basis to report it to the Board of Directors' meeting.

As for notes and accounts payable - trade, due date of payment is within one year. Short-term borrowings are mainly for normal operating activities, and long-term borrowings (including "current portion of long-term borrowings") are mainly for capital investments. Notes and accounts payable - trade and borrowings are exposed to liquidity risk. The Companies minimize such risk by forecasting cash flows on a monthly basis.

③ Supplemental information on the fair value of financial instruments

Not applicable

(2) Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value and any differences between the two were as follows:

① Previous fiscal year (March 31, 2020)

(Millions of yen)

	Carrying value	Fair value	Difference
Cash on hand and in banks	65,657	65,657	-
Notes and accounts receivable - trade	15,959	15,959	-
Lease deposits	4,134	4,134	-
Total	85,751	85,751	-
Notes and accounts payable - trade	3,461	3,461	-
Electronically recorded monetary obligations	2,383	2,383	-
Long-term borrowings (*)	6,735	6,751	15
Total	12,580	12,596	15

(*) Long-term borrowings due within one year are included.

② Current fiscal year (March 31, 2021)

(Millions of yen)

	Carrying value	Fair value	Difference
Cash on hand and in banks	71,239	71,239	-
Notes and accounts receivable - trade	25,096	25,096	-
Lease deposits	4,140	4,138	(1)
Total	100,476	100,474	(1)
Notes and accounts payable - trade	2,820	2,820	-
Electronically recorded monetary obligations	882	882	-
Long-term borrowings (*)	5,606	5,615	9
Total	9,309	9,318	9

(Thousands of U.S. dollars)

	Carrying value	Fair value	Difference
Cash on hand and in banks	647,636	647,636	-
Notes and accounts receivable - trade	228,150	228,150	-
Lease deposits	37,636	37,620	(16)
Total	913,423	913,406	(16)
Notes and accounts payable - trade	25,638	25,638	-
Electronically recorded monetary obligations	8,022	8,022	-
Long-term borrowings (*)	50,969	51,052	83
Total	84,629	84,713	83

(*) Long-term borrowings due within one year are included.

(Note 1) Fair value measurement of financial instruments

Assets

(1) Cash on hand and in banks and (2) Notes and accounts receivable - trade

The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.

(3) Lease deposits

The fair value is measured at the present value of future cash flows discounted using the yield of national government bonds according to periods until repayment.

Liabilities

(1) Notes and accounts payable - trade and (2) Electronically recorded obligations

The fair value is assumed to be the same as the carrying value as it approximates fair value because of the short maturity of these instruments.

(3) Long-term borrowings

The fair value of long-term borrowings with variable interest rates is measured at the carrying value as it approximates fair value.

(The market interest rate fluctuation is reflected in the variable interest rates in the short term and the credit status of the Company does not change remarkably after raising funds through long-term borrowings with variable interest rates.)

The fair value of long-term borrowings with fixed rates is measured at the present value of future cash flow (principal plus interest) discounted using the assumed interest rate of similar new borrowings.

(Note 2) Redemption schedule for monetary assets with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (March 31, 2020)

(Millions of yen)

	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2025	April 1, 2025 to March 31, 2030	April 1, 2030 and thereafter
Cash on hand and in banks	65,657	-	-	-
Notes and accounts receivable - trade	15,959	-	-	-
Lease deposits	1,281	2,571	277	3
Total	82,898	2,571	277	3

(2) Current fiscal year (March 31, 2021)

(Millions of yen)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2026	April 1, 2026 to March 31, 2031	April 1, 2031 and thereafter
Cash on hand and in banks	71,239	-	-	-
Notes and accounts receivable - trade	25,096	-	-	-
Lease deposits	1,098	2,435	602	3
Total	97,435	2,435	602	3

(Thousands of U.S. dollars)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2026	April 1, 2026 to March 31, 2031	April 1, 2031 and thereafter
Cash on hand and in banks	647,636	-	-	-
Notes and accounts receivable - trade	228,150	-	-	-
Lease deposits	9,988	22,139	5,478	30
Total	885,775	22,139	5,478	30

(Note 3) Repayment schedule for current portion of long-term and long-term borrowings with maturity dates subsequent to the consolidated balance sheets date

(1) Previous fiscal year (March 31, 2020)

(Millions of yen)

	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 and thereafter
Long-term borrowings	4,129	727	626	626	626	-
Total	4,129	727	626	626	626	-

(*) Long-term borrowings due within one year are included.

(2) Current fiscal year (March 31, 2021)

(Millions of yen)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026	April 1, 2026 and thereafter
Long-term borrowings (*)	727	626	3,626	626	-	-
Total	727	626	3,626	626	-	-

(*) Long-term borrowings due within one year are included.

(Thousands of U.S. dollars)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026	April 1, 2026 and thereafter
Long-term borrowings (*)	6,617	5,694	32,966	5,691	-	-
Total	6,617	5,694	32,966	5,691	-	-

(*) Long-term borrowings due within one year are included.

15. Investments in securities

(1) Available-for-sale securities with a readily determinable fair value

① Previous fiscal year (March 31, 2020)

(Millions of yen)

Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	50	39	10
Bonds	-	-	-
Others	-	-	-
Subtotal	50	39	10
Securities with book value not exceeding acquisition cost			
Equity securities	325	442	(117)
Bonds	-	-	-
Others	-	-	-
Subtotal	325	442	(117)
Total	375	482	(106)

② Current fiscal year (March 31, 2021)

(Millions of yen)

Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	341	283	58
Bonds	-	-	-
Others	-	-	-
Subtotal	341	283	58
Securities with book value not exceeding acquisition cost			
Equity securities	212	214	(1)
Bonds	-	-	-
Others	-	-	-
Subtotal	212	214	(1)
Total	554	497	56

(Thousands of U.S. dollars)

Classification	Carrying value	Acquisition cost	Difference
Securities with book value exceeding acquisition cost			
Equity securities	3,104	2,575	528
Bonds	-	-	-
Others	-	-	-
Subtotal	3,104	2,575	528
Securities with book value not exceeding acquisition cost			
Equity securities	1,933	1,947	(14)
Bonds	-	-	-
Others	-	-	-
Subtotal	1,933	1,947	(14)
Total	5,037	4,522	514

(2) Investments in securities sold during the fiscal year

① Previous fiscal year (April 1, 2019 to March 31, 2020)

(Millions of yen)

Classification	Sales value	Gain on sales	Loss on sales
Equity securities	3	-	4

② Current fiscal year (April 1, 2020 to March 31, 2021)

Not applicable

16. Retirement benefits for employees

(1) Summary of retirement benefit plans

The Company and its subsidiaries have unfunded benefit plans (retirement lump sum grants) and defined contribution plans (defined contribution pension scheme) to be applied to retirement benefits for employees. Some subsidiaries account for retirement lump sum plans using the simplified method to calculate liabilities for retirement benefits for employees and retirement costs.

(2) Defined benefit plans (excluding plans using the simplified method)

① Change in projected benefit obligations

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	2,985	3,194	29,040
Service costs	270	283	2,577
Interest costs	14	16	146
Actuarial gain or loss incurred	(5)	17	161
Payment of retirement benefits	(70)	(64)	(586)
Projected benefit obligations at end of year	3,194	3,447	31,339

② Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021	Current fiscal year March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plans	3,194	3,447	31,339
Net balance presented in the consolidated balance sheet	3,194	3,447	31,339
Liabilities for retirement benefits for employees	3,194	3,447	31,339
Net balance presented in the consolidated balance sheet	3,194	3,447	31,339

③ Breakdown of retirement and pension cost

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Service costs	270	283	2,577
Interest costs	14	16	146
Amortization of actuarial differences	43	43	394
Net periodic benefit costs	329	343	3,118

④ Adjustments for retirement benefits

The breakdown of adjustments for retirement benefits before the effect of income taxes was as follows.

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Prior service liabilities	-	-	-
Actuarial differences	49	25	233
Total	49	25	233

⑤ Accumulated adjustments for retirement benefits

The breakdown of accumulated adjustments for retirement benefits before the effect of income taxes was as follows.

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial differences	341	341	3,102
Total	341	315	2,868

⑥ Actuarial assumption

Major actuarial assumption (on weighted average)

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021
Discount rate	0.6%	0.6%

(3) Defined benefit plans using the simplified method

① Change in projected benefit obligations

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations at beginning of year	18	18	164
Service costs	2	2	25
Payment of retirement benefits	(3)	-	-
Projected benefit obligations at end of year	18	20	189

② Reconciliation of projected benefit obligations to liabilities for retirement benefits for employees

	March 31, 2020	March 31, 2021	March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations for unfunded plans	18	20	189
Net balance presented in the consolidated balance sheet	18	20	189
Liabilities for retirement benefits for employees	18	20	189
Net balance presented in the consolidated balance sheet	18	20	189

③ Retirement and pension cost

Retirement and pension costs for plans using the simplified method were ¥2 million for the previous fiscal year and ¥2 million (\$25 thousand) for the current fiscal year.

(4) Defined contribution plans

The Companies contributed ¥310 million and ¥328 million (\$2,987 thousand) to their defined contribution plans for the previous fiscal year and the current fiscal year, respectively.

17. Accounting for income taxes

(1) Significant components of deferred tax assets and liabilities

	Previous fiscal year	Current fiscal year	Current fiscal year
	March 31, 2020	March 31, 2021	March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
(Deferred tax assets)			
Accrued bonuses	927	1,189	10,812
Liabilities for retirement benefits for employees	980	1,058	9,624
Accrued retirement benefits for directors	105	103	939
Inventories	2,933	2,781	25,288
Unearned revenue	428	152	1,389
Investments in subsidiaries and affiliated companies	151	151	1,380
Tax loss carryforwards in the subsidiaries	2,191	1,737	15,794
Tax credits carryforwards in the subsidiaries	769	199	1,817
Depreciation and amortization	247	128	1,167
Deferred revenue	482	1,188	10,800
Other	1,032	1,152	10,477
Subtotal	10,251	9,844	89,492
Valuation allowance for tax loss carryforwards (Note)	(550)	(566)	(5,150)
Valuation allowance for deductible temporary differences	(1,557)	(1,000)	(9,093)
Total valuation allowance	(2,108)	(1,566)	(14,244)
Total deferred tax assets	8,142	8,277	75,247
(Deferred tax liabilities)			
Other	(241)	(189)	(1,720)
Total deferred tax liabilities	(241)	(189)	(1,720)
Net deferred tax assets	7,901	8,088	73,527

(Note) Tax loss carryforwards and deferred tax assets by expiration period

Previous fiscal year (March 31, 2020)

(Millions of yen)

	April 1, 2020 to March 31, 2021	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 and thereafter	Total
Tax loss carryforwards (a)	-	-	-	-	-	2,191	2,191
Valuation allowance	-	-	-	-	-	(550)	(550)
Net deferred tax assets (b)	-	-	-	-	-	1,641	1,641

(a) Above tax loss carryforwards were calculated by multiplying the statutory tax rate.

(b) For tax loss carryforwards of ¥2,191 million (amount multiplied by the statutory tax rate), deferred tax assets of ¥1,641 million were presented.

Deferred tax assets of ¥1,641 million were expected to be recoverable for a portion of the tax loss carryforwards of ¥1,808 million incurred by CAPCOM U.S.A., INC., which arose in relation to adjustments of transfer price taxation system.

Current fiscal year (March 31, 2021)

(Millions of yen)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026	April 1, 2026 and thereafter	Total
Tax loss carryforwards (a)	-	-	-	20	-	1,716	1,737
Valuation allowance	-	-	-	-	-	(566)	(566)
Net deferred tax assets (b)	-	-	-	20	-	1,149	1,170

(Thousands of U.S. dollars)

	April 1, 2021 to March 31, 2022	April 1, 2022 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026	April 1, 2026 and thereafter	Total
Tax loss carryforwards (a)	-	-	-	189	-	15,604	15,794
Valuation allowance	-	-	-	-	-	(5,150)	(5,150)
Net deferred tax assets (b)	-	-	-	189	-	10,454	10,644

(a) Above tax loss carryforwards were calculated by multiplying the statutory tax rate.

(b) For tax loss carryforwards of ¥1,737 million (\$15,794 thousand) (amount multiplied by the statutory tax rate), deferred tax assets of ¥1,170 million (\$10,644 thousand) were presented. Deferred tax assets of ¥1,170 million (\$10,644 thousand) were expected to be recoverable for a portion of the tax loss carryforwards of ¥1,397 million (\$12,706 thousand) incurred by CAPCOM U.S.A., INC., which arose in relation to adjustments of transfer price taxation system.

(2) Reconciliation of the difference between the statutory tax rate and the effective income tax rate

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021
	(Unit : %)	(Unit : %)
Statutory income tax rate (Reconciliation)	-	30.5
Change in valuation allowance	-	0.1
Tax credit	-	(1.3)
Different tax rates applied to foreign subsidiaries	-	(0.8)
Permanent difference (meals and entertainment, etc.)	-	0.5
Unappropriated retained earnings of foreign	-	0.1
Tax adjustments resulting from consolidation elimination entries, etc.	-	(0.2)
Others	-	(0.4)
Effective income tax rate	<u>-</u>	<u>28.4</u>

The note for the previous fiscal year was omitted as the difference between the two rates was 5% or less of the statutory income tax rate.

18. Asset retirement obligations

Asset retirement obligations on the balance sheet.

① Outline of asset retirement obligations

Obligations to restore business offices and amusement stores in the "Arcade operations" segment to their original state, as specified in the real estate lease agreements.

② Calculation of asset retirement obligations

Asset retirement obligations are calculated with the future cash flows discounted. For the business offices, their depreciation periods (mainly 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which correspond to the respective depreciation periods, are used as their discount rates.

For the amusement facilities, their lease periods (mainly 6 to 15 years) are regarded as their estimated periods of use and the yields of the national government bonds, which corresponds to the respective lease periods, are used as their discount rates.

③ Increase or decrease in asset retirement obligations

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Beginning balance	571	656	5,969
Increase due to purchase of tangible fixed assets	80	10	96
Adjustment due to passage of time	<u>4</u>	<u>4</u>	<u>41</u>
Ending balance	656	671	6,107

19. Investment and rental property

The note is omitted due to the insignificance of the total amount.

20. Segment information

(1) Outline of reportable segments

① Classification of reportable segments

The reportable segments the Company reports are the business units for which the Company is able to obtain separate financial information in order for the Board of Directors to conduct periodic investigations to determine the distribution of operational resources and to evaluate business performance. The Company has several operational headquarters which plan comprehensive business strategies in the domestic and overseas markets for their products and services, and develop its business activities. Therefore the Company's reportable segments are based on the products and services its operational headquarters deal in and are composed of the following 3 segments: "Digital content," "Arcade operations" and "Amusement equipment."

② Product and service line

The "Digital content" segment develops and distributes video and mobile games for consumers.

The "Arcade operations" segment operates amusement stores which install amusement equipment.

The "Amusement equipment" segment manufactures arcade game machines and pachinko gambling machines, etc. to be distributed to arcade operators and pachinko parlors.

(2) Method of calculating sales and income (loss), identifiable assets and liabilities and other items by reportable segment

The accounting policies for the reportable segment are based on those in "Summary of significant accounting policies."

Income by reportable segment is calculated based on operating income on the consolidated statements of income.

(3) Information on net sales and operating income (loss), identifiable assets and liabilities and other items by reportable segment

① Previous fiscal year (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	59,942	12,096	6,533	78,572	3,018	81,591	-	81,591
Intersegment	-	-	-	-	-	-	-	-
Total	59,942	12,096	6,533	78,572	3,018	81,591	-	81,591
Segment income	24,161	1,211	2,085	27,458	544	28,003	(5,176)	22,827
Segment assets	53,117	7,624	13,100	73,842	554	74,396	69,070	143,466
Other items								
Depreciation	840	1,163	152	2,157	16	2,173	621	2,795
Increase in tangible and intangible fixed assets	177	979	69	1,226	468	1,694	881	2,576

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character content business, etc.

2. Adjustments were as follows:

(1) Adjustments of segment income of (¥5,176) million include unallocated corporate operating expenses of (¥5,176) million. The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥69,070 million include unallocated corporate identifiable assets of ¥69,070 million.

(3) Adjustments of increase in tangible and intangible fixed assets of ¥881 million are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

② Current fiscal year (April 1, 2020 to March 31, 2021)

(Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	75,300	9,871	7,090	92,263	3,045	95,308	-	95,308
Intersegment	-	-	-	-	-	-	-	-
Total	75,300	9,871	7,090	92,263	3,045	95,308	-	95,308
Segment income	37,002	149	2,407	39,559	987	40,547	(5,951)	34,596
Segment assets	73,551	7,709	6,346	87,606	1,420	89,026	74,685	163,712
Other items								
Depreciation	925	1,005	255	2,185	23	2,209	581	2,791
Increase in tangible and intangible fixed assets	277	655	133	1,066	250	1,317	2,280	3,597

(Thousands of U.S. dollars)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
	Digital content	Arcade operations	Amusement equipment	Total				
Net sales								
Customers	684,551	89,742	64,463	838,757	27,687	866,444	-	866,444
Intersegment	-	-	-	-	-	-	-	-
Total	684,551	89,742	64,463	838,757	27,687	866,444	-	866,444
Segment income	336,387	1,358	21,889	359,634	8,975	368,610	(54,101)	314,509
Segment assets	668,645	70,082	57,694	796,422	12,911	809,334	678,961	1,488,296
Other items								
Depreciation	8,412	9,139	2,319	19,871	218	20,089	5,288	25,378
Increase in tangible and intangible fixed assets	2,522	5,962	1,213	9,698	2,274	11,973	20,735	32,708

(Note) 1. "Other" incorporates operations not included in reportable segments, including the character content business, etc.

2. Adjustments were as follows:

(1) Adjustments of segment income of (¥5,951) million ((\$54,101) thousand) include unallocated corporate operating expenses of (¥5,951) million ((\$54,101) thousand).

The corporate operating expenses, which do not belong to any reportable segments, mainly consist of administrative expenses.

(2) Adjustments of segment assets of ¥74,685 million (\$678,961 thousand) include unallocated corporate identifiable assets of ¥74,685 million (\$678,961 thousand).

(3) Adjustments of increase in tangible and intangible fixed assets of ¥2,280 million (\$20,735 thousand) are capital investments by headquarters.

3. Segment income is adjusted on operating income of the consolidated statements of income.

[Related information]

1. Information by product and service line

The information is omitted as the same kind of information is disclosed in Note 20(1), "Segment information."

2. Information by country or region

(1) Net sales

① Previous fiscal year (April 1, 2019 to March 31, 2020) (Millions of yen)

Japan	North America	Europe	Other regions	Total
40,371	20,927	10,663	9,628	81,591

② Current fiscal year (April 1, 2020 to March 31, 2021) (Millions of yen)

Japan	North America	Europe	Other regions	Total
46,427	25,816	13,191	9,872	95,308

(Thousands of U.S. dollars)

Japan	North America	Europe	Other regions	Total
422,068	234,696	119,925	89,753	866,444

- (Note)
1. The sales amounts are classified by country or region where customers are located.
 2. With increase in sales for digital distribution, it is difficult to find locations of end-user customers by country whom the Companies provide with games through some platforms. As a result, the Company omitted net sales by country other than Japan, instead describing net sales by identifiable region.

(2) Tangible fixed assets

The information is omitted as the balance of tangible fixed assets in Japan exceeded 90% or more of the total balance of tangible fixed assets of the consolidated balance sheet.

3. Information by major customer

(1) Previous fiscal year (April 1, 2019 to March 31, 2020) (Millions of yen)

Customer	Amount of net sales	Reportable segment
Sony Interactive Entertainment Inc.	8,583	Digital Content
Valve Corporation	12,688	Digital Content

(2) Current fiscal year (April 1, 2020 to March 31, 2021) (Millions of yen)

Customer	Amount of net sales	Reportable segment
Nintendo Co., Ltd.	13,965	Digital Content
Valve Corporation	10,595	Digital Content

(Thousands of U.S. dollars)

Customer	Amount of net sales	Reportable segment
Nintendo Co., Ltd.	126,957	Digital Content
Valve Corporation	96,322	Digital Content

[Impairment loss by reportable segment]

Not applicable

[Amortization and balance of goodwill by reportable segment]

Not applicable

[Negative goodwill by reportable segment]

Not applicable

21. Related party transactions
Not applicable

22. Per share information

Previous fiscal year April 1, 2019 to March 31, 2020		Current fiscal year April 1, 2020 to March 31, 2021		Current fiscal year April 1, 2020 to March 31, 2021	
Net assets per share	467.14 yen	Net assets per share	565.78 yen	Net assets per share	5.14 U.S. dollars
Net income per share	74.70 yen	Net income per share	116.74 yen	Net income per share	1.06 U.S. dollars

- (Note) 1. The diluted net income per share was omitted as the Companies had no residual securities.
2. With an effective date of April 1, 2021, the Company performed a 2-for-1 stock split of its common stock. The Company calculated "net assets per share" and "net income per share", assuming that the stock split was implemented with an effective date of April 1, 2019.
3. The basis for computation of net assets per share was as follows:

	Previous fiscal year March 31, 2020	Current fiscal year March 31, 2021	Current fiscal year March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Total amount of net assets	99,735	120,794	1,098,127
Amounts to be deducted from total amount of net assets	-	-	-
Ending balance of net assets attributable to common stock	99,735	120,794	1,098,127
Number of shares of common stocks used for computation of net assets per share (thousands of shares)	213,501	213,499	213,499

4. The basis for the computation of net income per share was as follows:

	Previous fiscal year April 1, 2019 to March 31, 2020	Current fiscal year April 1, 2020 to March 31, 2021	Current fiscal year April 1, 2020 to March 31, 2021
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Net income attributable to owners of the parent	15,949	24,923	226,578
Amount not allocated to common stock	-	-	-
Net income attributable to owners of the parent allocated to common stock	15,949	24,923	226,578
Average number of shares of common stock outstanding during the fiscal year (thousands of shares)	213,502	213,500	213,500

23. Significant subsequent events

(Stock split)

With an effective date of April 1, 2021, the Company split its stock by the resolution of the board of the director's meeting held on March 10, 2021.

1. Purpose

By reducing the price of an investment unit, the Company expects liquidity of its stock and expansion of its investors' base.

2. Outline of stock split

(1) Method of stock split

With March 31, 2021 being the record date, the common stocks held by the shareholders recorded on the last shareholders' list on the record date were split at a ratio of 1:2.

(2) Number of increase in shares by stock split

1) Number of issued shares before stock split	135,446,488 shares
2) Number of increase in issued shares by stock split	135,446,488 shares
3) Number of issued shares after stock split	270,892,976 shares
4) Total number of authorized shares after stock split	600,000,000 shares

3. Schedule of stock split

(1) Public notice date of the record date	March 12, 2021 (Friday)
(2) Record date	March 31, 2021 (Wednesday)
(3) Effective date	April 1, 2021 (Thursday)

4. Other

- (1) Following the above stock split, the total number of the authorized shares provided for in the article 6 of the Company's Articles of Incorporation, was changed from 300,000,000 to 600,000,000 on April 1, 2021 in accordance with the provisions of Article 184, Paragraph 2 of the Companies Act.
- (2) Change in the amount of common stocks
No change
- (3) Impact on per share information
The impact of the stock split is described in "Per share information".

(Transactions under common control)

At a meeting of the Board of Directors held on March 31, 2021, the Company resolved to accept the transfer of a portion of the business operated by CAPCOM U.S.A. INC. (CUSA), a subsidiary of the Company, and took over the business on April 1, 2021 based on the business transfer agreement.

1. Name of company and description of business to be transferred, legal form of business transfer, outline and purpose of the transaction

(1) Name of company and description of business to be transferred

Name: CAPCOM U.S.A. INC.

Contents of the business to be transferred CUSA's game contents business and merchandising business

(2) Legal form of business transfer

Acquisition in exchange for monetary consideration with the Company as the business acquisition company and the transfer source company as the business transfer company

(3) Outline and purpose of the transaction

The purpose of this transaction is to build a structure of the Transferee's unified contents management through integrating the Game Contents Business and Merchandising Business from the Transferor.

Thus, the Company aims to increase profits and brand value through further development of its Single Content Multiple Usage strategy.

2. Overview of accounting treatment

These transactions will be treated as transactions under common control in accordance with Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

24. Supplemental schedules of bonds
Not applicable

25. Supplemental schedules of borrowings

(Millions of yen)

Category	Balance as of March 31, 2020	Balance as of March 31, 2021	Average interest rate (%)	Date of maturity
Short-term borrowings	-	-	-	-
Current portion of long-term borrowings due within one year	4,129	727	1.1	-
Current portion of lease obligations	502	594	6.0	-
Long-term borrowings (Excluding current portion)	2,606	4,878	0.6	From 2022 to 2025
Lease obligations (Excluding current portion)	690	630	6.0	From 2022 to 2028
Other interest bearing debt	-	-	-	-
Total	7,928	6,832	-	-

(Thousands of U.S. dollars)

Category	Balance as of March 31, 2020	Balance as of March 31, 2021	Average interest rate (%)	Date of maturity
Short-term borrowings	-	-	-	-
Current portion of long-term borrowings due within one year	37,538	6,617	1.1	-
Current portion of lease obligations	4,566	5,407	6.0	-
Long-term borrowings (Excluding current portion)	23,697	44,352	0.6	From 2022 to 2025
Lease obligations (Excluding current portion)	6,275	5,732	6.0	From 2022 to 2028
Other interest bearing debt	-	-	-	-
Total	72,076	62,109	-	-

- (Note) 1. The "average interest rate" represents the weighted average rate applicable to the ending balance.
2. The following table shows the aggregate annual maturities of long-term borrowings and lease obligations for five years subsequent to March 31, 2021 (excluding the current portion).

(Millions of yen)

	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term borrowings	626	3,626	626	-
Lease obligations	315	166	57	51

(Thousands of U.S. dollars)

	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term borrowings	5,694	32,966	5,691	-
Lease obligations	2,867	1,517	525	466

26. Supplemental schedules of asset retirement obligations

The note is omitted because the balance of the asset retirement obligations as of the beginning and the end of the current fiscal year was 1% or less than the total balance of the liabilities and the net assets as of the beginning and the end of the current fiscal year, respectively.

27. Supplemental schedules of other

1. Quarterly sales, etc., for the current fiscal year

	1st quarter April 1, 2020 to June 30, 2020	2nd quarter April 1, 2020 to September 30, 2020	3rd quarter April 1, 2020 to December 31, 2020	4th quarter April 1, 2020 to March 31, 2021
Net sales (Millions of yen)	23,722	42,059	64,867	95,308
Net income before income taxes (Millions of yen)	10,618	17,564	24,078	34,828
Net income attributable to owners of the parent (Millions of yen)	7,815	12,993	17,523	24,923
Net income per share (yen)	36.60	60.86	82.08	116.74

	1st quarter April 1, 2020 to June 30, 2020	2nd quarter April 1, 2020 to September 30, 2020	3rd quarter April 1, 2020 to December 31, 2020	4th quarter April 1, 2020 to March 31, 2021
Net sales (Thousands of U.S. dollars)	215,656	382,360	589,705	866,444
Net income before income taxes (Thousands of U.S. dollars)	96,535	159,680	218,899	316,624
Net income attributable to owners of the parent (Thousands of U.S. dollars)	71,047	118,122	159,303	226,578
Net income per share (U.S. dollars)	0.33	0.55	0.75	1.06

	1st quarter April 1, 2020 to June 30, 2020	2nd quarter July 1, 2020 to September 30, 2020	3rd quarter October 1, 2020 to December 31, 2020	4th quarter January 1, 2021 to March 31, 2021
Net income per share (yen)	36.60	24.25	21.22	34.66

	1st quarter April 1, 2020 to June 30, 2020	2nd quarter July 1, 2020 to September 30, 2020	3rd quarter October 1, 2020 to December 31, 2020	4th quarter January 1, 2021 to March 31, 2021
Net income per share (U.S. dollars)	0.33	0.22	0.19	0.32

(Note) With an effective date of April 1, 2021, the Company performed a 2-for-1 stock split of its common stock. The Company calculated "net income per share", assuming that the stock split was implemented with an effective date of April 1, 2020.

2. Investigation by antitrust authority

The Company and its subsidiaries CE Europe Ltd. and Capcom U.S.A., Inc. (collectively, the Capcom Group) have settled with the European Commission on January 20, 2021 and have agreed to pay a fine of 396,000 euros (approximately ¥50 million yen/ \$457 thousand dollars), following an investigation by the European Commission involving the Capcom Group and related to a suspected breach of the European competition law regarding the sale of PC games in some regions of Europe. The Capcom Group paid the fine in February 2021.

Independent Auditor's Report

To the Board of Directors of CAPCOM Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of CAPCOM Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Adequacy of the valuation of work in progress for game software in the Digital Content business	
The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of Capcom Co., Ltd. (the "Company") and its consolidated subsidiaries for the current fiscal year, work in progress for game software of ¥24,443 million was recognized, representing 14.9% of total assets, majority of which was work in progress for game software in the Digital Content business.</p> <p>As described in Note 3(2), "Significant accounting estimates - Valuation of work in progress for game software" to the consolidated financial statements, the Company reduces the carrying amount of work in progress for game software based on a decline in profitability.</p> <p>When reducing the carrying amount of work in progress for game software based on a decline in profitability for game software titles yet to be</p>	<p>The primary procedures we performed to assess the adequacy of the Company's valuation of work in progress for game software in the Digital Content business included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the estimate of the net selling price of work in progress for game software. In the assessment, we focused particularly on controls to ensure that comparison of the planned and actual sales revenues was conducted for all released game software titles.</p> <p>(2) Assessment of the adequacy of the valuation of work in progress for game software</p>

released, the Company reduces the carrying amount by the difference between the net selling price, which is calculated by deducting the estimated additional development costs and the estimated direct selling expenses from the planned sales revenue, and the carrying amount of the work in progress for game software.

For released game software titles, the Company compares the planned and actual sales revenues, and reviews the planned sales revenue if the actual sales revenue is significantly below the plan. Then, the Company reduces the carrying amount by the difference between the net selling price, which is calculated by deducting the estimated additional development costs and the estimated direct selling expenses from the revised planned sales revenue, and the carrying amount of the work in progress for game software.

Among these, the number of units sold and the selling price, which are the basis for the estimate of the planned sales revenue, were estimated based on the forecasts of console markets and user's purchase trends, among others, and by referring to the reputation of previous and similar titles, price strategies, and method for distribution to customers, among others. In particular, the projection of the numbers of existing users of previous titles to be retained and new users to be acquired involved a high degree of uncertainty, and accordingly, management's judgement thereon had a significant effect on the estimates.

We, therefore, determined that our assessment of the adequacy of the valuation of work in progress for game software in the Digital Content business was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

In order to assess the reasonableness of the key assumptions adopted for estimating planned sales revenue of each title, which are important in the valuation of work in progress for game software, we performed the following procedures:

(i) Assessment for titles yet to be released

- We inquired of the personnel responsible for marketing about the basis of the number of units sold and the selling price, which are the basis for the estimate of the planned sales revenue, and inspected relevant documents;
- We assessed the reasonableness of the projected number of existing users of previous titles to be retained by comparing the planned number of units sold with the actual number of units sold of previous titles and inspecting marketing research materials;
- We assessed the reasonableness of the projected number of new users to be acquired by understanding the content details and new game elements of the applicable titles and comparing the obtained understanding with information on the user size of the same game genre obtained from external sources; and
- We assessed the reasonableness of the selling price of the applicable titles by comparing their pricing and price trend by regions and platforms with those of the previous titles.

(ii) Assessment for released titles

- We examined whether there were any released titles whose sales revenue was significantly below the plan by comparing planned and actual sales revenues of released titles.

Appropriateness of deferred revenues related to game content items downloadable free of charge

The key audit matter	How the matter was addressed in our audit
<p>In the consolidated balance sheet of CAPCOM CO., LTD. (the “Company”) for the current fiscal year, deferred revenues related to content items downloadable free of charge (free downloadable content items or “Free DLCs”) in the Digital Content business of ¥6,385 million were recognized under current liabilities, representing 14.8% of total liabilities.</p> <p>As described in Note 2(10)①, “Summary of significant accounting policies - Significant revenue and cost recognition - Revenue recognition for game content” to the consolidated financial statements, major updating or other similar events after the release date are planned for some game software titles with online features among those which the Company sold to customers. Such events include release of Free DLCs, i.e. game content items customers can play free of charge. These releases are announced to and anticipated by customers. Accordingly, the Company assumes that it has an obligation to release these Free DLCs in future to customers. Therefore, the Company identifies distinct performance obligations for the “Full Game,” which becomes available for playing on the release date, and “Free DLCs,” which are additionally provided after the release date through major updating or other similar events, and allocates the transaction price of a game software title sold to customers to the Full Game and Free DLCs, based on their stand-alone selling prices. Then, revenues from Free DLCs for those yet to be provided as of the end of an accounting period are not recognized and recorded as deferred revenues.</p> <p>While the allocation of a transaction price to Full Game and Free DLCs was made based on their stand-alone selling prices, the stand-alone selling prices of Full Game and Free DLCs were not directly observable. Therefore, the Company selected game software titles with charged downloadable content items (Charged DLCs) similar to the applicable game software titles and used the average ratio of selling prices of Charged DLCs to the total of the selling prices of the Full Game and Charged DLCs for allocation of transaction prices. In doing so, the similar game software titles were determined by comprehensively considering various factors such as the game genres, details of the Full Game and downloadable content items (DLCs), and</p>	<p>The primary procedures we performed to assess the appropriateness of deferred revenues related to Free DLCs included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the estimate of the deferred revenues related to Free DLCs. In this assessment, we focused particularly on controls to ensure that the Full Games and Charged DLCs used for allocation of the transaction price were selected on a reasonable basis.</p> <p>(2) Assessment of the reasonableness of the allocation of transaction prices</p> <p>In order to assess the reasonableness of the allocation of transaction prices to the Full Game and Free DLCs, we performed the following procedures:</p> <ul style="list-style-type: none">• We assessed the completeness of the list of game software titles used for selecting similar game software titles by comparing it with information obtained from external sources;• We assessed the accuracy of information on the game software (game genres and details of the Full Game and DLCs) used for selecting similar game software titles by comparing it with information obtained from external sources;• We assessed the reasonableness of the determination made in selecting highly similar game software titles used for allocating transaction prices by understanding the reasons for the selection. In addition, we inspected the list of game software titles to assess whether there was no other software title that was highly similar; and• We examined accuracy of the calculation of the average ratio of selling prices of Charged DLCs to the total of the selling prices of the Full Game and Charged DLCs of the selected game software titles, which was used for allocation of the transaction prices.

distribution methods. This determination involved a high degree of subjectivity of the management's judgment and, accordingly, the estimate involved a high degree of uncertainty.

We, therefore, determined that our assessment of the appropriateness of deferred revenues related to Free DLCs was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

Responsibilities of Management and the audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit and supervisory committee are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.


Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yasuhito Kondo
Designated Engagement Partner
Certified Public Accountant

Yasuhito Kondo 

Tomohiro Yamanaka
Designated Engagement Partner
Certified Public Accountant

Tomohiro Yamanaka 

KPMG AZSA LLC
Osaka Office, Japan
August 12, 2021