Sammy

Annual Report 2001

Profile

There are many ways to have fun, and one can never be sure where the journey will end. Blazing new trails in entertainment means daring to go beyond the conventional, and having the spirit and power to innovate. Sammy takes the idea of “enterprising spirit” to heart. We are expanding the domains of pachislot and pachinko, while focusing on our NEWS business, a new initiative at Sammy. We are accepting the challenges of creating new businesses in the entertainment field, and through it, unique value. Sammy is a company with the will to change and grow.

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On the Cover: The front cover of this year’s annual report is designed to portray how Sammy is on the ball, moving from a company focused mainly on the pachislot and pachinko machine business to a well-rounded entertainment company. Our NEWS business is at the center of this drive.









A Well-Rounded Entertainment Company





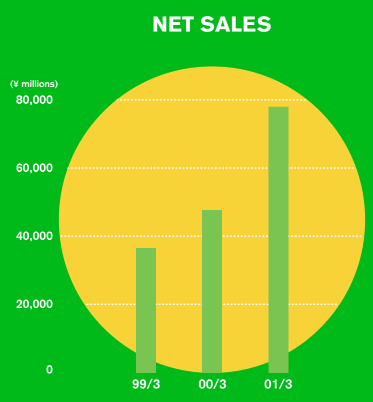


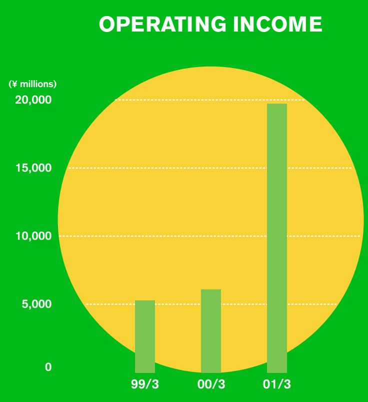
Consolidated Financial Highlights

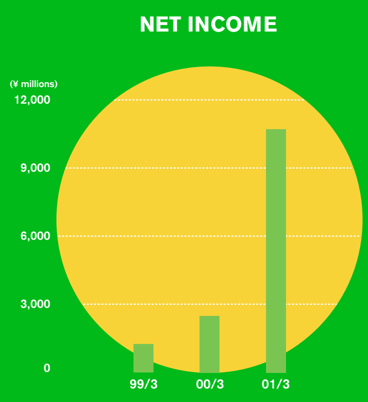
SAMMY CORPORATION and its subsidiaries
For the years ended March 31, 1999, 2000 and 2001

(¥ millions)	1999/3	2000/3	**2001/3**
For the year:			
Net sales	¥ 36,750	¥ 47,805	**¥ 78,276**
Gross profit	19,430	21,855	**45,187**
Operating income	5,307	6,128	**19,798**
Ordinary income	5,312	6,026	**19,759**
Income before income taxes and minority interest	2,428	5,925	**19,978**
Net income	1,256	2,498	**10,748**
At year-end:			
Total assets	¥ 25,595	¥ 40,563	**¥ 78,694**
Total shareholders' equity	8,013	18,570	**29,122**
Issued and outstanding shares	7,562,300	12,643,450	**25,602,400**
Per share:			
Shareholders' equity per share (¥)	¥1,059.65	¥1,468.79	**¥1,137.50**
Net income per share (¥)	166.15	212.11	**423.98**
Cash dividends (¥)	25.00	40.00	**60.00**
EBITDA	¥ 6,563	¥ 7,582	**¥ 21,349**
EBITDA margin (%)	17.9	15.9	**27.3**
Number of employees	481	592	**754**

Notes: 1. EBITDA = Operating income + Other income + Depreciation
2. Shareholders' equity per share and net income per share for the years ended March 31, 2000 and 2001 are calculated using the average number of outstanding shares.
3. A 1:1.5 stock split on shares of par value ¥50 carried out on October 25, 1999 created 3,781,150 new shares. In addition, a public offering conducted on December 16, 1999 resulted in the issuance of 1,300,000 new shares. On November 20, 2000, the company conducted a 1:2 stock split on shares of par value ¥50, issuing 12,666,650 new shares.







To Our Shareholders

Your company achieved substantial increases in sales and earnings in the past fiscal year. Behind this impressive performance were higher sales of our profitable pachislot machines and a recovery in the amusement business. Making the year even more noteworthy was our March 1, 2001 listing on the First Section of the Tokyo Stock Exchange. Events of the past fiscal year made this period a turning point in our history, setting the stage for our "second founding" and a new period of vigorous expansion as "The Entertainment Company."

Hajime Satomi
President & CEO

A Year of Dramatic Growth

Consolidated net sales surged 63.7% to ¥78,276 million, lifting operating income 223.1% to ¥19,798 million. There were many contributing factors. Most significant were the effectiveness of our Sammy, RODEO and Aristocrat multi-brand marketing strategy in the pachislot machine sector, and the enormous popularity of *JYUOH*, our new Sammy-branded pachislot machine. In the pachislot and pachinko machine business, measures to bolster our sales, new product development and manufacturing capabilities led to a 63.6% increase in sales to ¥69,104 million. Sales of pachislot machines accounted for 74.9% of this figure, up 20.4 percentage points on the previous fiscal year. Our amusement arcade equipment and home video game software businesses also performed well. Both posted big increases in sales and earnings. One reason was strength overseas, especially in North America, as demand rose for machines placed in shopping centers and sports bars. In Japan, our game software results were paced by the popularity of *Guilty Gear X*, a title for Sega's Dreamcast console.

In the others segment, sales were much higher due to expansion in our amusement facility operations and in several new business ventures. Nevertheless, start-up costs at a relatively new subsidiary resulted in an operating loss of ¥592 million.

Our Medium-Term Management Plan

The Sammy Group now stands on the verge of a full-scale transformation into "The Entertainment Company," a diversified provider of entertainment resources. Our goals thus extend well beyond the pachislot and pachinko markets. At the heart of our vision is the four-part NEWS (New Entertainment World of Sammy) business paradigm: amusement, new technology, content and merchandising. By extending our reach into new domains, we would like to be a wellspring of entertainment. We also envision synergies with existing operations. Many opportunities exist to utilize technology and characters from the NEWS business in our pachislot and pachinko machines.

In the fiscal year ending March 31, 2002, we are projecting a 50.7% rise in net sales to ¥118 billion. The completion of our new Kawagoe Factory has greatly stepped up our pachislot and pachinko machine production capacity. From this new base, we are working especially hard to increase our share of the pachinko machine market. Further enlargement of our nationwide sales network is another reason for our bullish top-line growth forecast.

We have established ambitious medium-term goals for the Sammy Group. Net sales are to rise to ¥156 billion in the year to March 2003 and to ¥193 billion in the following year. Sharpening our skills in R&D, sales and manufacturing will lead to more expansion in the pachislot and pachinko business. At the same time, we expect the NEWS business to make an increasingly significant contribution to consolidated results. Regarding profitability, we are aiming for ROE of at least 30% and ordinary income that is more than 25% of net sales.

Steps to Achieve Our Medium-Term Goals

In the pachislot and pachinko business, we are bolstering our R&D capabilities by attracting more talented people and improving the working environment to stimulate creativity. These initiatives target the development of more machines approved by authorities. Completion of the Kawagoe Factory and adoption of supply chain management (SCM) give us a much stronger quality assurance system and lower cost of production. Opening more sales offices is bringing us closer to our goal of a nationwide network. We will also be taking actions to bolster our marketing programs.

The NEWS business holds much potential. In the amusement sector, our plan is to launch a full-scale overseas expansion campaign. In the content sector, we intend to become a comprehensive supplier of digital content for home video games, mobile phones, PDAs and other devices. In the new technology sector, one of our central goals is to commercialize the Volumatrix optical 3D image system. In the merchandising sector, we will grow by creating items featuring our original characters as well as characters popularized through our pachislot and pachinko machine and content businesses.

To Our Shareholders

The Sammy Group's management team is fully committed to sustaining growth and maximizing shareholder value. The executive officer system we adopted this fiscal year gives us a speedier decision-making framework and more effective system for conducting our operations. Furthermore, as a Tokyo Stock Exchange listed company, we will strive to meet even higher standards in the soundness and transparency of management. For example, we have reinforced our compliance system by forming a committee for this purpose and preparing a manual. These and all other actions of management are aimed at meeting and exceeding the expectations of our shareholders. I believe that many more years of expansion and excitement lie ahead for the Sammy Group as we create more new forms of entertainment.

June 2001

Hajime Satomi
President & CEO

Frequently Asked Questions

Q

How did Sammy benefit from listing its shares on the First Section of the Tokyo Stock Exchange (TSE) on March 1, 2001?

A

This listing reinforced our operating base in a number of ways. We enhanced the image of the Sammy Group, increased the public's awareness of us, improved our ability to attract talented employees and opened up more avenues to raise funds. As a TSE-listed company, we also have a much better foundation for global expansion. Overall, the listing attests to the great strides we have made in accumulating value-generating knowledge, people, facilities, capital and information. Since Sammy's inception, I have stressed growth through a strategic focus on three core areas: pachislot, pachinko and amusement. Much progress has been made. But Sammy's comprehensive strengths, including those in the areas of new product development and sales, have still not reached the level that I envisioned. Our OTC registration in 1999 and TSE listing in March 2001 are both evidence of our ability to sustain growth. We are now aiming for more growth as "The Entertainment Company." We will develop our NEWS business into a core business alongside our pachislot and pachinko business. And our plans include overseas expansion too. Alliances, mergers and acquisitions are likely to be part of this growth process. Our TSE listing will thus be a valuable asset in many ways as we pursue our strategic goals.

Q

What is the secret behind Sammy's ability to introduce *JYUOH* and so many other mega-hit machines?

A

As a manufacturer of various amusement machines, we place the highest priority on new technology and ideas. More than a decade ago, we established a system whereby R&D teams are required to conduct monthly presentations of their new ideas for pachislot and pachinko machines to others within the Sammy Group. Representatives of other divisions are encouraged to speak their minds and submit suggestions. These presentations sharpen the skills of our R&D teams. The experience and knowledge acquired leads directly to the ability to conceive hit products. And, true to our philosophy of being an organization imbued with an "enterprising spirit," we are always open to new ideas and plans. Our people never shun a challenge. To give younger employees a broad range of experience, we give them positions of responsibility early in their careers. This is true of R&D as well as sales and management. A system is in place to ensure that those who perform well receive suitable monetary rewards. This combination of technical skills and experience is crucial to the creation of successful machines. More important still, these same strengths are vital to our ability to preserve the internal systems needed to sustain this development process.

Q

Why have you decided to develop NEWS (New Entertainment World of Sammy) into your next core business?

A

As a listed company, our greatest objective is to fulfill our obligation to society. For the Sammy Group, I believe that meeting this obligation demands that we continue to grow as a comprehensive entertainment company. Our stalwart pachislot and pachinko businesses target relatively mature markets in Japan. Success in these businesses depends on our ability to increase market share. That means we need to effectively implement pachislot and pachinko business strategies aimed at growth and profitability. NEWS, on the other hand, is a business sector with unlimited potential. There are four components: amusement, new technology, content and merchandising. All present opportunities to grow in Japan and overseas. This is why we are positioning NEWS as the cornerstone of our long-term growth strategy. By channeling resources to this business, we intend to foster NEWS into a business that will drive our next stage of expansion.

Q

Would you explain your basic strategy for the Sammy Group?

A

The Sammy Group must expand in two core businesses—pachislot & pachinko and NEWS. Each group company will be assigned a clear role within this framework so that a distinctive identity can be established. By growing and competing on an independent footing, each company will develop by concentrating on its field of expertise. Furthermore, I manage group companies so that each can take full advantage of its own strengths while also sharing resources with other group members to generate synergies. Alliances, mergers, acquisitions and the formation of new subsidiaries will be considered to add technologies and expertise in areas where the Sammy Group is wanting. Such actions will better enable us to launch new ventures efficiently and effectively. Most of all, my objective is to maintain consistent, long-term growth by increasing the strength of the entire Sammy Group.

PACHISLOT & PACHINKO

Pachislot & Pachinko Net Sales (¥ millions)

Review of Operations

The pachislot business was highlighted by a number of mega-hits. In May 2000, Sammy launched *the Gegege no Kitaro SP*, the first pachislot machine to incorporate an AT function. During the fiscal year, more than 16,000 units were sold, generating sales of ¥5,562 million. In August, we made history again by introducing *Diskup*, the first-ever pachislot unit with an AR function. Sales of ¥5,543 million were generated from orders for more than 17,000 of these units. *JYUOH*, a new model introduced in January 2001, became a hit of unprecedented magnitude. Featuring a dazzling dot display and a highly sophisticated new function called “Savanna Chance,” this model generated sales of ¥14,086 million as more than 42,000 units were shipped. In November 2000, sales of *Gamera*, the first member of the RODEO series, began. By the end of the fiscal year, more than 26,000 units had been sold, generating sales of ¥9,422 million. Overall, 153,108 pachislot units were sold during the year, including 102,260 Sammy units, 44,800 RODEO units and 6,048 units sold to Aristocrat.

In the pachinko business, Sammy launched new models featuring popular, well-known characters to provide enjoyment for a broad range of players. In May 2000, *the CR Hakushon Daimaoh S* went on sale. With a design motif based on the highly popular Hakushon Daimaoh character, the new unit attracted orders for more than 40,000 units and generated sales of ¥6,898 million. Building on this momentum, we introduced *the CR Tsuribaka Nisshi S* in December. Based on movie characters portrayed by two popular Japanese actors, this model posted sales of more than 34,000 units and ¥5,568 million. In all, Sammy sold 102,741 pachinko units during the year.

Due to these factors, total pachislot and pachinko sales in the fiscal year increased 63.6% to ¥69,104 million.

Business Development Plans

Pachislot is positioned as one of Sammy’s core businesses and a reliable source of sales and earnings. To establish a base for more growth, pachislot manufacturer RODEO Co., Ltd. became a subsidiary in July 2000 and we began supplying pachislot units to a new partner, Aristocrat Technologies Co., Ltd. These moves allow us to sell a line-up of machines bearing three valuable brands: Sammy, RODEO and Aristocrat. By leveraging our strengths in R&D and manufacturing as well as our nationwide sales network, we aim to raise our share of the pachislot market to more than 20%.

The pachinko sector has grown into an enormous market with more than 3.5 million units currently in use. Sammy began its full-scale participation in this market only last year. Having just begun to make inroads, we regard pachinko as an important source of growth over the medium term.

As pachinko becomes an increasingly amusement-oriented pastime, we expect to see a growing array of models incorporating game-like features. Sammy regards this trend as an opportunity to raise its market share. By aggressively developing new types of pachinko units, we intend to capture at least 10% of the pachinko market.

Research and Development

Sammy is placing top priority on bolstering its research and development capabilities with regard to pachislot and pachinko machines. The research staff is growing and actions are being taken to create an environment more conducive to the creation of innovative models. Backed by this powerful R&D platform, we were able to introduce hit products across all three brands during the past fiscal year, highlighted by the Sammy-branded pachislot machine *JYUOH*. All new products succeeded because they accurately targeted the needs of parlor operators and players. We are now bolstering ties between R&D, manufacturing and sales activities, sharing more parts among our models, enhancing the quality of parts and materials, and upgrading marketing activities. One major goal at this time is creating trend-setting pachinko units. In addition to increasing our R&D staff, we are focusing on supplying a diverse line of models structured so that each of our brands retains a distinct identity.

Manufacturing

In April 2001, manufacturing activities were moved from the Sayama Factory to our new facility in nearby Kawagoe, which has triple the capacity. Daily output of pachislot units, including 1,250 units produced on an outsourcing basis, exceeds 2,500 units and daily output of pachinko units is more than 3,000 units. The Kawagoe Factory is designed to meet the sudden and large influx of orders that customarily follows the release of a new model. We now have the infrastructure to support our multi-brand pachislot expansion as well as our initiatives to raise our share of the pachinko market. The new factory also features fully automated systems to achieve extremely high efficiency in manufacturing and warehousing. The adoption of supply chain management facilitates the comprehensive management of materials and components from the receipt of each item through the shipment of finished products. Incidences of unacceptable parts and materials are fewer and production costs lower as a result.

Sales Network

During the fiscal year, two local sales offices were opened, giving Sammy a sales network consisting of seven branch offices and 11 local sales offices. Investments will continue for the purpose of raising the share of products sold directly by Sammy. Specifically, we will be upgrading skills of sales personnel and opening more offices. Individual sales strategies will be formulated for each pachislot brand, creating an effective sales framework for the entire Sammy Group. Another theme is forming closer ties with parlors by taking advantage of our position as a supplier of both pachislot and pachinko machines. Market needs and trends will be rapidly incorporated in R&D and production activities to ensure that our products are always in step with demand dynamics.

Market Trends

Pachislot Market

Annual unit sales of pachislot machines exceeded the 1 million-unit mark in 2000. Driving this growth was the launch of machines offering appealing gameplay. The launch of an increasing variety of machines looks set to spur growth in the coming years.

	1996	1997	1998	1999	2000
Total units installed*	**767,584**	**880,090**	**1,004,642**	**1,139,356**	**1,323,729**
Annual unit sales	**423,993**	**525,866**	**775,019**	**937,205**	**1,127,766**
Market size (¥ millions)	**¥129,895**	**¥182,836**	**¥235,316**	**¥269,290**	**¥315,721**

(Sales and market data: Sales and Market Share of Pachinko and Pachislot Manufacturers in 2001, Yano Research Institute Ltd.)
(*Source: National Police Agency)

Pachinko Market

Both unit sales and installations of pachinko machines have been declining since peaking in 1996, due to the sale of standardized machines and to the expansion of the pachislot market. Since 1999, however, annual unit sales have been increasing owing to the approval by authorities of pachinko machines based on a variety of gaming concepts. In 2001 and thereafter, the launch of many new types of pachinko machines is expected to drive further recovery in the market.

	1996	1997	1998	1999	2000
Total units installed*	**4,100,466**	**3,883,343**	**3,706,004**	**3,569,879**	**3,422,650**
Annual unit sales	**3,935,063**	**2,847,838**	**2,358,321**	**3,128,054**	**3,399,098**
Market size (¥ millions)	**¥599,772**	**¥461,038**	**¥362,334**	**¥518,363**	**¥563,343**

(Sales and market data: Sales and Market Share of Pachinko and Pachislot Manufacturers in 2001, Yano Research Institute Ltd.)
(*Source: National Police Agency)

PACHISLOT & PACHINKO

Topics

"*JYUOH*" becomes Sammy's all-time, best-selling pachislot machine

JYUOH, a Sammy-brand pachislot machine, featuring an innovative gaming function called "Savanna Chance," has been well received by a large number of pachinko and pachislot parlors and an extensive fan base. As a result, *JYUOH* sales have exceeded those of "*Aladdin*," Sammy's previous bestseller in terms of orders received.

JOYCO SYSTEMS CORPORATION established to supply prepaid systems for game machines

On March 13, 2001, JOYCO SYSTEMS CORPORATION was formed to supply prepaid systems for game machines that meet the needs of pachinko parlor operators and players alike. The joint venture was established by Sammy and a host of other partners. Pachinko machine manufacturers Heiwa Corporation, Sanyo Bussan Co., Ltd., DAIICHI SHOKAI Co., Ltd., and Sophia Inc. were founding partners as was pachislot machine manufacturer Olympia Co., Ltd. The control equipment manufacturer OMRON Corporation also participated.

Sammy begins supply of Aristocrat-brand products

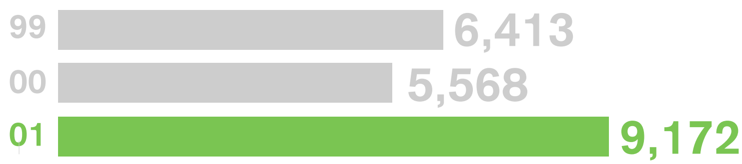
On March 1, 2000, Sammy entered into a partnership in pachislot machine manufacturing with Aristocrat Technologies Co., Ltd. (ACT), the Japanese subsidiary of Australia-based Aristocrat Technologies Australia Pty Ltd., the world's second largest slot machine manufacturer. Sammy began supplying pachislot machines to ACT on January 11, 2001.

The new Kawagoe Factory will bolster pachislot and pachinko production

On April 10, 2001, Sammy completed the construction of a new production facility in Kawagoe, Saitama Prefecture. State of the art with quality warehousing and distribution functions, the 4-story factory was built to meet higher demand for pachislot and pachinko machines. The factory site covers an area of 16,970m^2, of which buildings occupy 7,097m^2 with floor space of 15,972m^2. Kawagoe Factory will manufacture at least 3,000 pachinko machines and 1,250 pachislot machines on a daily basis, roughly 3 times the capacity of Sammy's old factory at Sayama.

NEWS

NEWS Sales (¥ millions)



Review of Operations

In the amusement business, *Guilty Gear X*, a full-scale fighting game, posted sales of ¥284 million, *Kids Medal* series posted sales of ¥435 million, and *the Doraemon no Unten Dai-Suki* driving game posted sales of ¥271 million. Overseas, the popularity in the U.S. of *Deer Hunting* lifted its sales to ¥668 million.

Home-use game software is to become an increasingly important sector of the NEWS business. In the past fiscal year, *Guilty Gear X*, a popular arcade game that was reprogrammed for the Dreamcast game console, sold 126,000 units and generated sales of ¥422 million. *Twilight Syndrome 2*, a game for the PlayStation console, sold more than 34,000 units and generated sales of ¥112 million. Additionally, sales of peripherals for the WonderSwan hand-held gaming system totaled ¥200 million.

Strategic Plans

The Sammy Group is now embarking on the full-scale development of the NEWS (New Entertainment World of Sammy) business to fuel growth for many years to come. This business basically consists of the amusement, new technology, content and merchandising sectors. Representing the directions north, east, west and south, the name also expresses Sammy's desire to supply new forms of entertainment worldwide. Eventually, NEWS is to become a consistently growing core source of sales and earnings on a par with the contributions of the pachislot and pachinko businesses.

Amusement:

We are aggressively targeting opportunities in medal game machines, an area where we are particularly strong, as well as arcade video games and games that award prizes to winners. Sales efforts will target mainly shopping centers, a relatively healthy market at a time when arcades and other members of the amusement sector are slumping. Plans further call for sales of new arcade machines on a global scale through Sammy USA Corporation, Sammy Europe Limited (U.K.), Sammy Entertainment Inc. (U.S.) and Sammy Amusement Service Co., Ltd. (Japan).

New Technology:

The goal of this business sector is to develop and supply the technology required to make possible new forms of entertainment. One example is Sammy's acquisition of exclusive marketing rights in Japan to the Volumatrix optical 3D image system developed by Optical Products Development Corp. (OPD) of the U.S. This revolutionary technology may become part of a broad spectrum of entertainment products. Research involving viewing angles, image intensity and other areas is proceeding with the aim of commercializing a Volumatrix product no later than March 2002.

In May 2000, we established Quat Technology Inc. for the purpose of developing middleware to assist in the creation of computer graphics software. The first product went on sale in December 2000: a development tool and middleware called *Tragi* for developers of PlayStation 2 games. The new company will continue to create sophisticated computer graphics production tools to meet growing demands for increasingly realistic game graphics.

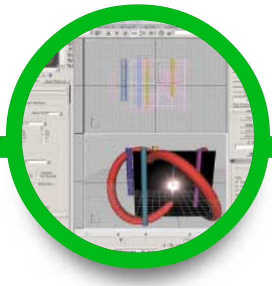
Content:

Sammy will start a new home-use game software business in the current fiscal year as part of its NEWS content business. Games are to be supplied not only for home-use consoles but also for mobile phones, PDAs, PCs and other platforms. Development of this content will be primarily the responsibility of subsidiaries Dimps Corp. and Spike Co., Ltd.

Subsidiary Underground Liberation Force Inc. is a source of music that accompanies games and other forms of entertainment. We are seeking synergies through the creation of game software based on pachislot and pachinko machines and the sale of game-related music on CDs.

Merchandising:

Developing original characters as well as utilizing characters created through the pachislot, pachinko and NEWS businesses are the focal points of merchandising activities. Sammy plans to develop and sell toys and other merchandise featuring these characters. As the pachislot, pachinko and content businesses expand, opportunities for the merchandising business are certain to increase as well. New ventures in this sector will all be structured to maximize synergies with existing businesses.



Market Trends

Amusement Market

Sales of amusement arcade equipment remain sluggish and amusement arcades continue to perform poorly. In 2000, sales in both of these areas are projected to decline.

(¥ billions)	1996	1997	1998	1999	2000
Sales of amusement arcade equipment	¥224.4	¥219.5	¥198.2	¥187.2	¥175.0
Amusement arcade sales	642.3	643.4	628.9	619.5	600.0

(Data: Report on Condition in Amusement Industry in 1999, JAMMA, AOU, NSA)
(Figures for 2000 are estimates by Sammy)

Content Market

Sales of home video game software had been declining since 1997 but are expected to level off in 2000 owing to the launch of new gaming platforms.

(¥ billions)	1996	1997	1998	1999	2000
Sales of home video game machines and software	¥880.0	¥1,091.6	¥1,092.9	¥1,067.8	¥1,080.0

(Data: Report on Condition in Amusement Industry in 1999, JAMMA, AOU, NSA)
(Figures for 2000 are estimates by Sammy)

Content for mobile phones has sparked explosive growth in mobile phone subscriptions, expanding the market.

(¥ billions)	1996	1997	1998	1999	2000
Internet-enabled mobile phones	¥–	¥–	¥–	¥139.3	¥932.3
Market for mobile phone content	–	–	–	4.7	40.7

(Source: Digital Content White Paper)

NEWS

Topics

Sammy releases an original CD–Sound Series Vol. 1: *JYUOH*

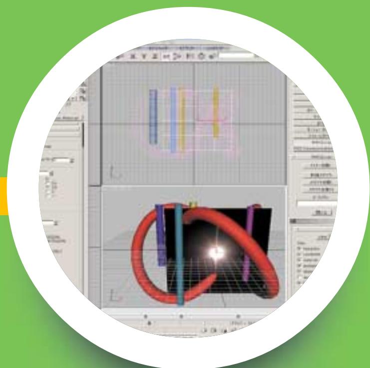
JYUOH, Sammy's No. 1 selling pachislot machine, has been highly acclaimed for its superior music content, as well as its game features. Subsidiary Underground Liberation Force Inc. has released a CD titled "Sammy Original Sound Series: *JYUOH*" featuring edited versions of *JYUOH*'s exciting soundscape.

Sammy develops an official site called *Mail de GIRL* for NTT DoCoMo's i-mode service

In March 2001, Sammy launched *Mail de GIRL*, a mail support and content service site for NTT DoCoMo's iMenu sites. Sammy has positioned *Mail de Girl* as a key initiative aimed at strengthening the company's content business; an endeavor vital to developing its NEWS business paradigm.

Sammy releases Dreamcast version of *Guilty Gear X*

Sammy has developed a version of *Guilty Gear X*, a popular arcade game, for the Dreamcast home video game console. Sales volume exceeded 126,000 units in the year under review. Sammy also plans to develop new games based around pachislot and pachinko game machines.



Development tools and middleware for the PlayStation 2

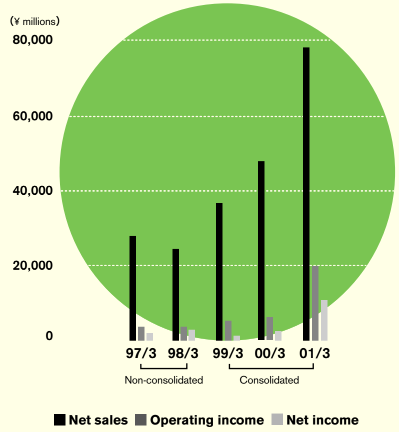
Quat Technology Inc. started sales of *Tragi*–development tools and middleware for the PlayStation 2 home game console–in December 2000. By developing still more realistic game graphics, Sammy intends to help contain the burgeoning cost of creating computer graphics.

Growth Indicators

NET SALES, OPERATING INCOME, NET INCOME

The dramatic growth of the pachislot machine business fueled a 63.7% increase in net sales, a 223.1% climb in operating income and a 330.3% surge in net income.

	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
Net sales	27,956	24,474	36,750	47,805	78,276
Operating income	3,636	3,660	5,307	6,128	19,798
Net income	1,891	2,870	1,256	2,498	10,748



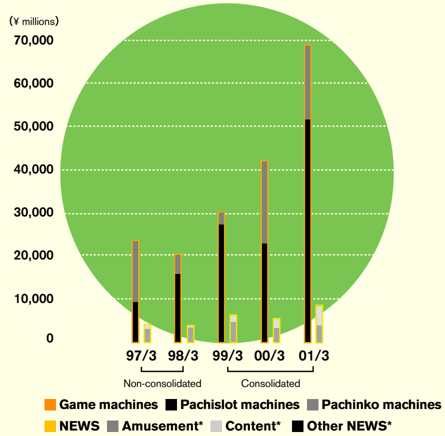
NET SALES BY BUSINESS SEGMENT

Sales in the pachislot segment climbed 125.0% owing to the success of the company's multi-brand strategy and a strong performance by the Sammy pachislot machine *JYUOH*, one of the year's hit products.

Sales in NEWS business increased mainly due to strengthened management at group companies specializing in niche fields.

	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
Pachislot & Pachinko:					
Pachislot machines	9,472	15,873	27,407	23,010	51,780
Pachinko machines	14,276	4,636	2,930	19,227	17,324
NEWS:					
Amusement*	3,213	3,503	4,805	3,543	4,708
Content*	995	462	1,608	2,025	4,412
Other NEWS*	–	–	–	–	52

* The amusement segment comprises the manufacture, sale and rental of amusement arcade equipment, and the operation of amusement facilities.
* The content segment comprises the manufacture and sale of home video game software and music content.
* Other NEWS includes the development and sale of computer graphics technology, and the sale of optical 3D systems.

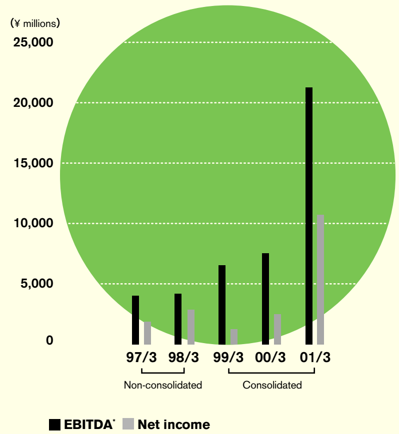


EBITDA AND NET INCOME

EBITDA increased 181.6% and net income rose 330.3%. Sammy's multi-brand strategy in its pachislot business led to a dramatic increase in the share of operating income.

	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
EBITDA*	4,055	4,206	6,563	7,582	21,349
Net income	1,891	2,870	1,256	2,498	10,748

*EBITDA = Operating income + Other income + Depreciation

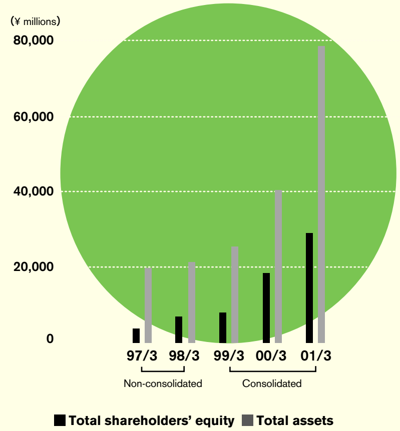


TOTAL SHAREHOLDERS' EQUITY AND TOTAL ASSETS

Total shareholders' equity increased 56.8%, mirroring the substantial increase in retained earnings due to higher sales in the pachislot business.

Total assets climbed 94.0% due to an increase in accounts receivable in line with higher sales and an increase in property, plant and equipment reflecting the construction of a new factory.

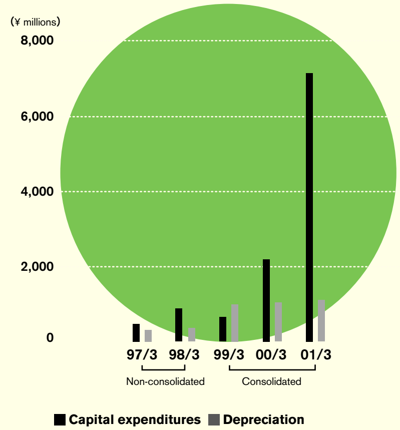
	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
Total shareholders' equity	3,763	6,987	8,013	18,570	29,122
Total assets	19,868	21,421	25,595	40,563	78,694



CAPITAL EXPENDITURES AND DEPRECIATION

Total capital expenditures climbed 225.8%, reflecting the construction of a new factory to boost production capacity of pachinko and pachislot machines. The new plant boasts three times the production capacity of Sammy's former plant. Depreciation rose 6.1% owing to the upgrading of R&D materials.

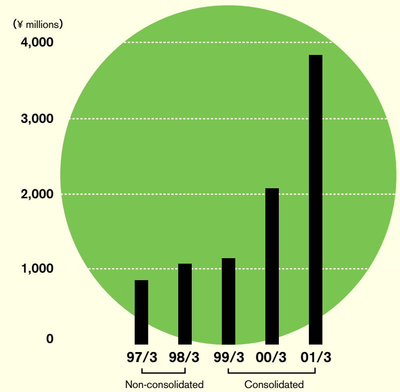
	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
Capital expenditures	471	880	654	2,198	7,160
Depreciation	315	357	990	1,040	1,103



R&D EXPENDITURES

R&D expenditures rose 85.7% as Sammy sought to boost R&D capabilities in pachinko and home video game software, in a move to sustain growth.

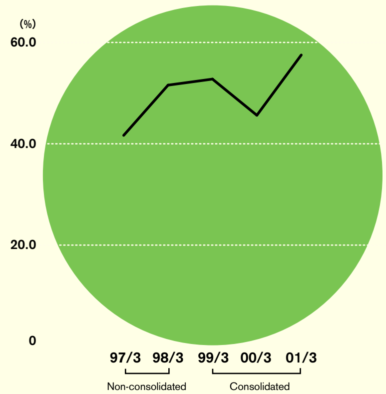
	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
R&D expenditures	854	1,072	1,144	2,070	3,844



Profitability Indicators

GROSS PROFIT MARGIN

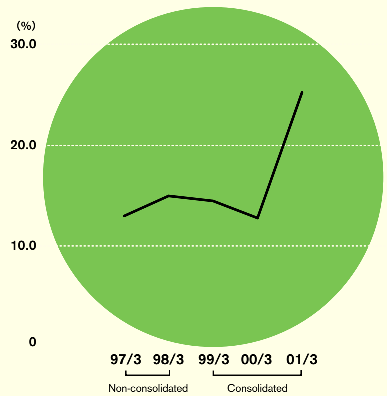
More profitable pachislot machines accounted for 66.2% of net sales, an 18.1 percentage point increase. This brought the gross profit margin up 12.0 percentage points.



	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
Gross profit margin	41.0	51.7	52.9	45.7	57.7

OPERATING INCOME MARGIN

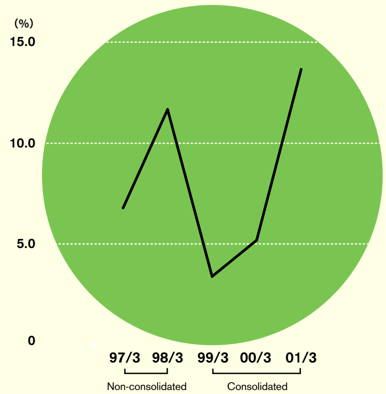
The higher proportion of pachislot machines in net sales, higher earnings in the amusement segment, and lower selling, general and administrative expenses helped raise the operating income margin 12.5 percentage points.



	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
Operating income margin	13.0	15.0	14.5	12.8	25.3

NET INCOME MARGIN

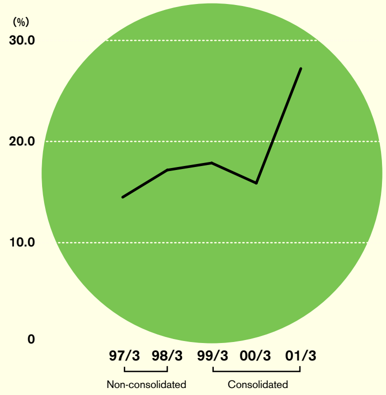
The net income margin improved 8.5 percentage points. This was mainly due to the higher proportion of the more profitable pachislot machines in net sales.



	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
Net income margin	6.8	11.7	3.4	5.2	13.7

EBITDA MARGIN

The EBITDA margin rose 11.4 percentage points over the previous fiscal year. The increase in operating income fueled by a higher proportion of net sales from pachislot machines, and higher depreciation due to upgrading of R&D materials were the primary factors.

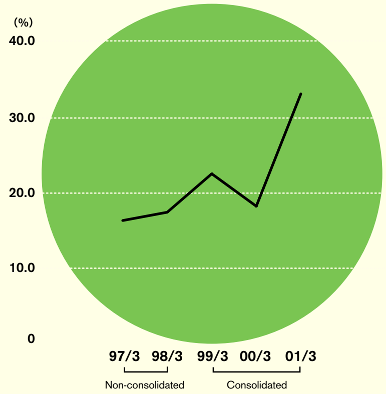


	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
EBITDA Margin	14.5	17.2	17.9	15.9	27.3

*EBITDA = Operating income + Other income + Depreciation

RETURN ON ASSETS (ROA)

Total assets increased 94.0% while ordinary income increased 227.9%, bringing ROA up 14.9 percentage points.

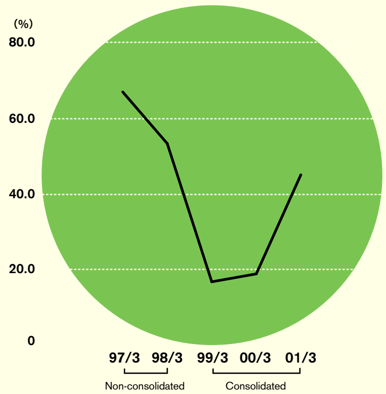


	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
ROA*	16.3	17.4	22.5	18.2	33.1

*Total assets refer to the average figure for the whole year.
*ROA = Ordinary income/Total assets

RETURN ON EQUITY (ROE)

ROE climbed 26.3 percentage points owing to the substantial growth in net income.



	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
ROE*	67.1	53.4	16.7	18.8	45.1

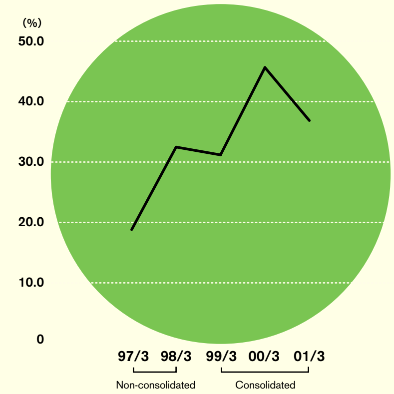
*Shareholders' equity refers to the average figure for the whole year.
*ROE = Net income/Shareholders' equity

Stability Indicators

SHAREHOLDERS' EQUITY RATIO

Substantial growth in net income was countered by a dramatic increase in notes and accounts payable incurred from the procurement of production materials in line with higher sales. As a result, the shareholders' equity ratio declined by 8.8 percentage points.

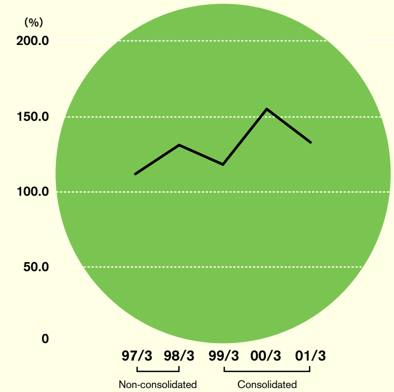
	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
Shareholders' equity ratio	18.9	32.6	31.3	45.8	37.0



CURRENT RATIO

The current ratio declined 22.1 percentage points, reflecting an increase in current liabilities due to higher notes and account payables incurred from the procurement of production materials.

	Non-consolidated		Consolidated		
(%)	1997/3	1998/3	1999/3	2000/3	2001/3
Current ratio	112.2	131.4	118.5	155.3	133.2

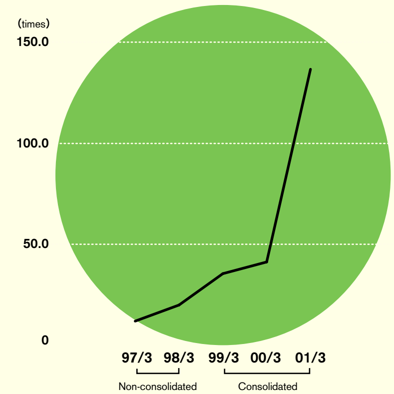


INTEREST COVERAGE RATIO

The interest coverage ratio increased from 41.2 to 137.0 times on account of the high operating income and lower interest and discount expenses.

	Non-consolidated		Consolidated		
(times)	1997/3	1998/3	1999/3	2000/3	2001/3
Interest coverage ratio*	11.8	19.8	35.4	41.2	137.0

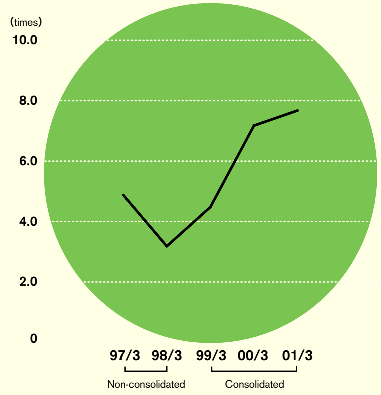
*Interest coverage ratio = (Operating income + Interest and Dividend income)/Interest and Discount expenses



INVENTORY TURNOVER RATE

The inventory turnover rate improved from 7.2 to 7.7 times. The growth in net sales exceeded the increase in inventories, which was the result of two factors. One was the temporary stocking of pachinko machines slated for shipment in the fiscal year ending March 2002. The other was the stocking of parts to respond to higher sales of pachislot machines.

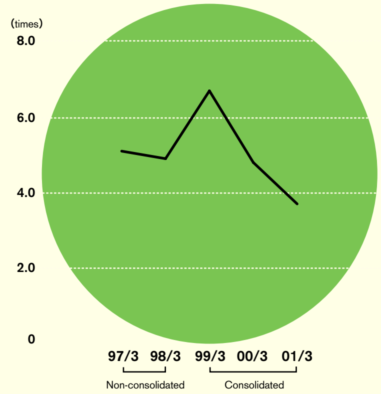
	Non-consolidated		Consolidated		
(times)	1997/3	1998/3	1999/3	2000/3	2001/3
Inventory turnover rate	4.9	3.2	4.5	7.2	7.7



TRADE RECEIVABLES TURNOVER RATE

The trade receivables turnover rate deteriorated from 4.8 to 3.7 times. This was due to the high growth in pachislot machine sales at the end of the year and the collection of receivables in the following fiscal year.

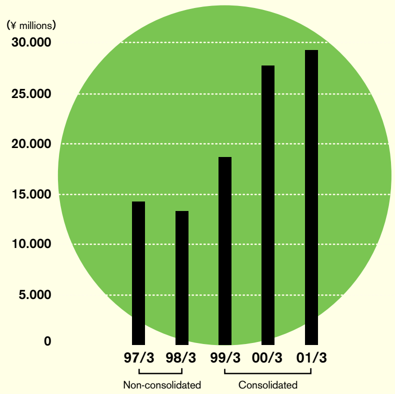
	Non-consolidated		Consolidated		
(times)	1997/3	1998/3	1999/3	2000/3	2001/3
Trade receivables turnover rate	5.1	4.9	6.7	4.8	3.7



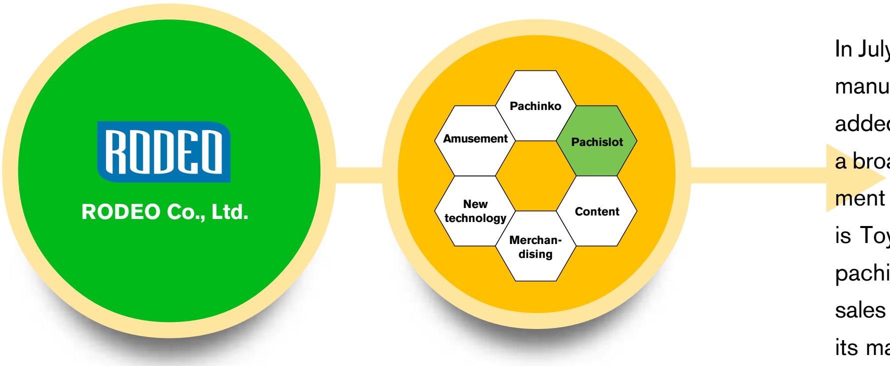
BREAK-EVEN POINT

The increase in the break-even point was held down to 5.6 percentage points, as a result of efforts to reduce cost of sales and fixed costs as a percentage of sales.

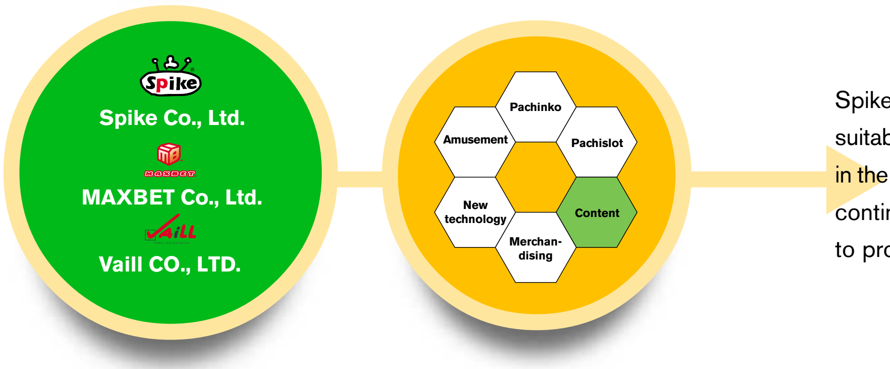
	Non-consolidated		Consolidated		
(¥ millions)	1997/3	1998/3	1999/3	2000/3	2001/3
Break-even point	14,260	13,284	18,684	27,776	29,325



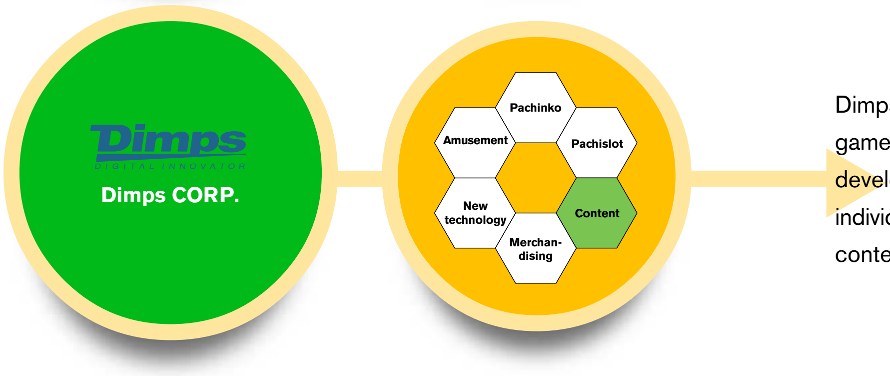
Subsidiaries



In July 2000, Sammy acquired Barcrest Co., Ltd., a pachislot machine manufacturer, and renamed the company RODEO Co., Ltd. The move added the new RODEO brand to the group's line-up and gave Sammy a broader base for developing machines combining game and amusement characteristics. The general sales agent for RODEO machines is Toyo Shoji Co., Ltd., the number-one distributor of pachislot and pachinko machines. Backed by Toyo Shoji and about 130 RODEO sales agents nationwide, RODEO is currently taking actions to increase its market share.



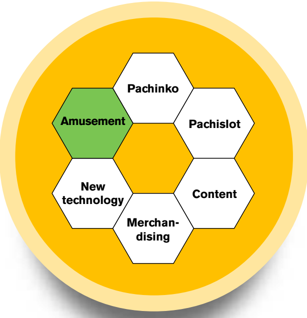
Spike Co., Ltd. supplies theme-based content by utilizing the most suitable media for each. Vaill CO., LTD. and MAXBET Co., Ltd. engage in the development of this content. The Internet is employed to establish continuous communication with users. Databases are accumulated to provide entertainment tailored to the needs of individual users.



Dimps CORP. is primarily involved in the development of home video game software. Pursuing a "multi-platform strategy," the company also develops digital content for PDAs and the Internet. Looking beyond individual platforms and existing technology, Dimps is working to create content that can entertain and excite people around the world.

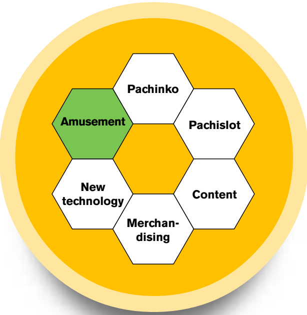
株式会社サミー・アミューズメントサービス

Sammy Amusement Service Co., Ltd.



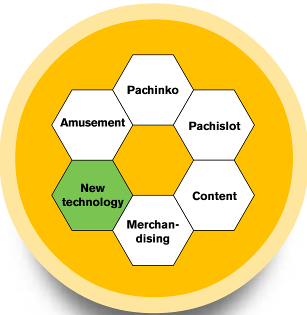
This subsidiary has three main activities: sales of amusement arcade machines, rental of such machines, and the operation and support of amusement arcades. The *Sammy Pachislot Revolution* Series, consisting of pachislot machines modified for arcade use, has been extremely popular. Currently, Sammy Amusement Service Co., Ltd. plans to open more directly managed amusement arcades.

Sammy USA Corporation



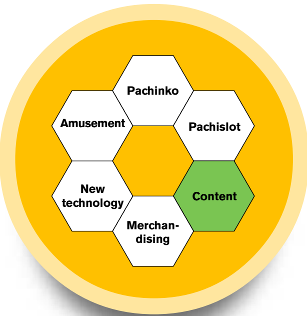
Sammy USA Corporation develops, manufactures and sells arcade game machines. The company serves all areas of the world other than Japan and Asia, with most sales coming from North America and Europe. Through recently formed subsidiaries Sammy Europe Limited in London and Sammy Entertainment Inc. in California, Sammy USA is setting in motion a worldwide sales strategy for its amusement business.

Quat Technology Inc.



Established in May 2000, Quat Technology Inc. is devoted to the development of 3D computer graphics tools that are both interactive and operate on a real-time basis. In December 2000, the company began selling Tragi, a low-cost, high-performance tool and middleware for the development of PlayStation2 games. Quat Technology plans to supply even more convenient products that address the requirements of game developers.

Underground Liberation Force Inc.



This subsidiary is a specialist in the music that is so critical to the success and enjoyment of amusement machines. Dedicated to growth, the company is aggressively expanding into many areas of the music business including CDs, recording labels, magazine and book publishing, and the planning and production of concerts.

Management

from left: Kenkichi Yoshida (Director), Kiyofumi Sakino (Managing Director),
Toru Katamoto (Senior Managing Director), Hajime Satomi (President & CEO),
Keishi Nakayama (Managing Director), Yoshiharu Suzuki (Director)

DIRECTORS

PRESIDENT & CEO:
Hajime Satomi

SENIOR MANAGING DIRECTOR:
Toru Katamoto

MANAGING DIRECTORS:
Keishi Nakayama
Kiyofumi Sakino

DIRECTORS:
Yoshiharu Suzuki
Kenkichi Yoshida

AUDITORS

STANDING CORPORATE AUDITORS:
Mamoru Makaya
Ryoichi Arai

CORPORATE AUDITOR:
Etsuo Sakai

CORPORATE OFFICERS

SENIOR EXECUTIVE OFFICER:
Norihiko Harada

EXECUTIVE OFFICERS:
Yasunori Kawamura
Katsunori Muraki
Yoshitaka Kawamura
Yasuhiro Katayama
Masakazu Yoshino
Takashi Komiya

(As of June 22, 2001)

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Six-year Summary

SAMMY CORPORATION and its subsidiaries
Years ended March 31

	Non-consolidated			Consolidated		
(¥ millions)	1996	1997	1998	1999	2000	**2001**
Net sales	¥ 23,265	¥ 27,956	¥ 24,474	¥ 36,750	¥ 47,805	**¥ 78,276**
Gross profit	10,577	11,467	12,644	19,430	21,855	**45,187**
Selling, general and administrative expenses	7,159	7,831	8,984	14,123	15,727	**25,389**
Operating income	3,418	3,636	3,660	5,307	6,128	**19,798**
Net income	1,050	1,891	2,870	1,256	2,498	**10,748**
EBITDA	3,791	4,055	4,206	6,563	7,582	**21,349**
Capital expenditure	298	471	880	654	2,198	**7,160**
Depreciation	142	315	357	990	1,040	**1,103**
R&D expenditure	756	854	1,072	1,144	2,070	**3,844**
Per share data:						
Total number of shares outstanding	675,460	675,460	756,230	7,562,300	12,643,450	**25,602,400**
Shareholders' equity per share (¥)	2,771.46	5,571.15	9,239.32	1,059.65	1,468.79	**1,137.50**
Net income per share (¥)	1,351.28	2,799.68	3,818.41	166.15	212.11	**423.98**
Dividends per share (¥)						
Old stock	–	200.00	250.00	25.00	40.00	**60.00**
New stock	–	–	126.00	–	–	**–**
At year-end:						
Total assets	22,015	19,868	21,421	25,595	40,563	**78,694**
Total shareholders' equity	1,872	3,763	6,987	8,013	18,570	**29,122**
Number of employees	153	206	349	481	592	**754**

Operating and Financial Review

Operating Environment

In the fiscal year ended March 31, 2001, the Japanese economy remained mired in economic malaise. Nevertheless, the pachislot business continued to perform strongly as a richer variety of pachislot machines were brought to market than ever before. In the pachinko industry, the number of new machines on the market declined on the whole, and no groundbreaking machines were introduced. However, with regulatory amendments on the horizon, the industry expects to see a new range of machines with highly attractive gaming features.

In the amusement sector, no new genres emerged to spur growth like musical games have done recently. As such, the sector as a whole turned in a sluggish performance. The home video game software sector was blanketed by a cloud of stagnation as few hit games were on offer and the dominance of larger game producers became all the more pronounced. The growing prospect of full-fledged online gaming and the upcoming launch of next-generation game consoles, however, offer encouraging signs for the industry.

Consolidated Net Sales

Consolidated net sales were ¥78,276 million, a 63.7% increase over the previous year. The breakdown of sales by business is as follows.

Pachislot & Pachinko Business

Sales in this business segment climbed 63.6% to ¥69,104 million. In the pachislot business, Sammy made RODEO Co., Ltd. a group subsidiary, pursued a multi-brand strategy through its alliance with Aristocrat Technologies Co., Ltd., and developed sales of highly playable new genres of gaming machines with entirely new functions never before seen in the industry. In the pachinko business, Sammy marketed new machines featuring popular, well-known characters.

Amusement Arcade Equipment Business

Segment sales totaled ¥4,210 million, up 30.6% year on year. Sales of arcade machines to shopping centers and the popularity of machines sold to overseas markets were the primary growth drivers.

Home Video Game Software Business

Sales for the year surged 99.4% to ¥3,951 million. The substantial increase chiefly reflected a series of hits in game software for the Dreamcast console that had previously been popular on other platforms, as well as strong sales of peripherals for the WonderSwan hand-held gaming system.

Others

Sales in this segment, which mainly includes amusement arcade operation and sales of CD packages, soared 177.7% to ¥1,011 million.

Cost of Sales

Cost of sales increased 27.5% to ¥33,089 million due to higher orders and sales. The cost of sales ratio, however, fell substantially to 42.3% from 54.3% as highly profitable pachislot machines accounted for a greater percentage of net sales in the year under review.

Selling, General and Administrative Expenses

Selling, general and administrative expenses climbed 61.4% to ¥25,389 million, mainly on account of an increase in sales commissions due to higher sales of pachislot and pachinko machines, and a rise in R&D expenses to strengthen development capabilities. The selling, general and administrative expenses to net sales ratio declined marginally from 32.9% to 32.4%.

Consolidated Net Income

Consolidated net income surged 330.3% from ¥2,498 million to ¥10,748 million. Consolidated net income per share was ¥423.98. Return on equity (ROE) soared to 45.1% from 18.8% in the previous year due to the higher income from significant sales growth.

Financial Position

Assets

Total assets as of March 31, 2001 stood at ¥78,694 million, a year-on-year increase of 94.0%. Current assets rose 91.2% to ¥60,275 million due to a ¥4,171 million rise in cash and cash equivalents and increases of ¥6,239 million and ¥8,601 million in trade notes and accounts receivable, respectively, resulting from higher sales of a succession of hit pachislot machines. Inventories increased by ¥8,243 million to ¥14,283 million. This was primarily due to higher finished products and raw materials inventories to accommodate short-term concentrations of orders and rapidly increasing sales.

Property, plant and equipment rose 143.3% to ¥10,863 million. This was principally attributable to the construction of a new plant equipped with fully automated production facilities—an industry first—to increase production capacity. As a result, buildings under property, plant and equipment increased 229.4% to ¥4,575 million. Construction in progress was ¥2,742 million.

Investments and other assets rose 65.3% to ¥7,556 million owing to a ¥1,062 million increase in investment securities to ¥1,392 million, mainly representing investments in JOYCO SYSTEMS CORPORATION.

Liabilities

Total liabilities were ¥49,415 million, up 125.4% from a year earlier. Due to higher creditors in line with the rapid increase in sales, notes payable climbed ¥5,670 million to ¥11,443 million and accounts payable rose ¥7,052 million to ¥9,311 million. Other trade payables increased ¥4,206 million to ¥6,814 million.

Interest-bearing debt was 67.3% higher at ¥9,099 million. Short-term bank loans and the current portion of long-term debt increased ¥1,261 million to ¥6,699 million. Long-term debt rose significantly due to the company raising a total of ¥3,000 million through syndicated loans for the construction of a new plant.

Shareholders' Equity

Shareholders' equity at the end of the fiscal year was ¥29,122 million, 56.8% higher than a year earlier. An increase in retained earnings in line with higher sales of pachislot and pachinko machines was the primary factor. Although the equity ratio declined from 45.8% to 37.0%, there was a substantial improvement in ROE.

Cash Flows

Consolidated cash and cash equivalents at the end of the year amounted to ¥13,313 million, a year-on-year increase of ¥4,171 million. This reflected income before income taxes and minority interest of ¥19,978 million, up 237.2% year on year, and the raising of funds through long-term debt. These factors outweighed an increase in notes and accounts receivable and payments for the purchase of property, plant and equipment.

Cash Flows From Operating Activities

Net cash provided by operating activities increased ¥5,181 million to ¥7,714 million. This chiefly reflected higher income before income taxes and minority interest due to the dramatic rise in sales in the pachislot and pachinko machines business, and an increase in notes and accounts payable. These increases were partially offset, however, by an increase in notes and accounts receivable and the payment of income taxes.

Cash Flows From Investing Activities

Net cash used in investing activities totaled ¥5,733 million, up ¥2,806 million from the previous year. Payments for the purchase of property, plant and equipment, mainly the construction of a new plant, were the major factor.

Cash Flows From Financing Activities

Net cash provided by financing activities declined ¥3,597 million to ¥2,168 million. This mainly reflected the absence of proceeds from issuance of common stock recorded in the previous fiscal year. Offsetting this, the company raised ¥3,000 million through syndicated loans.

Capital Expenditures

Capital expenditures in the fiscal year under review totaled ¥7,160 million, mainly for the pachislot and pachinko machine business, where the company made capital expenditures of ¥6,100 million to respond to short-term concentrations of orders. The principal target for investment was the construction of the Kawagoe Factory that will more than triple the company's production capacity. Capital expenditures in the NEWS business principally comprised ¥127 million for amusement equipment, ¥155 million for the home video game software business, ¥18 million for other businesses, and ¥758 million across the Sammy Group.

Research and Development

Pachislot & Pachinko Business

Sammy is striving to become an R&D-driven comprehensive entertainment company. Strengthening and enhancing this segment's R&D system is therefore a priority business strategy for the company. In the fiscal year ended March 31, 2001, segment R&D expenditures totaled ¥2,230 million. Main research themes were screen displays, optical presentation displays, sound effects, new machine casings and new display devices. Research capabilities were upgraded for each of these areas as a result of the expenditures.

Amusement Equipment Business

Reaffirming the importance of marketing and constantly seeking to branch out into new businesses, Sammy aggressively engages in R&D on new genres and technologies. In the year under review, segmental R&D expenditures were ¥678 million. The main research themes were the serialization of medal games, shopping center games and arcade games. Research translated into commercialization of products that won high accolades from the market.

Home Video Game Software

Sammy's R&D efforts in this arena are geared toward developing businesses linking the virtual world of games and the network dimension. Activities are based on the philosophy that superior content finds a home on any medium. R&D expenditures for the year amounted to ¥906 million, with products for new and existing platforms, and WonderSwan peripherals designated main research themes. These efforts spawned a number of new titles.

Others

In this segment, Sammy focuses on games developers to engage in research on middleware to assist in the creation of computer graphics software. The company invested ¥28 million during the year under review for R&D on real-time gaming development tools and middleware.

Consolidated Balance Sheets

SAMMY CORPORATION and its subsidiaries
As of March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents (Note 3)	**¥13,313**	¥ 9,142	**$107,363**
Time deposits	**207**	201	**1,670**
Trade receivables:			
Notes (Note 3)	**13,523**	7,284	**109,057**
Accounts	**15,160**	6,559	**122,258**
Allowance for doubtful accounts	**(366)**	(282)	**(2,952)**
Inventories (Note 4)	**14,283**	6,040	**115,185**
Deferred income taxes (Note 9)	**1,024**	514	**8,258**
Other current assets	**3,131**	2,070	**25,250**
Total current assets	**60,275**	31,528	**486,089**
Property, plant and equipment:			
Land	**2,486**	2,459	**20,048**
Buildings	**4,575**	1,389	**36,895**
Machinery and equipment	**387**	375	**3,121**
Rental equipment for amusement arcades	**1,300**	801	**10,484**
Construction in progress	**2,742**	–	**22,113**
Others	**2,491**	2,113	**20,089**
	13,981	7,137	**112,750**
Accumulated depreciation	**(3,118)**	(2,673)	**(25,145)**
	10,863	4,464	**87,605**
Investments and other assets:			
Investment securities (Note 10)	**1,392**	330	**11,226**
Other investments	**2,179**	1,433	**17,571**
Software	**738**	706	**5,952**
Lease deposits	**1,222**	1,113	**9,855**
Deferred income taxes (Note 9)	**1,244**	807	**10,032**
Others	**1,000**	242	**8,065**
Allowance for doubtful accounts	**(219)**	(60)	**(1,766)**
	7,556	4,571	**60,935**
	¥78,694	¥40,563	**$634,629**

See accompanying notes

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Note 5)	**¥ 6,699**	¥ 5,438	**$ 54,024**
Trade payables:			
Notes (Note 3)	**11,443**	5,773	**92,282**
Accounts	**9,311**	2,259	**75,089**
Others	**6,814**	2,608	**54,952**
Income taxes payable (Note 9)	**8,647**	3,279	**69,734**
Accrued employees' bonuses	**703**	416	**5,669**
Other current liabilities	**1,650**	528	**13,306**
Total current liabilities	**45,267**	20,301	**365,056**
Long-term debt (Note 5)	**2,400**	–	**19,355**
Retirement benefits for employees (Note 6)	**440**	222	**3,549**
Retirement benefits for directors and corporate auditors	**529**	343	**4,266**
Other non-current liabilities	**779**	1,058	**6,282**
Minority interest in consolidated subsidiaries	**157**	69	**1,266**
Commitments and Contingent liabilities (Note 7)			
Shareholders' equity (Note 8)**:**			
Common stock, par value ¥50;			
Authorized — 30,000,000 shares			
Issued — 25,602,400 shares in 2001			
and 12,643,450 shares in 2000	**4,941**	4,842	**39,847**
Additional paid-in capital	**5,936**	5,837	**47,871**
Retained earnings	**18,055**	7,892	**145,605**
Net unrealized holding gains on securities	**138**	–	**1,113**
Foreign currency translation adjustments	**52**	–	**419**
	29,122	18,571	**234,855**
Treasury stock, at cost	**0**	(1)	**0**
Total shareholders' equity	**29,122**	18,570	**234,855**
	¥78,694	¥40,563	**$634,629**

Consolidated Statements of Income

SAMMY CORPORATION and its subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Net sales (Note 13)	**¥78,276**	¥47,805	**$631,258**
Cost of sales	**33,089**	25,950	**266,847**
Gross profit	**45,187**	21,855	**364,411**
Selling, general and administrative expenses	**25,389**	15,727	**204,750**
Operating income	**19,798**	6,128	**159,661**
Other income (expenses):			
Interest and dividend income	**56**	40	**452**
Interest expense	**(145)**	(150)	**(1,170)**
Equity earnings from an affiliated company	**45**	–	**363**
Gain on investment in silent partnership	**1,062**	223	**8,565**
Loss on disposals of property and equipment	**(170)**	(82)	**(1,371)**
Loss on disposals of inventories	**(129)**	–	**(1,040)**
Expenses for listing on Tokyo Stock Exchange	**(140)**	–	**(1,129)**
Amortization of net transition obligation	**(123)**	–	**(992)**
Provision for allowance for doubtful account	**(132)**	–	**(1,065)**
Other – net	**(144)**	(234)	**(1,161)**
	180	(203)	**1,452**
Income before income taxes and minority interest	**19,978**	5,925	**161,113**
Income taxes (Note 9)**:**			
Current	**10,288**	3,811	**82,968**
Deferred	**(1,025)**	(375)	**(8,266)**
	9,263	3,436	**74,702**
Income before minority interest	**10,715**	2,489	**86,411**
Minority interest	**33**	9	**266**
Net income	**¥10,748**	¥ 2,498	**$ 86,677**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥423.98**	¥212.11	**$3.42**
Diluted net income	**422.60**	–	**3.41**
Cash dividends applicable to the year	**60.00**	40.00	**0.48**

See accompanying notes

Consolidated Statements of Shareholders' Equity

SAMMY CORPORATION and its subsidiaries
Years ended March 31, 2001 and 2000

		Millions of yen					
	Number of shares issued	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1999	7,562,300	¥2,079	¥1,229	¥ 4,705	¥ –	¥ –	¥ –
Cumulative effect of adopting deferred income tax accounting	–	–	–	928	–	–	–
Net income	–	–	–	2,498	–	–	–
Cash dividends paid	–	–	–	(189)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(50)	–	–	–
Treasury stock	–	–	–	–	–	–	(1)
1.5 for 1 stock split, October 25, 1999	3,781,150	–	–	–	–	–	–
New shares issued in an initial public offering on December 16, 1999	1,300,000	2,763	4,608	–	–	–	–
Balance at March 31, 2000	12,643,450	4,842	5,837	7,892	–	–	(1)
Net income	–	–	–	10,748	–	–	–
Cash dividends paid	–	–	–	(505)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(80)	–	–	–
Treasury stock	–	–	–	–	–	–	1
2 for 1 stock split, November 20, 2000	12,666,650	–	–	–	–	–	–
New shares issued by execution of warrant (Stock option)	292,300	99	99	–	–	–	–
Adoption of new accounting standard for financial instruments	–	–	–	–	138	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	52	–
Balance at March 31, 2001	**25,602,400**	**¥4,941**	**¥5,936**	**¥18,055**	**¥138**	**¥52**	**¥ 0**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$39,049	$47,073	$ 63,645	$ –	$ –	$(8)
Net income	–	–	86,677	–	–	–
Cash dividends paid	–	–	(4,072)	–	–	–
Bonuses to directors and corporate auditors	–	–	(645)	–	–	–
Treasury stock	–	–	–	–	–	8
New shares issued by execution of warrant (Stock option)	798	798	–	–	–	–
Adoption of new accounting standard for financial instruments	–	–	–	1,113	–	–
Adjustment from translation of foreign currency financial statements	–	–	–	–	419	–
Balance at March 31, 2001	**$39,847**	**$47,871**	**$145,605**	**$1,113**	**$419**	**$ 0**

See accompanying notes

Consolidated Statements of Cash Flows

SAMMY CORPORATION and its subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes and minority interest	**¥ 19,978**	¥ 5,925	**$ 161,113**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**1,103**	1,040	**8,895**
Loss on write-off of goodwill	**296**	568	**2,387**
Loss on disposal of property, plant and equipment	**169**	101	**1,363**
Gain on investment in an anonymous partnership	**(1,062)**	(223)	**(8,564)**
Increase in retirement benefits	**74**	–	**597**
Others	**632**	318	**5,097**
Net changes in assets and liabilities:			
Increase in notes and accounts receivable	**(14,369)**	(7,891)	**(115,879)**
Decrease (Increase) in inventories	**(8,229)**	1,134	**(66,363)**
Increase in notes and accounts payable	**12,044**	2,093	**97,129**
Increase in other assets	**(804)**	(257)	**(6,484)**
Increase in other liabilities	**2,875**	1,336	**23,185**
Sub-total	**12,707**	4,144	**102,476**
Receipts of interest and dividend income	**55**	39	**443**
Payment of interest expenses	**(131)**	(141)	**(1,056)**
Payment of income taxes	**(4,917)**	(1,509)	**(39,653)**
Net cash provided by operating activities	**7,714**	2,533	**62,210**
Cash flows from investing activities:			
Payment for purchase of property, plant and equipment	**(4,389)**	(2,288)	**(35,395)**
Proceeds from sales of property, plant and equipment	**76**	12	**613**
Payment for purchase of intangible assets	**(264)**	(204)	**(2,129)**
Payment for purchase of investment securities	**(818)**	(32)	**(6,597)**
Increase (Decrease) in cash and cash equivalents due to acquisition of consolidated subsidiaries	**187**	(2)	**1,508**
Increase in loan receivable – net	**(363)**	(192)	**(2,928)**
Decrease (Increase) in time deposit – net	**(5)**	37	**(40)**
Increase in other investments – net	**(157)**	(258)	**(1,266)**
Net cash used in investing activities	**(5,733)**	(2,927)	**(46,234)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**3,000**	–	**24,193**
Decrease in short-term bank loans	**(638)**	(863)	**(5,145)**
Proceeds from issuance of common stock	**198**	7,371	**1,597**
Cash dividends paid	**(505)**	(189)	**(4,072)**
Other	**113**	(554)	**911**
Net cash provided by financing activities	**2,168**	5,765	**17,484**
Effect of exchange rate changes on cash and cash equivalents	**22**	(56)	**177**
Net increase in cash and cash equivalents	**4,171**	5,315	**33,637**
Cash and cash equivalents at beginning of year	**9,142**	3,827	**73,725**
Cash and cash equivalents at end of year	**¥ 13,313**	¥ 9,142	**$ 107,363**

See accompanying notes

Notes to Consolidated Financial Statements

SAMMY CORPORATION and its subsidiaries
March 31, 2001 and 2000

NOTE 1 –
BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sammy Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on its accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective country of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The accompanying consolidated statements of shareholders' equity have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and not required to be filed with the regulatory authorities.

The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2001, which was ¥124 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

NOTE 2 –
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, which are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant inter-company balances and transactions have been eliminated.

(b) Equity Method

Investment in an affiliated company, which was established in the year ended March 31, 2001, is accounted for using the equity method in the year ended March 31, 2001. The Company had no investments in affiliated companies in the year ended March 31, 2000.

(c) Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash equivalents.

(d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(e) Marketable Securities and Investment Securities

Prior to April 1, 2000, listed securities were stated at the lower of market value or moving-average cost, and recoveries of write-downs were recognized. Other securities were stated at moving-average costs.

Effective April 1, 2000, the Company and consolidated domestic subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999). Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities") (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of above categories (hereafter, "available-for-sale securities")

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market values are stated at moving-average cost. Equity securities issued by subsidiaries and an affiliated company are consolidated or accounted for using the equity method. The Company and consolidated domestic subsidiaries had no trading securities or held-to-maturity debt securities in the year ended March 31, 2001.

As a result of adopting the new accounting standard for financial instruments, income before income taxes for the year ended March 31, 2001 increased by ¥25 million ($202 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, securities other than money market funds are included in investments securities. As a result, at April 1, 2000, securities in current assets decreased by ¥26 million ($210 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(f) Inventories

Inventories are stated at cost determined by the average method.

(g) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method at rates based on estimated useful lives of depreciable assets. In addition, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

(h) Accounting for Certain Lease Transactions

Finance leases which do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases.

(i) Retirement Benefits for Employees

The Company and its consolidated subsidiaries (the "Companies") provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the Company and its consolidated subsidiaries accrued liabilities for lump-sum severance and retirement benefits equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted a new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥123 million ($992 thousand). All of the transition obligation was recognized as an expense in the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in the succeeding period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥9 million ($73 thousand) and income before income taxes decreased by ¥132 million ($1,065 thousand) compared with what would have been recorded under the previous accounting standard.

(j) Retirement Benefits for Directors and Corporate Auditors

The liability for the directors' and corporate auditors' retirement benefits is provided on an accrual basis in accordance with the Company's internal rules. The liability for the directors' and corporate auditors' retirement benefits is regarded as the provision made pursuant to the Article 287-2 of the Commercial Code.

(k) Income Taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

The Company and subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

(l) Derivative Financial Instruments

A new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, recognition of gains or losses resulting from changes in fair value of derivative financial instruments is deferred until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(m) Per Share Data

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during the year. Accordingly, net income per share was based on the average number of shares of common stock outstanding during the period, retroactively adjusted for the stock split made on November 20, 2000. Diluted net income per share is similar to net income per share except that the weight-average number of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Cash dividends per share represent actual amounts applicable to the year.

(n) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate. The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

NOTE 3 – EFFECT OF BANK HOLIDAY ON MARCH 31, 2001

As financial institutions in Japan were closed on March 31, 2001, amounts that would normally be settled on March 31, 2001 were collected or paid on the following business day, April 2, 2001. The effects of the settlements on April 2 instead of March 31 included the following:

Cash and cash equivalents:	Decreased by approximately ¥759 million ($6,121 thousand)
Notes receivable, trade:	Increased by approximately ¥2,621 million ($21,137 thousand)
Notes payable, trade:	Increased by approximately ¥1,862 million ($15,016 thousand)

NOTE 4 – INVENTORIES

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Merchandise	**¥ 200**	¥ 305	**$ 1,613**
Finished products	**2,412**	502	**19,451**
Raw materials	**9,863**	3,156	**79,540**
Work in process	**1,730**	2,054	**13,952**
Supplies	**78**	23	**629**
	¥14,283	¥6,040	**$115,185**

NOTE 5 – SHORT-TERM BANK LOANS, CURRENT PORTION OF LONG-TERM DEBT

Short-term bank loans outstanding are generally represented by notes, with interest at rates ranging from 1.375% to 1.50% and from 1.375% to 2.375% for the years ended March 31, 2001 and 2000, respectively.

Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Unsecured 1.724% loans from banks due in 2005	**¥3,000**	¥0	**$24,194**
Less: current portion	**600**	0	**4,839**
	¥2,400	¥0	**$19,355**

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ending March 31,		
2002	¥600	$4,839
2003	600	4,839
2004	600	4,839
2005	600	4,839
2006	600	4,838

NOTE 6 – RETIREMENT BENEFITS FOR EMPLOYEES

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Projected benefit obligation	**¥ 563**	**$4,540**
Unrecognized actuarial differences	**(13)**	**(105)**
Less fair value of pension assets	**(110)**	**(887)**
Liability for severance and retirement benefits	**¥ 440**	**$3,548**

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Service costs — benefits earned during the year	**¥123**	**$ 992**
Interest cost on projected benefit obligation	**13**	**105**
Expected return on plan assets	**(3)**	**(24)**
Amortization of net transition obligation	**123**	**992**
Severance and retirement benefit expenses	**¥256**	**$2,065**

The discount rate and the rate of expected return on plan assets used by the Company are 3%.

NOTE 7 – CONTINGENT LIABILITIES

The Company was contingently liable as a guarantor of Shuko Denshi's accounts payable to Nippon Conlux amounting to ¥150 million ($1,210 thousand) at March 31, 2001.

NOTE 8 – SHAREHOLDERS' EQUITY

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan (the "Code").

Under the Code, at least 50% of the issue price of new shares, with a minimum equal to par value thereof, is required to be designated as stated capital. The portion that is not transferred to stated capital is determined by resolution of the Board of Directors. Proceeds not transferred to stated capital are credited to additional paid-in capital.

Also under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

NOTE 9 – INCOME TAXES

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42% for the years ended March 31, 2001 and 2000.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2001 and 2000:

	2001	2000
Statutory tax rate	**42.0%**	42.0%
Permanent differences such as entertainment expense	**0.6**	1.8
Tax on undistributed earnings of family corporation	**3.7**	5.1
Per capita inhabitant tax	**0.2**	0.8
Amortization of goodwill on consolidation	**–**	4.0
Other	**(0.1)**	4.2
Effective tax rate	**46.4%**	57.9%

Significant components of the Company's deferred tax assets as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
(Current assets)			
Tax loss carryforward on a subsidiary	**¥1,300**	¥ 914	**$ 10,484**
Accrued enterprise tax	**700**	267	**5,645**
Accrued bonus	**204**	97	**1,645**
Inventories	**117**	–	**944**
Other	**3**	190	**24**
Sub-total	**2,324**	1,468	**18,742**
(Non-current assets)			
Expensed tangible assets not deductible for tax	**600**	474	**4,839**
Retirement benefits	**352**	207	**2,839**
Loss on devaluation of investment securities	**178**	–	**1,435**
Depreciation expense	**138**	100	**1,113**
Other	**76**	–	**613**
Sub-total	**1,344**	781	**10,839**
Total deferred tax assets	**3,668**	2,249	**29,581**
Valuation allowance	**(1,300)**	(928)	**(10,484)**
Net deferred tax assets	**¥ 2,368**	¥1,321	**$ 19,097**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(100)**	–	**(807)**
Recorded deferred tax assets	**¥ 2,268**	¥1,321	**$ 18,290**

NOTE 10 –
MARKET VALUE INFORMATION

Acquisition cost, balance sheet amount and valuation gain of quoted securities at March 31, 2001 were as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Valuation gain (loss)
Securities whose balance sheet amount exceeds the acquisition cost:			
Stocks	**¥317**	**¥581**	**¥263**
Securities whose balance sheet amount is lower than the acquisition cost:			
Stocks	**¥110**	**¥ 86**	**¥ (24)**

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Balance sheet amount	Valuation gain (loss)
Securities whose balance sheet amount exceeds the acquistion cost:			
Stocks	**$2,556**	**$4,685**	**$2,121**
Securities whose balance sheet amount is lower than the acquistion cost:			
Stocks	**$ 887**	**$ 694**	**$ (193)**

NOTE 11 – INFORMATION FOR CERTAIN LEASES

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2001 and 2000 with respect to the finance leases accounted for in the same manner as operating leases were as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
At March 31, 2001:			
Machinery and equipment	**¥ 85**	**¥50**	**¥35**
At March 31, 2000:			
Machinery and equipment	¥102	¥53	¥49

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
At March 31, 2001:			
Machinery and equipment	**$685**	**$403**	**$282**

Future lease payments under the finance leases that are accounted for in the same manner as operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Due within one year	**¥17**	¥19	**$137**
Due after one year	**18**	30	**145**
	¥35	¥49	**$282**

Lease payments under finance leases that are accounted for in the same manner as operating leases, for the years ended March 31, 2001 and 2000 were ¥45 million ($371 thousand) and ¥17 million, respectively.

NOTE 12 – SUBSEQUENT EVENTS

The following appropriations of retained earnings at March 31, 2001 were approved at the Company's general shareholders' meeting held on June 22, 2001.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash dividends (¥40.0 per share)	**¥1,536**	**$12,387**
Directors' and corporate auditors' bonuses	**250**	**2,016**

In addition, on May 29 and June 12, 2001 the Board of Directors resolved to issue new common shares of the Company as follows:

Number of shares to be issued:	1,000,000 shares
Price per share:	¥5,985.00
Use of proceeds:	For working capital, investment in facilities and equipment, repayment of debt and general corporate purposes
Capitalization:	Common stock was increased by ¥2,993 million and amounted to ¥7,936 million Additional paid-in capital was increased by ¥2,992 million
Date of issuance:	June 28, 2001

NOTE 13 – DERIVATIVE TRANSACTIONS

The Company uses interest rate swap contracts for the purpose of mitigating the risk of fluctuations in interest rates. The Company uses derivative financial instruments only for hedging purposes and does not use them for speculative trading purposes.

The Company believes the risk of the interest rate swap contracts that the Company has entered into is limited, because they are used only for hedging the risk of fluctuations in interest rates of the Company's debt.

The interest rate swap contracts are executed with creditworthy financial institutions, and the Company believes the risk of default by counterparties is currently low.

The Company uses only derivative transactions duly authorized pursuant to its internal responsibility policy. The transactions are managed by the Accounts and Finance Departments of the Company.

The market value of derivative contracts on March 31, 2001 is not applicable, because all derivative transactions of the Company are accounted for using hedge accounting.

Contract amounts, market values and unrealized losses on the interest rate swap contracts at March 31, 2001 were as follows:

	Millions of yen			
Year ended March 31, 2001	Contract amounts	Beyond one year	Market value	Unrealized gains (losses)
Interest rate swap contracts:				
Floating rate to fixed rate	**¥196**	**¥168**	**¥150**	**¥(46)**

	Thousands of U.S. dollars (Note 1)			
Year ended March 31, 2001	Contract amounts	Beyond one year	Market value	Unrealized gains (losses)
Interest rate swap contracts:				
Floating rate to fixed rate	**$1,581**	**$1,355**	**$1,210**	**$(371)**

Market value information of the interest rate swaps was obtained from counterparty financial institutions. Contract amounts are notional amounts of the derivative transactions and do not represent their market risk or credit risk exposure.

NOTE 14 – SEGMENT INFORMATION

A. Operations by product

Current fiscal year (From April 1, 2000 to March 31, 2001)

	Millions of yen						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales –							
(1) Outside customers	**¥69,104**	**¥4,210**	**¥3,951**	**¥1,011**	**¥78,276**	**¥ –**	**¥78,276**
(2) Inter segment	**–**	**–**	**1,110**	**–**	**1,110**	**(1,110)**	**–**
Total	**69,104**	**4,210**	**5,061**	**1,011**	**79,386**	**(1,110)**	**78,276**
Cost and expenses	**44,808**	**4,390**	**5,340**	**1,603**	**56,141**	**2,337**	**58,478**
Operating income (loss)	**¥24,296**	**¥ (180)**	**¥ (279)**	**¥ (592)**	**¥23,245**	**¥ (3,447)**	**¥19,798**
Assets	**¥48,977**	**¥4,902**	**¥5,359**	**¥ 623**	**¥59,861**	**¥18,833**	**¥78,694**
Depreciation	**410**	**226**	**59**	**147**	**842**	**261**	**1,103**
Capital expenditure	**6,101**	**127**	**155**	**19**	**6,402**	**758**	**7,160**

	Thousands of U.S. dollars (Note 1)						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales –							
(1) Outside customers	**$557,290**	**$33,952**	**$31,863**	**$ 8,153**	**$631,258**	**$ –**	**$631,258**
(2) Inter segment	**–**	**–**	**8,952**	**–**	**8,952**	**(8,952)**	**–**
Total	**557,290**	**33,952**	**40,815**	**8,153**	**640,210**	**(8,952)**	**631,258**
Cost and expenses	**361,354**	**35,404**	**43,065**	**12,927**	**452,750**	**18,847**	**471,597**
Operating income (loss)	**$195,936**	**$ (1,452)**	**$ (2,250)**	**$(4,774)**	**$187,460**	**$ (27,799)**	**$159,661**
Assets	**$394,976**	**$39,532**	**$43,218**	**$ 5,024**	**$482,750**	**$151,879**	**$634,629**
Depreciation	**3,306**	**1,823**	**476**	**1,185**	**6,790**	**2,105**	**8,895**
Capital expenditure	**49,202**	**1,024**	**1,250**	**153**	**51,629**	**6,113**	**57,742**

Prior fiscal year (From April 1, 1999 to March 31, 2000)

	Millions of yen						
	Pachislot Pachinko	Amusement arcade equipment	Home video game software	Others	Total	Corporate and elimination	Consolidated
Net sales –							
(1) Outside customers	¥42,237	¥3,223	¥ 1,981	¥ 364	¥47,805	¥ –	¥47,805
(2) Inter segment	–	–	1,158	–	1,158	(1,158)	–
Total	42,237	3,223	3,139	364	48,963	(1,158)	47,805
Cost and expenses	30,938	3,843	4,537	514	39,832	1,845	41,677
Operating income (loss)	¥11,299	¥ (620)	¥(1,398)	¥(150)	¥ 9,131	¥ (3,003)	¥ 6,128
Assets	¥20,344	¥2,450	¥ 3,630	¥ 876	¥27,300	¥13,263	¥40,563
Depreciation	250	51	67	379	747	293	1,040
Capital expenditure	2,069	121	60	125	2,375	133	2,508

Notes: 1. The Company has 4 segments based on its management control structure, and nature of products and market.

2. Main products and line of business by segment

(1) Pachislot and pachinko	*Manufacture and sell pachislot and pachinko machines*
(2) Amusement arcade equipment	*Manufacture, sell and rent game machines used in amusement arcades*
(3) Home video game software	*Develop and sell home video game software*
(4) Others	*Mainly operation of amusement facilities*

3. General corporate expenses of ¥3,447 million ($27,798 thousand) in 2001 and ¥2,361 million in 2000, which mainly consist of expenses incurred by the parent company's administrative department, are included in "Corporate and eliminations"

4. Corporate assets of ¥18,834 million ($151,887 thousand) in 2001 and ¥6,811 million in 2000, which mainly consist of cash and cash equivalent, marketable securities, investment securities and corporate properties, are included in "Corporate and elimination".

As described in Note 6, the Company and consolidated subsidiaries adopted the new accounting standard for severance and retirement benefits. As a result, operating income of Pachislot and Pachinko, Amusement arcade equipment decreased by ¥6 million ($48 thousand) and ¥1 million ($8 thousand), respectively.

B. Geographical segment information

Geographical segment information was not presented due to the fact the sales and assets of consolidated domestic subsidiaries for the years ended March 31, 2001 and 2000 exceed 90% of consolidated net sales and assets.

C. Overseas sales

The overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2001 and 2000 were less than 10% of consolidated net sales.

NOTE 15 – LAWSUITS

With respect to our company's manufacturing and sales of Pachislot game machines equipped with Challenge Time function (hereinafter called "CT Machines"), a variation of our Pachislot game machines, Aruze Corp. (hereinafter called "Aruze") filed a suit against us with the Tokyo District Court on October 25, 1999, claiming damages of 4.2 billion yen, the alleged amount of profit obtained by our company through the above manufacturing and sales of CT Machines (the machines in question are *ULTRAMAN CLUB 3* and *JAPAN 2*), due to an alleged infringement by our company of a patent right owned by Aruze. Furthermore, Aruze applied to the Tokyo District Court on November 25,1999 for issuance of a provisional injunction to prohibit our manufacturing and sales of *TRIPLE RIDER*, a CT Machine, claiming that said machine falls under the technical scope of a patent right owned by Aruze. However, they withdrew this application and have instead filed a suit with the Tokyo District Court claiming damages of 1.4 billion yen. The complaint for the above suit was served to our company on June 8, 2001. Regarding *KAMEN RIDER V3*, one of our *PACHISLOT* game machines, Aruze also filed a suit against us with the Tokyo District Court on February 22, 2000, claiming damages of 1.5 billion yen, due to an alleged infringement by our company of a patent right owned by Aruze.

We firmly believe that no infringement of patent right owned by Aruze exists with regard to any of the above suits.

Currently, at our company, no manufacturing and sales takes place for any of the machines in question: *ULTRAMAN CLUB 3*, *JAPAN 2*, *TRIPLE RIDER*, and *KAMEN RIDER V3*. However, we plan to continue to develop, produce, and sell CT Machines. Depending upon the progress of the lawsuits, there is a possibility that our business results may be affected. At present, however, we consider that the impact will be slight.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors

SAMMY CORPORATION

We have audited the accompanying consolidated balance sheets of SAMMY CORPORATION (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of SAMMY CORPORATION and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, SAMMY CORPORATION and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements and notes thereto have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co

Tokyo, Japan
June 22, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Corporate Data

Head Office:
23-2, Higashi-Ikebukuro 2-chome,
Toshima-ku, Tokyo 170-8436, Japan

Established:
November 1, 1975

Capital:
¥4,941 million
(As of March 31, 2001)

Employees:
533 (Non-Consolidated)
754 (Consolidated)
(As of March 31, 2001)

Common Stock:
Authorized: 30,000,000 shares
Issued: 25,602,400 shares
(As of March 31, 2001)

Note: The ordinary annual general meeting of shareholders held on June 22, 2001 approved an increase in the authorized number of shares to 100,000,000 shares.

Number of Shareholders:
8,339
(As of March 31, 2001)

Transfer Agent of Common Shares Handling Office:
The Toyo Trust and Banking Co., Ltd.
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Phone: 03-5683-5111

Principal Business:
- Development, manufacture and sales of pachinko machines, pachislot machines, arrange ball machines, and peripheral equipment
- Development, manufacture and sales of home video game software
- Development, manufacture, sales and export of amusement arcade equipment
- Operation of amusement arcades

Network:
Factory and Distribution Center:
Kawagoe Factory
Sayama Distribution Center

Branches:
Sapporo, Sendai, Tokyo, Nagoya,
Osaka, Hiroshima, Fukuoka

Sales Offices:
Aomori, Koriyama, Tsukuba, Takasaki,
Chiba, Shizuoka, Kanazawa, Kyoto,
Kobe, Takamatsu, Miyazaki

Subsidiaries:
Sammy USA Corporation
MAXBET Co., Ltd.
Sammy Amusement Service Co., Ltd.
Spike Co., Ltd.
Underground Liberation Force Inc.
Vaill CO., LTD.
Quat Technology Inc.
RODEO Co., Ltd.
Dimps CORP.
Sammy Europe Limited
(As of March 31, 2001)

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http://ir.sammy.co.jp

Caution with Regard to Forward-Looking Statements
Statements in this annual report with respect to Sammy's plans, strategies, beliefs and estimates that are not historical facts are forward-looking statements. They constitute management's assumptions based on information currently available and involve risks and uncertainties. There are a number of factors that could cause actual results to differ materially from such statements.

Sammy

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