

ANNUAL
REPORT
2001



JAPAN CASH/MACHINE CO., LTD.

Contents

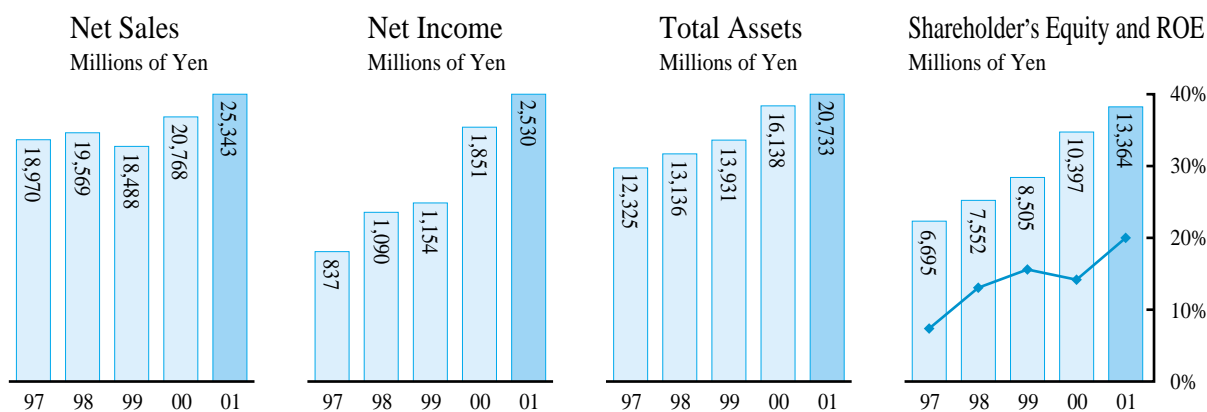
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Financial Highlights

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		
	2001	2000	2001
Annual results:			
Net sales:			
Domestic	¥ 10,436	¥ 8,126	\$ 84,231
Overseas	14,907	12,642	120,313
Total	25,343	20,768	204,544
Operating income	4,112	3,320	33,190
Net income	2,530	1,851	20,420
Depreciation of property, plant and equipment	381	479	3,073
Research and development costs	1,335	1,061	10,778
At the year end:			
Current assets	¥ 17,067	¥ 12,735	\$ 137,749
Total assets	20,734	16,138	167,341
Current liabilities	6,503	4,961	52,486
Shareholders' equity	13,364	10,397	107,856
	(Yen)		(U.S. dollars)
Per share data:			
Net income	¥ 192.31	¥ 156.74	\$ 1.55
Cash dividends	25.00	20.00	0.20
Number of employees (as of March 31)	420	395	420

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥123.90 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2001.



Profile

The JCM Group was established in January 1955 to engage primarily in the sale and maintenance of mechanical cash registers equipment. In 1957, the group began manufacturing these products, and since then it has continuously manufactured and sold a wide range of money handling machinery. During that period, JCM has responded in a sensitive manner to our customers' needs and market developments and has made market-driven sales and product development that emphasizes quality its guiding principles to offer our customers high quality, cost-competitive products. Today, the JCM group's main products — bill acceptors, OEM terminals, and machines and equipment for entertainment centers — were all developed according to these principles, and these strategies form the foundations for the JCM group's development.

Among these products, bill acceptors are our leading products, accounting for 53% of sales on a consolidated basis (fiscal 2000). These products are incorporated in the game note acceptance units of devices such as slot machines used in the gaming market, primarily in America, and JCM holds more than a 90% share of the American market.

JCM also manufactures and sells U.S.dollar checkers, currency counting machines, automatic note and coin drawers, electronic cash registers (ECR), POS terminals, and fire-resistant safes.

JCM's shares have long been listed on the Second Section of the Osaka Securities Exchange, and last December, they were also

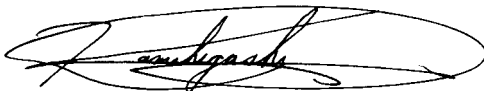
listed on the Second Section of the Tokyo Stock Exchange and new capital was raised through a public offering of 500,000 shares.

In addition, the "40 Billion Yen Sales Concept" was launched during the fiscal term with the goal of further expanding business and strengthening the company's management foundations.

To Our Shareholders

I hope that this report finds all of our shareholders and investors enjoying good health and prosperity. I am pleased to make this report on the JCM group's business results for its 48th fiscal term (April 1, 2000 - March 31, 2001).

It was a great pleasure that we attained on December 18th, 2000 the long-cherished dream of listing our shares on the Tokyo Stock Exchange. I would like to take this opportunity to express our heartfelt appreciation for all the support our shareholders have extended to us up to now.



Koichiro Kamihigashi
President

Outline of Business Results

Concerning the Japanese economy during this fiscal term, capital investment - primarily information technology (IT) related investment - increased in the first half and manufacturing industries headed towards recovery, but there has been no significant change in the sluggish personal consumption and moreover, in the second half, feelings of uncertainty concerning the future heightened as a result of concerns about a slowdown in the American economy and consequently, the business environment remains difficult.

In overseas markets, Europe and North America had maintained strong growth until now, but in the second half corporate performance deteriorated, particularly among high-tech firms, and the increase in oil prices reinforced the concerns of a slowing economy.

Under these circumstances, the JCM group undertook a number of aggressive measures including utilizing its unique expertise to enhance the precision of its money handling business, making even greater efforts to increase sales of new labor-saving products and system products, and moving forward with shifting production of bill acceptors, our core products, to China through JCM Gold (H.K.) Ltd., our subsidiary in Hong Kong, in order to increase the profitability by reducing manufacturing costs.

Overseas production started with ECR equipment following the rapid appreciation of the yen in 1995. During fiscal 1999, about 30% of all our products were manufactured in China.

Business Segment Information

As a result of the above, sales of bill acceptors in the United States increased and the business results of each overseas subsidiary remained strong with consolidated sales for the term reaching 25.343 billion yen (a year-on-year increase of 22.0%).

With respect to profits, returns improved as a result of the higher sales, with consolidated operating profit increasing to 4.112 billion yen (a year-on-year increase of 23.9%). In addition, the exchange rate shifted to a lower yen than initially planned, resulting in improved non-operating income and expenditures, and as a result consolidated ordinary profit was 4.410 billion yen (a year-on-year increase of 37.2%), and consolidated current net profit was 2.530 billion yen (a year-on-year increase of 36.7%). However, differences in the retirement benefit contributions accounting standards that became applicable starting this year resulted in a one-time payment.

The Company and its subsidiaries are primarily engaged in the manufacture and sales of products. The operations of the Company and its subsidiaries are classified into two segments: cash machines and related equipment, and leisure business and related business. As net sales and total assets of the leisure business and related business constituted less than 10% of the consolidated totals for the years ended March 31, 2001 and 2000, details of the activities of individual sales divisions have been included in place of the disclosure of business segment information.

(1) Money Handling Machine Division

The main products of this division are bill acceptors used mainly in the American gaming market. Today, JCM is widely known as the leading manufacturer of bill acceptors machinery in casino and gaming markets throughout the world. JCM maintains an overwhelming position, including a market share in excess of 90% in North America.

Until recently, the JCM group sold these products mainly to game machine manufacturers, but in the last few years we have been conducting direct sales to casino halls of products with software compatible with the new U.S. bank notes to replace older bill acceptors .

Overseas sales of a wide range of products, including sales to casino halls were strong during this fiscal term. In the domestic market, sales of OEM terminals were strong but capital investment in the distribution and financial industries, the division's main customers, was

restrained, and overall demand was flat.

As a result of the above, the division's sales were 17.001 billion yen (a year-on-year increase of 15.4%).

(2) ECR Division

The ECR division conducted joint development with a software development company of POS terminals that utilize the Internet and feature lower operating costs than earlier systems that utilize dedicated communications lines. The devices, intended for relatively small-scale retail chain stores, were launched and emphasis was placed on sales of systems that combine products with functions and features not found in competitor's products.

In overseas markets, demand to replace older equipment in Europe including Italy was strong and aggressive efforts were made to expand sales including further development of sales structures in America.

As a result, the division's sales were 2.064 billion yen (a year-on-year increase of 38.0%).

(3) Machines and Equipment for Entertainment Centers Division

Sales of automatic token supply systems and automatic token dispenser increased considerably. Automatic token supply systems are installed in pachisuro areas and are used to automatically supply medallions to pachisuro machines and inter-unit medal rental equipment as well as recover and polish the medallions. In addition, anti-theft functions have been

strengthened and enhanced, making these items, which are the division's leading product, a focus of attention in the industry. Automatic token dispenser are devices installed between pachisuro devices that lend medallions to amusement customers in exchange for currency notes. By combining installation with these units, the currency notes used by amusement customers are transported and stored, greatly reducing manual work by employees and contributing to labor saving at pachinko halls, making them a focus of attention in recent years.

Also, as a result of the high interest in pachisuro games, sales of the pachisuro machines supplied and sold by the JCM group have been strong.

As a result of the above, the division's sales increased greatly to 5.855 billion yen (a year-on-year increase of 41.5%).

(4) Office Equipment Division

The division's main products are fire-resistant safes, and the product line extends from large office-use safes to small household-use safes. Sales channels are diversified and includes mail order sales and home centers.

The division's sales were 421 million yen (a year-on-year increase of 6.5%).

Outlook for The Future

In conjunction with the listing of its shares on the Tokyo Stock Exchange, the JCM group is committed to increasing its name recognition in domestic markets and expanding global business in order to improve business performance even further and thereby enhance shareholder value.

In order to achieve these goals, JCM adopted and is implementing the "40 Billion Yen Sales Concept" as a long-term business plan with a goal of unconsolidated sales of 40 billion yen in the fiscal 2005. The plan calls for establishing priority products for each division, main product line, and application and launching new products that meet customer needs as determined through thorough market research as well as intensive sales promotion activities directed at target customers, the creation of new marketing bases and expansion of existing bases in order to achieve domestic sales of 22.0 billion yen — double the current figure — and export sales of 18.0 billion yen for a total of 40.0 billion yen, or 1.7 times current sales by the fiscal 2005, the final year of the plan. With respect to profits, the plan calls for ordinary profits of 6.8 billion yen and current net profits of 4.0 billion yen, also by the final year of the plan. On a consolidated basis, the plan sets goals of sales of 48.0 billion yen, ordinary profits of 10.0 billion yen, and current net profits of 6.0 billion yen in the fiscal 2005.

During this period, JCM will seek to increase sales not only overseas but in Japan as well and particular efforts will be put into money handling machinery for the distribution industry. The Japanese banking industry leads the world in the

use of automated money handling machinery, but the distribution industry is hardly automated at all. The use of POS terminals is common within the industry for gathering sales data, but there are concerns about the lack of agreement between the sales data figures and cash. We are well aware that there is plenty of margin for the creation of a market for money handling systems such as bill and coin collectors and dispensers and automated collection devices, our areas of expertise, and by doing this we will increase the division's sales. As a result, we expect exports to account for about 45% of sales by the fiscal 2005 (the figure was 51% in fiscal 2000).

Overseas, sales of note identification units have been mainly in the gaming market, but we are committed to making a full-scale entry into other markets and will focus on planning and developing new products necessary for this. By entering new markets using the group's technologies and performance developed over many years in the gaming market, we will strive to achieve export sales of 18.0 billion yen by the fiscal 2005.

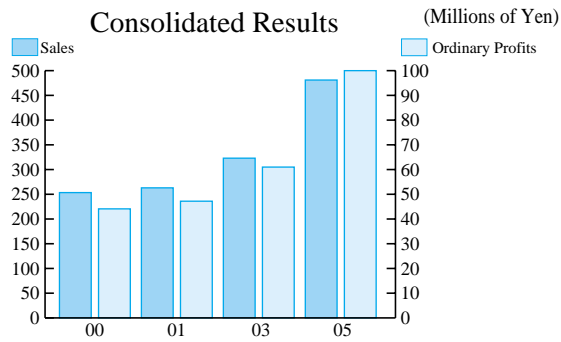
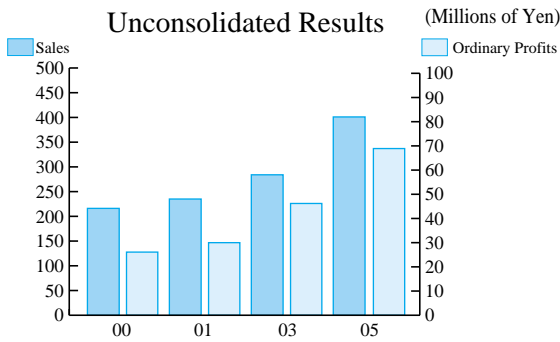
In addition, JCM is committed to developing a global business not only in sales but also in production through composite and borderless regions and fields and will strive to increase corporate competitiveness, enhance management stability, and improve the balance of profits.

The shift of production to China has been conducted with respect to some ECR equipment and bill acceptors, and overseas production will be expanded in the future including the shift this

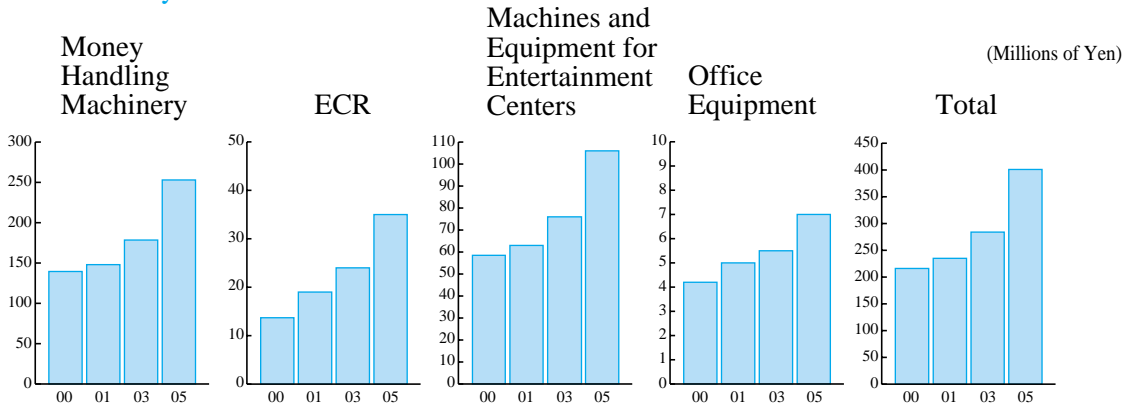
year of production of certain products for entertainment centers. Also, overseas production will not be limited to China, and we are considering eliminating the risks of fluctuations in exchange rates by conducting production in the region of consumption or neighboring territories. Semi-knock down production in America is one aspect of this development, and following America, we are considering production in Europe, the second largest consumption territory.

In addition, we believe that diversifying our business and entering new business are important issues for improving the JCM group's business performance, and as one aspect of these efforts, JCM acquired all of the shares of a seller of equipment for entertainment centers in order to raise marketing capabilities by developing new sales routes. JCM will continue to acquire other companies, establish alliances, and invest in other enterprises as necessary in order to achieve these goals.

Forecast of business results



Sales forecasts by division



Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2001 and 2000

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 3)
Assets			
Current assets:			
Cash and cash equivalents	¥ 4,977	¥ 3,489	\$ 40,171
Trade receivables:			
Notes	1,800	1,106	14,530
Accounts	3,388	2,726	27,340
	5,188	3,832	41,870
Inventories (Note 5)	5,981	4,407	48,269
Deferred income taxes (Note 8)	420	429	3,393
Prepaid expenses and other current assets	591	646	4,769
Less allowance for doubtful accounts	(90)	(68)	(723)
Total current assets	17,067	12,735	137,749
Property, plant and equipment, at cost (Note 6):			
Land	387	375	3,121
Buildings and structures	1,787	1,598	14,423
Machinery and equipment	3,646	3,311	29,431
Construction in progress	53	16	429
	5,873	5,300	47,404
Less accumulated depreciation	(3,635)	(3,317)	(29,341)
Property, plant and equipment, net	2,238	1,983	18,063
Investments and other assets:			
Investments in securities (Note 4)	408	236	3,296
Investments in unconsolidated subsidiaries	49	49	392
Deferred income taxes (Note 8)	129	75	1,044
Long-term loans	3	2	28
Deferred charges	1	4	5
Other	858	773	6,929
Less allowance for doubtful accounts	(20)	(3)	(165)
Total investments and other assets	1,428	1,136	11,529
Translation adjustments	—	284	—
Total assets	¥ 20,734	¥ 16,138	\$ 167,341

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 6)	¥ —	¥ 104	\$ —
Trade payables:			
Notes	3,098	1,999	25,005
Accounts	1,344	1,216	10,848
	<u>4,442</u>	<u>3,215</u>	<u>35,853</u>
Accrued income taxes (Note 8)	902	649	7,279
Accrued bonuses	321	322	2,592
Other current liabilities	838	670	6,762
Total current liabilities	<u>6,503</u>	<u>4,960</u>	<u>52,486</u>
Long-term liabilities:			
Long-term debt (Note 6)	600	600	4,843
Accrued retirement benefits for employees (Note 7)	67	—	538
Retirement allowances for directors and statutory auditors	171	151	1,380
Deferred income taxes (Note 8)	15	15	125
Other	14	15	113
Total long-term liabilities	<u>867</u>	<u>781</u>	<u>6,999</u>
Shareholders' equity:			
Common stock; ¥50 par value:			
Authorized - 29,664,000 shares			
Issued - 13,490,373 shares in 2001	2,182	—	17,609
11,809,430 shares in 2000	—	1,863	—
Additional paid-in capital	2,029	1,710	16,373
Retained earnings (Notes 9 and 13)	9,074	6,824	73,237
Net unrealized holding gain on securities	102	—	821
Translation adjustments	(23)	—	(182)
Less treasury stock, at cost:			
158 shares in 2001 and 419 shares in 2000	(0)	(0)	(2)
Total shareholders' equity	<u>13,364</u>	<u>10,397</u>	<u>107,856</u>
Total liabilities and shareholders' equity	<u>¥ 20,734</u>	<u>¥ 16,138</u>	<u>\$ 167,341</u>

The accompanying notes are an integral part of statements.

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2001 and 2000

	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 3)
Net sales (Note 12)	¥ 25,343	¥ 20,768	\$204,544
Cost of sales	14,916	12,225	120,384
Gross profit	10,427	8,543	84,160
Selling, general and administrative expenses	6,315	5,223	50,970
Operating income (Note 12)	4,112	3,320	33,190
Other income:			
Interest and dividend income	59	51	478
Reversal of allowance for doubtful accounts	1	3	7
Reversal of loss on devaluation of securities	—	16	—
Exchange gain	257	—	2,071
Other	63	73	510
	380	143	3,066
Other expenses:			
Interest expense	28	28	226
Exchange loss	—	208	—
Loss on disposal of property, plant and equipment	—	43	—
Retirement benefit expenses	69	—	559
Loss on devaluation of other assets	67	—	538
Loss on devaluation of investments in securities	28	—	228
Other	40	9	319
	232	288	1,870
Income before income taxes	4,260	3,175	34,387
Income taxes (Note 8):			
Current	1,837	1,474	14,828
Deferred	(107)	(150)	(861)
Net income	¥ 2,530	¥ 1,851	\$ 20,420
		Yen	U.S. dollars
Net income per share	¥192.31	¥156.74	\$1.55

The accompanying notes are an integral part of these statements.

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2001 and 2000

(Millions of yen)

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance, March 31, 1999	11,809,430	¥ 1,863	¥ 1,710	¥ 4,934	—	—	¥ (2)
Net income for the year ended March 31, 2000	—	—	—	1,851	—	—	—
Prior year's adjustment for deferred income taxes	—	—	—	308	—	—	—
Cash dividends	—	—	—	(236)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(33)	—	—	—
Decrease in treasury stock	—	—	—	—	—	—	1
Balance, March 31, 2000	11,809,430	1,863	1,710	6,824	—	—	(1)
Net income for the year ended March 31, 2001	—	—	—	2,530	—	—	—
Issuance of common stock	500,000	319	319	—	—	—	—
Stock split	1,180,943	—	—	—	—	—	—
Cash dividends	—	—	—	(245)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(35)	—	—	—
Unrealized holding gain on securities	—	—	—	—	102	—	—
Translation adjustment	—	—	—	—	—	(23)	—
Decrease in treasury stock	—	—	—	—	—	—	1
Balance, March 31, 2001	<u>13,490,373</u>	<u>¥ 2,182</u>	<u>¥ 2,029</u>	<u>¥ 9,074</u>	<u>¥ 102</u>	<u>¥ (23)</u>	<u>¥ (0)</u>

(Thousands U.S. dollars) (Note 3)

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance, March 31, 2000	11,809,430	\$15,038	\$13,802	\$55,077	—	—	\$ (6)
Net income for the year ended March 31, 2001	—	—	—	20,420	—	—	—
Issuance of common stock	500,000	2,571	2,571	—	—	—	—
Stock split	1,180,943	—	—	—	—	—	—
Cash dividends	—	—	—	(1,978)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(282)	—	—	—
Unrealized holding gain on securities	—	—	—	—	821	—	—
Translation adjustment	—	—	—	—	—	(182)	—
Decrease in treasury stock	—	—	—	—	—	—	4
Balance, March 31, 2001	<u>13,490,373</u>	<u>\$17,609</u>	<u>\$16,373</u>	<u>\$73,237</u>	<u>\$ 821</u>	<u>\$ (182)</u>	<u>\$ (2)</u>

The accompanying notes are an integral part of these statements.

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years Ended March 31, 2001 and 2000

	2001 (Millions of yen)	2000	2001 (Thousands of U.S. dollars) (Note 3)
Operating activities:			
Income before income taxes	¥ 4,260	¥ 3,175	\$ 34,387
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	448	519	3,616
Accrued retirement benefits	67	—	538
Interest and dividend income	(59)	(17)	(478)
Interest expense	28	27	226
Exchange (gain) loss, net	(257)	51	(2,071)
Other	45	94	367
Changes in operating assets and liabilities:			
Trade receivables	(1,221)	(406)	(9,857)
Inventories	(1,302)	(1,003)	(10,516)
Trade payables	1,176	104	9,494
Consumption tax receivables	(102)	(222)	1,628
Other operating assets and liabilities	202		(311)
Subtotal	3,285	2,205	26,512
Interest and dividends received	59	18	476
Interest paid	(29)	(27)	(236)
Income taxes paid	(1,587)	(1,372)	(12,802)
Net cash provided by operating activities	1,728	824	13,950
Investment activities:			
Purchases of marketable securities	—	(11)	—
Proceeds from sales of marketable securities	—	11	—
Purchases of property, plant and equipment	(612)	(953)	(4,938)
Proceeds from sales of property, plant and equipment	13	12	104
Increase in investments in securities	(25)	(30)	(203)
Other, net	5	(11)	43
Net cash used in investment activities	(619)	(982)	(4,994)
Financing activities:			
(Decrease) increase in short-term bank loans, net	(114)	104	(919)
Issuance of common stock	637	—	5,141
Proceeds from sales of treasury stock	34	84	278
Purchases of treasury stock	(34)	(81)	(274)
Cash dividends paid	(245)	(236)	(1,978)
Net cash provided by (used in) financing activities	278	(129)	2,248
Effect of exchange rate changes on cash and cash equivalents	100	(85)	803
Increase (decrease) in cash and cash equivalents	1,487	(372)	12,007
Cash and cash equivalents at beginning of year	3,490	3,862	28,164
Cash and cash equivalents at end of year	¥ 4,977	¥ 3,490	\$ 40,171

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

March 31, 2001

1. Basis of Presentation of Consolidated Financial Statements

Japan Cash Machine Co., Ltd. (the "Company") maintains its accounts and records in accordance with accounting principles and practices generally accepted and applied in Japan. Its foreign subsidiaries maintain their accounts in conformity with the requirements of their countries of domicile. The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany items have been eliminated in consolidation.

The foreign consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these foreign consolidated subsidiaries and the year end of the Company.

Under a revised accounting standard for consolidated financial statements which become effective April 1, 1999, the Company is principally required to consolidate all entities which are effectively controlled by the Company unless such control is considered temporary. The effect of the application of this accounting standard on the consolidated financial statements was immaterial.

Investments in unconsolidated subsidiaries are carried at cost.

(b) Foreign Currency Translation

The financial statements of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Differences resulting from translating the financial statements of the foreign consolidated subsidiaries has not been included in the determination of net income, but has been presented as translation adjustments in a component of shareholders' equity in the consolidated balance sheet at March 31, 2001. The translation adjustments were reported in the assets section at March 31, 2000.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the exchange rates in effect at the respective transaction dates. Gain and loss on each of the transactions are credited or charged to income in the period in which such gain and loss are recognized for financial reporting purposes.

Effective April 1, 2000, the Company has adopted a revised "Accounting Standard for Foreign Currency Translation" issued by the Business Accounting Deliberation Council of Japan. Under this standard, all monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except for forward foreign exchange contracts which are translated at their corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. The effect of the adoption of the revised standard on the consolidated financial statements was immaterial for the year ended March 31, 2001.

(c) Consolidated Statements of Cash Flows

The Company initially adopted "Accounting Standard for Consolidated Statements of Cash Flows" issued by the Business Accounting Deliberation Council of Japan which requires the preparation and disclosure of a consolidated statement of cash flows as part of the basic consolidated financial statements effective the year ended March 31, 2000.

For the purposes of the consolidated statements of cash flows for the years ended March 31, 2001 and March 31, 2000, cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Inventories

Inventories of the Company are stated at cost, determined by the first-in, first-out method. Inventories of the consolidated subsidiaries are stated at the lower of cost or market, cost of JCM AMERICAN CORP. and JCM GOLD USA, INC. being determined by the first-in, first-out method, cost of JAPAN CASH MACHINE GERMANY GMBH and JCM GOLD (H.K.) LTD. being determined by the moving average method.

(e) Investments in Securities

Through March 31, 2000, marketable securities were valued principally at the lower of cost or market, cost being determined by the moving average method, and investments in securities other than marketable securities were stated at cost determined by the moving average method.

Effective April 1, 2000, the Company has adopted "Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council of Japan. This standard requires that securities be classified into three categories: trading securities, held-to-maturity debt securities, and other securities. Under this standard, trading securities are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

As of April 1, 2000, the Company assessed its intent in holding its investments in securities and classified its securities at March 31, 2001 as other securities in accordance with the standard referred to above. As a result, short-term investments of ¥5 million (\$41 thousand), which were included in other current assets at March 31, 2000, have been reclassified to investments in securities.

(f) Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company principally in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment, and for the approval, reporting and monitoring of transactions involving derivatives. The Company does not hold or issue derivatives for speculative trading purposes.

The Company is exposed to certain market risks arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these contracts; however, the Company does not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

In accordance with the new accounting standard for financial instruments which became effective April 1, 2000, derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or liability.

(g) Property, Plant and Equipment

Property, plant and equipment is stated on the basis of cost. The Company calculates depreciation principally by the declining-balance method based on the estimated useful lives and the residual value determined by the Company, except for buildings (exclusive of any structures attached to the buildings) acquired on or after April 1, 1998 which are depreciated by the straight-line method. The consolidated subsidiaries calculate depreciation principally by the straight-line method over the estimated useful lives of the respective assets.

Costs for maintenance, repairs and minor renewals are charged to income as incurred. Major renewals and betterments are capitalized.

(h) Research and Development Costs and Computer Software

Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their useful lives, generally a period of 5 years. "Accounting Standard for Research and Development Costs, Etc." issued by the Business Accounting Deliberation Council of Japan was adopted effective April 1, 1999.

(i) Allowance for Doubtful Accounts

Through March 31, 2000, the allowance for doubtful accounts of the Company was provided at the maximum amount permitted by the Corporation Tax Law of Japan, plus the amount required for known uncollectible receivables.

Effective April 1, 2000, the Company has adopted a new accounting standard for financial instruments. Under the new accounting standard, the Company has provided an allowance for doubtful receivables an amount calculated based on its historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

The allowances for doubtful accounts of JCM AMERICAN CORP. and JAPAN CASH MACHINE GERMANY GMBH have been provided at an estimated amount of probable bad debts.

(j) Leases

Non-cancelable leases of the Company are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified and accounted for either as finance or operating leases in conformity with accounting principles and practices generally accepted in the countries in which they are incorporated.

(k) Retirement Benefits

Employees of the Company are generally covered by the Company's funded non-contributory pension plan.

Through March 31, 2000, all pension costs, including prior service cost, were charged to income.

Effective April 1, 2000, the Company has adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council of Japan. In accordance with the standard, accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheets date. The net retirement benefit obligation at transition of ¥69 million (\$559 thousand) has been charged to income for the year ended March 31, 2001.

Actuarial gain or loss is credited or charged to income in the year in which such gain or loss is recognized for financial reporting purposes.

The effect of the adoption of the new standard for retirement benefits was to decrease income before income taxes and minority interests for the year ended March 31, 2001 by ¥66 million (\$538 thousand) over the amount which would have been recorded under the method applied in the previous year.

The foreign consolidated subsidiaries have no retirement benefit plans.

Directors and statutory auditors of the Company are not covered by the employees' pension plan. The liability for retirement allowances represents the estimated amounts which would be payable if they

were to retire at the balance sheet date. Amounts payable to directors and statutory auditors upon retirement are subject to the approval of the shareholders under the Commercial Code of Japan.

(l) Income Taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. Effective April 1, 1999, the Company adopted "Financial Accounting Standard on Accounting for Effects on Income Taxes" issued by the Business Accounting Deliberation Council of Japan and recognized the tax effect of temporary differences in its consolidated financial statements. The cumulative effect of this adoption of tax-effect accounting through the beginning of the prior year was reported as prior year's adjustment for deferred income taxes in the consolidated statement of shareholders' equity for the year ended March 31, 2000.

(m) Net Income per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during each respective year.

(n) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 13).

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥123.90 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2001. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Investments in Securities

(a) Investments in securities classified as other securities at March 31, 2001 were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 63	¥ 248	¥ 185	\$ 512	\$ 2,005	\$ 1,493
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	¥ 116	¥ 106	¥ (10)	\$ 931	\$ 854	\$ (77)
Other	3	3		27	27	
Subtotal	¥ 119	¥ 109	¥ (10)	\$ 958	\$ 881	\$ (77)
Total	¥ 182	¥ 357	¥ 175	\$ 1,470	\$ 2,886	\$ 1,416

(b) The carrying value and related estimated fair value of current and noncurrent marketable securities at March 31, 2000 are summarized as follows:

	(Millions of yen)		
	Carrying value	Estimated fair value	Net unrealized gain (loss)
(1) Current:			
Others	¥ 5	¥ 5	¥ (0)
(2) Noncurrent:			
Equity securities	¥ 185	¥ 348	¥(163)
Total	¥ 190	¥ 353	¥ 163

5. Inventories

Inventories at March 31, 2001 and 2000 are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2001	2000	2001
Finished goods	¥ 2,826	¥ 1,998	\$ 22,809
Work in process	969	486	7,818
Raw materials and supplies	2,186	1,922	17,642
	¥ 5,981	¥ 4,407	\$ 48,269

6. Short-Term Bank Loans and Long-Term Debt

The average annual interest rate on short-term bank loans was 4.0% for the year ended March 31, 2000.

Long-term debt as of March 31, 2001 and 2000 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2001	2000	2001
2.4% yen bonds due 2005	¥ 200	¥ 200	\$ 1,614
2.13% yen bonds due 2003	200	200	1,614
2.4% yen bonds due 2004	100	100	807
2.2% yen bonds due 2004	100	100	807
	¥ 600	¥ 600	\$ 4,843

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2002	¥ -	\$ -
2003	200	1,614
2004	200	1,614
2005	200	1,614
	¥ 600	\$ 4,843

At March 31, 2001 and 2000, the following assets were pledged as collateral to secure long-term debt:

	(Millions of yen)		(Thousands of U.S. dollars)
	2001	2000	2001
Land	¥ 61	¥ 61	\$ 488
Buildings and structures	116	124	943
Machinery and equipment	1	1	6
	¥ 178	¥ 186	\$ 1,437

7. Retirement Benefits

The Company has defined benefit plans, i.e., welfare pension fund and tax-qualified pension plans covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2001 as accrued retirement benefits for employees:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Retirement benefit obligation	¥ (738)	\$ (5,956)
Plan assets at fair value	671	5,419
Accrued retirement benefits	<u>¥ (67)</u>	<u>\$ (537)</u>

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
Service cost	¥ 55	\$ 440
Interest cost	20	158
Expected return on plan assets	(18)	(142)
Amortization of net retirement benefit obligation at transition	69	559
Amortization of actuarial loss	84	681
Retirement benefit expenses	<u>¥ 210</u>	<u>\$ 1,696</u>

The assumptions used in accounting for the above plan were as follows:

Discount rate	3.0%
Expected rate of return on plan assets	3.0%

In addition to the above pension plan, the Company participates in a multiemployer pension plan. Pension expense under this plan was ¥83 million (\$670 thousand) for the year ended March 31, 2001.

8. Income Taxes

The aggregate statutory tax rate on income before income taxes was approximately 42% for the years ended March 31, 2001 and 2000. A reconciliation of the statutory rate and the effective tax rates for the years ended March 31, 2001 and 2000 as a percentage of income before income taxes and minority interests has not been presented as the difference was immaterial.

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes. The components of deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2001	2000	2001
Deferred tax assets:			
Unrealized profit	¥ 264	¥ 276	\$ 2,134
Retirement allowances for directors and statutory auditors	72	63	580
Write-down of inventories	70	60	572
Provision for bonuses to employees	70	52	561
Other	217	104	1,748
Total deferred tax assets	<u>693</u>	<u>555</u>	<u>5,595</u>
Deferred tax liabilities:			
Unrealized holding gain on securities	74	—	595
Undistributed profits of subsidiaries	70	52	563
Other	15	15	125
Total deferred tax liabilities	<u>159</u>	<u>67</u>	<u>1,283</u>
Net deferred tax assets	<u>¥ 534</u>	<u>¥ 488</u>	<u>\$ 4,312</u>

9. Retained Earnings

The Commercial Code of Japan provides that an amount which is at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until such reserve equals 25% of stated capital. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors. Retained earnings include the legal reserve provided in

accordance with the Commercial Code. The legal reserve of the Company included in retained earnings at March 31, 2001 and 2000 amounted to ¥246 million (\$1,988 thousand) and ¥218 million, respectively.

10. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2001, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	(Millions of yen)			(Thousands of U.S. dollars)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 130	¥ 19	¥ 111	\$ 1,054	\$ 155	\$ 899

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥19 million (\$155 thousand) for the year ended March 31, 2001. Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥19 million (\$155 thousand) for the year ended March 31, 2001.

Future minimum lease payments subsequent to March 31, 2001 on finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2002	¥ 41	\$ 330
2003 and thereafter	70	569
Total	¥ 111	\$ 899

11. Research and Development Costs

Research and development costs for the years ended March 31, 2001 and 2000 were as follows:

(Millions of yen)		(Thousands of U.S. dollars)
2001	2000	2001
¥ 1,335	¥ 1,061	\$ 10,778

12. Segment Information

The Company and its subsidiaries are primarily engaged in the manufacture and sales of products. The operations of the Company and its subsidiaries are classified into two segments: cash machines and related equipment, and leisure business and related businesses. As net sales and total assets of the leisure business and related businesses constituted less than 10% of the consolidated totals for the years ended March 31, 2001 and 2000, the disclosure of business segment information has been omitted.

The geographical segment information of the Company and consolidated subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

Geographic segments	(Millions of yen)					
	2001					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers	¥ 11,554	¥ 11,698	¥ 439	¥ 1,652	¥ –	¥ 25,343
Inter-segment	10,057	31	2,357	9	(12,454)	–
Total sales	21,611	11,729	2,796	1,661	(12,454)	25,343
Operating expenses	19,742	9,981	2,601	1,372	(12,465)	21,231
Operating income	1,869	1,748	195	289	11	4,112
Total assets	¥ 16,406	¥ 4,874	¥ 1,680	¥ 1,099	¥ (3,325)	¥ 20,734
	(Millions of yen)					
	2000					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers	¥ 11,864	¥ 7,822	¥ 276	¥ 806	¥ –	¥ 20,768
Inter-segment	8,230	37	983	–	(9,250)	–
Total sales	20,094	7,859	1,259	806	(9,250)	20,768
Operating expenses	18,200	6,414	1,098	717	(8,981)	17,448
Operating income	1,894	1,445	161	89	(269)	3,320
Total assets	¥ 12,899	¥ 3,786	¥ 817	¥ 774	¥ (2,138)	¥ 16,138
	(Thousands of U.S. dollars)					
	2001					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers	\$ 93,253	\$ 94,416	\$ 3,544	\$ 13,331	\$ –	\$ 204,544
Inter-segment	81,171	250	19,023	70	(100,514)	–
Total sales	174,424	94,666	22,567	13,401	(100,514)	204,544
Operating expenses	159,340	80,556	20,992	11,069	(100,603)	171,354
Operating income	15,084	14,110	1,575	2,332	89	33,190
Total assets	\$ 132,416	\$ 39,336	\$ 13,562	\$ 8,868	\$ (26,841)	\$ 167,341

Unallocatable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥1,097 million (\$8,853 thousand) for the year ended March 31, 2001 and ¥1,069 million for the year ended March 31, 2000 and have been included in Eliminations/corporate.

Corporate assets primarily include the Company's cash and time deposits, investments in securities and foreign currency translation adjustments.

Overseas net sales

Overseas net sales, which include export sales of the Company and the domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries for the years ended March 31, 2001 and 2000, are summarized as follows:

	(Millions of yen)			
	2001			
	North America	Europe	Other	Total
Overseas sales, net	¥ 12,084	¥ 2,115	¥ 708	¥ 14,907
Overseas net sales as a percentage of consolidated net sales	47.7%	8.3%	2.8%	58.8%
	(Millions of yen)			
	2000			
	North America	Europe	Other	Total
Overseas sales, net	¥ 9,904	¥ 2,072	¥ 666	¥ 12,642
Overseas net sales as a percentage of consolidated net sales	47.7%	10.0%	3.2%	60.9%
	(Thousands of U.S. dollars)			
	2001			
	North America	Europe	Other	Total
Overseas sales, net	\$ 97,532	\$ 17,069	\$ 5,712	\$ 120,313
Overseas net sales as a percentage of consolidated net sales	47.7%	8.3%	2.8%	58.8%

13. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2001, were approved at a shareholders' meeting held on June 28, 2001:

	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
Cash dividends (¥17.50 = \$0.141 per share)	¥ 236	\$ 1,905
Bonuses to directors and statutory auditors	¥ 38	\$ 307

Independent Auditors' Report

The Board of Directors and Shareholders
Japan Cash Machine Co., Ltd.

We have audited the consolidated balance sheets of Japan Cash Machine Co., Ltd. and consolidated 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 yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances..

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Japan Cash Machine Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and its their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis..

As described in Note 2, Japan Cash Machine Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for foreign currency translation, financial instruments and employees' retirement benefits effective the year ended March 31, 2001, and for consolidation, research and development costs and tax-effect accounting effective the year ended March 31, 2000 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Century Ota Showa & Co.

Century Ota Showa & Co.

June 28, 2001

See Note 1 which explains the basis of preparation of the consolidated financial statements of Japan Cash Machine Co., Ltd. under Japanese accounting principles and practices.

Consolidated Subsidiaries

Company Name	Major business Fields	Address
AMERICA		
JCM American Corp.	Sale of Money Handling Machinery	925 Pilot Road, Las Vegas, Nevada 89119, U.S.A. Tel:+1-702-651-0000, +1-800-683-7248 (Toll Free) Fax:+1-702-651-3418 E-mail: marketing@JCM-American.com
JCM Gold USA, Inc.	Sale of ECR	410 Princeton-Hightstown Road, Cranbury, N.J.08512 U.S.A. Tel:+1-609-448-1700 Fax:+1-609-448-2666
EUROPE		
Japan Cash Machine Germany GMBH.	Sale of Money Handling Machinery	Buettgenbach str. 5, D-40549 Duesseldorf, Germany Tel:+49-(0)211-530645-0 Fax:+49-(0)211-592004 E-mail: info@jcm-germany.com
ASIA		
JCM Gold (H.K.)Ltd.	Manufacture and Sale of Money Handling Machinery and ECR	Unit 1-7, 3/F., Favor Industrial Centre, 2-6 Kin Hong St., Kwai Chung, N.T.Hong Kong Tel:+852-2429-7187 Fax:+852-2420-8864 E-mail:jcm@jcmgold.com.hk E-mail:jcm@glink.net.hk
Shafty., Co Ltd.	Leasing of Real Estate Properties	Unit 1-7, 3/F., Favor Industrial Centre, 2-6 Kin Hong St., Kwai Chung, N.T.Hong Kong

Board of Directors

Board of Directors

President

Koichiro Kamihigashi

Senior Managing Director

Norikiyo Suzuki

Directors

Kazuo Toda

Kaoru Doi

Yojiro Kamihigashi

Toshizumi Kitamori

Hisashi Maki

Standing Statutory Auditor

Yoshio Kawahara

Statutory Auditors

Kinzo Onoe

Hideyuki Koizumi

Hiroshi Morimoto

Corporate Data

Corporate Head Office/Factory

2-3-15 Nishiwaki, Hirano-ku, Osaka

547-0035, Japan

Tel: +81-(0)6-6703-8400

Domestic Sales Office

Tohoku (Aoba-ku, Sendai)

Tokyo (Bunkyo-ku, Tokyo)

Nagoya (Higashi-ku, Nagoya)

Fujiidera (Fujiidera-city, Osaka)

Shikoku (Takamatsu-city, Kagawa)

Fukuoka (Hakata-ku, Fukuoka)

Laboratories

Sagamihara (Sagamihara-city, Kanagawa)

Kofu (Kofu-city, Yamanashi)

Factory

Nagahama (Nagahama-city, Shiga)

Date of Establishment

January 11, 1955

Capital

¥2,181 million

Number of Employees

420

As of March 31, 2000



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