

ANNUAL REPORT 2002



JAPAN CASH/MACHINE CO., LTD.

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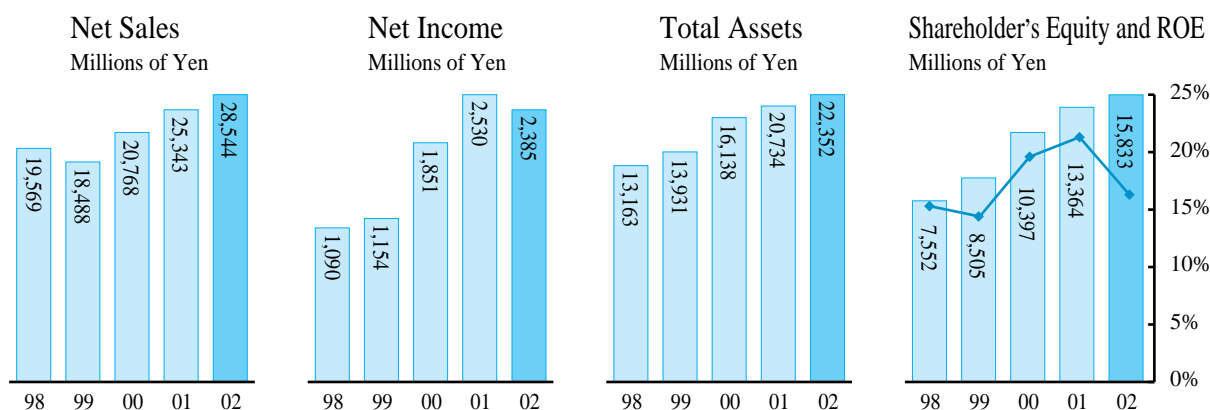
URL:<http://www.jcm-hq.co.jp>

Financial Highlights

Years ended March 31

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Annual results:			
Net sales:			
Domestic	¥ 12,486	¥ 10,436	\$ 93,700
Overseas	16,058	14,907	120,514
Total	28,544	25,343	214,214
Operating income	4,016	4,112	30,138
Net income	2,385	2,530	17,903
Depreciation of property, plant and equipment	483	381	3,626
Research and development costs	1,345	1,335	10,098
At the year end:			
Current assets	¥ 18,576	¥ 17,067	\$ 139,409
Total assets	22,352	20,734	167,744
Current liabilities	5,764	6,503	43,260
Shareholders' equity	15,833	13,364	118,822
	(Yen)		(U.S. dollars)
Per share data:			
Net income	¥ 160.78	¥ 192.31	\$ 1.21
Cash dividends	29.00	25.00	0.22
Number of employees (as of March 31)	458	420	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥133.25 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2002.



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 49th fiscal term (April 1, 2001 - March 31, 2002).

The JCM group was established in January 1955 to engage primarily in the sale and maintenance of mechanical cash registers equipment. In February 1957, the group began manufacturing these products.

Since then, with the expansion of its business and the increase in customers' needs, the group has continued its efforts to develop a wide range of products, including office equipment represented by fire-resistant safes, money handling-machinery as one of its main products at present and machines and equipment for the entertainment market.

In 1993, JCM's shares were listed on the Second Section of the Osaka Securities Exchange, and in December 2000 they were also listed on the Second Section of the Tokyo Stock Exchange.

Most of its current leading products incorporating mechanical functions such as bill conveying and coin counting are still in the process of developing into new products, using technologies created at the time when its business started with mechanical cash registers equipment.

The JCM Group is characterized as a market-oriented enterprise. Nowadays, users' sense of value of goods has become diversified with a

change of the times. In Europe and America, product development is conducted, in most cases, by a small group of managers having a certain type of idea and therefore there are many products that seem to have reached the limit of development. By contrast, JCM's concept of product development is based on the good use of various ideas created by a number of teams, each consisting of members with different characters, making it possible to develop internationally competitive products with sensible functions.

Moreover, JCM, as a technology-oriented enterprise, always seeks technologies in advance to satisfy customer needs for the future, based on the system of linkage between manufacturing and sale in which customer requirement is directly reflected in the product development and manufacturing, which is also one of the characteristics of the group.

The JCM Group consists of seven consolidated subsidiaries and two unconsolidated subsidiaries, totaling nine corporations besides JCM. Of these, there are five consolidated subsidiaries in overseas countries: three companies engaged in the sales of the products, one company as an overseas production base and one real estate management company, each responsible for part of overseas business activities for JCM. In Japan, there are two consolidated subsidiaries: one is engaged in the sales of machines and equipment for entertainment centers, including JCM's products, and the other one is engaged in the maintenance of JCM's products.

These two domestic companies were included in

the consolidated statements for this fiscal term: one is Meiho Shoji Co., Ltd. All outstanding shares of the company were acquired in April 2001, aiming at sales promotion of machines and equipment for entertainment centers. The other one is JCM Techno Support Co., Ltd., newly established in October 2001 by corporate division for the purpose of strengthening the maintenance service system.

There two companies are expected to play an important role in realizing the long-term business plan, the "40 Billion Yen Sales Concept" that was launched in 2001.

The "40 Billion Yen Sales Concept", started in April 2001, aims to reach, through efforts to expand sales and improve profitability, the goal of the ordinary profit ratio to sales at 20% for the final term ending in March 2006 of this plan and for ROE to top 25% as a bench mark for creating value for shareholders.

Dividends to shareholders, with the dividend payment rate targeted at 30% at present, will be paid after consideration of all aspects regarding the improvement of shareholders' equity as well as a return to shareholders, including financial conditions and dividend payout rates. Although consecutive dividends by JCM were ¥15 per share annually in the past, they were increased to ¥24 annually from this term in consideration of the business trend and dividend payment rates in recent years.

Accordingly, common dividends for this term have been increased by ¥9 to ¥16.50 from ¥7.50

for the previous term, together with special dividends of ¥5 in memory of the highest ever record of sales, the ordinary profit and net profit for this term attained by JCM independently totaling ¥21.50 per share (annual dividends of ¥29 including interim dividends of ¥7.50 already paid).

In addition, JCM has decided to change the unit share from 1,000 to 100 shares from August 1, 2002 in order to promote distribution of shares and expand the range of investors in JCM.

I would like to thank all our shareholders and ask for their continued support and guidance.



Koichiro Kamihigashi
President

Outline of Business Results

During this fiscal term, the Japanese economy faced more difficult conditions due to a large decrease in capital investment primarily in information technology (IT), related industries and sluggish consumer spending amid a rise in the unemployment rate due to corporate bankruptcies. In overseas markets, the US economy, which was on the downward trend after the terrorist attacks, is returning to a steady recovery path, and the European economy is showing signs of bottoming out due to an increase in consumer spending after the unification of the European currencies.

Under these circumstances, the JCM Group pushed ahead with sales activities in Japan and overseas along with inventory reduction and an overseas shift of production of main items in order to increase profitability by reducing the cost of materials and expenses for subcontractors through overseas procurement.

As a result, the sales for this term were ¥28.544 billion (a year-on-year increase of 12.6%) due to the favorable sales of machines and equipment for the entertainment market. With respect to profits, operating profit was ¥4.015 billion (a year-on-year decrease of 2.3%) and ordinary profit was ¥4.194 billion (a year-on-year decrease of 4.9%) due to slowing demand after the terrorist attacks in addition to a change of product sales structure in the US market. Net profit for this fiscal term resulted in ¥2.385 billion (a year-on-year decrease of 5.7%) due to a loss from securities revaluation mainly in financial institutions based on accounting at market value.

Segment Information

1. Business Segment Information

The Company and its subsidiaries are primarily engaged in the manufacture and sales of cash machines. The operations of the Company and consolidated subsidiaries are classified into two segments: cash machines and related equipment, and leisure and related business. As net sales and total assets of the leisure and related business constituted less than 10% of the consolidated sales for the years ended March 31, 2002 and 2001, the disclosure of business segment information has been omitted.

1) Money Handling Machine Division

The bill acceptors for the US that were directly sold to casino halls for replacement of the former type of unit came to the end of the first stage of sale. These sales were affected by the terrorist attacks and therefore decreased. By contrast, bill acceptors for Europe increased considerably, because JAPAN CASH MACHINE GERMANY GMBH. expanded its sales network in Europe following the unification of Euro currencies and moved forward with the sale of bill acceptors for use in vending machines, change machines, machines used in banks and settlement machines at car parks, in addition to the sale for gaming markets. In the domestic market, the 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 ¥18.954 billion (a year-on-year increase of 11.5%).

2) ECR Division

POS system devices combined with management systems using the network were developed for relatively small-scale retail chain stores and emphasis was placed on sales of higher-value products for goods and cash management but capital investment in the distribution and financial industries, the division's main customers, was restrained and demand remained weak except for favorable sales in Europe due to the unification of European currencies.

As a result, the division's sales were ¥1.844 billion (a year-on-year decrease of 10.7%).

3) Machines and Equipment for Entertainment Centers Division

Sales of automatic token supply systems and inter-unit medal rental equipment, the division's main products, contributing to labor saving at pachinko halls, increased as a result of active sales to large-scale pachinko hall chains nationwide. On the other hand, sales of pachisuro machines, another one of the division's leading products, decreased, because sales depend heavily on the character of game machines that attract popularity and there were few such attractive machines launched.

As a result, the division's sales were ¥7.356 billion (a year-on-year increase of 25.6%).

4) Office Equipment Division

The division's main products are fire-resistant safes for large office use and household use. The division's sales were ¥389 million (a year-on-year decrease of 7.6%).

2. Geographical Segment Information

1) Japan

Sales for the distribution and financial industries were flat, while sales of OEM terminals in the Money-Handling Machine Division and of automatic token supply systems in the Machines and Equipment for Entertainment Centers Division increased, resulting in sales of ¥22.808 billion (a year-on-year increase of 5.5%) and an operating profit of ¥1.943 billion (a year-on-year increase of 4.0%).

2) North America

Bill acceptors that were directly sold to casino halls for replacement of the older type incorporated in game machines came to the end of the first stage of sale, and the sales were ¥10.762 billion (a year-on-year decrease of 8.2%).

Operating profit was ¥1.031 billion (a year-on-year decrease of 41.0%) due to a decrease in sales and a change in the sales structure of products.

3) Europe and Asia

In Europe, following a favorable wind by the unification of European currencies, JAPAN CASH MACHINE GERMANY GMBH. established a sales network across Europe and conducted active sales activities relating to bill acceptors for use in vending machines, change machines, machines used in banks and settlement machines at car parks. Sales increased to ¥3.856 billion (a year-on-year increase of 132.3%) and operating profit to ¥792 million (a year-on-year increase of 174.2%).

Outlook for The Future

In Asia, production was transferred to JCM GOLD (H.K.) LTD. to reduce the manufacturing cost and fixed expenses, and sales were ¥5.035 billion (a year-on-year increase of 80.1%) and the operating profit was ¥584 million (a year-on-year increase of 199.7%).

Regarding the outlook for the future, business in the US and European countries is showing signs of bottoming out but in Japan it is expected to take more time before business returns to an upward trend, while the economy is partly expected to enter a cyclical recovery phase due to an increase in exports and improvement of inventory adjustment following business recovery in overseas countries.

Under these circumstances, in order to achieve the "40 Billion Yen Sales Concept" as a long-term business plan launched in 2001, JCM will implement sales measures focusing on the following items and aim to expand sales:

1. JCM aims for the expansion of products and improvement of profitability by strengthening a direct sales system mainly in the Money-Handling Machines Division and Machines and Equipment for Entertainment Centers Division.
2. Regarding bill acceptors for overseas markets, JCM will launch composite products made up of bill acceptors, bill dispensers and devices to issue coupons and also high-value products for labor saving and illegal act prevention so as to create new demand. Moreover, JCM will make its best effort to conduct intensive sales promotion activities and product development directed at markets other than gaming markets, including the opening of new sales bases.
3. Regarding other kinds of money-handling machines, JCM will try to sell system devices for increasing store management efficiency and labor saving including bill-circulating devices that

make it possible to reuse bills received, and coin change machines.

4. POS system machines are entering a turning point due to the shift to small-sized computers and progress of IT technologies. JCM will meet demand to replace conventional products and new demand by offering unique product structure made up of POS systems that save initial and running costs and the bill-circulating units mentioned above.

5. Regarding machines and equipment for entertainment centers, JCM will launch various types of new products including lower-cost automatic token supply systems of multi-functions and implement sales strategies covering pachisuro corners, including units of pachisuro machines.

For implementation of the above sales policies, it is essential to further strengthen the systems of sales and research and development. JCM will study drastic measures for these purposes, including M&A, business tie-ups and capital contributions. Moreover, in consideration of the reduction of lead-time and avoidance of exchange risks, JCM will consider the establishment of overseas production bases in areas close to the location of sales routes and consumption, in addition to production consigned to JCM GOLD (H.K.) LTD.

Based on these policies, JCM will aim to enhance corporate competitiveness as well as corporate management stability by expanding sales and its market share in the various industries in Japan,

including the distribution, financial and leisure industries, while maintaining advantages existing in overseas markets. At the same time, JCM will establish a flexible corporate structure to meet any changes in the market environment and fluctuation of exchange rates so as to further strengthen a well-balanced management system.

Further, JCM will increase sales by utilizing the power of the whole group, along with the enhancement of sales systems and an increase of production efficiency so that management foundations can be strengthened to secure a certain profitability even under uncertain economic conditions.

Regarding business prospects for the next fiscal year, in the US market, sales will be flat because careful attention needs to be paid to business trends in the gaming and distribution industries, while sales in the European market will continue to increase following a favorable wind by the unification of the European currencies. As a result, sales will show in a small increase, and profit will increase due to the contribution of business by domestic consolidated subsidiaries and the development of profitable products by JCM independently.

The exchange rate for internal use will be ¥125 for the US dollar and ¥110 for the Euro.

Based on the above, sales will be ¥29 billion (a year-on-year increase of 1.6%), ordinary profit ¥5 billion (a year-on-year increase of 19.2%) and net profit will be ¥3 billion (a year-on-year increase of 25.8%).

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2002 and 2001

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 3)
Assets			
Current assets:			
Cash and cash equivalents	¥ 5,103	¥ 4,977	\$ 38,300
Trade receivables:			
Notes	2,362	1,800	17,727
Accounts	3,464	3,388	25,996
	5,826	5,188	43,723
Inventories (Note 4)	6,095	5,981	45,743
Deferred income taxes (Note 8)	784	420	5,884
Prepaid expenses and other current assets	957	591	7,178
Less allowance for doubtful accounts	(189)	(90)	(1,419)
Total current assets	18,576	17,067	139,409
Property, plant and equipment, at cost (Note 6):			
Land	403	387	3,025
Buildings and structures	2,009	1,787	15,076
Machinery and equipment	4,003	3,646	30,040
Construction in progress	5	53	39
	6,420	5,873	48,180
Less accumulated depreciation	(4,010)	(3,635)	(30,094)
Property, plant and equipment, net	2,410	2,238	18,086
Investments and other assets:			
Investments in securities (Note 5)	290	408	2,177
Investments in unconsolidated subsidiaries	49	49	364
Deferred income taxes (Note 8)	144	129	1,082
Long-term loans	3	3	20
Other	902	860	6,769
Less allowance for doubtful accounts	(22)	(20)	(163)
Total investments and other assets	1,366	1,429	10,249
Total assets	¥ 22,352	¥ 20,734	\$ 167,744

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Liabilities and Shareholders' Equity			
Current liabilities:			
Current portion of long-term debt (Note 6)	¥ 200	¥ —	\$ 1,501
Trade payables:			
Notes	2,028	3,098	15,221
Accounts	1,339	1,344	10,045
	<u>3,367</u>	<u>4,442</u>	<u>25,266</u>
Accrued income taxes (Note 8)	1,054	902	7,909
Accrued bonuses	346	321	2,600
Other current liabilities	797	838	5,984
Total current liabilities	<u>5,764</u>	<u>6,503</u>	<u>43,260</u>
Long-term liabilities:			
Long-term debt (Note 6)	450	600	3,377
Accrued retirement benefits for employees (Note 7)	54	67	340
Retirement allowances for directors and corporate auditors	213	171	1,599
Deferred income taxes (Note 8)	28	15	207
Other	19	14	139
Total long-term liabilities	<u>755</u>	<u>867</u>	<u>5,662</u>
Shareholders' equity:			
Common stock:			
Authorized - 29,664,000 share			
Issued - 14,839,410 shares in 200; 13,490,373 shares in 2001	2,182	2,182	16,373
Additional paid-in capital (Note 9)	2,029	2,029	15,224
Retained earnings (Notes 9 and 15)	11,069	9,074	83,071
Net unrealized holding gain on securities	60	102	453
Translation adjustment	504	(23)	3,781
Less treasury stock, at cost:			
5,687 shares in 2002 and 158 shares in 2001	(11)	(0)	(80)
Total shareholders' equity	<u>15,833</u>	<u>13,364</u>	<u>118,822</u>
Total liabilities and shareholders' equity	<u>¥ 22,352</u>	<u>¥ 20,734</u>	<u>\$167,744</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, 2002 and 2001

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales (Note 14)	¥ 28,544	¥ 25,343	\$214,214
Cost of sales (Note 11)	17,543	14,916	131,656
Gross profit	11,001	10,427	82,558
Selling, general and administrative expenses (Note 11)	6,985	6,315	52,420
Operating income (Note 14)	4,016	4,112	30,138
Other income:			
Interest and dividend income	79	59	591
Reversal of allowance for doubtful accounts	3	1	27
Gain on sales of investments in securities	45	—	335
Exchange gain	82	257	614
Other	86	63	645
	295	380	2,212
Other expenses:			
Interest expense	27	28	205
Loss on cancellation of insurance policies	36	—	274
Loss on disposal of property, plant and equipment	11	—	83
Provision for retirement benefits for employees	—	69	—
Provision for retirement benefits for directors and corporate auditors	37	—	274
Loss on devaluation of golf memberships	8	67	56
Loss on devaluation of investments in securities	98	28	734
Other	41	40	305
	258	232	1,931
Income before income taxes	4,053	4,260	30,419
Income taxes (Note 8):			
Current	1,887	1,837	14,161
Deferred	(219)	(107)	(1,645)
Net income	¥ 2,385	¥ 2,530	\$ 17,903

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, 2002 and 2001

(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 at 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 corporate auditors	—	—	—	(35)	—	—	1
Unrealized holding gain on securities	—	—	—	—	¥ 102	—	—
Translation adjustments	—	—	—	—	—	¥ (23)	—
Decrease in treasury stock	—	—	—	—	—	—	1
Balance at March 31, 2001	13,490,373	2,182	2,029	9,074	102	(23)	(0)
Net income for the year ended March 31, 2002	—	—	—	2,385	—	—	—
Stock split	1,349,037	—	—	—	—	—	—
Cash dividends	1,180,943	—	—	(347)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(43)	—	—	—
Unrealized holding gain on securities	—	—	—	—	(42)	—	—
Translation adjustments	—	—	—	—	—	527	—
Increase in treasury stock	—	—	—	—	—	—	(11)
Balance at March 31, 2002	14,839,410	¥ 2,182	¥ 2,029	¥ 11,069	¥ 60	¥ 504	¥ (11)

(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 at March 31, 2001	13,490,373	\$16,373	\$15,224	\$68,097	\$ 763	\$ (170)	\$ (0)
Net income for the year ended March 31, 2002	—	—	—	17,903	—	—	—
Stock split	1,349,037	—	—	—	—	—	—
Cash dividends	—	—	—	(2,607)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(322)	—	—	—
Unrealized holding gain on securities	—	—	—	—	(310)	—	—
Translation adjustments	—	—	—	—	—	3,951	—
Increase in treasury stock	—	—	—	—	—	—	(80)
Balance at March 31, 2002	14,839,410	\$16,373	\$15,224	\$83,071	\$ 453	\$ 3,781	\$ (80)

The accompanying notes are an integral part of these statements.

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Year Ended March 31, 2002 and 2001

	2002	2001	2002
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities:			
Income before income taxes	¥ 4,053	¥ 4,260	\$ 30,419
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	560	448	4,200
Provision for allowances and accruals	134	119	1,005
Interest and dividend income	(79)	(59)	(591)
Interest expense	27	28	205
Exchange gain, net	(21)	(257)	(155)
Other	58	(72)	435
Changes in operating assets and liabilities:			
Trade receivables	(332)	(1,221)	(2,496)
Inventories	309	(1,302)	2,316
Trade payables	(1,524)	1,176	(11,435)
Consumption tax receivables	186	(102)	1,399
Other operating assets and liabilities	(485)	202	(3,640)
Subtotal	2,886	3,285	21,662
Interest and dividend received	79	59	594
Interest paid	(27)	(29)	(205)
Income taxes paid	(1,776)	(1,587)	(13,327)
Net cash provided by operating activities	1,162	1,728	8,724
Investment activities:			
Proceeds from acquisition of a subsidiary, net of cash acquired	230	—	1,726
Purchases of property, plant and equipment	(807)	(612)	(6,054)
Proceeds from sales of property, plant and equipment	28	13	214
Purchases of investments in securities	(11)	(25)	(84)
Proceeds from sales of investments in securities	50	5	372
Net cash used in investment activities	(510)	(619)	(3,826)
Financing activities:			
Decrease in short-term bank loans	(210)	(114)	(1,576)
Decrease in long-term debts	(137)	—	(1,033)
Issuance of common stock	—	637	—
Proceeds from sales of treasury stock	85	34	639
Purchases of treasury stock	(96)	(34)	(718)
Cash dividends paid	(347)	(245)	(2,607)
Net cash (used in) provided by financing activities	(705)	278	(5,295)
Effect of exchange rate changes on cash and cash equivalents	179	100	1,345
Increase in cash and cash equivalents	126	1,487	948
Cash and cash equivalents at beginning of year	4,977	3,490	37,352
Cash and cash equivalents at end of year	¥ 5,103	¥ 4,977	\$ 38,300

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

March 31, 2002 and 2001

1. Basis of Preparation 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 filed with the Ministry of Finance 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. During the year ended March 31, 2002, two domestic subsidiaries have been initially included in the consolidated financial statements. 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.

Any difference between the cost of an investment in a subsidiary and the amount of the underlying equity in the net assets of the subsidiary is treated as an asset or a liability as the case may be, and is amortized over a period of five years on a straight-line basis.

Investments in unconsolidated subsidiaries are carried at cost.

(b) Foreign Currency Translation

Foreign currency transactions

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 the corresponding foreign exchange contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the exchange rates in effect at the respective transaction dates. Gain and loss on the transactions are credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

Financial statements of foreign consolidated subsidiaries.

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 rates. Differences resulting from translating the financial statements of the foreign consolidated subsidiaries are not included in the determination of net income, but are presented as translation adjustment in a component of shareholders' equity in the consolidated balance sheets.

(c) Cash and Cash Equivalents

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.

During the year ended March 31, 2002, the Company purchased all outstanding shares of Meiho Shoji Co., Ltd. for ¥300 million (\$2,251 thousand). In conjunction with this acquisition, the cash and cash equivalents of Meiho Shoji Co., Ltd. exceeded the acquisition cost. As a result, net cash has been recorded as "Proceeds from acquisition of a subsidiary, net of cash acquired" in investment activities in the consolidated statements of cash flows.

(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, the cost of JCM AMERICAN CORP. and JCM GOLD USA, INC. being determined by the first-in, first-out method, and the cost of JAPAN CASH MACHINE GERMANY GMBH. and JCM GOLD (H.K.) LTD. being determined by the moving average method.

(e) Investments in Securities

Effective April 1, 2000, the Company adopted "Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council of Japan. This new 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 any 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.

The effect of the adoption of the new accounting standard was to decrease income before income taxes for the year ended March 31, 2001 by ¥76 million from the amount which would have been recorded under the method applied in the previous year.

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 new standard referred to above. As a result, short-term investments of ¥5 million 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 risks of credit loss in the event of non-performance by the counterparties to these contracts; however, the Company does not anticipate non-performance by any of these counterparties, all of whom are financial institutions with high credit ratings.

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.

(i) Allowance for Doubtful Accounts

Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments.

Under this standard, the Company and its domestic subsidiaries have provided allowances for doubtful receivables based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

The allowances for doubtful accounts of foreign subsidiaries has been provided at an estimated amount of their 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 the accounting principles and practices generally accepted in the countries in which they are incorporated.

(k) Retirement Benefits

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

Effective April 1, 2000, the Company adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council of Japan. In accordance with this standard, accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value as of the balance sheet date. The net retirement benefit obligation at transition of ¥69 million was 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 from the amount which would have been recorded under the method applied in the previous year.

The foreign consolidated subsidiaries have no retirement benefit plans.

The directors and corporate auditors of the Company and its domestic subsidiaries are not covered by this 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 the directors and corporate 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. The Company and consolidated subsidiaries recognized the tax effect of such temporary differences in their consolidated financial statements.

(m) 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 15).

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 ¥133.25 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2002. 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. Inventories

Inventories at March 31, 2002 and 2001 are summarized as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Finished goods	¥ 3,967	¥ 2,826	\$ 29,775
Work in process	515	969	3,864
Raw materials and supplies	1,613	2,186	12,104
	¥ 6,095	¥ 5,981	\$ 45,743

5. Investments in Securities

Investments in securities classified as other securities at March 31, 2002 and 2001 were as follows:

	2002					
	(Millions of yen)			(Thousands of U.S. dollars)		
	Acquisition cost	Fair value	Unrealized gain (loss)	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their Acquisition cost:						
Equity securities	¥ 58	¥ 191	¥ 133	\$ 435	\$ 1,433	\$ 998
Securities whose Acquisition cost exceeds their fair value :						
Equity securities	62	61	(1)	465	458	(7)
Other	3	3	—	23	23	—
	65	64	(1)	488	481	(7)
Total	¥ 123	¥ 255	¥ 132	\$ 923	\$ 1,914	\$ 991

	2001		
	(Millions of yen)		
	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their Acquisition cost:			
Equity securities	¥ 63	¥ 248	¥ 185
Securities whose Acquisition cost exceeds their fair value:			
Equity securities	116	106	(10)
Other	3	3	—
	119	109	(10)
Total	¥ 182	¥ 357	¥ 175

6. Long-Term Debt

Long-term debt as of March 31, 2002 and 2001 consisted of the following:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
1.67% yen bank loans due 2004	¥ 50	¥ –	\$ 376
2.4% yen bonds due 2005	200	200	1,501
2.13% yen bonds due 2003	200	200	1,501
2.4% yen bonds due 2004	100	100	750
2.2% yen bonds due 2004	100	100	750
	<u>650</u>	<u>600</u>	<u>4,878</u>
Current portion of long-term debt	(200)	–	(1,501)
	<u>¥ 450</u>	<u>¥ 600</u>	<u>\$ 3,377</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2003	¥ 200	\$ 1,501
2004	250	1,876
2005	200	1,501
	<u>¥ 650</u>	<u>\$ 4,878</u>

At March 31, 2002 and 2001, the following assets were pledged as collateral to secure long-term debt, including the current portion:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Land	¥ 61	¥ 61	\$ 454
Buildings and structures	106	116	798
Machinery and equipment	1	1	4
	<u>¥ 168</u>	<u>¥ 178</u>	<u>\$ 1,256</u>

7. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans, and the amounts recognized in the consolidated balance sheets at March 31, 2002 and 2001 for the Company's and consolidated subsidiaries' defined benefit plans:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Retirement benefit obligation	¥ (792)	¥ (738)	\$ (5,945)
Plan assets at fair value	747	671	5,605
Accrued retirement benefits	¥ (45)	¥ (67)	\$ (340)

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 are outlined as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Service cost	¥ 87	¥ 55	\$ 653
Interest cost	22	20	166
Expected return on plan assets	¥ (20)	¥ (18)	\$ (151)
Amortization of net retirement benefit obligation at transition	—	69	—
Amortization of actuarial loss	11	84	80
Retirement benefit expenses	¥ 100	¥ 210	\$ 748

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Discount rate	3.0%	3.0%
Expected rate of return on pension assets	3.0%	3.0%

In addition to the above pension plan, the Company participate in a multiemployer pension plan. Pension expense under this plan for the years ended March 31, 2002 and 2001 amounted to ¥87 million (\$652 thousand) and ¥83million, respectively.

8. Income Taxes

The aggregate statutory tax rate on income before income taxes was approximately 42% for the years ended March 31, 2002 and 2001. A reconciliation of the statutory rate and the effective tax rates for the years ended March 31, 2002 and 2001 as a percentage of income before income taxes has not been presented as the difference was immaterial.

Deferred income taxes reflect the net effects 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, 2002 and 2001 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2002	2001	2002
Deferred tax assets:			
Unrealized profit	¥ 454	¥ 264	\$ 3,410
Retirement allowances for directors and statutory auditors	89	72	672
Write-downs of inventories	105	70	790
Provision for bonuses to employees	111	70	829
Other	311	217	2,333
Total deferred tax assets	1,070	693	8,034
Deferred tax liabilities:			
Unrealized holding gain on securities	56	74	418
Undistributed profits of subsidiaries	102	70	768
Other	12	15	89
Total deferred tax liabilities	170	159	1,275
Net deferred tax assets	¥ 900	¥ 534	\$ 6,759

9. Shareholders Equity

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the provisions of the Code. The legal reserve of the Company included in retained earnings at March 31, 2002 and 2001 amounted to ¥274 million (\$2,056 thousand) and ¥246 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, 2002 and 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:

	2002					
	(Millions of yen)			(Thousands of U.S dollars)		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 174	¥ 67	¥ 107	\$ 1,307	\$ 503	\$ 804
	2001					
	(Millions of yen)					
	Acquisition costs	Accumulated depreciation	Net book value			
Machinery and equipment	¥ 130	¥ 19	¥ 111			

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2002 and 2001 amounted to ¥49 million (\$371 thousand) and ¥19 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2002 and 2001 amounted to ¥49 million (\$371 thousand) and ¥19 million, respectively.

Future minimum lease payments subsequent to March 31, 2002 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2003	¥ 52	\$ 388
2004 and thereafter	55	416
Total	¥ 107	\$ 804

11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2002 and 2001 amounted to ¥1,345 million (\$10,098 thousand) and ¥1,335 million, respectively.

12. Contingent Liabilities

As of March 31, 2002, a consolidated subsidiary was contingently liable for guarantees of ¥568 million (\$4,263 thousand) in the aggregate for accounts payable of other companies.

13. Amount per Share

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

	(Yen)		(U.S. dollars)
	2002	2001	2002
Net income	¥ 160.78	¥ 192.31	\$ 1.21
Net assets	1,067.37	990.59	8.01

14. Segment Information

The Company and its subsidiaries are primarily engaged in the manufacture and sales of cash machines. The operations of the Company and consolidated subsidiaries are classified into two segments: cash machines (bill validator, cash register) and related equipment, and leisure and related businesses. As net sales and total assets of the leisure and related businesses constituted less than 10% of the consolidated sales for the years ended March 31, 2002 and 2001, 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, 2002 and 2001 is summarized as follows:

Geographic segments

		(Millions of yen)				
		2002				
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers	¥ 13,481	¥ 10,747	¥ 466	¥ 3,850	¥ –	¥ 28,544
Intersegment	9,327	16	4,570	7	(13,920)	–
Total sales	22,808	10,763	5,036	3,857	(13,920)	28,544
Operating expenses	20,865	9,732	4,451	3,065	(13,585)	24,528
Operating income	1,943	1,031	585	792	(335)	4,016
Total assets	¥ 18,026	¥ 5,420	¥ 1,941	¥ 1,919	¥ (4,954)	¥ 22,352
		(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
Intersegment	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	¥ (3,326)	¥ 20,734
		(Thousands of U.S. dollars)				
		2002				
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers	\$ 101,170	\$ 80,653	\$ 3,496	\$ 28,895	\$ –	\$ 214,214
Intersegment	69,997	119	34,294	50	(104,460)	–
Total sales	171,167	80,772	37,790	28,945	(104,460)	214,214
Operating expenses	156,584	73,034	33,400	23,000	(101,942)	184,076
Operating income	14,583	7,738	4,390	5,945	(2,518)	30,138
Total assets	\$ 135,280	\$ 40,676	\$ 14,567	\$ 14,400	\$ (37,180)	\$ 167,744

Unallocable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥319million (\$2,395 thousand) and ¥1,097 million for the years ended March 31, 2002 and 2001, respectively 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, 2002 and 2001 are summarized as follows:

	(Millions of yen)			
	2002			
	North America	Europe	Other	Total
Overseas sales, net	¥ 10,682	¥ 4,649	¥ 727	¥ 16,058
Overseas net sales as a percentage of consolidated net sales	37.4%	16.3%	2.5%	56.2%

	(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%
	(Thousands of U.S. dollars)			
	2002			
	North America	Europe	Other	Total
Overseas sales, net	\$ 80,166	\$ 34,889	\$ 5,459	\$ 120,514
Overseas net sales as a percentage of consolidated net sales	37.4%	16.3%	2.5%	56.2%

15. 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, 2002, were approved at a shareholders' meeting held on June 27, 2002:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥21.5 = \$0.161 per share)	¥ 318	\$ 2,393
Bonuses to directors and statutory auditors	¥ 39	\$ 292

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, 2002 and 2001, 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 financial position of Japan Cash Machine Co., Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the results of their operations and 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 adopted new accounting standards for financial instruments and employees' retirement benefits effective the year ended March 31, 2001

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 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.

Shin Nihon & Co.

Shin Nihon & Co.

June 27, 2002

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	Buettgenbachstr.5, 40549 Duesseldorf, Germany Tel: +49-(0)211-530645-0 Fax: +49-(0)211-530645-45 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	
JAPAN		
○JCM Techno Support Co., Ltd.	Establishment construction work, repair contracts of Money Handling Machinery etc.	2-4-21 Hirano-Baba, Hirano-ku, Osaka 547-0048 Japan Tel: +81-(0)6-6702-1491 Fax: +81-(0)6-6703-9166
○Meiho Shoji., Co Ltd.	Sales of Recreation Machine etc	3-12-11 Higashi-Ueno, Taito-ku, Tokyo 110-0015 Japan Tel: +81-(0)3-3833-4891 Fax: +81-(0)3-3833-4895

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 Auditors

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 Offices

Tohoku(Aoba-ku, Seb dai)

Tokyo(Bunkyo-ku, Tokyo)

Nagoya(Higashi-ku, Nagoya)

Fujiidera(Fujiidera-city, Osaka)

Shikoku(Takamatsu-city,)

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 Stock

¥2,181 million

Number of Employees

458

As of March 31,2002