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YUHO REPORT **Annual**

Fiscal Year Ended	March 31, 2004
Traded	TSE1
Stock Code	6419



MARS ENGINEERING CORPORATION

YUHOREPORT

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This report is based on the Company's Japanese-language annual filing with the Financial Services Agency and supplemented with materials that facilitate comparison with the Company's peers. The materials from the annual filing with the Financial Services Agency have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report has been obtained from sources believed to be reliable, but the accuracy of the data and the translation and the completeness and timeliness of the information are not warranted by the Company, Pacific Associates, or Asia Securities Printing. None of the above parties shall be responsible for any error or omission or for results obtained from the use of this information.

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Company Profile

Financial highlights

Years ended March 31; Thousands of yen	2000	2001	2002	2003	2004	Change 2004/2000
Consolidated						
Net sales	13,070,881	19,774,357	21,404,851	24,959,669	30,723,810	235%
Ordinary profit	1,480,799	4,593,015	5,958,626	5,521,514	8,263,972	558%
Net income (loss)	1,211,055	1,810,623	3,030,640	(714,837)	4,240,475	350%
Shareholders' equity	22,872,756	23,752,627	26,446,783	25,030,579	28,987,920	127%
Total assets	31,689,010	35,498,374	39,879,762	38,699,119	45,280,360	143%
Shareholders' equity per share (Yen)	2,013.45	2,090.91	2,328.08	2,197.95	2,543.34	126%
Net income (loss) per share (Yen)	115.51	159.39	266.78	(68.38)	364.85	316%
Net income per share, fully diluted (Yen)	-	-	-	-	-	-
Net cash provided by (used in) operating activities	2,192,265	4,793,955	4,158,507	1,853,845	8,948,394	408%
Net cash provided by (used in) investing activities	(681,036)	(1,011,079)	(1,286,444)	(1,030,841)	(823,020)	121%
Net cash provided by (used in) financing activities	(1,592,541)	(2,195,483)	(2,043,303)	1,343,337	(873,677)	55%
Cash and cash equivalents, end of term	4,104,599	5,688,148	6,513,699	8,680,028	15,931,724	388%
Employees	433	448	483	510	520	120%

Common size statements

Years ended March 31; Percent	Consolidated			Parent		
	2002	2003	2004	2002	2003	2004
Balance sheet						
Assets	100.0	100.0	100.0	100.0	100.0	100.0
Current assets	53.2	68.5	71.1	45.4	65.9	68.7
Tangible fixed assets	40.7	26.8	23.2	47.4	20.1	16.5
Intangible fixed assets	0.3	0.3	0.2	0.2	0.2	0.2
Investments and other assets	5.8	4.4	5.5	7.0	13.8	14.6
Total fixed assets	46.8	31.5	28.9	54.6	34.1	31.3
Liabilities and shareholders' equity	100.0	100.0	100.0	100.0	100.0	100.0
Current liabilities	27.2	26.3	27.8	17.6	11.3	16.6
Long-term liabilities	6.1	8.5	7.4	2.4	1.9	2.3
Total liabilities	33.3	34.8	35.2	20.0	13.2	18.9
Minority interests	0.4	0.5	0.8			
Common stock	19.9	-	-	23.5	-	-
Additional paid-in capital	21.0	-	-	24.8	-	-
Legal income reserves				1.1	-	-
Retained earnings	25.5	-	-	30.7	-	-
Unrealized gains or losses on other securities	(0.1)	-	-	(0.1)	-	-
Treasury stock	(0.0)	-	-	(0.0)	-	-
Common stock	-	20.5	17.5	-	26.9	22.6
Capital reserves	-	21.6	18.5	-	28.4	23.9
Retained earnings	-	22.9	27.5	-	31.9	34.0
Unrealized gains or losses on other securities	-	(0.3)	0.5	-	(0.4)	0.6
Treasury stock	-	(0.0)	(0.0)	-	(0.0)	(0.0)
Total shareholders' equity	66.3	64.7	64.0	80.0	86.8	81.1
Statement of income						
Net sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	52.4	54.8	53.7	50.4	54.3	56.2
Gross profit	47.6	45.2	46.3	49.6	45.7	43.8
Selling, general and administrative expenses	23.1	23.2	19.7	23.6	22.1	20.5
Operating income	24.5	22.0	26.6	26.0	23.6	23.3
Nonoperating income	4.2	0.3	0.4	5.2	0.5	0.5
Nonoperating expenses	0.8	0.2	0.1	0.9	0.2	0.0
Ordinary profit	27.8	22.1	26.9	30.2	23.9	23.8
Extraordinary income	0.1	-	0.0	0.1	-	0.0
Extraordinary losses	3.6	24.2	2.4	6.2	29.4	2.9
Income (loss) before taxes and other adjustments	24.4	(2.1)	24.5	24.1	(5.5)	20.9
	9.9	0.5	10.2	10.4	(2.1)	8.9
Minority interest in income of consolidated companies	0.3	0.3	0.5			
Net income (loss)	14.2	(2.9)	13.8	13.7	(3.4)	12.0

Business Overview

Description of business

The Mars Engineering Group consists of the Company (Mars Engineering Corporation) and five subsidiaries, all consolidated. Its primary business is the manufacture and sale of pachinko-related electronic products.

The Group's businesses, and the relationship of the Company and its subsidiaries to these businesses, are outlined below.

(1) Pachinko business

The Company, Mars Corporation, Mars Line-Tech Corporation, Mars Techno-Science Corporation, and WINTEC Co., Ltd.

(2) Other business

Hotel Sunroute Hakata, Inc.

Group companies

Name	Operations	Common stock Millions of yen	Percent ownership
(Consolidated subsidiaries)			
Mars Corporation	Pachinko business	1,000	100
Mars Line-Tech Corporation	Pachinko business	10	100
Mars Techno-Science Corporation	Pachinko business	250	82
WINTEC Co., Ltd.	Pachinko business	107	80
Hotel Sunroute Hakata, Inc.	Other business	10	100

History

Year	Month	Event
1974	September	Mars Engineering Corporation is established in Shinjuku-ku, Tokyo, to design, trial-manufacture, manufacture, and sell electronic devices.
1975	December	Enters into an exclusive distributorship agreement with Casio Computer Co., Ltd. to sell Casio business systems.
1980	August	Develops and begins selling a prize control system for amusement centers.
1981	October	Enters into a distributorship agreement with NEC Corp. to sell office computers.
1985	February	Develops and begins selling counting machines.
1987	October	Concludes agreement with Nippon Signal Co., Ltd. related to the development, manufacture, and sale of small magnetic-card readers and writers; develops and begins selling a magnetic card-based prize control system.
1989	October	Opens Higashi Fuji Plant in Gotemba, Shizuoka Pref.
1990	October	Develops and begins selling auto-dispenser systems; expands Higashi Fuji Plant.
1992	March	Develops and begins selling a prize control system with membership management capabilities.
1993	March	Opens Technical Center in Mishima, Shizuoka Pref.
	November	Registers shares for over-the-counter trading with Japan Securities Dealers Association.
1994	July	Develops and begins selling computers for pachinko parlor management (parlor computer systems).
1995	October	Opens Technology and Distribution Center in Gotemba, Shizuoka Pref.
1996	July	Obtains ISO 9001 certification for meeting quality control standards.
	August	Develops and begins selling "personal systems."
	September	Lists shares on the Second Section of the Tokyo Stock Exchange.
	November	AM Planning Corp., which was established to operate pachinko parlors as antenna outlets for the Company, becomes an affiliated company.
	December	Completes construction of a new headquarters building and moves corporate headquarters to the new site; establishes Mars Corporation (now a consolidated subsidiary) to engage in real estate management and general leasing.
1997	April	Opens Technology Center in Susono, Shizuoka Pref.
	October	Acquires Asama Sangyo Inc., a leading developer and builder of pachinko ball replenishment systems; incorporates company into Group as an affiliate (in Sept. 1998, changes its trade name to ASAMA Engineering Corp.).
1998	July	Develops and begins selling a reusable pachinko cycle card (PCC) system.
	October	Establishes Hotel Sunroute Hakata Inc. (now a consolidated subsidiary) to develop and operate a business hotel; establishes KARD Information System Inc. to provide card issuance and data management services for third parties.
1999	April	Completes construction of Hotel Sunroute Hakata.
	August	Launches K1 Cycle Card system as part of the prepaid card business.
2000	July	Acquires WINTEC Co., Ltd., a leading developer of peripheral devices for pachinko parlor operations; incorporates company (now a consolidated subsidiary) into Group as affiliate.
	September	Acquires RFID business (manufacture of IC cards and radio identification tags) from Toshiba Chemical Corp.; establishes M&T Card Technology Corp. to sell RFID products.
	December	Discontinues operations of AM Planning Corp., after concluding that it had achieved its original objectives.
2001	September	Lists shares on the First Section of the Tokyo Stock Exchange.
2002	January	Liquidates AM Planning Corp.
	March	KARD Information System Inc. absorbs operations of M&T Card Technology Corp.
	April	KARD Information System Inc. changes its trade name to Mars Techno-Science Corp. (now a consolidated subsidiary); ASAMA Engineering Corp. changes trade name to Mars Line-Tech Corp. (now a consolidated subsidiary).
	October	Expands Higashi Fuji Plant.

Risk factors

The following is a discussion of factors that could significantly affect judgments by investors.

- (1) The Company is subject to certain indirect legal restrictions
 - On its ball-dispensing devices installed between game consoles, which are considered to be a part of a pachinko machine
 - Specifically, ball-dispensing devices are subject to “type testing” under National Public Safety Commission Regulation No. 4
- (2) Testing can have a significant impact on the manufacture and sale of new ball-dispensing devices because of
 - The need to pass type testing overseen by the Security Electronics and Communication Technology Association
 - The need to pass type testing overseen by prefectural public safety commissions
 - The fact that the Company’s customers (pachinko parlors) are subject to restrictions established under the Law Regulating Adult Entertainment Businesses

Research and development

The Mars Engineering Group has shifted the focus of its new product development to basic and applied technologies in the area of radio frequency identification. It has successfully commercialized a number of products based on RF technology.

The Group spent a total of 573 million yen on research and development during the year ended March 2004.

The Group’s R&D activities during the year can be summarized as follows:

- (1) Organization: R&D takes place principally at the Susono Technical Center, where work is conducted on hardware and software development and on mechanical design.

(2) Major results of R&D—pachinko business

- “MX-275K” token-issuing machine for installation between game consoles; four-denomination bill reader incorporated
- Connection software to manage printer option
- “MX-570i with 10-key option” counting machine, with personal identification capabilities
- House card system for preferred customers (PCC)
- “e9600” table-top auto dispenser system
- “SL-735D” token-issuing machine for installation between game consoles
- “FB-80” bill validator, for installation between game consoles
- “ICU-35D” card reader with storage receptacle
- “ICU-200” card reader with serial cable connections
- “RIC-300” IC card reader unit with Leuco printer
- “ICU-03RS” IC coin reader
- Development and demonstration tests of RFID system for apparel industry

The hotel business has no R&D program.

Important agreements with third parties

(1) Technology development agreement

Name of licensor	Nature of agreement	Period of agreement
Nippon Signal Co., Ltd.	Joint development and manufacturing of small magnetic-card readers and writers	Three years, beginning January 9, 1996 (automatically renewed on an annual basis thereafter)

(2) Marketing agreements

Name of licensor	Nature of agreement	Period of agreement
Casio Computer Co., Ltd.	Exclusive distributorship agreement related to business machines and personal computers	One year, beginning March 21, 1982 (automatically renewed on an annual basis thereafter)
NEC Corp.	Distributorship agreement related to office processors	Fifteen months, beginning January 1, 1989 (automatically renewed on an annual basis thereafter)
Nippon Signal Co., Ltd.	Exclusive rights to sell jointly-developed magnetic-card readers and writers; joint development and manufacturing	Three years, beginning January 9, 1996 (automatically renewed on an annual basis thereafter)

(3) Franchise agreement

Name of licensor	Nature of agreement	Period of agreement
Sunroute Co., Ltd.	Sunroute Co., Ltd. agrees to allow the Company to use the "Hotel Sunroute xxx" name and to conduct business using its trademarks, services, and other hotel management know-how; the Company will continue to operate its hotels in accordance with guidance and advice provided by Sunroute, with the aim of achieving prosperity for both companies.	Twenty years, beginning June 1, 1999 (automatically renewed every five years thereafter)

The franchise agreement noted above requires the Company to pay a certain percentage of its sales to cover franchise membership, franchisee deposits, general planning charges, and royalties.

Analysis of financial condition and results of operations

Analysis of financial condition (year-on-year comparisons)

(1) Current assets: increased by 5,663 million yen to 32,174 million yen

- 3,347 million yen increase in cash and deposits, reflecting strong operating performance
- 3,708 million yen increase in marketable securities ("Marketable securities" account includes 5,298 million yen in cash equivalents.)
- 933 million yen decrease in income tax refunds receivable
- 366 million yen decrease in deferred tax assets (because of tax effects of loss carry forward)

- (2) Fixed assets: increased by 917 million yen to 13,105 million yen, largely due to 869 million yen increase in investments and other assets.
- Recognition of variance on asset reassessment at term-end
 - Purchase of corporate bonds
- (3) Current liabilities: increased by 2,395 million yen to 12,566 million yen, primarily because of 2,564 million yen increase in income taxes payable.
- (4) Long-term liabilities: increased by 78 million yen to 3,362 million yen.
- 503 million yen increase due to recognition of allowance for directors' retirement bonuses
 - 300 million yen decrease in long-term debt
- (5) Shareholders' equity: increased by 3,957 million yen to 28,987 million yen.
- 3,610 million yen increase in retained earnings
 - 346 million yen increase in unrealized gains or losses on other securities

Cash flow

Cash and cash equivalents increased by 7,251 million yen to 15,931 million yen, due to an increase in income before taxes and other adjustments.

- (1) Cash flow provided by operating activities increased by 7,094 million yen.
- 1,502 million yen decrease in income tax and others
 - 933 million yen income tax refunds
- (2) Cash flow used in investing activities amounted to 823 million yen (cf. 1,030 million yen used in year-earlier term).
- 504 million yen in corporate bonds purchased
 - 451 million yen to construct headquarters and factory of WINTEC Co., Ltd., a subsidiary
- (3) Cash flow used in financing activities amounted to 873 million yen (cf. cash provided of 1,343 million yen in year-earlier term), primarily due to 1 billion yen repayment of long-term debt during the year.

Analysis of results of operation

Compared to 23.1% increase in net sales, SG&A expenses increased by 4.4%. The major increases in SG&A expenses were the following:

- (1) 188 million yen increase in bonuses to 525 million yen
- (2) 144 million yen increase in allowance for doubtful accounts to 158 million yen

Corporate governance***Fundamental thinking regarding corporate governance***

- (1) The Board of Directors (composed of nine members) must respond rapidly and effectively to changes in the operating environment and create an efficient and healthy state of operations
 - Through decision-making on management policy and other important issues.
 - Through strengthened operations oversight.
- (2) To achieve these goals, the Company instituted a system of corporate executive officers in April 2002 that
 - Clearly separates managerial decision-making from operational execution.
 - Enhances its ability to respond quickly to changes in the environment.

Measures adopted with regard to corporate governance

- (1) Related to decision-making, execution, oversight, etc.
 - Regarding the question of “company with committees” or statutory auditors: adopts a system of statutory auditors
 - Appointment of outside directors and statutory auditors: no outside directors, but two outside auditors among the Company’s three statutory auditors
 - Nature of committees (compensation, nominating, compliance, etc.): not applicable
 - Full-time staff for outside directors or auditors: none specifically designated, but support provided by General Affairs Department

- Mechanism for operations execution and oversight
 - Directors convey to corporate executive officers decisions made at regular and extraordinary meetings of the Board of Directors.
 - When required, meetings between directors and corporate executive officers are convened on specific issues.
 - Mechanism for internal control
 - Under the president, two administrative divisions (manufacturing-sales administration division and sales administration division)
 - Office of internal auditing reporting directly to the president
 - Attorneys, financial auditors and other third parties
 - Advisory agreement completed with external attorney's office to provide legal advice when the need arises
 - Financial auditing by Tohmatsu & Co.
- (2) Statement regarding relationships between the Company and its outside directors and statutory auditors (personal, share ownership-based, commercial or other)
- The Company has no relationships—in terms of employment, financing, technology or commercial transactions—with any of its outside statutory auditors or their close relatives, nor with any companies in which its statutory auditors or their close relatives serve as directors.
 - The Company's outside statutory auditors are not former employees of any Mars Engineering Group company.
- (3) Actions over the past year to enhance corporate governance
- Regular monthly Board of Directors meetings, supplemented by special board meetings as required
 - Regular Group management meetings, which contribute to expediting management decision-making through information exchange and operations progress reports
 - Regular general managers' meetings, attended by directors, corporate executive officers and general managers

Compensation to directors and statutory auditors

For the year ended March 2004, the Company paid the following amounts of compensation to its directors and statutory auditors and to its financial auditor:

- Directors' compensation
 - Compensation paid to directors: 110,400 thousand yen
 - Compensation paid to statutory auditors: 14,730 thousand yen
- Auditing fees
 - Professional fees related to audit certification: 17,000 thousand yen

Directors

Name	Title	Date joined company	Previous or current employers/occupations	Date of birth	Shares owned (1,000)
Hirokazu Matsunami	Chairman and Representative Director	Sep-74	TAKACHIHO KOHEKI	9-Apr-38	702.8
Shigeo Komiya	President and Representative Director	Sep-74	TAKACHIHO KOHEKI	19-Dec-50	245.0
Teruo Gomi	Executive Vice President	Apr-75	Hitachi, TAKACHIHO KOHEKI	10-Mar-44	225.0
Yoshikiyo Kawakami	Managing Director	Nov-78		27-Sep-46	130.0
Akihiro Matsunami	Managing Director	Feb-95	Kawasho Corp.	1-Jul-65	500.0
Toshihisa Oya	Director	Sep-74		29-Nov-44	194.0
Hiroshi Murakami	Director	Mar-96		5-Apr-62	124.0
Toshikatsu Terashima	Director	Jun-04	WINTEC	13-Mar-45	-
Nobuo Takahashi	Director	Jun-04	Tokyo Tomin Bank	12-Apr-41	0.5
Toshiyuki Goto	Standing Statutory Corporate Auditor	Sep-89		22-Aug-41	5.0
Koichi Takemata	Statutory Corporate Auditor	Jun-91	Tokai Bank	18-Nov-52	-
Tsutomu Ikeda	Statutory Corporate Auditor	Jun-00	National Police Agency	9-Jan-39	-
					2,126.3

Current assignments and previous positions in the Company have been omitted.

Employees

Consolidated	
Business segment	Number
Pachinko business	507
Other business	13
	520
Parent	
	Total or average
Number	426
Average age	32.1
Average years of service	8.1
Average annual salary (Yen)	5,596,676

The average annual salary includes bonuses.

Union

The Group has no labor union and enjoys amicable labor relations.

Cash Flows

Consolidated statement of cash flows

Years ended March 31; Thousands of yen	2002	2003	2004
Net cash provided by (used in) operating activities			
Net income (loss) before taxes and other adjustments	5,217,201	(530,895)	7,531,525
Depreciation	704,415	689,002	568,510
Increase (decrease) in allowances	18,755	(19,392)	690,297
Interest and dividend income	(22,977)	(46,437)	(72,762)
Interest expenses	154,490	45,591	12,996
Partnership profits	(811,993)	-	-
Foreign exchange losses (gains)	(1,345)	12	-
Amortization of consolidation differences	9,052	9,529	9,529
Loss (gain) on sales of investment securities	-	52,189	84,993
Valuation loss on investment securities	662,781	59,539	-
Loss on disposal and sales of tangible fixed assets	17,499	12,180	8,973
Valuation loss on tangible fixed assets	-	5,779,387	-
Decrease (increase) in trade receivables	(2,959,173)	(782,305)	(340,062)
Decrease (increase) in inventories	143,732	(309,532)	336,470
Increase (decrease) in trade payables	831,677	(872,402)	(24,319)
Increase (decrease) in advances	1,697,342	415,200	(168,670)
Director's bonuses	(48,000)	(47,000)	(64,000)
Others	413,277	(414,756)	783,270
	6,026,737	4,039,911	9,356,752
Interest and dividend income	22,672	46,763	71,676
Interest expenses	(242,288)	(265,176)	(14,388)
Income tax and others	(1,648,613)	(1,967,652)	(465,645)
	4,158,507	1,853,845	8,948,394
Net cash provided by (used in) investing activities			
Net change in holdings of negotiable securities	(1,100,000)	(299,566)	199,168
Payments for investments in securities	(232,960)	(50,000)	(540,000)
Proceeds from sales of investment securities	99,500	48,649	172,483
Payments for acquisition of tangible fixed assets	(470,093)	(701,644)	(695,092)
Proceeds from sales of tangible fixed assets	7,633	-	-
Proceeds from liquidation of anonymous association	452,886	-	-
Payments for acquisition of stock of consolidated subsidiary	(44,820)	-	-
Others	1,409	(28,280)	40,420
	(1,286,444)	(1,030,841)	(823,020)

Years ended March 31; Thousands of yen	2002	2003	2004
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term borrowings	(1,436,060)	913,368	-
Proceeds from increase in long-term debt	-	1,000,000	-
Payments of long-term debt	(29,434)	-	(300,000)
Dividends	(573,807)	(566,031)	(569,677)
Dividend payments to minority shareholders	(4,000)	(4,000)	(4,000)
	(2,043,303)	1,343,337	(873,677)
Effect of exchange rate changes on cash and cash equivalents	1,345	(12)	-
Cash and cash equivalents	830,105	2,166,328	7,251,696
Cash and cash equivalents, beginning of term	5,688,148	6,513,699	8,680,028
Net change due to elimination of subsidiary from consolidation	(4,554)	-	-
Cash and cash equivalents, end of term	6,513,699	8,680,028	15,931,724

Relationship between balance of cash and cash equivalents as of term-end and balance sheet items

Years ended March 31; Thousands of yen	2002	2003	2004
Cash and deposit accounts at end of term	3,419,786	7,286,078	10,633,446
Money management funds and medium-term government bond funds included in the marketable securities account	3,093,913	1,393,949	-
Marketable securities at end of term	-	-	7,134,206
Short-term investments with redemption periods longer than 3 months	-	-	(1,835,928)
Cash and cash equivalents at end of term	6,513,699	8,680,028	15,931,724

Capital expenditures

The Group conducts necessary investments from a long-term perspective, focusing on R&D projects and business operations that promise growth. During the consolidated fiscal year ended March 2004, it spent 671 million yen on capital investments in these areas.

The pachinko business invested 451 million yen to construct a headquarters plant facility for WINTEC Co., Ltd. and 70 million yen on dies required for new products.

The Group recorded essentially no capital expenditures for its hotel business.

The headquarters plant facility for WINTEC Co., Ltd. was completed during the fiscal year. There were no significant disposals or sales of facilities during the fiscal year.

Capital expenditure and disposal plan

The Group adopts capital investment plans based on a comprehensive assessment of economic conditions, industry trends, investment efficiency and other factors.

Generally, each consolidated subsidiary formulates its own capital expenditure plan, with Mars Engineering Corp. functioning as a coordinator to prevent duplication on a Group-wide basis.

As of year-end, the Company had no plans to add any important new facilities or to dispose of or sell any important existing facilities.

Dividend policy

The Company considers its policy on dividends to be extremely significant. Its goal with respect to dividends is to make payouts in a way that contributes to stable business growth over the long term. This requires that it strengthen its financial structure and pay dividends that more closely reflect changes in its financial performance each term with due consideration given to maintaining a stable payout to its shareholders.

Accordingly, the Company took into consideration both its achievement of record high sales and net income during the year and its desire to mark a major milestone in its history—the completion of its 30th year of operations. In recognition of the support it has received from shareholders, the Company will pay a total dividend of 40 yen per share, comprising a regular dividend of 20 yen, a special dividend of 10 yen, and a commemorative dividend of 10 yen.

When the interim dividend of 20 yen per share is included, the Company will therefore pay a total dividend of 60 yen per share for the year to March 2004.

The Company intends to invest retained earnings in areas that will foster stable growth, including measures aimed at strengthening its balance sheet and capital investments.

The Board of Directors' resolution on interim dividends for the year ended March 31, 2004 was adopted on October 20, 2003.

Operations

Consolidated statement of income

Years ended March 31; Thousands of yen	2002	2003	2004
Net sales	21,404,851	24,959,669	30,723,810
Cost of goods sold	11,218,613	13,687,741	16,510,304
Gross profit on sales	10,186,238	11,271,928	14,213,505
Selling, general and administrative expenses	4,948,792	5,783,601	6,038,483
Operating income	5,237,445	5,488,327	8,175,022
Nonoperating income			
Interest income	21,002	43,832	69,364
Foreign exchange gain	1,345	-	-
Profits from anonymous association	811,993	-	-
Rental income	-	13,510	17,400
Others	60,775	36,694	25,528
	895,117	94,037	112,292
Nonoperating expenses			
Interest expenses	154,490	45,591	12,996
Others	19,446	15,258	10,345
	173,936	60,849	23,342
Ordinary profit	5,958,626	5,521,514	8,263,972
Extraordinary income			
Gain on sales of tangible fixed assets	567	-	-
Gain on sale of investment securities	-	-	6,962
Reversal of allowance for doubtful accounts	17,047	-	2,200
Gain on sales of memberships	-	-	5,000
Others	-	-	1,000
	17,614	-	15,162
Extraordinary losses			
Valuation loss on fixed assets	-	5,779,387	-
Loss on disposal of inventories	13,776	145,408	158,081
Valuation loss on investment securities	662,781	59,539	-
Loss on sale of investment securities	-	-	91,956
Provision for directors' retirement allowances for prior years	-	-	487,669
Others	82,482	68,075	9,902
	759,039	6,052,410	747,610
Income (loss) before taxes and other adjustments	5,217,201	(530,895)	7,531,525
Corporate, inhabitants and enterprise taxes	2,244,226	434,988	3,029,952
Deferred taxes	(119,398)	(324,984)	104,940
	2,124,828	110,004	3,134,892
Minority interest in income of consolidated companies	61,732	73,937	156,156
Net income (loss) for the term	3,030,640	(714,837)	4,240,475

Consolidated statement of retained earnings

March 31; Thousands of yen	2002	2003	2004
Retained earnings, beginning of term	7,774,450	-	-
Increase in retained earnings			
Increase resulting from merger of subsidiaries	6,009	-	-
	6,009	-	-
Reduction in retained earnings			
Decrease resulting from liquidation of a subsidiary	4,618	-	-
Dividends	567,996	-	-
Directors' bonuses	45,000	-	-
	617,614	-	-
Net income	3,030,640	-	-
Retained earnings, end of term	10,193,486	-	-
Capital reserves			
Capital reserves, beginning of term	-	-	8,371,830
Additional paid-in capital, beginning of term	-	8,371,830	-
	-	8,371,830	8,371,830
Capital reserves, end of term	-	8,371,830	8,371,830
Retained earnings			
Retained earnings, beginning of term	-	-	8,865,052
Retained earnings, beginning of term	-	10,193,486	-
	-	10,193,486	-
Increase in retained earnings			
Net income	-	-	4,240,475
	-	-	4,240,475
Decrease in retained earnings			
Net loss	-	714,837	-
Dividends	-	567,996	567,996
Directors' bonuses	-	45,600	62,000
	-	1,328,434	629,996
Retained earnings, end of term	-	8,865,052	12,475,532

*Results of operations***Fiscal year ended March 31, 2004***Economic and other factors affecting operations*

(1) Mixed economic picture

- Recovery in corporate profits, and rising capital investment
- Offset by “structural” deflation in the economy, fostering:
 - Uncertainty among people concerning employment
 - Continued weakness in consumer spending

(2) Trends in pachinko industry

- Declining customer traffic
- Year-on-year increases in bankruptcies and bankruptcy-related liabilities reflecting
 - Shorter game-machine cycles
 - Pressure on operators to make larger capital investments
- Polarization of industry
 - Growth in efficient large chains and a shakeout among smaller operators
 - Resulting decrease in number of pachinko parlors
- Growing popularity of “pachislot” machines leading to
 - Reversal of long-term slide in size of pachinko market
 - Cessation of decline in number of persons who say they participate in pachinko as recreation

Marketing strategies and results (year-on-year percentage changes)

(1) Development and sale of wide array of prepaid card (Cycle Card) systems to meet customer needs

(2) Focus on prepaid card systems generating

- 426 new customers for such systems during the year (+7.0%)
- Higher sales per parlor reflecting:
 - Sales to customers wishing to convert all machines (pachinko and pachislot) to prepaid card systems
 - Increased pachinko parlor size

Financial analysis (year-on-year percentage changes)

- (1) Achievement of record high sales and profits
- (2) Return on equity: 15.7%
- (3) Income statement
 - Net sales: +23.1%
 - Operating income: +49.0%
 - Ordinary profit: +49.7%
 - Net income: 4,240 million yen (cf. deficit of 714 million yen)

Segment breakdown

- (1) Pachinko business: Sales increased 23.5% to 30,192 million yen, due principally to
 - The Company's increasing success in the market for prepaid card systems.
 - Under conditions of intense competition, more installations than any other company every month during the past two years
 - As of the end of March 2004, 1,250 cumulative installations, constituting 10.6% of the market
 - Emergence of many key functions of the Company's systems as de facto industry standards
 - The Company's involvement in all aspects of marketing—from development and manufacture to sales and maintenance
- (2) Other business: Hotel revenues increased 1.9% to 531 million yen.
 - Increase achieved despite flood-related suspension of operations in July.
 - Focused on enhancing quality (rooms, service) and on increasing room rates in accordance with inflow of reservations.
 - Based on customer feedback, the hotel's "front desk department" ranked No. 1 in the Sunroute chain in 2003.

Fiscal year ended March 31, 2003***Economic and other factors affecting operations***

- (1) Extremely difficult conditions in the Japanese economy
 - Languishing consumer spending

- Decline of stock prices to a post-bubble low
- Concerns about the viability of the financial system fostered by banks' accelerated write-offs of non-performing loans
- More pronounced deflation

(2) Harsher competition in the industry, fueled by

- Declining customer traffic at pachinko parlors
- More pachinko parlor bankruptcies
- Shorter game machine cycles, requiring investments that weigh on the profitability of pachinko parlors

(3) Other industry trends

- Strong replacement demand for equipment in prepaid card market
- Industry-wide increase in game-machine installations, reflecting growing popularity of “pachinko slot” machines
- Year-on-year decline in sales and installations of pachinko machines
- Transition to large-scale pachinko parlors whose operating efficiency enables operators to develop chains

Marketing strategies and results

(1) Existing products and new product launches

- Continued aggressive push to market Cycle Card prepaid card systems
- Development and launch of new products (payment devices that enable players to charge {replenish the value of} their IC cards while seated at game consoles; IC-card adapted devices for issuing pachinko slot tokens)

(2) Results

- Despite undershooting sales targets for IC card systems (partly because of delays in bringing new products to the market), more system installations each month than any other company in the industry
- Addition of 364 new customers to IC systems business, raising cumulative total to 928 parlors; year-on-year increase in sales of such systems registered

Financial analysis (year-on-year percentage change)

- (1) Land and buildings sold to a subsidiary to strengthen financial position and increase efficiency of asset use, resulting in valuation loss of 5,779 million yen (recognized as extraordinary loss) and net deficit for the term.
- (2) 16.6% increase in sales
- (3) 4.8% increase in operating income
- (4) 7.3% decline in ordinary profit

Segment breakdown

Pachinko business: By increasing customer satisfaction through effective product development and responsive follow-up services, the business created new customer demand while reducing total costs, with a resulting 17.1% increase in sales to 24,438 million yen.

- Despite relatively late entry into the market, growth in market share of IC-card systems to more than 7% as of the end of March 2003.
- Success achieved in IC-card market from the Company's lead in using contact-free IC-card technology to integrate various technologies developed over the years—prize control systems, parlor computer systems, and prepaid card systems.

Other business: The effects of the September 11 terrorist attacks continued to be felt in the Company's hotel operations. Although occupancy rates improved year-on-year (to the number-one position in the Hakata market), average room charges declined. The business consequently reported a 1.8% decline in sales to 521 million yen.

Issues requiring action

- (1) See "Economic and other factors affecting operations" for a discussion of the operating environment.
- (2) Required actions—product development
 - Lowering cost of sales and increasing gross margins to ensure profitability in an environment of extremely intense competition
 - Recognizing changes in the market and responding rapidly with new products that meet customers' needs
 - Differentiating the Company's products from those of other companies by developing maintenance-free products

(3) Required actions—sales

- Expanding sales and profits through emphasis on proposal-based sales
- Strengthening brand image and increasing brand recognition
- Making the Company the industry's No. 3 producer of prepaid card systems

Production and sales

Production

Thousands of yen	2004	
	Amount	Year-on-year comparison (%)
Pachinko business	19,818,675	116.1
Other business	-	-
	19,818,675	116.1

Procurement

Thousands of yen	2004	
	Amount	Year-on-year comparison (%)
Pachinko business	1,243,161	139.4
Other business	99,735	106.0
	1,342,897	136.2

Sales by product

Thousands of yen	2004	
	Amount	Year-on-year comparison (%)
Pachinko business	30,192,442	123.5
Other business	531,367	101.9
	30,723,810	123.1

Leases

Under generally accepted accounting principles in Japan, finance leases that do not transfer ownership are accounted for in the same manner as operating leases when “as if capitalized” information is disclosed.

The Company’s main finance lease contracts are as follows:

Thousands of yen	Rent or lease	Number of employees	Land (Square meters)	Current payments
Parent				
Head office				
Office	Rent	78	-	225,411
OA equipment	Lease		-	14,288
Vehicles and delivery equipment	Lease		-	5,278
Fuchu Technical Center				
Office	Rent	22	-	18,931
OA equipment	Lease		-	45
Susono Technical Center				
Office	Rent	42	-	73,473
OA equipment	Lease		-	208
Mishima Technical Center				
Office	Rent	5	-	39,033
OA equipment	Lease		-	158
Gotemba Technology and Distribution Center				
Parking lot	Rent	31	-	495
Vehicles and delivery equipment	Lease		-	445
Gotemba Warehouse				
Vehicles and delivery equipment	Lease	6	-	1,382
Tokyo Branch, etc.				
Office	Rent	210	-	168,115
OA equipment	Lease		-	4,094
Vehicles and delivery equipment	Lease		-	82,829
Mars Corporation				
Peripheral equipment	Lease	2	-	1,404,229
Mars Line-Tech Corporation				
Office	Rent	9	-	6,250
OA equipment	Lease		-	946
Vehicles and delivery equipment	Lease		-	528
Mars Techno-Science Corporation				
Office	Rent	49	-	51,255
Peripheral equipment	Lease		-	1,287,897
OA equipment	Lease		-	1,256
Vehicles and delivery equipment	Lease		-	462

Thousands of yen	Rent or lease	Number of employees	Land (Square meters)	Current payments
WINTEC Co., Ltd.				
Office	Rent	21	-	2,804
OA equipment	Lease		-	105
Equipment and machinery	Lease		-	38
Vehicles and delivery equipment	Lease		-	1,234
Hotel Sunroute Hakata, Inc.				
Buildings and structures	Rent	13	644	145,977
Equipment and machinery	Lease		-	1,258
OA equipment	Lease		-	246

Pro forma information on leased property is as follows:

Lessee

Thousands of yen	2003	2004
Tools, appliances and fixtures		
Acquisition cost	1,893,363	2,276,714
Accumulated depreciation	797,082	1,336,272
Net leased property	1,096,281	940,442
Future minimum lease payments, including interest portion		
Due within one year	1,536,282	1,829,531
Due after one year	2,999,465	2,664,180
	4,535,747	4,493,712
Lease payments	1,497,907	2,020,757
Pro forma depreciation expenses (assuming declining-balance method)	388,176	538,946
Pro forma interest expenses	208,328	384,482
Operating leases - future minimum lease payments		
Due within one year	1,003	1,003
Due after one year	3,343	2,340
	4,346	3,343

Lessor

Thousands of yen	2003	2004
Tools, appliances and fixtures		
Acquisition cost	488,553	485,598
Accumulated depreciation	353,312	419,357
Net leased property	135,241	66,241
Future minimum lease payments, including interest portion		
Due within one year	1,257,370	1,409,804
Due after one year	2,796,341	2,466,969
	4,053,711	3,876,774
Lease payments received	1,423,611	1,728,497
Depreciation expenses	96,033	67,768
Revenues from interest	299,745	281,990

Capital Structure

Consolidated balance sheet

Assets

March 31; Thousands of yen	2002	2003	2004
Current assets			
Cash and deposits	3,419,786	7,286,078	10,633,446
Notes and accounts receivable	9,531,276	10,313,582	10,518,982
Marketable securities	4,626,631	3,425,487	7,134,206
Inventories	3,194,132	3,519,687	3,184,929
Deferred tax assets	364,674	865,704	499,330
Income tax refunds receivable	-	933,050	-
Others	106,859	190,165	239,754
Allowance for doubtful accounts	(9,065)	(22,999)	(36,021)
	21,234,295	26,510,757	32,174,627
Fixed assets			
Tangible fixed assets			
Buildings and structures	7,906,200	5,723,107	6,147,187
Accumulated depreciation	2,612,887	1,657,960	1,913,295
	5,293,312	4,065,146	4,233,891
Machinery and transportation equipment	178,832	198,411	246,231
Accumulated depreciation	84,549	108,715	127,053
	94,283	89,696	119,177
Tools, appliances and fixtures	2,259,585	2,348,959	2,357,083
Accumulated depreciation	1,673,568	1,866,976	1,981,340
	586,016	481,983	375,742
Land	10,242,712	5,699,374	5,782,399
Construction in progress	7,180	21,000	-
	16,223,506	10,357,201	10,511,211
Intangible fixed assets			
Consolidation translation adjustments	25,959	16,430	6,901
Others	96,362	121,882	84,565
	122,321	138,313	91,466
Investments and other assets			
Investment securities	1,169,365	706,010	1,575,342
Deferred tax assets	681,628	569,362	587,287
Others	611,431	563,551	608,629
Allowance for doubtful accounts	(162,785)	(146,077)	(268,206)
	2,299,638	1,692,847	2,503,053
Total fixed assets	18,645,466	12,188,361	13,105,732
Total assets	39,879,762	38,699,119	45,280,360

Liabilities and shareholders' equity

March 31; Thousands of yen	2002	2003	2004
Current liabilities			
Notes and accounts payable	4,289,542	3,417,140	3,392,821
Short-term borrowings	86,632	1,000,000	1,000,000
Long-term debt due within 1 year	-	300,000	300,000
Income taxes payable	1,805,334	272,670	2,836,977
Allowance for bonuses	266,839	254,359	285,551
Advances received	3,762,361	4,177,561	4,008,890
Others	634,963	749,509	742,424
	10,845,673	10,171,241	12,566,665
Long-term liabilities			
Long-term debt	-	700,000	400,000
Employees' retirement benefits	4,137	-	-
Reserve for directors' retirement allowances	-	-	503,954
Others	2,438,739	2,584,459	2,458,826
	2,442,877	3,284,459	3,362,781
Total liabilities	13,288,551	13,455,701	15,929,447
Minority interests	144,427	212,837	362,992
Shareholders' equity			
Common stock	7,934,100	-	-
Additional paid-in capital	8,371,830	-	-
Retained earnings	10,193,486	-	-
Unrealized gains or losses on other securities	(52,340)	-	-
Treasury stock	(292)	-	-
Total shareholders' equity	26,446,783	-	-
Common stock	-	7,934,100	7,934,100
Capital reserves	-	8,371,830	8,371,830
Retained earnings	-	8,865,052	12,475,532
Unrealized gains or losses on other securities	-	(140,110)	206,751
Treasury stock	-	(292)	(292)
Total shareholders' equity	-	25,030,579	28,987,920
Total liabilities, minority interests and shareholders' equity	39,879,762	38,699,119	45,280,360

Market value of securities

Other quoted securities

Thousands of yen	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities valued on the consolidated balance sheet at amounts greater than purchase cost						
Shares	95,745	108,709	12,964	170,949	452,142	281,192
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	1,530,000	1,531,825	1,825	1,257,543	1,336,935	79,392
	1,625,745	1,640,534	14,789	1,428,492	1,789,078	360,585
Securities for which valuations on the consolidated balance sheet do not exceed purchase cost						
Shares	75,204	60,236	(14,967)	-	-	-
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	667,652	426,064	(241,587)	983,176	971,193	(11,983)
	742,856	486,301	(256,555)	983,176	971,193	(11,983)
	2,368,601	2,126,835	(241,766)	2,411,669	2,760,271	348,602

During fiscal year 2003, a valuation write-off of 59,539,000 yen was recorded with regard to other securities held. When the market value of a security at fiscal year-end has fallen to less than 50% of the acquisition price, a valuation write-off is made for the full amount of the differential. When the market price has fallen by 30%-50% of the acquisition price, an amount deemed necessary is written off, taking into consideration the actual amount in question and the possibility of recovery.

Other marketable securities sold during the years ended March 31, 2003 and 2004

Thousands of yen	2003	2004
Amount sold	48,649	172,483
Total gains on sales	-	6,962
Total losses on sales	52,189	91,956

Major investment securities without market prices

Thousands of yen	2003	2004
Bonds being held to maturity		
Corporate bonds	221,146	61,000
Commercial paper	299,566	4,018,802
Other securities		
Unlisted stocks (excluding OTC stocks)	90,000	90,000
Money management funds	1,283,815	1,169,328
Medium-term government bond funds	110,134	110,147
Bonds	-	500,000

Scheduled redemptions of bonds with maturity dates and bonds being held to maturity (among holdings in the "other securities" account)

Thousands of yen	Up to 1 year	Longer than 1 and up to 5 years	Longer than 5 and up to 10 years	Longer than 10 years
2004				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	9,000	52,000	-	-
Others	4,018,802	-	-	-
Others	-	389,094	-	-
	4,027,802	441,094	-	-
2003				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	200,146	21,000	-	-
Others	299,566	-	-	-
Others	145,228	83,883	142,804	-
	644,940	104,883	142,804	-

Derivatives

Thousands of yen	2003				2004			
	Total	Over one year	Market value	Unrealized gain (loss)	Total	Over one year	Market value	Unrealized gain (loss)
Interest rate swap								
Pay floating and receive fixed	-	-	-	-	-	-	-	-
Pay fixed and receive floating	10,000,000	10,000,000	(511,266)	(511,266)	10,000,000	-	(257,379)	(257,379)
	10,000,000	10,000,000	(511,266)	(511,266)	10,000,000	-	(257,379)	(257,379)

Facilities

Thousands of yen	Buildings and structures	Tools, appliances and fixtures	Land		Other	Total book value	Number of employees
			Book value	Square meters			
Parent							
Higashi Fuji Plant							
Manufacturing equipment	533,080	156,514	597,253	11,447	1,792	1,288,640	32
Gotemba Technology and Distribution Center							
Manufacturing and distribution facilities	638,202	8,263	535,660	2,692	98,294	1,280,420	31
Head Office							
Facilities for corporate administration	-	27,870	-	-	2,039	29,909	78
Fuchu Technical Center							
Facilities for corporate administration	-	761	-	-	-	761	22
Susono Technical Center							
R&D facilities	-	25,982	-	-	1,079	27,062	42
Gotemba Warehouse							
Warehousing facilities	275,411	2,497	172,813	7,654	4,382	455,104	6
Fuji Training Center							
Training facilities	305,762	721	-	-	-	306,484	-
Mishima Technical Center							
Inactive	-	2,428	-	-	-	2,428	5
Dormitories							
Employee recreation and welfare facilities	183,728	444	550,024	1,202	2,979	737,176	-
Tokyo Branch, etc.							
Sales, installation, and maintenance facilities	3,476	1,739	-	-	-	5,216	210
Others							
Unused land	-	-	1,641,013	16,278	-	1,641,013	-
Mars Corporation							
Buildings and structures	1,490,790	-	2,214,745	5,398	-	3,705,535	2
Equipment and machinery	393,241	8,196	-	-	-	401,438	
OA equipment	-	1,603	-	-	-	1,603	
Peripheral equipment	-	-	-	-	193,256	193,256	
Mars Line-Tech Corporation							
Buildings and structures	19,115	-	3,610	23	-	22,725	9
Equipment and machinery	4,024	680	-	-	-	4,705	
OA equipment	-	507	-	-	-	507	
Dies	-	2,046	-	-	-	2,046	
Vehicles and delivery equipment	-	-	-	-	50	50	
Mars Techno-Science Corporation							
Equipment and machinery	1,036	11,698	-	-	-	12,735	49
OA equipment	-	8,813	-	-	-	8,813	
Peripheral equipment	-	2,172	-	-	-	2,172	

Thousands of yen	Buildings and structures	Tools, appliances and fixtures	Land		Other	Total book value	Number of employees
WINTEC Co., Ltd.							
Buildings and structures	253,907	-	67,280	2,519	-	321,187	21
Equipment and machinery	131,107	7,256	-	-	7,586	145,950	
OA equipment	-	1,285	-	-	-	1,285	
Dies	-	2,323	-	-	-	2,323	
Vehicles and delivery equipment	-	-	-	-	971	971	
Hotel Sunroute Hakata, Inc.							
Equipment and machinery	1,006	3,829	-	-	-	4,835	13
OA equipment	-	334	-	-	-	334	

Borrowings

Thousands of yen	Previous term	Outstanding	Average rate	Maturity
Short-term borrowings	1,000,000	1,000,000	0.31555%	-
Current portion of long-term debt	300,000	300,000	0.44%	-
Long-term debt (excluding current portion of long-term debt)	700,000	400,000	0.44%	2005 - 2006
Other interest-bearing liabilities	-	-	-	-
	2,000,000	1,700,000	-	-

Long-term debt repayable within 5 years of the end of the fiscal year to March 2004 (excluding the amount payable within one year) is as follows:

Thousands of yen	Longer than 1 and up to 2 years	Longer than 2 and up to 3 years	Longer than 3 and up to 4 years
Long-term debt	300,000	100,000	-

Retirement benefits

Outline of retirement benefit system

The Company has established a qualified defined-benefit pension plan. It has also joined a corporate pension plan formed by multiple employers (the National Employers Welfare Pension Fund for the Information Service Industry).

Upon the retirement of an employee, the Company may make extra retirement payments to the employee. These are unrelated to liabilities calculated on the basis of actuarial assumptions, which the Company recognizes in accordance with retirement-benefit accounting guidelines.

Items related to retirement benefit liabilities

Thousands of yen	2003	2004
Retirement benefit liabilities	(832,861)	(943,283)
Pension assets	683,299	785,689
Unaccrued pension benefit liabilities	(149,561)	(157,593)
Unrecognized actuarial gains or losses	304,266	288,956
Net amount shown on consolidated balance sheet	154,705	131,363
Prepaid pension expenses	154,705	131,363
Allowance for retirement benefits	-	-

Items related to retirement benefit expenses

Thousands of yen	2003	2004
Current service costs	70,555	77,555
Pension premiums paid under multi-party employers' welfare pension fund	85,230	96,987
Interest expense	12,458	14,350
Expected earnings on pension fund assets	(2,162)	0
Expensing of actuarial differences	26,776	33,621
Retirement benefit expenses	192,856	222,514

Assumptions underlying the calculation of retirement benefit liabilities

Thousands of yen	2003	2004
Discount rate	1.7%	1.7%
Expected rate of return	0.3%	0.0%
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Amortization period for actuarial gains or losses	10 years (Expensed beginning in the consolidated fiscal year following the year in which the expenses arise, using straight-line amortization over a prescribed number of years that is equal to or less than the average remaining period of service of employees.)	10 years (Expensed beginning in the consolidated fiscal year following the year in which the expenses arise, using straight-line amortization over a prescribed number of years that is equal to or less than the average remaining period of service of employees.)

Company's share of pension assets based on percentage of premiums contributed to multi-party employers' pension system

Thousands of yen	2003	2004
	676,766	980,330

Deferred taxes

Thousands of yen	2003	2004
Deferred tax assets (current)	865,989	499,650
Deferred tax liabilities (current)	(284)	(319)
Deferred tax assets - net	865,704	499,330
Deferred tax assets (fixed)	634,384	786,692
Deferred tax liabilities (long-term)	(65,022)	(199,404)
Deferred tax assets - net	569,362	587,287

Percentage

Legal effective tax rate	42.05	The difference between the effective tax rate as stipulated by law and the corporate tax rate after application of inter-period tax allocation is less than 5 percent, and the figure is therefore not reported in this section.
Expenses not deductible for tax purposes (such as entertainment expenses)	(2.23)	
Per-capita rate of inhabitants tax	(6.47)	
Non-recognition of tax effects related to unrealized profits	(50.66)	
Impact of change in effective tax rate	(3.87)	
Others	0.46	
Income tax and others accompanying adoption of tax effect accounting	(20.72)%	

Nonconsolidated Financial Statements

Nonconsolidated statement of income

Years ended March 31; Thousands of yen	2002	2003	2004
Net sales			
Net sales - finished goods	17,398,992	20,167,621	25,900,391
Net sales - merchandise	421,575	413,258	212,688
	17,820,567	20,580,880	26,113,079
Cost of goods sold			
Cost of finished goods sold			
Finished goods inventory, beginning of term	1,471,750	993,386	1,562,263
Production costs for the term	8,291,917	11,653,380	14,650,062
	9,763,668	12,646,766	16,212,326
Transfers to other accounts	50,881	128,937	90,512
Finished goods inventory, end of term	993,386	1,562,263	1,547,961
	8,719,400	10,955,565	14,573,851
Cost of merchandise sold			
Merchandise inventory, beginning of term	4,369	4,017	4,207
Merchandise purchased during term	270,366	213,602	107,303
	274,735	217,620	111,511
Merchandise inventory, end of term	4,017	4,207	5,384
	270,717	213,412	106,127
	8,990,118	11,168,978	14,679,979
Gross profit on sales	8,830,449	9,411,902	11,433,100
Selling, general and administrative expenses			
After-sales service expenses	304,763	356,981	410,120
Directors' salaries	117,420	129,420	125,130
Employees' salaries	1,326,536	1,445,079	1,581,695
Bonuses	281,741	272,611	445,467
Provision for bonuses	192,606	181,378	210,956
Legal welfare expenses	224,230	245,466	299,583
Rent	163,254	171,551	525,460
Depreciation expenses	207,671	190,614	83,811
Provision for directors' retirement allowances	-	-	36,614
Others	1,385,734	1,558,302	1,626,330
	4,203,960	4,551,406	5,345,169
Operating income	4,626,488	4,860,496	6,087,931
Nonoperating income			
Interest income	31,385	16,242	14,609
Interest income from securities	9,995	38,123	65,975
Dividend income	7,954	18,604	19,378
Foreign exchange gain	1,345	-	-
Profits from anonymous association	811,993	-	-
Income from contracted operations	-	10,600	9,600
Miscellaneous income	65,412	17,546	21,733
	928,085	101,117	131,296

MARS ENGINEERING CORPORATION

Years ended March 31; Thousands of yen	2002	2003	2004
Nonoperating expenses			
Interest expenses	153,195	45,956	6,143
Loss on sale of securities	4,258	-	-
Miscellaneous losses	9,332	2,208	54
	166,786	48,164	6,197
Ordinary profit	5,387,787	4,913,449	6,213,030
Extraordinary income			
Gain on sale of investment securities	-	-	6,962
Reversal of allowance for doubtful accounts	16,950	-	2,200
	16,950	-	9,162
Extraordinary losses			
Loss on sale of fixed assets	-	5,779,387	-
Loss on removal of fixed assets	13,311	13,264	8,979
Provision for directors' retirement allowances for prior years	-	-	487,669
Loss on liquidation of subsidiaries	374,600	-	-
Loss on disposal of inventories	23,590	139,023	158,081
Loss on sale of investment securities	24,953	52,189	91,956
Valuation loss on investment securities	662,781	59,539	-
Valuation loss on memberships	500	-	-
Provision for doubtful accounts	9,500	-	-
	1,109,236	6,043,404	746,687
Income (loss) before taxes and other adjustments	4,295,501	(1,129,954)	5,475,505
Corporate, inhabitants and enterprise taxes	1,926,805	42,113	2,161,037
Adjustment for income and other taxes	(63,585)	(479,734)	171,440
	1,863,220	(437,620)	2,332,478
Net income (loss) for the term	2,432,281	(692,333)	3,143,026
Retained earnings brought forward from previous term	3,521,578	5,345,863	4,031,533
Interim dividends	227,198	227,198	227,198
Unappropriated retained earnings, fiscal year-end	5,726,661	4,426,331	6,947,362

Nonconsolidated appropriation of retained earnings

Thousands of yen	June 27, 2002	June 27, 2003	June 29, 2004
Unappropriated profit, end of term	5,726,661	4,426,331	6,947,362
Appropriation of retained earnings			
Dividends	340,797	340,797	454,396
Directors' bonuses	40,000	54,000	83,000
[Statutory auditors' bonuses]	[2,000]	[2,000]	[6,000]
	380,797	394,797	537,396
Retained earnings carried forward to next term	5,345,863	4,031,533	6,409,965

Cost of goods sold

Years ended March 31; Thousands of yen	2002	%	2003	%	2004	%
Cost of materials	7,175,664	84.8	10,186,258	86.6	13,092,715	88.1
Subcontracted processing expenses	531,460	6.3	823,935	7.0	1,112,824	7.5
Labor costs	333,762	3.9	307,987	2.6	335,221	2.3
Manufacturing overhead	425,061	5.0	441,737	3.8	314,684	2.1
Total manufacturing costs for the term	8,465,949	100.0	11,759,919	100.0	14,855,444	100.0
Work-in-process inventory, beginning of term	131,047		185,964		34,447	
	8,596,997		11,945,883		14,889,893	
Work-in-process inventory, end of term	185,964		34,447		66,296	
Transfers to other accounts	119,115		258,055		173,534	
Production costs for the term	8,291,917		11,653,380		14,650,062	

Primary items and amounts included under Labor costs and Manufacturing overhead.

Labor costs

Provision for bonuses	27,625	26,242	26,271
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Manufacturing overhead

Depreciation expenses	264,011	278,393	200,062
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Transfers to other accounts

Selling, general and administrative expenses	115,741	223,288	107,689
Loss on disposal of inventories	-	31,496	65,844
Manufacturing expenses	1,254	216	-
Tools, appliances and fixtures	-	3,053	-
Construction in progress	2,120	-	-
	119,115	258,055	173,534

Nonconsolidated balance sheet

Assets

March 31; Thousands of yen	2002	2003	2004
Current assets			
Cash and deposits	2,537,075	5,755,222	8,217,074
Notes receivable	1,059,480	1,184,473	1,801,918
Accounts receivable - trade	3,952,161	4,205,551	3,988,099
Marketable securities	4,265,079	3,165,074	6,873,957
Merchandise	4,017	4,207	5,384
Finished goods	993,386	1,562,263	1,547,961
Materials	987,083	807,245	463,288
Work in process	185,964	34,447	66,296
Supplies	491,194	509,058	420,965
Advances paid	6,557	4,454	-
Prepaid expenses	29,328	56,118	54,946
Short-term loans	518,000	456,000	283,000
Deferred tax assets	269,880	724,580	344,647
Income tax refunds receivable	-	933,050	-
Others	12,106	13,035	14,591
Allowance for doubtful accounts	(5,418)	(5,856)	(10,341)
	15,305,896	19,408,927	24,071,791
Fixed assets			
Tangible fixed assets			
Buildings	7,513,760	3,506,666	3,507,299
Accumulated depreciation	2,378,694	1,503,591	1,613,388
	5,135,065	2,003,075	1,893,910
Structures	348,368	191,175	191,175
Accumulated depreciation	218,937	137,047	145,425
	129,430	54,128	45,750
Machinery and equipment	148,055	166,207	216,723
Accumulated depreciation	60,532	82,224	109,156
	87,523	83,983	107,566
Vehicles and delivery equipment	26,178	26,178	18,304
Accumulated depreciation	20,024	21,817	15,302
	6,153	4,360	3,002
Tools, appliances and fixtures	1,609,433	1,641,258	1,633,514
Accumulated depreciation	1,251,179	1,360,217	1,406,291
	358,253	281,041	227,223
Land	10,239,102	3,496,763	3,496,763
Construction in progress	2,770	-	-
	15,958,299	5,923,352	5,774,217

MARS ENGINEERING CORPORATION

March 31; Thousands of yen	2002	2003	2004
Intangible fixed assets			
Patents	13,217	15,785	17,461
Telephone subscription rights	15,214	15,214	15,214
Software	49,367	36,763	23,819
	77,799	67,764	56,495
Investments and other assets			
Investment securities	1,169,365	706,010	1,575,342
Capital stock of affiliated companies	466,860	2,476,860	2,476,860
Investments other than securities	1,610	1,610	454
Long-term loans to affiliates	239,000	103,000	410,000
Rental and guarantee deposits	162,165	392,450	365,400
Claims in bankruptcy and substantial bankruptcy	76,393	52,791	93,309
Long-term prepaid expenses	39,791	18,686	9,694
Deferred tax assets	97,939	186,296	151,271
Prepaid pension expenses	167,613	154,705	131,363
Others	66,100	66,100	66,100
Allowance for doubtful accounts	(130,962)	(109,635)	(141,895)
	2,355,877	4,048,876	5,137,902
Total fixed assets	18,391,976	10,039,993	10,968,615
Total assets	33,697,873	29,448,920	35,040,407

Liabilities and shareholders' equity

March 31; Thousands of yen	2002	2003	2004
Current liabilities			
Notes payable	1,422,773	15,830	4,160
Accounts payable - trade	2,286,744	2,656,365	2,939,070
Accounts payable - other	183,543	104,911	158,023
Income taxes payable	1,553,467	17,407	2,165,011
Consumption taxes payable	143,023	177,359	138,358
Accrued expenses	84,256	85,150	90,518
Advances from customers	8,400	31,913	39,465
Deposits received	13,373	14,646	25,546
Deferred income	28,077	15,241	3,534
Allowance for bonuses	220,232	207,621	237,228
Others	-	12,772	-
	5,943,893	3,339,219	5,800,916
Long-term liabilities			
Interest rate swap liability	730,436	511,266	257,379
Reserve for directors' retirement allowances	-	-	503,954
Others	72,011	34,500	46,320
	802,447	545,766	807,655
Total liabilities	6,746,340	3,884,986	6,608,571
Shareholders' equity			
Common stock	7,934,100	-	-
Additional paid-in capital	8,371,830	-	-
Legal income reserves	372,109	-	-
Retained earnings			
Voluntary reserves - total			
Special reserve	4,600,000	-	-
	4,600,000	-	-
Unappropriated retained earnings, fiscal year-end	5,726,661	-	-
	10,326,661	-	-
Unrealized gains or losses on other securities	(52,875)	-	-
Treasury stock	(292)	-	-
Total shareholders' equity	26,951,532	-	-

MARS ENGINEERING CORPORATION

March 31; Thousands of yen	2002	2003	2004
Common stock	-	7,934,100	7,934,100
Capital reserves			
Additional paid-in capital	-	8,371,830	8,371,830
	-	8,371,830	8,371,830
Retained earnings			
Legal income reserves	-	372,109	372,109
Voluntary reserves - total			
Special reserve	-	4,600,000	4,600,000
Unappropriated retained earnings, fiscal year-end	-	4,426,331	6,947,362
	-	9,398,441	11,919,471
Unrealized gains or losses on other securities	-	(140,144)	206,726
Treasury stock	-	(292)	(292)
Total shareholders' equity	-	25,563,934	28,431,835
Total liabilities and shareholders' equity	33,697,873	29,448,920	35,040,407

Trade credits

Notes receivable

Thousands of yen	2004
GAIA	260,525
Hikari Shinsei	144,600
Heart Brain	94,105
MEISEI-KOGYO CO., LTD.	82,775
Meiwa	72,000
Others	1,147,912
	<u>1,801,918</u>

Accounts receivable — trade

Thousands of yen	2004
Fuyo General Lease	224,684
Hikari Shinsei	201,174
ORIX Corporation	176,936
TATSUMI Corporation	140,908
Mars Techno-Science Corporation	132,111
Others	3,112,284
	<u>3,988,099</u>

Turnover of accounts receivable

Thousands of yen	2004
Beginning balance	4,205,551
Increase	27,496,360
Collected	27,713,811
Ending balance	3,988,099
Turnover	87.4%
Average days for collection	54.3

Securities

Marketable and investment securities

Thousands of yen		
Stocks		
	Number of shares	Book value
Investment securities		
Other securities		
Japan Cash Machine (6418)	80,525	281,837
Resona Holdings, Inc. (8038)	465,150	80,936
Atom Corp. (7412)	1,000	50,000
Tokyo Tomin Bank (8339)	21,242	47,688
P ARK	20,000	40,000
UFJ Holdings, Inc. (8307)	50	33,100
Nippon Signal (6741)	5,000	3,485
NAGANO KEIKI (7715)	1,464	2,122
Nissei Plastic Industrial (6293)	1,400	1,176
Daiwabo Information System (9912)	1,100	1,144
Taisei Oncho (1904)	1,500	662
TOKYO MAGTEK Inc.	30	-
IRLAN	2,048	-
	600,509	542,142
Bonds		
	Total face value	Book value
Marketable securities		
Bonds being held to maturity	4,029,000	4,027,802
Investment securities		
Bonds being held to maturity	52,000	52,000
	4,081,000	4,079,802
Others		
Marketable securities		
Other securities	1,292,276	2,846,155
Investment securities		
Other securities	576,495	981,200
	1,868,771	3,827,355

Tangible fixed assets

Thousands of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
Tangible fixed assets							
Buildings	3,506,666	3,881	3,249	3,507,299	1,613,388	112,360	1,893,910
Structures	191,175	-	-	191,175	145,425	8,377	45,750
Machinery and equipment	166,207	50,515	-	216,723	109,156	26,932	107,566
Vehicles and delivery equipment	26,178	480	8,354	18,304	15,302	1,420	3,002
Tools, appliances and fixtures	1,641,258	87,911	95,655	1,633,514	1,406,291	134,782	227,223
Land	3,496,763	-	-	3,496,763	-	-	3,496,763
	9,028,251	142,789	107,258	9,063,782	3,289,564	283,873	5,774,217
Intangible fixed assets							
Patents	-	-	-	25,423	7,962	3,086	17,461
Telephone subscription rights	-	-	-	15,214	-	-	15,214
Software	-	-	-	70,178	46,358	13,999	23,819
	-	-	-	110,816	54,320	17,085	56,495
Long-term prepaid expenses	65,137	6,374	1,524	69,988	60,293	14,436	9,694

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	115,491	45,095	8,350	152,236
Reserve for bonuses	207,621	237,228	207,621	237,228
Reserve for directors' retirement allowances	-	519,959	16,005	503,954

Accounting Policies

Summary of accounting policies: consolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Other securities:</p> <p>Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the moving-average method.</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Derivatives	Market price method
Inventories	Valued at cost using the moving-average method
Depreciation	<p>Tangible fixed assets: declining-balance method</p> <p>Provided, however, that buildings acquired after April 1, 1998 (excluding appurtenances) and assets used in hotel operations are depreciated on a straight-line basis.</p> <p>Intangible fixed assets:</p> <p>Software for sale: amortized over a period of three years from the commencement of sales, based on a projected number of sales. However, if the amount calculated on this basis is less than straight-line amortization over the estimated economic life of the software, then the latter is recognized as a minimum amount of amortization.</p> <p>Other: straight-line method</p> <p>Amortization of software for internal use is based on the period of potential use (5 years); patent rights are amortized over 5 years.</p> <p>Long-term prepaid expenses: amortized in equal installments over the period covered</p>
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a statutory deduction ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Reserve for bonuses	Recognition of expense for current term, based on estimated bonus expense for the bonus period
Retirement benefit accounting	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the consolidated fiscal year to March 2004.
Opinion of independent auditors	<p>Auditors: Tohmatsu & Co.</p> <p>Opinion: unqualified</p>

Summary of accounting policies: nonconsolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Shares in subsidiaries and affiliated companies: valued at cost using the moving-average method</p> <p>Other securities:</p> <p>Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the moving-average method.</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Derivatives	Market price method
Inventories	Merchandise, finished goods, work in process, raw materials and supplies: valued at cost using the moving-average method
Depreciation	<p>Tangible fixed assets: declining-balance method</p> <p>Provided, however, that buildings acquired after April 1, 1998 (excluding appurtenances) are depreciated on a straight-line basis.</p> <p>Intangible fixed assets: straight-line method</p> <p>Amortization of software for internal use is based on the period of potential use (5 years); patent rights are amortized over 5 years.</p> <p>Long-term prepaid expenses: amortized in equal installments over the period covered</p>
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a statutory deduction ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Reserve for bonuses	Recognition of expense for current term, based on estimated bonus expense for the bonus period
Reserve for directors' retirement allowances	Recognition of full amount of liability at term-end based on employment regulations
Retirement benefit accounting	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the consolidated fiscal year to March 2004.
Opinion of independent auditors	<p>Auditors: Tohmatsu & Co.</p> <p>Opinion: unqualified</p>

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	33,810,000
Issued	
As of March 31, 2004	11,360,000
As of June 30, 2004	11,360,000
Stock exchange listings or registration	Tokyo Stock Exchange, First Section
Comments	-

Changes in common stock and number of shares outstanding

Shares Thousands of yen Date	Shares outstanding		Common stock		Additional paid-in capital		Remarks
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
December 24, 1999	1,200	11,360	2,433,600	7,934,100	2,432,400	8,371,830	Public offering of shares

Shareholders by type of investor

Type of investor; Hundred shares	Number of shareholders	Number of units owned	% owned
National and local government agencies	-	-	-
Financial institutions	45	30,855	27.16
Securities companies	21	262	0.23
Business and other corporations	49	22,351	19.68
Non-residents (business and corporations)	69	10,869	9.57
[Non-residents (individuals)]	[3]	[7]	[0.01]
Individuals and others	3,601	49,262	43.36
	3,785	113,599	100.00
Shares less than one unit	-	100	-

Largest shareholders

Name	Thousands of shares owned	Held in trust accounts	% of shares outstanding
EM Planning	2,125.0		18.71
Japan Trustee Services Bank, Ltd. (Trust Account)	1,124.2	1,004,000	9.90
The Master Trust Bank of Japan, Ltd. (Trust Account)	728.6	529,100	6.41
Hirokazu Matsunami	702.8		6.19
Kayoko Matsunami	514.0		4.52
Akihiro Matsunami	500.0		4.40
Tokyo Tomin Bank, Ltd.	300.0		2.64
Shigeo Komiya	245.0		2.16
Teruo Gomi	225.0		1.98
Nomura Trust and Banking Co., Ltd. (Investment trust account)	223.2	223,200	1.96
	6,687.8		58.87

Share information

Fiscal year-end	March 31
Ex-rights date	March 31
Ex-rights date for interim dividend	September 30
Annual general meeting of shareholders	June
Trading unit	100 shares
Types of share certificates	100, 1,000 and 10,000 shares
Transfer agent	The Sumitomo Trust & Banking Co., Ltd. 1-4-4, Marunouchi, Chiyoda-ku, Tokyo
Publication of record	<i>Nihon Keizai Shimbun</i>

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