

JAPAN CASH/MACHINE CO., LTD.



# JCM

## Annual Report 2004

Year ended March 31, 2004

## Company Profile

Japan Cash Machine Co., Ltd. (JCM) was established in January 1955 to engage in importing, selling, and repairing mechanical cash registers as its primary business activities. Two years later, in February 1957, JCM started manufacturing and marketing its own mechanical cash registers.

Thereafter, JCM began to gradually diversify its product lineup in order to expand its range of business and better meet the needs of its customers. Product lines since added include office equipment, primarily fire-resistant safes, as well as money-handling machines and equipment for the amusement industry, which have become the central product lines for JCM today.

In 1993, JCM was listed on the second section of the Osaka Securities Exchange and, in December 2000, on the second section of the Tokyo Stock Exchange.

JCM began manufacturing and selling US-dollar bill checkers in 1986 and since that time has been working to aggressively develop its overseas activities. Today, JCM products handle paper currencies from over 50 countries around the world and are exported to more than 70 countries.

Taking ***“Results arise from following the customer’s lead”*** as its corporate motto, JCM implements a customer-first policy, working to quickly and precisely ascertain the customer’s needs and market trends while maintaining close contact and interaction with the market. JCM places utmost importance on quality as it produces its products, and continuously works to enhance its product supply capabilities and its customer services.

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### Forward-looking statements

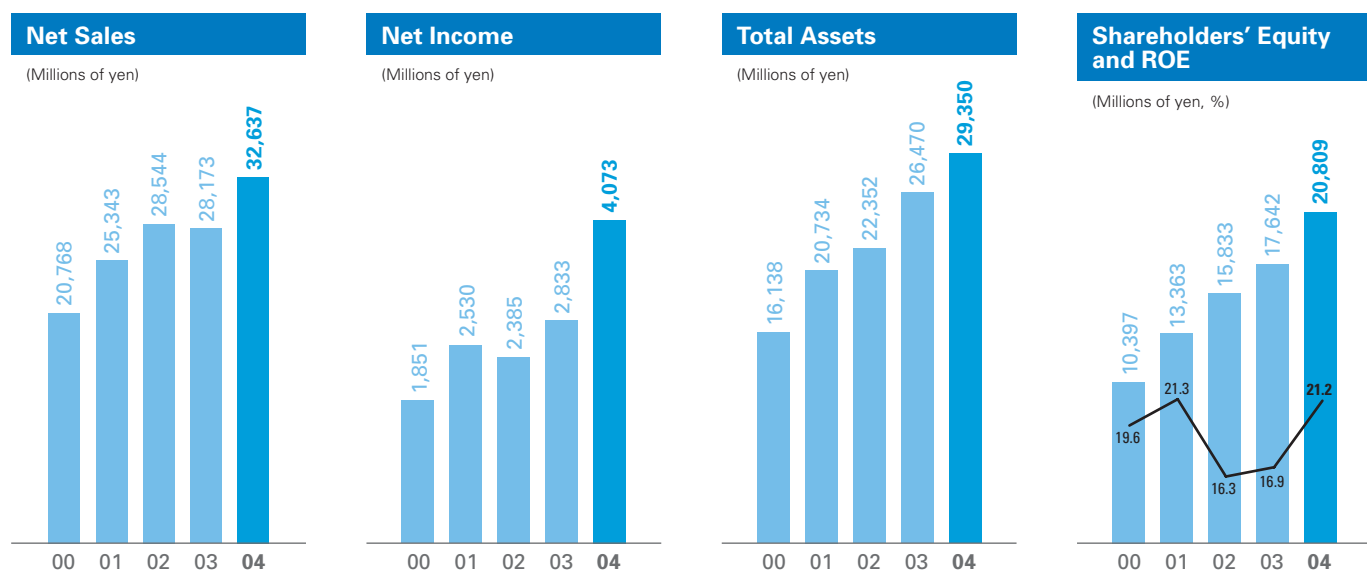
The present report contains forward-looking statements regarding JCM Group plans, forecasts, strategies, business results and other items. These forward-looking statements are based on judgements made using the information available at the time. Actual business results will be affected by various risk factors and uncertainties, and readers are advised that they may therefore differ substantially from the projections presented herein. Factors affecting future projections include, but are not limited to, the economic conditions under which the JCM Group operates, competitive pressures, relevant laws and regulations, the status of product development programs, and fluctuations in exchange rates.

# Financial Highlights

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries  
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>For the year:</b>			
Net sales:			
Domestic .....	¥ 14,696	¥ 12,925	\$ 139,049
Overseas .....	17,941	15,248	169,752
Total .....	32,637	28,173	308,801
Operating income .....	7,281	4,765	68,894
Net income .....	4,073	2,833	38,538
Depreciation of property, plant and equipment .....	(448)	(412)	(4,241)
Research and development costs .....	1,620	1,417	15,327
<b>At the year end:</b>			
Current assets .....	¥ 25,314	¥ 22,902	\$ 239,510
Total assets .....	29,350	26,470	277,702
Current liabilities .....	8,126	8,140	76,886
Shareholders' equity .....	20,809	17,642	196,883
<b>Per share data:</b>			
Net income - Basic.....	¥ 224.52	¥ 155.58	\$ 2.12
Net income - Diluted.....	224.47	—	2.12
Net assets.....	1,158.62	982.05	10.96
Cash dividends .....	35.00	33.00	0.33
Number of employees	549	504	—

Notes: 1. The U.S. dollar amounts in this report have been translated from the corresponding yen amounts, for convenience only, at ¥105.69 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2004.  
2. Per share data for 2003 has been diluted to reflect the effect of a stock split made on May 20, 2003.



## To Our Shareholders

**“Under the slogan ‘JCM World 21,’ the goal to be achieved for the last fiscal year covered by this mid-term business plan is consolidated sales totaling ¥60 billion and operating income of ¥14.3 billion in the year ending March 31, 2008.”**

Established in 1955 as a company focused on the sale and repair of domestically produced mechanical cash registers, Japan Cash Machine Co., Ltd. (“JCM” or “the Company”) expanded its business activities to encompass manufacturing of the same equipment in 1957, thus opening the way for it to develop, produce, and sell a wide range of laborsaving money-handling machines. In particular, it was the mid-1970s trend toward the time-savings and efficiency offered by automation that drove a thriving demand for solutions that reduced and automated labor involved in processes such as coin and bill checking and sorting, bill delivery and receipt, counting work, and cash security. With the market introduction of its bill checkers, JCM realized a favorable transition to the sale of equipment for overseas gaming markets, primarily in the United States and Europe, pioneering a new market area for the Company. Throughout its nearly half century in operation, JCM has been able to consistently realize very favorable business performance.

In order to ensure further business expansion and stable business results, it is important for JCM to further expand sales for all of its products in the domestic market, and to expand its sales in overseas markets in areas other than money-handling machines for the gaming market. To that end, JCM considers it both vital and urgent to grow its business bases on a global scale and to restructure its research and development system to allow us to more efficiently provide new products and new technologies that can meet the rapidly diversifying needs of its customers.

Taking these conditions into consideration, the JCM Group has established a new mid-term business plan for the 21st century with the goal of achieving further growth in the global market.

Under the slogan “JCM World 21,” the goal to be achieved for the last fiscal year covered by this mid-term business plan is consolidated sales totaling ¥60 billion and operating income of ¥14.3 billion in the year ending March 31, 2008.

One of the Company’s basic policies and the thrust of this business plan is to focus on profit ratio rather than focusing on sales, which can be strongly affected by external factors such as market trends. Having achieved a ratio of operating income to sales of 20% in the year ended March 31, 2004, the goal thus far, the Company will work to ensure achievement of its new target of 25%.

Taking the notion that “Results arise from following the customer’s lead” as its fundamental stance and corporate motto, JCM has established three corporate vision concepts — “Being a Corporation That Creates Markets,” “Greater Infiltration of the JCM Brand Name,” and “Development of Global Business” — as the basis upon which the Company will further expand its corporate value using the cumulative power of the JCM Group.

We would like to ask for your continued support and look forward to sharing the growth of JCM with you in the years to come.

### Outline of Business Results

While the Japanese economy during the first half of the year was adversely affected by factors such as the war in Iraq and SARS, the second half of the year showed signs of economic recovery, including improved corporate performance, primarily related to exports, increased capital investment, and signs of recovery in the price of stocks on the Japanese stock market.

However, with concerns that the sharp appreciation in the value of the yen could squelch any recovery and other factors, a full-blown recovery has yet to come.

Overseas, increases in consumer spending and capital investment were indicators of economic recovery in the United States, and trends of increased consumption and investment continued in Asia as well. In Europe, meanwhile, the economy continued to be strong and healthy overall, as seen by the gradual economic recovery proceeding thanks to increased exports within the Eurozone.

Under these conditions, the Company continued to work in existing markets both domestically and overseas, and also worked to aggressively develop sales activities targeting new markets through efforts that include the introduction of new products and the development of new applications for existing products. With the goal of realizing even greater amelioration in terms of profit, the Company also continued with efforts begun the previous year to transfer manufacturing operations for our primary products to overseas locations, and to reduce material costs, sub-contract costs and mold investments through overseas procurement. The Company has indeed worked in many ways to reduce costs in all aspects of its business.

As a result, the Company realized a favorable increase in sales, primarily in Japan, the United States and Eastern Europe, with sales for the period totaling ¥32,637 million (up 15.8% from the previous year). Profits were also up, due to the increased sales and to cost reductions resulting from the transfer of manufacturing operations to overseas locations, with operating income for the period totaling ¥7,281 million (up 52.8% from the previous year) and net income totaling ¥4,073 million (up 43.8% from the previous year). The Company thus saw major increases in both sales and income to achieve the best business results in its history to date.

Looking at the foreign currency exchange, at an average of ¥115.72 per US dollar (the average for the previous year was ¥124.83), the yen strengthened by approximately ¥9. Against the euro, on the other hand, at an average of ¥131.65 (the average for the previous year was ¥118.26) the yen weakened by approximately ¥13.

#### **Basic Policy Regarding Profit Sharing**

Focusing on the long-term perspective, JCM is working to expand its operating revenue and to strengthen its financial standing and operational platforms. The Company is also working to enhance its shareholders' equity and to improve the return on equity, taking as a fundamental policy the implementation of a suitable return on profit for shareholders.

The Company had taken dividend payout based on non-consolidated business results as one of its future goals. In recent years, however, it has become increasingly common to evaluate return on profit from various angles, including not only dividend payout, but also increasing dividend yield and dividend amounts. Therefore, in addition to the target dividend payout of 30%, the Company's long-standing dividend payout standard, the dividends paid to shareholders will also be determined taking into account the growth rate of dividend amounts, dividend yield, and shareholders' special benefit plans, and will reflect recent trends in consolidated business results.

The regular dividend payment for the period was ¥12. Both the consolidated business results and non-consolidated business results for the Company set new records in terms of total sales and net income for the period. As an expression of appreciation for the continued support of its shareholders, the Company provided an additional commemorative dividend of ¥11, establishing a total per share dividend of ¥23 (which, added to the interim dividend of ¥12 that had already been paid, brings the total annual dividend to ¥35).

As a further effort to promote return on profit, it was also decided to split corporate stocks on May 20 at a ratio of 1 to 1.1 (with the new stock certificates issued gratis). This is the ninth time for the Company's corporate stocks to split since it went public, and these splits have cumulatively increased the number of shares by a factor of 2.35.

Retained earnings are being appropriated to anticipatory investments aimed at expanding sales and at establishing and enhancing the Company's research and development and production systems. Thus, retained earnings will be used to strengthen the competitive edge of the Company.

With the next fiscal year, the Company will continue to examine ways to actively increase return on profit based on the dividend results for the current year, and taking into consideration current business circumstances, dividend payout, and other factors.

**“As an expression of appreciation for the continued support of its shareholders, the Company provided an additional commemorative dividend of ¥11, establishing a total per share dividend of ¥23.”**

**“The Company will work to strengthen its managerial foundation in order to ensure reliable corporate revenue even in the event of uncertain economic conditions.”**

### **Our Management Index Expands Shareholder Value**

One of the goals at JCM is to increase the ratio of operating income to net sales and return on equity through the effective utilization of shareholders' equity, thereby increasing shareholder value.

In the new mid-term business plan "JCM World 21" announced in December 2003, JCM presented its goal of improving profit ratio through efforts such as expanding sales and reducing cost. This plan also states the following targets:

- (a) Ratio of operating income to net sales: 25% for the year ending March 31, 2008
- (b) Return on equity: 25% for the year ending March 31, 2008

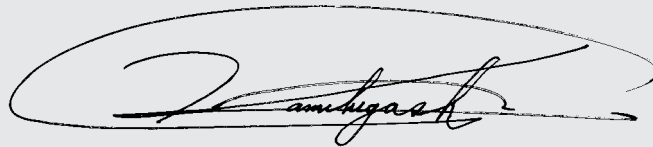
For the first fiscal year of this plan, the year ended March 31, 2004, the Company realized a favorable return on equity of 21.2%, due to such measures as cost reductions resulting from the transfer of manufacturing operations to overseas locations. JCM will continue to work toward the achievement of the goals of even greater cost reductions and the aggressive introduction of products that provide the user with exceptional added value.

### **Outlook for the Next Fiscal Year (April 1, 2004 to March 31, 2005)**

Although we anticipate continued international tension related to economic conditions due to factors such as unrest in the Middle East, we also expect favorable economic recovery of the US economy resulting from renewed consumer spending, increased capital investment by industries, and other developments. Looking at the European economy, although the economies of some Western European countries remain stagnant, there is a tone of gradual recovery for Europe as a whole. In Japan, however, despite indications of economic recovery, the sudden rise in the value of the Japanese yen has raised concerns over possible effects on corporate revenue.

As such, the Company will work to strengthen its managerial foundation in order to ensure reliable corporate revenue even in the event of uncertain economic conditions. Efforts to that end include the aggressive development of sales activities using the combined forces of the JCM Group, the promotion of cost reduction and increased productivity, the efficient development of new products, and the strengthening of the Company's financial position in conjunction with the expansion of the scale of its operations. These efforts are being directed primarily toward the gaming market, overseas commercial markets, and the domestic market, as target markets of the "JCM World 21" plan.

For the next fiscal year (the year ending March 31, 2005), the Company estimates sales of ¥35 billion (up 7.2% from the previous year) and net income of ¥4.5 billion (up 10.5% from the previous year). This forecast for the fiscal year is based on assumed exchange rates of ¥105 per US dollar and ¥125 per euro.



**Koichiro Kamihigashi**

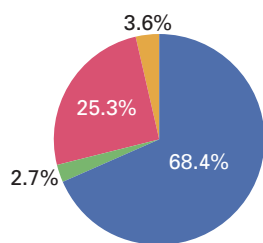
President

June 25, 2004

# Segment Information

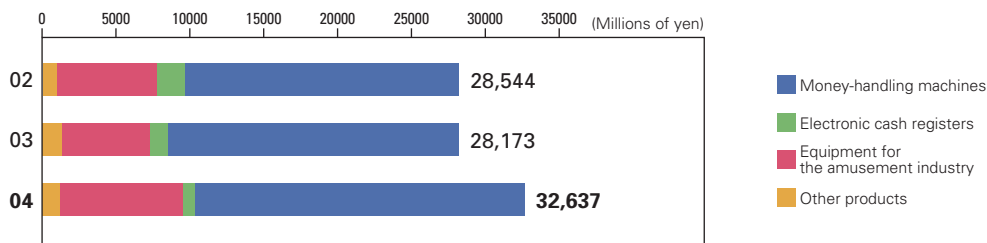
## Business Segments

2004 Net Sales Composition



Change in Net Sales Composition

Years ended March 31



### Money-handling machines

In North America, sales to the United States increased for the gaming market due to the expansion of legalized areas for casino gambling and the issue of new \$20 bills. Sales to Europe have also been increasing owing to the expansion of the gaming market in Eastern Europe, primarily Russia.

In the domestic market, the Company has enjoyed increased sales of computer-controlled equipment for the amusement industry and bill validators for self-service gas stations. The Company has also seen growing sales of automatic cash-in machines, primarily in the latter half of the period, and anticipates that cash-in machines will become one of its primary products in the domestic market.

As a result, sales for the segment totaled ¥22,317 million, up 13.1% from the previous year.

### Electronic cash registers

JCM has created unique product configurations by combining its original products, which greatly reduce both initial cost and running cost, with cash-recycling units in an effort to increase the added value of its products as laborsaving devices for the retail market. However, market conditions were unfavorable for the retail industry, the primary user of such products, resulting in decreased demand. This year also saw a legal change in Japan requiring product prices to indicate the total price, including consumption tax, but this change was handled primarily through software modification and did not stimulate much demand for new equipment.

As a result, sales for the segment totaled ¥872 million, down 24.8% from the previous year.

### Equipment for the amusement industry

Supported by a recovery in individual consumption, there was an active demand for capital investment in gaming halls, resulting in favorable sales of automatic token supply systems and other facility-related products. The Company also saw great growth in the sales of *pachinko* parlor slot machines resulting from such factors as the introduction of new types of machines with gaming features designed to captivate *pachinko* fans.

As a result of these conditions, sales for the segment totaled ¥8,274 million, up 38.2% from the previous year.

### Other products

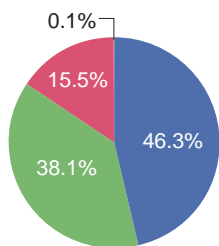
The sales volumes of fire-resistant safes and ozone generators for sterilizing and deodorizing leveled off. However, the Company did experience a decrease in sales related to video-game arcades due to the closing of unprofitable stores.

Sales for the segment totaled ¥1,173 million, down 9.1% from the previous year.

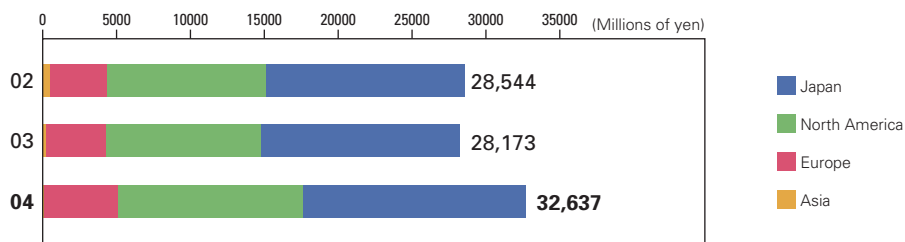
## Segment Information

### Geographical Segments

2004 Net Sales Composition



Change in Net Sales Composition



Years ended March 31

#### Japan

As to the amusement industry, sales of facility-related products increased as did *pachinko* parlor slot machines. In the area of money-handling machines, JCM also saw favorable increases in the sales of computer-controlled equipment for the amusement industry, bill validators for self-service gas stations, and automatic cash-in machines. The Company also realized increased internal sales to North America and Europe and sales for the period totaled ¥27,362 million, up 11.3% from the previous year.

In addition to increased sales, costs were also reduced as a result of the overseas relocation of manufacturing operations, including the manufacturing of equipment for the amusement industry. These efforts led to total sales of ¥3,674 million, up 29.6% from the previous year.

#### North America

As to the Company's strongest product category in the gaming market, a great increase in sales of bill validators was seen due to the expansion of areas for legalized casino gambling and the issue of new \$20 bills in the United States. As a result, sales for the period totaled ¥12,468 million, up 18.5% from the previous year.

The profit ratio was up due to increased direct sales to casinos in addition to increased sales overall, resulting in a total operating income of ¥1,941 million, up 77.9% from the previous year.

#### Europe

Sales to Eastern European countries, primarily Russia, increased as a result of the expanding gaming market in this region, and the yen weakened against the euro, averaging ¥13 lower than the previous year.

As a result, sales totaled ¥5,049 million, up 24.2%, and operating income totaled ¥1,045 million, up 35.5% from the previous year.

#### Asia

Having brought its importance into sharper focus as the chief overseas manufacturing base of the JCM Group, the Company has moved forward with efforts to boost manufacturing in this region so as to increase the cost competitiveness of JCM products and ensure an advantageous position for them in each market. These efforts have led to increased shipments of products — primarily for the Japanese and North American markets — resulting in sales of ¥4,951 million, up 12.3% from the previous year.

The progress being made in local manufacturing in Asia is leading to the establishment of a system for ensuring revenue on a consolidated basis. For Asia on a non-consolidated basis, however, the profit ratio decreased due to increased expenses resulting from efforts to strengthen and enhance manufacturing systems, and as the result of efforts begun in the corresponding period to shift manufacturing overseas for products facing strong price competition. As a result, operating income totaled ¥446 million, down 20.7% from the previous year.

## Overview of Business Activities

Japan Cash Machine Co., Ltd. deals in the business divisions outlined below. Listed for each division are some of the characteristic products as well as new products for which future growth is anticipated.

Business Division	Product Details	Applications
<b>Money-Handling Machines</b>	Bill Validators	These devices are used as bill acceptors in a variety of applications including game machines and vending machines.
	Bill-Recycling Units	One unit houses both a bill accepting device and a change-dispensing device. After placing accepted bills in the machine's stock, the unit can dispense money back (recycle the money in stock) as change.
	Automatic Cash-In Machines	These machines can sort, count and store a mixture of different cash denominations.
	Cash Transaction Machines, Change Dispensers	These devices work in conjunction with mechanical cash registers to automatically dispense change and to control, in real time, the deposit and withdrawal of cash.
	Bill Checkers	These devices are used as a means of verifying bill authenticity.
	Original Equipment Manufacturing (OEM) Terminals	These products are provided to other companies as OEM products.
<b>Cash Registers</b>	Electronic Cash Registers (ECR), Point-of-Sales (POS) Systems	These devices are used at small retail stores, etc., to tally sales totals, to analyze sales, to control stock, purchasing, orders, etc., and to prepare business management documents.
<b>Equipment for the Amusement Industry</b>	Automatic Token Supply Systems	These devices are used to supply, collect and clean tokens for <i>pachinko</i> parlor slot machines and token lenders.
	Token Lenders	These devices are installed between <i>pachinko</i> parlor game machines to dispense tokens.
	<i>Pachinko</i> Parlor Slot Machines	These devices are used as game machines in <i>pachinko</i> parlors.
	Others (Exchange Machines, Money Dispensers)	Exchange machines are used in <i>pachinko</i> parlors to make change for bills. Money dispensers are used at gift exchange counters to dispense money in specific amounts.
<b>Others</b>	Fire-Resistant Safes	Fire-resistant safes for home and office use.
	(Amusement Center Business)	(JCM also operates videogame arcades.)

# Working in all types of markets

## **Bill Validators (UBA Series)**



From the autumn of 2004, JCM will be introducing new UBA Series products for the gaming market. These products can be made to work with any type of currency in the world simply by changing the software. They also offer numerous high-level functions, including faster bill transport, fraud prevention measures, and the automatic adjustment of bills inserted at an angle. JCM has been facing intensifying competition in the gaming market from other companies in recent years, but the introduction of the new UBA Series will further fortify the Company's competitive edge in the market.

## **Bill Validator (DBV-300)**

This new product has been developed for use in the vending market. Using unique bill-checking technologies that JCM has developed for equipment in the gaming market, the DBV-300 achieves the maximum bill acceptance rate and extremely accurate counterfeit bill rejection functions. The Company expects that this product will become one of its strongest products for the commercial market, an area in which JCM will be focusing much effort.



## **Thermal Printer (TSP-02)**



This printer has been designed for casinos making the transaction to a cashless system. When you hit the jackpot on a slot machine, rather than the slot machine paying out the money in coins or bills, the printer prints out a coupon for the corresponding amount. JCM has developed its bill validator and this printer to work together; coupons printed out by the printer can be used as is in JCM bill validators, just like paper currency. This type of original JCM advantage is receiving much attention from the gaming market.

# where money is exchanged.

## Bill-Recycling Units (AD Series)

This new-generation bill validator features a compact size and temporarily stocks bills so they can be recycled as change.

These devices are installed in equipment such as self-order terminals at fast food stores, convenience stores, movie theaters and game arcades, as well as in ATM cash processing terminals, automatic vending machines for high-priced goods, etc. JCM anticipates even further development of applications for these units in a variety of areas.



## Automatic Cash-In Machines

JCM has a complete lineup of cash-in machine products in three sizes that correspond to the storage capacities of compatible money-handling machines. These devices can be used in a diverse range of applications, from standalone units that sort and store coins, to terminals for secure cash-collection systems that can replace night safes at banks.

## Intelligent Automatic Medal Refill System (I-REX)

The I-REX is a token lender designed for installation between slot machines at pachinko parlors. This new generation token system accepts all types of bills, from ¥1,000 to ¥10,000, and can be controlled by a central computer system.



# JCM World 21 — The New Mid-Term Business Plan

JCM is pushing forward with its new mid-term business plan entitled “JCM World 21,” which was announced in December 2004.

The “JCM World 21” plan defines the JCM corporate strategy for a five-year period from March 2004 to March 2008. The goal of this plan is to achieve consolidated sales of ¥60 billion and an operating income of ¥14.3 billion in the final year of the plan, the year ending March 2008.

This plan places greater emphasis on securing corporate revenue than on sales, as sales can be affected strongly by external factors.

The concept of this plan is to focus on three key market areas: the overseas gaming market, the overseas commercial market, and the domestic market. In the overseas gaming market, principally North America, JCM already holds a high market share. By taking advantage of the brand influence it has fostered thus far, JCM has resolved to also acquire the top share in new market areas, including the United Kingdom, Eastern Europe, Asia and Oceania, thereby further securing its position as a leading company in the market.

In the overseas commercial market, JCM is working to actively promote new products such as automatic self-checkout systems, kiosks, vending machines, and ATMs in a variety of market areas. In the domestic market, JCM aims to greatly expand sales and increase profits by aggressively introducing new high-value-added equipment for the amusement industry.

Furthermore, as a company promoting its business on a global scale, JCM fully recognizes that in addition to the pursuit of profits, the Company also has an important duty to make contributions to global society. Based on the idea of being a Human and Eco Friendly Company, the entire JCM Group is currently working to acquire certification under the ISO 14001 international environment management standards.

## Implementation of Four Management Objectives

Toward the achievement of the “JCM World 21” plan, JCM is making vigorous marketing efforts by deploying the combined force of the JCM Group and targeting the North American, European and Japanese markets, which are primary markets for the Company. In addition to actively pursuing sales, the Company will also strive to reduce product cost, improve productivity and strengthen corporate finances in conjunction with the expansion of the scale of its business operations. Furthermore, JCM is also steadily making the following concrete business efforts in order to achieve even greater business results.

### 1. Expansion of New Markets

Thus far, the gaming market has been the central focus of JCM’s business development activities overseas. In order to expand beyond the gaming market and achieve the same range of sales enjoyed domestically, the Company is working to actively develop its sales of bill validators, bill-recycling units, automatic cash-in machines, change dispensers, and other types of equipment for commercial market applications such as automatic self-checkout systems, kiosks, vending machines, and ATMs. The Company’s US and German subsidiaries have already established and put into action specialized sales organizations for handling these market areas.

JCM is also working to go beyond supplying unit products such as bill validators; for example, the Company is actively pursuing the expansion of sales in the commercial market by focusing considerable effort on orders for full machine products, including OEM products.

### 2. New-Product Development

In order to realize full-scale development in commercial markets, JCM is putting major effort into providing new products that meet market demands and into developing new applications for existing products. In particular, while JCM has heretofore conducted separate product development activities for the Japanese, North American and European markets, the Company

is now working to link the Product Planning Departments of the Group together in order to conduct more efficient product development activities.

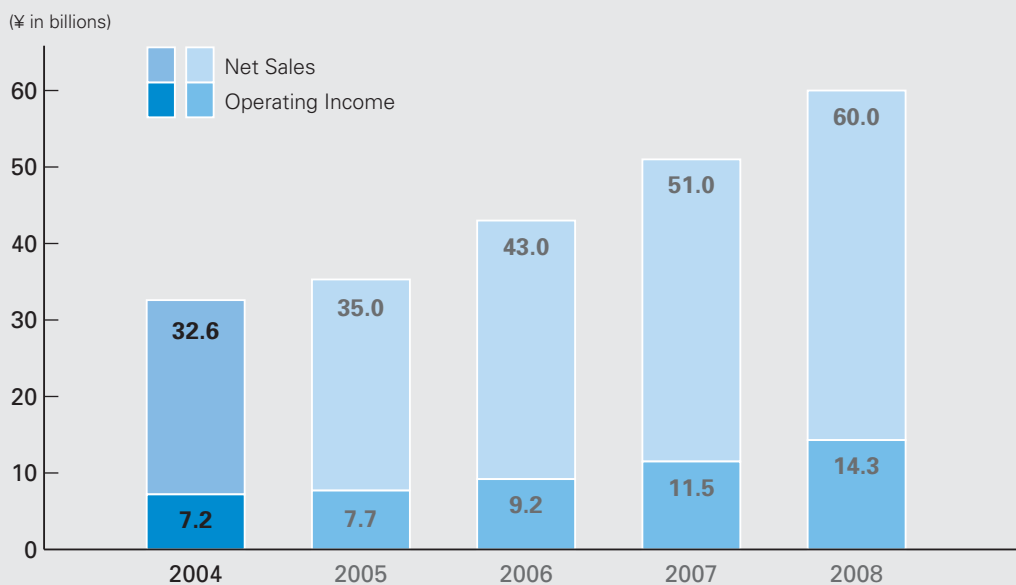
### 3. Strengthening and Expanding the JCM Production System

JCM is receiving steady orders both domestically and from overseas, and anticipates continued sales growth. JCM is therefore working to strengthen and expand its production systems. These efforts include increasing the ratio of products manufactured overseas from the current 30% to 50%, as well as plans to develop multiple, decentralized overseas production bases that take a wide range of factors into consideration, including delivery time reduction, the avoidance of exchange risk for products sold to overseas markets, and the decentralization of local risks within countries where JCM has manufacturing bases. In conjunction with growing sales in Europe, JCM has also begun implementing a semi knockdown system based on the system the Company has established in the United States.

### 4. Enhancing Network System for the JCM Group

In March 2004, JCM United Kingdom Ltd. was established as a sales subsidiary in England, a country which has a strong influence on the European market. In Japan, JCM is working to develop corporate bases in order to promote the efficiency of its sales, distribution and services. For example, JCM has decided to relocate and expand its Tokyo branch office in the latter half of the current fiscal year, and is examining possibilities for restructuring its domestic distribution bases. JCM is also putting great effort into the construction of a total network system for the JCM Group, including overseas subsidiaries, with a focus on supply chain management in order to streamline its global stocks of products and materials and to reduce production lead time.

## Mid-Term Business Plan Results: Achieved and Projected



Note: Projected results shown for 2005 and on are based on currency exchange rates of USD 1 = JPY 105 and EUR 1 = JPY 125.

## Development and Expansion of Overseas Operations

JCM has been working to develop and expand its overseas business bases, including JCM American Corporation, the North American affiliate, Japan Cash Machine Germany GmbH, JCM's European affiliate, both operating as sales bases, and JCM Gold (HK) Ltd., its Hong Kong affiliate, operating as an overseas production base.

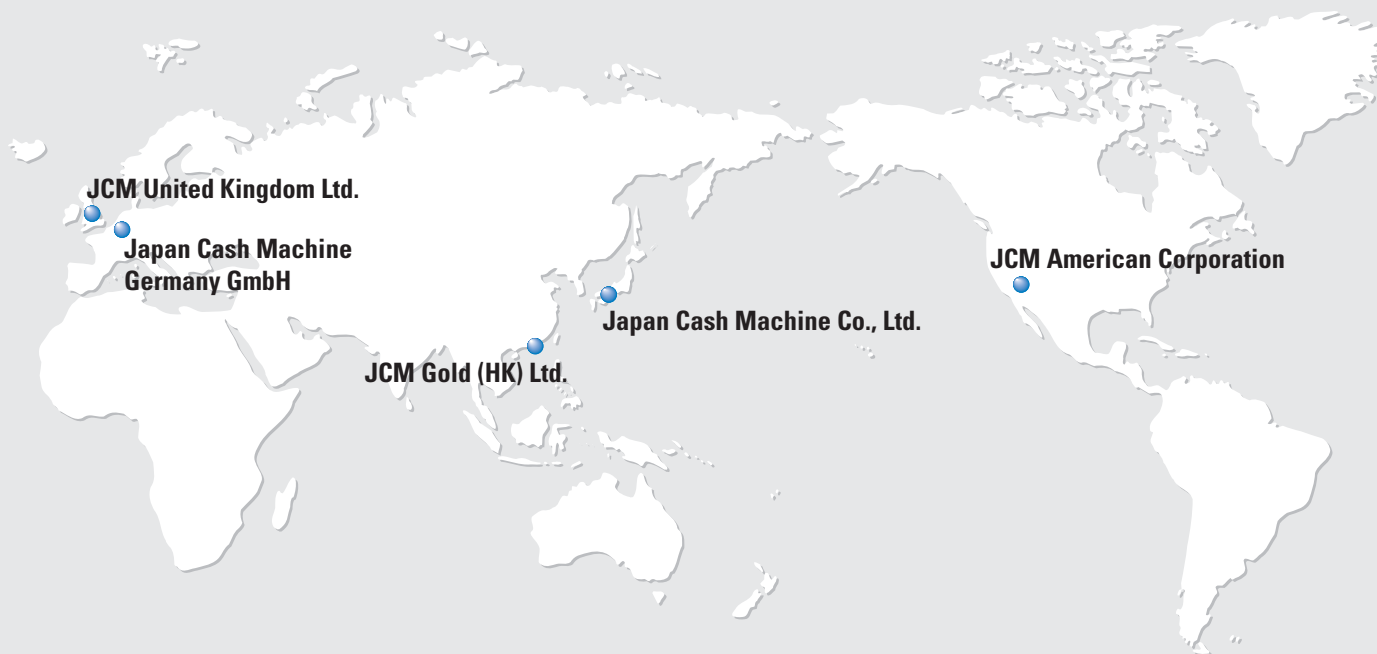
In addition to these overseas affiliates, JCM has also newly established JCM United Kingdom Ltd. as a sales subsidiary in the UK, as of March 2004. JCM has been planning for some time to establish an overseas affiliate in order to strengthen its sales in the UK. However, revisions to the country's gaming laws took much longer than expected, making it difficult for JCM to actually establish a UK affiliate. The revisions were finally enacted in December 2003, allowing JCM to move forward with its affiliate establishment plans.

The revisions to the gaming laws involve regulatory reform order that make it possible to directly increase game machine credits using validators installed in jackpot machines and AWP (amusement with prizes) machines, two very popular types of gaming machines in the UK. This revision creates the potential for the sales and installation of validators on existing machines, and there are approximately 190,000 jackpot and AWP machines already in use in the UK. With the introduction of the new gaming law, JCM anticipates that the types of large-scale casinos seen in Las Vegas will also be opening in the UK.

JCM estimates modest sales of ¥200 million for the first fiscal year, but has great expectations of the new company as an anticipatory investment for the future.

JCM shall continue to examine the creation of additional sales bases, including overseas subsidiaries, as a means of enriching its sales systems, and to examine the establishment of its second overseas manufacturing base as a means of stepping up overseas production.

### JCM Business Bases Overseas



# *Financial Section*

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# Consolidated Balance Sheets

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries  
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<b>Assets</b>			
Current assets:			
Cash and cash equivalents .....	¥ 11,275	¥ 8,393	\$ 106,680
Trade receivables:			
Notes .....	2,108	2,716	19,944
Accounts .....	4,152	3,970	39,284
	<u>6,260</u>	<u>6,686</u>	<u>59,228</u>
Inventories (Note 4) .....	6,050	5,890	57,244
Deferred income taxes (Note 8) .....	1,365	1,356	12,911
Prepaid expenses and other current assets .....	566	770	5,360
Less allowance for doubtful accounts .....	(202)	(193)	(1,913)
Total current assets .....	<u>25,314</u>	<u>22,902</u>	<u>239,510</u>
Property, plant and equipment, at cost (Note 6):			
Land .....	379	392	3,590
Buildings and structures .....	1,953	1,946	18,480
Machinery and equipment .....	4,342	3,920	41,080
	<u>6,674</u>	<u>6,258</u>	<u>63,150</u>
Less accumulated depreciation .....	(4,450)	(4,152)	(42,102)
Property, plant and equipment, net .....	<u>2,224</u>	<u>2,106</u>	<u>21,048</u>
Investments and other assets:			
Investments in securities (Note 5) .....	967	589	9,147
Investments in unconsolidated subsidiaries .....	16	16	153
Deferred income taxes (Note 8) .....	175	196	1,657
Long-term loans .....	1	2	9
Other .....	714	672	6,754
Less allowance for doubtful accounts .....	(61)	(13)	(576)
Total investments and other assets .....	<u>1,812</u>	<u>1,462</u>	<u>17,144</u>
Total assets .....	<u>¥ 29,350</u>	<u>¥ 26,470</u>	<u>\$ 277,702</u>

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Current portion of long-term debt (Note 6) .....	¥ 200	¥ 200	\$ 1,892
Trade payables:			
Notes .....	3,119	3,153	29,507
Accounts .....	2,177	1,863	20,604
	<b>5,296</b>	5,016	<b>50,111</b>
Short-term bank loans (Note 6) .....	101	121	955
Accrued income taxes (Note 8) .....	875	1,542	8,278
Accrued bonuses .....	453	374	4,283
Other current liabilities .....	1,201	887	11,367
Total current liabilities .....	<b>8,126</b>	8,140	<b>76,886</b>
Long-term liabilities:			
Long-term debt (Note 6) .....	—	200	—
Accrued retirement benefits for employees (Note 7) .....	111	205	1,051
Retirement allowances for directors and corporate auditors .....	262	238	2,480
Deferred income taxes (Note 8) .....	24	26	228
Other .....	18	19	174
Total long-term liabilities .....	<b>415</b>	688	<b>3,933</b>
Shareholders' equity (Note 9):			
Common stock:			
Authorized – 29,664,000 shares			
Issued – 17,955,686 shares in 2004			
16,323,351 shares in 2003 .....	2,182	2,182	20,642
Capital surplus (Note 9) .....	2,029	2,029	19,194
Retained earnings (Note 15) .....	16,846	13,373	159,387
Net unrealized holding gain on securities .....	276	48	2,615
Translation adjustments .....	(455)	72	(4,302)
Less treasury stock, at cost:			
39,235 shares in 2004 and 32,699 shares in 2003 .....	(69)	(62)	(653)
Total shareholders' equity .....	<b>20,809</b>	17,642	<b>196,883</b>
Total liabilities and shareholders' equity .....	<b>¥ 29,350</b>	¥ 26,470	<b>\$ 277,702</b>

# Consolidated Statements of Income

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Net sales (Note 14) .....	<b>¥ 32,637</b>	¥ 28,173	<b>\$ 308,801</b>
Cost of sales (Note 11) .....	<b>16,467</b>	15,864	<b>155,809</b>
Gross profit .....	<b>16,170</b>	12,309	<b>152,992</b>
Selling, general and administrative expenses (Note 11) .....	<b>8,889</b>	7,544	<b>84,098</b>
Operating income (Note 14) .....	<b>7,281</b>	4,765	<b>68,894</b>
Other income:			
Interest and dividend income .....	<b>43</b>	48	<b>402</b>
Reversal of allowance for doubtful accounts .....	<b>54</b>	10	<b>517</b>
Other .....	<b>46</b>	99	<b>432</b>
	<b>143</b>	157	<b>1,351</b>
Other expenses:			
Interest expense .....	<b>11</b>	18	<b>108</b>
Loss on disposal of property, plant and equipment .....	<b>9</b>	60	<b>85</b>
Loss on devaluation of golf club memberships .....	<b>57</b>	2	<b>544</b>
Loss on devaluation of investments in securities .....	<b>7</b>	74	<b>64</b>
Foreign exchange loss .....	<b>287</b>	22	<b>2,715</b>
Other .....	<b>43</b>	43	<b>402</b>
	<b>414</b>	219	<b>3,918</b>
Income before income taxes .....	<b>7,010</b>	4,703	<b>66,327</b>
Income taxes (Note 8):			
Current .....	<b>3,096</b>	2,458	<b>29,295</b>
Deferred .....	<b>(159)</b>	(588)	<b>(1,506)</b>
Net income .....	<b>¥ 4,073</b>	¥ 2,833	<b>\$ 38,538</b>

# Consolidated Statements of Shareholders' Equity

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Number of shares of common stock	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at March 31, 2002	14,839,410	¥ 2,182	¥ 2,029	¥ 11,069	¥ 60	¥ 504	¥ (11)
Net income for the year ended March 31, 2003 ....	—	—	—	2,833	—	—	—
Increase in retained earnings resulting from initial consolidation of subsidiaries .....	—	—	—	29	—	—	—
Stock split .....	1,483,941	—	—	—	—	—	—
Cash dividends .....	—	—	—	(514)	—	—	—
Bonuses to directors and corporate auditors .....	—	—	—	(43)	—	—	—
Unrealized holding loss on securities .....	—	—	—	—	(12)	—	—
Translation adjustments .....	—	—	—	—	—	(432)	—
Increase in treasury stock .....	—	—	—	—	—	—	(51)
Balance at March 31, 2003	16,323,351	¥ 2,182	¥ 2,029	¥ 13,373	¥ 48	¥ 72	¥ (62)
Net income for the year ended March 31, 2004 ....	—	—	—	4,073	—	—	—
Stock split .....	1,632,335	—	—	—	—	—	—
Cash dividends .....	—	—	—	(557)	—	—	—
Bonuses to directors and corporate auditors .....	—	—	—	(43)	—	—	—
Unrealized holding gain on securities .....	—	—	—	—	228	—	—
Translation adjustments .....	—	—	—	—	—	(527)	—
Increase in treasury stock .....	—	—	—	—	—	—	(7)
<b>Balance at March 31, 2004</b> .....	<b>17,955,686</b>	<b>¥ 2,182</b>	<b>¥ 2,029</b>	<b>¥ 16,846</b>	<b>¥ 276</b>	<b>¥ (455)</b>	<b>¥ (69)</b>

	Number of shares of common stock	Thousands U.S. dollars (Note 3)					
		Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at March 31, 2003 .....	16,323,351	\$ 20,642	\$ 19,194	\$ 126,535	\$ 457	\$ 682	\$ (589)
Net income for the year ended March 31, 2004 ...	—	—	—	38,538	—	—	—
Stock split .....	1,632,335	—	—	—	—	—	—
Cash dividends .....	—	—	—	(5,271)	—	—	—
Bonuses to directors and corporate auditors .....	—	—	—	(415)	—	—	—
Unrealized holding gain on securities .....	—	—	—	—	2,158	—	—
Translation adjustments .....	—	—	—	—	—	(4,984)	—
Increase in treasury stock .....	—	—	—	—	—	—	(64)
<b>Balance at March 31, 2004</b> .....	<b>17,955,686</b>	<b>\$ 20,642</b>	<b>\$ 19,194</b>	<b>\$ 159,387</b>	<b>\$ 2,615</b>	<b>\$ (4,302)</b>	<b>\$ (653)</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
<b>Operating activities:</b>			
Income before income taxes .....	¥ 7,010	¥ 4,703	\$ 66,327
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization .....	524	506	4,959
Provision for allowances and accruals .....	35	208	332
Interest and dividend income .....	(43)	(48)	(403)
Interest expense .....	11	18	108
Exchange loss (gain), net .....	77	(7)	731
Loss on devaluation of golf club memberships .....	57	—	545
Other .....	(19)	92	(184)
Changes in operating assets and liabilities:			
Trade receivables .....	247	(901)	2,333
Inventories .....	(328)	101	(3,102)
Trade payables .....	554	1,781	5,238
Consumption taxes receivable .....	9	(15)	86
Other operating assets and liabilities .....	464	424	4,388
Subtotal .....	8,598	6,862	81,358
Interest and dividends received .....	43	47	403
Interest paid .....	(12)	(19)	(113)
Income taxes paid .....	(3,779)	(2,041)	(35,756)
Net cash provided by operating activities .....	4,850	4,849	45,892
<b>Investment activities:</b>			
Purchases of property, plant and equipment .....	(631)	(252)	(5,973)
Proceeds from sales of property, plant and equipment .....	17	9	157
Purchases of investments in securities .....	—	(403)	—
Proceeds from sales of investments in securities .....	—	7	—
Proceeds from sales of golf club memberships .....	—	42	—
Purchases of other assets .....	(105)	(40)	(992)
Other .....	(9)	3	(84)
Net cash used in investment activities .....	(728)	(634)	(6,892)
<b>Financing activities:</b>			
Decrease (increase) in short-term bank loans .....	(20)	70	(193)
Decrease in long-term debt .....	(200)	(250)	(1,892)
Purchases of treasury stock .....	(7)	(52)	(65)
Cash dividends paid .....	(557)	(514)	(5,271)
Net cash used in financing activities .....	(784)	(746)	(7,421)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(456)</b>	<b>(193)</b>	<b>(4,309)</b>
<b>Increase in cash and cash equivalents .....</b>	<b>2,882</b>	<b>3,276</b>	<b>27,270</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>8,393</b>	<b>5,103</b>	<b>79,410</b>
<b>Increased in cash and cash equivalents resulting from initial consolidation of a subsidiary .....</b>	<b>—</b>	<b>14</b>	<b>—</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 11,275</b>	<b>¥ 8,393</b>	<b>\$ 106,680</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

## 1. Basis of Preparation of Consolidated Financial Statements

Japan Cash Machine Co., Ltd. (the "Company") and domestic subsidiaries maintain 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 are different in certain respect as to the application and disclosure requirements of International Finance Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present the accompanying consolidated financial statements in a form which is familiar to readers outside Japan. However, no adjustments have been made which would change its financial position or the results of its operations as presented in the original consolidated financial statements.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2003 to the 2004 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

## 2. Summary of Significant Accounting Policies

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

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

The overseas 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 overseas 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 that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding 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 or loss on the transactions is 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 revenue and expense accounts are translated at the average exchange rate in effect during the fiscal year and the components of shareholders' equity are translated at their historical rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of net income, but are presented as translation adjustments in a component of shareholders' equity in the consolidated balance sheets.

Effective April 1, 2002, the Company changed its method of translation of the statements of income of its foreign consolidated subsidiaries to using the average rate of exchange in effect during the fiscal year, from the rate in effect at the balance sheet date. The effect of this change was to increase operating income and income

before income taxes by ¥19 million and ¥26 million, respectively, for the year ended March 31, 2003 over the amounts which would have been recorded under the method applied in the previous year.

#### **(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.

#### **(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 Corporation and JCM Gold USA, Inc. being determined by the first-in, first-out method, and the cost of Japan Cash Machine Germany GmbH, JCM Gold (HK) Ltd. and JCM United Kingdom Ltd. being determined by the moving-average method.

#### **(e) Investments in Securities**

Securities are classified into three categories: trading securities, held-to-maturity debt securities, and other securities. 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.

#### **(f) Derivatives and Hedging Activities**

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

The Company is exposed to certain market risks arising from its forward foreign exchange contracts. The Company is also exposed to the risk of credit loss in the event of 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 a 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 when 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 is charged to income when 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 five years. Computer software developed for sales purposes is amortized by the straight-line method over its economic life, generally three years or less.

#### (i) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries provide 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 allowance for doubtful accounts of the overseas 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 overseas 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.

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.

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 directors and corporate auditors of the Company and its domestic subsidiaries are not covered by this pension plan. The liability for their retirement allowances represents the estimated amount 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.

The overseas consolidated subsidiaries have no retirement benefit plans.

#### (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 its consolidated subsidiaries recognize 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 the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 15).

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### 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 ¥105.69 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2004. 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, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods .....	<b>¥ 2,920</b>	¥ 3,443	<b>\$ 27,631</b>
Work in process .....	<b>934</b>	814	<b>8,837</b>
Raw materials and supplies .....	<b>2,196</b>	1,633	<b>20,776</b>
	<b>¥ 6,050</b>	¥ 5,890	<b>\$ 57,244</b>

## 5. Investments in Securities

Investments in securities classified as other securities at March 31, 2004 and 2003 were as follows:

	Millions of yen		
	2004		
	Acquisition cost	Fair value	Unrealized gain
Securities whose fair value exceeds their acquisition cost:			
Equity securities .....	<b>¥ 128</b>	<b>¥ 593</b>	<b>¥ 465</b>
Other .....	<b>2</b>	<b>3</b>	<b>1</b>
Total .....	<b>¥ 130</b>	<b>¥ 596</b>	<b>¥ 466</b>

	Millions of yen		
	2003		
	Acquisition cost	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their acquisition cost:			
Equity securities .....	¥ 55	¥ 134	¥ 79
Securities whose acquisition cost exceeds their fair value:			
Equity securities .....	72	71	(1)
Other .....	2	2	—
	74	73	(1)
Total .....	¥ 129	¥ 207	¥ 78

	Thousands of U.S. dollars		
	2004		
	Acquisition cost	Fair value	Unrealized gain
Securities whose fair value exceeds their acquisition cost:			
Equity securities .....	<b>\$ 1,208</b>	<b>\$ 5,609</b>	<b>\$ 4,401</b>
Other .....	<b>19</b>	<b>28</b>	<b>9</b>
Total .....	<b>\$ 1,227</b>	<b>\$ 5,637</b>	<b>\$ 4,410</b>

## 6. Short-term Bank Loans and Long-term Debt

The average interest rates on short-term bank loans for the years ended March 31, 2004 and 2003 were 1.625% and 1.625%, respectively.

Long-term debt including the current portion at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
2.4% yen bonds due in 2005 .....	¥ 200	¥ 200	\$ 1,892
2.4% yen bonds due in 2004 .....	—	100	—
2.2% yen bonds due in 2004 .....	—	100	—
	<b>200</b>	<b>400</b>	<b>1,892</b>
Current portion of long-term debt .....	<b>(200)</b>	<b>(200)</b>	<b>(1,892)</b>
	<b>¥ —</b>	<b>¥ 200</b>	<b>\$ —</b>

At March 31, 2004 and 2003, the following assets were pledged as collateral to secure long-term debt, including the current portion:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land .....	¥ 61	¥ 61	\$ 573
Buildings and structures .....	161	100	1,520
Machinery and equipment .....	0	0	3
	<b>¥ 222</b>	<b>¥ 161</b>	<b>\$ 2,096</b>

## 7. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plan, and the amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plan:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation .....	¥ (1,079)	¥ (978)	\$ (10,211)
Plan assets at fair value .....	968	773	9,160
Accrued retirement benefits .....	¥ (111)	¥ (205)	\$ (1,051)

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost .....	<b>¥ 74</b>	¥ 82	<b>\$ 699</b>
Interest cost .....	<b>17</b>	22	<b>165</b>
Expected return on plan assets .....	<b>(14)</b>	(14)	<b>(130)</b>
Amortization of actuarial (gain) loss .....	<b>(48)</b>	216	<b>(457)</b>
Retirement benefit expenses .....	<b>¥ 29</b>	¥ 306	<b>\$ 277</b>

The assumptions used in accounting for the defined benefit plan for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate .....	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets .....	<b>2.0%</b>	2.0%

In addition to the above pension plan, the Company participates in a multi-employer pension plan. Pension expense under this plan for the years ended March 31, 2004 and 2003 amounted to ¥130 million (\$1,228 thousand) and ¥97 million, respectively.

## 8. Income Taxes

The aggregate statutory tax rate on income before income taxes was approximately 42% for the years ended March 31, 2004 and 2003.

A reconciliation of the statutory tax rate and the effective tax rates for the years ended March 31, 2004 and 2003 as a percentage of income before income taxes is as follows:

	2004	2003
Statutory tax rate .....	<b>42.0%</b>	42.0%
Unrealized profit .....	<b>(0.9)</b>	(1.2)
Nontaxable entertainment expenses .....	<b>0.5</b>	0.9
Nondeductible dividend income .....	<b>(0.1)</b>	(0.7)
Inhabitants' per capita taxes .....	<b>0.2</b>	0.3
Other .....	<b>0.2</b>	(1.5)
Effective tax rates .....	<b>41.9%</b>	39.8%

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts reported for income tax purposes. The components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Unrealized profit .....	¥ 562	¥ 635	\$ 5,320
Retirement allowances for directors and statutory auditors ..	106	96	1,007
Write-downs of inventories .....	182	144	1,723
Provision for employees' bonuses .....	185	132	1,748
Other .....	776	669	7,332
Total deferred tax assets .....	<b>1,811</b>	1,676	<b>17,130</b>
Deferred tax liabilities:			
Unrealized holding gain on securities .....	190	33	1,794
Undistributed profit of subsidiaries .....	81	92	768
Other .....	24	25	228
Total deferred tax liabilities .....	<b>295</b>	150	<b>2,790</b>
Net deferred tax assets .....	<b>¥ 1,516</b>	¥ 1,526	<b>\$ 14,340</b>

## 9. Shareholders' Equity

The Commercial Code of Japan (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 sum of 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, 2004 and 2003 amounted to ¥274 million (\$2,595 thousand) and ¥274 million, respectively.

On May 20, 2003, the Company made a 1.1 for 1 stock split by way of a free share distribution to shareholders of record as of March 31, 2003.

In accordance with Commercial Code of Japan, a stock option plan for certain directors and employees of the Company and its domestic subsidiaries was approved at the annual general meeting of the shareholders held on June 26, 2003. Under the terms of the plan, 256,000 shares of common stock were granted at an exercise price of ¥3,233 (\$31) per share, subject to adjustment for certain events including stock splits. The options become exercisable on July 1, 2005 and are scheduled to expire on June 30, 2008.

## 10. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as at March 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment .....	<b>¥ 312</b>	<b>¥ 211</b>	<b>¥ 101</b>

	Millions of yen		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment .....	¥ 240	¥ 137	¥ 103

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment .....	<b>\$ 2,947</b>	<b>\$ 1,994</b>	<b>\$ 953</b>

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2004 and 2003 amounted to ¥74 million (\$700 thousand) and ¥70 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2004 and 2003 amounted to ¥74 million (\$700 thousand) and ¥70 million, respectively.

Future minimum lease payments subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005 .....	<b>¥ 74</b>	<b>\$ 700</b>
2006 and thereafter .....	<b>27</b>	<b>253</b>
Total .....	<b>¥ 101</b>	<b>\$ 953</b>

## 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, 2004 and 2003 amounted to ¥1,620 million (\$15,327 thousand) and ¥1,417 million, respectively.

## 12. Contingent Liabilities

At March 2004, a consolidated subsidiary was contingently liable as guarantor of accounts payable of third parties in the amount of ¥558 million (\$5,284 thousand).

## 13. Amounts 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
	2004	2003	2004
Net income - Basic .....	¥ 224.52	¥ 171.14	\$ 2.12
Net income - Diluted .....	224.47	—	2.12
Net assets .....	1,158.62	1,080.26	10.96

Diluted net income per share for the year ended March 31, 2003 has not been presented since no potentially dilutive securities had been issued.

The financial data for the computation of basic net income per share and diluted net income based on the above standard for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net income .....	¥ 4,073	¥ 2,833	\$ 38,538
Deductions from net income:			
Bonuses to directors and statutory auditors .....	50	44	475
Adjusted net income attributable to common stock .....	¥ 4,023	¥ 2,789	\$ 38,063
Weighted-average number of shares .....	17,917,639	16,295,300	
Effect of dilutive securities .....	4,340	—	
Weighted-average number of shares for computation of diluted net income per share .....	17,921,979	16,295,300	

If the stock split had been made at the beginning of the year ended March 31, 2003, the per share amounts of net assets at March 31, 2003 and the basic net income for the year ended March 31, 2003 would have been ¥982.05 and ¥155.58, respectively.

## 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 the consolidated subsidiaries are classified into two segments: cash machines (bill validators, cash registers) 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, 2004 and 2003, 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, 2004 and 2003 is summarized as follows:

	Millions of yen					
	2004					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers .....	¥ 15,110	¥ 12,454	¥ 25	¥ 5,048	¥ —	¥ 32,637
Intersegment .....	12,252	14	4,926	1	(17,193)	—
Total sales .....	27,362	12,468	4,951	5,049	(17,193)	32,637
Operating expenses .....	23,688	10,527	4,505	4,004	(17,368)	25,356
Operating income .....	3,674	1,941	446	1,045	175	7,281
Total assets .....	¥ 23,980	¥ 6,173	¥ 2,523	¥ 2,677	¥ (6,003)	¥ 29,350

	Millions of yen					
	2003					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers .....	¥ 13,446	¥ 10,516	¥ 169	¥ 4,042	¥ —	¥ 28,173
Intersegment .....	11,140	2	4,241	23	(15,405)	—
Total sales .....	24,586	10,518	4,410	4,065	(15,405)	28,173
Operating expenses .....	21,751	9,427	3,848	3,294	(14,912)	23,408
Operating income .....	2,834	1,091	562	771	(493)	4,765
Total assets .....	¥ 21,466	¥ 6,168	¥ 2,520	¥ 2,376	¥ (6,060)	¥ 26,470

	Thousands of U.S. dollars					
	2004					
	Japan	North America	Asia	Europe	Eliminations/ corporate	Consolidated
Net sales:						
Outside customers .....	\$ 142,968	\$ 117,833	\$ 239	\$ 47,761	\$ —	\$ 308,801
Intersegment .....	115,924	132	46,604	9	(162,669)	—
Total sales .....	258,892	117,965	46,843	47,770	(162,669)	308,801
Operating expenses .....	224,128	99,598	42,629	37,886	(164,334)	239,907
Operating income .....	34,764	18,367	4,214	9,884	1,665	68,894
Total assets .....	\$ 226,890	\$ 58,409	\$ 23,874	\$ 25,329	\$ (56,800)	\$ 277,702

Unallocable assets included in eliminations/corporate for the year ended March 31, 2004 are ¥1,018 million (\$9,635 thousand). These consisted primarily of surplus funds (deposits) and long-term investments (investments in securities).

As mentioned in Note 2(b), the Company has changed its method of translation of the statements of income of its overseas consolidated subsidiaries to using the average rate of exchange in effect during the fiscal year, from the rate in effect at the balance sheet date. The effect of this change was to increase operating income in the North America and Asia segments by ¥43 million and ¥22 million respectively and to decrease operating income in the Europe segment by ¥45 million for the year ended March 31, 2003 as compared with the amounts which would have been recorded under the method applied in the previous year.

### **Overseas net sales**

Overseas net sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen			
	<b>2004</b>			
	North America	Europe	Other	Total
Overseas sales, net .....	<b>¥ 12,077</b>	<b>¥ 5,092</b>	<b>¥ 772</b>	<b>¥ 17,941</b>
Overseas net sales as a percentage of consolidated net sales .....	<b>37.0%</b>	<b>15.6%</b>	<b>2.4%</b>	<b>55.0%</b>

	Millions of yen			
	2003			
	North America	Europe	Other	Total
Overseas sales, net .....	¥ 10,311	¥ 4,271	¥ 666	¥ 15,248
Overseas net sales as a percentage of consolidated net sales .....	36.6%	15.1%	2.4%	54.1%

	Thousands of U.S. dollars			
	<b>2004</b>			
	North America	Europe	Other	Total
Overseas sales, net .....	<b>\$ 114,267</b>	<b>\$ 48,182</b>	<b>\$ 7,303</b>	<b>\$ 169,752</b>
Overseas net sales as a percentage of consolidated net sales .....	<b>37.0%</b>	<b>15.6%</b>	<b>2.4%</b>	<b>55.0%</b>

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## 15. Subsequent Events

### (1) Appropriations of retained earnings

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, 2004, were approved at a shareholders' meeting held on June 25, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥23.0 = U.S.\$0.218 per share) .....	<b>¥ 412</b>	<b>\$ 3,899</b>
Bonuses to directors and corporate auditors .....	<b>¥ 44</b>	<b>\$ 416</b>

### (2) Stock split

On May 20, 2004, the Company made a 1.1 for 1 stock split by way of a free share distribution to shareholders of record as of March 31, 2004.

# Report of Independent Auditors

Japan Cash Machine Co., Ltd. and Consolidated Subsidiaries

Board of Directors

Japan Cash Machine Co., Ltd.

We have audited the accompanying consolidated balance sheets of Japan Cash Machine Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Cash Machine Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2 (b) to the consolidated financial statements, effective April 1, 2002, the Company has changed its method of translation of the statements of income of its overseas subsidiaries.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.*

Osaka, Japan

June 25, 2004

# Corporate Data

As of June 25, 2004

## 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

Masaru Mori

Taizo Nakamura

### Statutory Auditors

Hideyuki Koizumi

Hiroshi Morimoto

\*Representative Director

## Company Outline

### Name

Japan Cash Machine Co., Ltd.

### Date of Establishment

January 11, 1955

### Head Office/Factory

2-3-15, Nishiwaki, Hirano-ku

Osaka 547-0035, Japan

Tel: +81-6-6703-8400

Fax: +81-6-6707-0348

### Primary Business Activities

Manufacture, sales and marketing of money-handling machines (bill checkers, coin and bill counting and processing machines, OEM terminals for sports and track facilities, and other equipment for the financial industry), electronic cash registers (stand-alone units and systems), equipment for the amusement industry, and fire-resistant safes

### Capital

¥2,181 million

### Number of Shareholders

4,427<sup>†</sup>

### Principle Banks

Resona Bank, Ltd.

Sumitomo Mitsui Banking Corporation

Mizuho Bank, Ltd.

The Sumitomo Trust and Banking Co., Ltd.

### Fiscal Year-End

March 31

<sup>†</sup>As of March 31, 2004

# Directory

As of June 25, 2004

<b>Head Office:</b>	2-3-15, Nishiwaki, Hirano-ku, Osaka 547-0035, Japan Tel: +81-6-6703-8400 Fax: +81-6-6707-0348
<b>Tokyo Branch Office:</b>	Nihon Seimei Kasuga-cho Bldg., 1-33-13, Hongo, Bunkyo-ku, Tokyo 113-0033, Japan Tel: +81-3-5800-2344 Fax: +81-3-5800-6418
<b>Domestic Sales Offices:</b>	Tohoku, Shizuoka, Nagoya, Fujiidera, Hiroshima, Shikoku, Fukuoka, Kumamoto
<b>Factory:</b>	Nagahama
<b>Laboratories:</b>	Sagamihara, Kofu

## Consolidated Subsidiaries

Company	Business Field	Address
<b>Domestic</b>		
JCM Techno Support Co., Ltd.	Maintenance of money-handling machines Establishment of construction work, repair contracts of money-handling machines	2-4-21, Hirano-Baba, Hirano-ku Osaka 547-0048, Japan Tel: +81-6-6702-1491 Fax: +81-6-6703-9166
Meiho Shoji Co., Ltd.	Sales of equipment for the amusement industry	3-12-11, Higashi-Ueno, Taito-ku Tokyo 110-0015, Japan Tel: +81-3-3833-4891 Fax: +81-3-3833-4895
Gold System Co., Ltd.	Manufacture and sales of ozone generators for sterilizing and deodorizing, and machines to maintain the freshness of foods	1-6-1, Uriwari, Hirano-ku Osaka 547-0024, Japan Tel: +81-6-6705-1651 Fax: +81-6-6703-6819
<b>Overseas</b>		
<b>North America</b>		
JCM American Corporation	Sales of money-handling machines	925 Pilot Rd., Las Vegas, NV 89119, USA Tel: +1-702-651-0000 1-800-683-7248 (Toll free) Fax: +1-702-651-0003
JCM Gold USA, Inc.	Sales of electronic cash registers	410 Princeton-Hightstown Rd. West Windsor, NJ 08550-2963, USA Tel: +1-609-448-1700 Fax: +1-609-448-2666
<b>Europe</b>		
Japan Cash Machine Germany GmbH	Sales of money-handling machines	Mündelheimer Weg 60 D-40472 Düsseldorf, Germany Tel: +49-211-530645 Fax: +49-211-592004
JCM United Kingdom Ltd.	Sales of money-handling machines	Unit B, Third Avenue, Denbigh West Business Park Bletchley, Buckinghamshire, MK1 1EJ, U.K. Tel: +44-870-770-2863
<b>Asia</b>		
JCM Gold (HK) Ltd.	Manufacture and sales of money-handling machines and electronic cash registers	Kin Hong St., Kwai Chung, N.T., Hong Kong Tel: +852-2429-7187 Fax: +852-2420-8864
Shafty Co., Ltd.	Leasing of real estate properties	Unit 1-7, 3rd Floor, Favor Industrial Centre 2-6 Kin Hong St., Kwai Chung N.T., Hong Kong Tel: +852-2429-7187



**JAPAN CASH/MACHINE CO., LTD.**

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