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## **YUHO REPORT** **Annual**

Fiscal Year Ended	March 31, 2003
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, completeness, or 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 errors or omissions or for the results obtained from the use of this information.

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## Company Profile

*Financial highlights*

Years ended March 31; Thousands of yen	1999	2000	2001	2002	2003	Change 2003/1999
<b>Consolidated</b>						
Net sales	- 13,070,881	19,774,357	21,404,851	24,959,669		
Ordinary profit	- 1,480,799	4,593,015	5,958,626	5,521,514		
Net income (loss)	- 1,211,055	1,810,623	3,030,640	(714,837)		
Shareholders' equity	- 22,872,756	23,752,627	26,446,783	25,030,579		
Total assets	- 31,689,010	35,498,374	39,879,762	38,699,119		
Shareholders' equity per share (Yen)	- 2,013.45	2,090.91	2,328.08	2,197.95		
Net income (loss) per share (Yen)	- 115.51	159.39	266.78	(68.38)		
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		
Net cash provided by (used in) investing activities	- (681,036)	(1,011,079)	(1,286,444)	(1,030,841)		
Net cash provided by (used in) financing activities	- (1,592,541)	(2,195,483)	(2,043,303)	1,343,337		
Cash and cash equivalents, end of term	- 4,104,599	5,688,148	6,513,699	8,680,028		
Employees	- 433	448	483	510		

*The Company began preparing consolidated financial statements in the March 2000 fiscal term.*

*Common size statements*

Years ended March 31; Percent	Consolidated		Parent	
	2002	2003	2002	2003
<b>Balance sheet</b>				
<b>Assets</b>	100.0	100.0	100.0	100.0
Current assets	53.2	68.5	45.4	65.9
Tangible fixed assets	40.7	26.8	47.4	20.1
Intangible fixed assets	0.3	0.3	0.2	0.2
Investments and other assets	5.8	4.4	7.0	13.8
Total fixed assets	46.8	31.5	54.6	34.1
<b>Liabilities, shareholder's equity</b>	100.0	100.0	100.0	100.0
Current liabilities	27.2	26.3	17.6	11.3
Long-term liabilities	6.1	8.5	2.4	1.9
Total liabilities	33.3	34.8	20.0	13.2
Minority interests	0.4	0.5		
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	-	26.9
Capital reserves	-	21.6	-	28.4
Retained earnings	-	22.9	-	31.9
Unrealized gains or losses on other securities	-	(0.3)	-	(0.4)
Treasury stock	-	(0.0)	-	(0.0)
Total shareholders' equity	66.3	64.7	80.0	86.8
<b>Statement of income</b>				
<b>Net sales</b>	100.0	100.0	100.0	100.0
Cost of sales	52.4	54.8	50.4	54.3
Gross profit	47.6	45.2	49.6	45.7
Selling, general and administrative expenses	23.1	23.2	23.6	22.1
Operating income	24.5	22.0	26.0	23.6
Nonoperating income	4.2	0.3	5.2	0.5
Nonoperating expenses	0.8	0.2	0.9	0.2
Ordinary profit	27.8	22.1	30.2	23.9
Extraordinary income	0.1	-	0.1	-
Extraordinary losses	3.6	24.2	6.2	29.4
Income (loss) before taxes and other adjustments	24.4	(2.1)	24.1	(5.5)
	9.9	0.5	10.4	(2.1)
Minority interest in income of consolidated companies	0.3	0.3		
Net income (loss)	14.2	(2.9)	13.7	(3.4)

## 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 division

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

#### (2) Other division

Hotel Sunroute Hakata, Inc.

### *Group companies*

<b>Name</b>	<b>Operations</b>	<b>Common stock Millions of yen</b>	<b>Percent ownership</b>
(Consolidated subsidiaries)			
Mars Corporation	Pachinko division	1,000	100
Mars Line-Tech Corporation	Pachinko division	10	100
Mars Techno-Science Corporation	Pachinko division	250	82
WINTEC Co., Ltd.	Pachinko division	107	80
Hotel Sunroute Hakata, Inc.	Other division	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 systems at 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. relating 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 systems 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 hall management (hall computer systems)
1995	October	Opens Technology and Distribution Center in Gotemba, Shizuoka Pref.
1996	July	Obtains ISO 9001 certification for 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 halls as antenna outlets for the Company, becomes an affiliated company
	December	Completes construction of new headquarters building and moves corporate headquarters to new site; establishes Mars Corporation (now, a consolidated subsidiary) to engage in real estate management and general leasing
1997	April	Opens Technical 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 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 its prepaid card business
2000	July	Acquires WINTEC Co., Ltd., a leading developer of peripheral devices for pachinko hall operations; incorporates company (now, a consolidated subsidiary) into group as affiliate
	September	Acquires RFID business (the 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

Year	Month	Event
2002	January	Liquidates AM Planning Corp.
	March	KARD Information System Inc. absorbs the 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

## *Research and development*

The Mars Engineering group provides a wide range of peripheral devices used in amusement centers throughout Japan, encompassing all types of machines except for the game consoles themselves. It is responding to the demands of an age of information technology by making research and development on new products the principal driver of its operations.

The group manages R&D activities based on the belief that the methods and practices followed during the six years following its acquisition of ISO 9001 certification have begun to benefit its new product development.

In the two years since the group began its radio frequency business, the focus of research and development has shifted increasingly toward basic and applied research in this area. Payoffs can be seen in its commercialization of a number of products based on RF technologies.

The group spent a total of 477 million yen on research and development during the fiscal year ended March 2003.

The following is a summary of the objectives, major issues, and principal achievements of the group's R&D program by business division.

### (1) Organization

Research and development is carried out collaboratively by personnel working at three locations: the Technology Development Department of the Susono Technical Center; the Software Development Department of Mars Techno-Science Corp.; and the Technology Development Department of WINTEC Co., Ltd. These personnel (a combined total of 40 at the Susono Technical Center and at WINTEC, and another 18 at Mars Techno-Science) are engaged in hardware and software development and in mechanical design.



## (2) Major results of R&amp;D

The following are the major results of the Company's R&D program during the fiscal year to March 2003.

## 1) Pachinko division—successful commercialization of the following:

- “e9500s” tabletop auto-dispenser system
- “e9500D” auto-dispenser system, with specifications for connection to tabletop systems
- “e3100iu” automatic member check-in device, with IC-card capabilities
- “e3100iRP” membership card reader, with rewrite printer; for members using IC cards
- “MX-140K1-V” card-reader unit for IC cards
- “MX-140K2-V” ball-dispensing device with IC-card capabilities, for installation between game consoles
- “FB-33” flat bill validator (four-denomination reader), for installation between game consoles
- “SL-730” token-issuing machine for IC-card adapted console
- “SL-735” token-issuing machine for installation between IC-card adapted consoles
- “SL-830” token-issuing machine for IC-coin adapted console
- “SL-835” token-issuing machine for installation between IC-coin adapted consoles
- “MX-350” controller for processing individual membership data
- “MS-01” game-data processor
- “EX-33i” IC-card reader for vending machines
- “ACE-25SDDi” IC-card reader for counting machines
- “PC-150” prize-reader for prizes tagged with ICs
- “ICU-150/150S” IC-card reader with USB connections
- “ICU-151/151S” IC-card reader for connection to RS-232Cs
- “ICU-160” built-in type IC-card reader with USB connections
- “ICU-170” card reader with built-in keyboard with USB connections

## 2) Other division

The hotel division does not have an R&D program.

***Important agreements with third parties*****(1) Technology development agreement**

<b>Name of licensor</b>	<b>Nature of agreement</b>	<b>Period of agreement</b>
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**

<b>Name of licensor</b>	<b>Nature of agreement</b>	<b>Period of agreement</b>
Casio Computer Co., Ltd.	Exclusive distributorship agreement relating to business machines and personal computers	One year, beginning March 21, 1982 (automatically renewed on an annual basis thereafter)
NEC Corp.	Distributorship agreement relating 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**

<b>Name of licensor</b>	<b>Nature of agreement</b>	<b>Period of agreement</b>
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.*

## Directors

Name	Title	Date joined company	Previous employers	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
Yukio Onuki	Standing Statutory Corporate Auditor	Feb-80	TAKACHIHO KOHEKI	9-Sep-50	123.0
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	-
					2,243.8

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

## Employees

<b>Consolidated</b>	
<b>Business segment</b>	<b>Number</b>
Pachinko division	496
Other division	14
	510
<b>Parent</b>	
	<b>Total or average</b>
Number	393
Average age	31.3
Average years of service	8.0
Average annual salary (Yen)	5,187,605

*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
<b>Net cash provided by (used in) operating activities</b>		
Net income (loss) before taxes and other adjustments	5,217,201	(530,895)
Depreciation	704,415	689,002
Increase (decrease) in allowances	18,755	(19,392)
Interest and dividend income	(22,977)	(46,437)
Interest expenses	154,490	45,591
Profits from anonymous association	(811,993)	-
Foreign exchange losses (gains)	(1,345)	12
Amortization of consolidation differences	9,052	9,529
Loss on sales of marketable securities	-	52,189
Valuation loss on investment securities	662,781	59,539
Loss on disposal and sales of tangible fixed assets	17,499	12,180
Valuation loss on tangible fixed assets	-	5,779,387
Decrease (increase) in trade receivables	(2,959,173)	(782,305)
Decrease (increase) in inventories	143,732	(309,532)
Increase (decrease) in trade payables	831,677	(872,402)
Increase in advances	1,697,342	415,200
Director's bonuses	(48,000)	(47,000)
Others	413,277	(414,756)
	6,026,737	4,039,911
Interest and dividend income	22,672	46,763
Interest expenses	(242,288)	(265,176)
Income tax and others	(1,648,613)	(1,967,652)
	4,158,507	1,853,845
<b>Net cash provided by (used in) investing activities</b>		
Net change in holdings of marketable securities	(1,100,000)	(299,566)
Payments for investments in securities	(232,960)	(50,000)
Proceeds from sales of investment securities	99,500	48,649
Payments for acquisition of tangible fixed assets	(470,093)	(701,644)
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)
	(1,286,444)	(1,030,841)

MARS ENGINEERING CORPORATION

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

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
Cash and deposit accounts at end of term	3,419,786	7,286,078
Money management funds and medium-term government bond funds included in the marketable securities account	3,093,913	1,393,949
Cash and cash equivalents at end of term	6,513,699	8,680,028

### *Capital expenditures*

The group makes required investments from a long-term perspective, focusing on R&D projects and business operations that promise growth. During the consolidated fiscal year ended March 2003, it spent 577 million yen on capital investments in these areas.

The pachinko division invested 216 million yen for the expansion of the Higashi Fuji plant and another 124 million yen on dies and other tooling related to new product development.

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

During the year to March 2003, the group also recognized valuation losses of 5,779 million yen on fixed assets (land and buildings) that were sold to its consolidated subsidiary, Mars Corporation. These losses appear on the income statement as an extraordinary loss. A tabulation of the specific assets transferred to the subsidiary appears below.

<b>Square meters</b>	<b>Land</b>	<b>Buildings</b>
Head office Shinjuku, Tokyo	556.07	4,067.55
Hotel Sunroute Hakata Fukuoka, Fukuoka	644.70	5,569.78
Susono Technical Center Susono, Shizuoka	1,787.73	3,154.25
Mishima Technical Center Mishima, Shizuoka	989.00	1,193.79
Fuchu Technical Center Fuchu, Tokyo	1,421.00	1,700.11

## 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 the end of the consolidated fiscal year, the group had adopted the following new plans for investments in major facilities.

Millions of yen	Budgeted amount	Expenditures to date	Date commenced	Scheduled completion
<b>WINTEC Co., Ltd.</b>				
Construction of corporate headquarters and plant	482	17	2002/11	2003/11

## *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 furthers the stability of the enterprise's growth over the long-term. This will require that it strengthen its financial structure and pay dividends that more closely reflect changes in its financial performance each term, while giving due consideration to maintaining a stable payout to its shareholders.

Accordingly, notwithstanding a net loss of 692 million yen for the term (which resulted from an extraordinary loss of 5,779 million from the sale of assets), the Company will pay a year-end dividend of 30 yen per share, of which 20 yen will be a regular dividend and 10 yen, a special dividend. This decision reflects the Company's desire to reward shareholders for their support, and takes into consideration a wide range of factors, including the Company's success in registering its third consecutive year of record revenue.

Together with the interim dividend of 20 yen, the Company will therefore pay a total dividend of 50 yen per share for the year to March 2003.

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, 2003 was adopted on October 21, 2002.

## Operations

*Consolidated statement of income*

<b>Years ended March 31; Thousands of yen</b>	<b>2002</b>	<b>2003</b>
<b>Net sales</b>	21,404,851	24,959,669
<b>Cost of goods sold</b>	11,218,613	13,687,741
Gross profit on sales	10,186,238	11,271,928
<b>Selling, general and administrative expenses</b>	4,948,792	5,783,601
Operating income	5,237,445	5,488,327
<b>Nonoperating income</b>		
Interest income	21,002	43,832
Foreign exchange gain	1,345	-
Profits from anonymous association	811,993	-
Rental income	-	13,510
Others	60,775	36,694
	895,117	94,037
<b>Nonoperating expenses</b>		
Interest expenses	154,490	45,591
Others	19,446	15,258
	173,936	60,849
Ordinary profit	5,958,626	5,521,514
<b>Extraordinary income</b>		
Gain on sales of tangible fixed assets	567	-
Reversal of allowance for doubtful accounts	17,047	-
	17,614	-
<b>Extraordinary losses</b>		
Valuation loss on fixed assets	-	5,779,387
Loss on disposal of inventories	13,776	145,408
Valuation loss on investment securities	662,781	59,539
Others	82,482	68,075
	759,039	6,052,410
Income (loss) before taxes and other adjustments	5,217,201	(530,895)
Corporate, inhabitant and enterprise taxes	2,244,226	434,988
Deferred taxes	(119,398)	(324,984)
	2,124,828	110,004
Minority interest in income of consolidated companies	61,732	73,937
Net income (loss) for the term	3,030,640	(714,837)



***Consolidated appropriation of retained earnings***

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

## ***Results of operations***

**Consolidated fiscal year ended March 31, 2003**

### ***Economic and other factors affecting operations***

- (1) Extremely difficult conditions in the Japanese economy
  - Languishing consumer spending
  - The 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 halls
  - More pachinko hall bankruptcies
  - Shorter game machine cycles, requiring investments that weigh on the profitability of pachinko halls
- (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
  - Move to large-scale pachinko halls, where operating efficiencies enable 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 market), more system installations each month than any other company in the industry
- IC systems business added 364 new customers, bringing cumulative total to 928 halls; registers year-on-year increase in sales of such systems

***Financial analysis (percentage changes, year-on-year)***

- (1) Sold land and buildings to 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 division: By increasing customer satisfaction through effective product development and responsive follow-up services, the division created new customer demand while reducing total costs, resulting in a 17.1% increase in sales to 24,438 million yen.

- Despite relatively late entry into market, market share in IC-card systems grew 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-less IC-card technology to integrate various technologies it has developed over the years—prize control systems, hall computer systems, and prepaid card systems

Other division: 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. Consequently, the division reported a 1.8% decline in sales to 521 million yen.

***Business segment information***

Thousands of yen	Pachinko division	Hotel division	Total	Eliminations	Consolidated
<b>2002</b>					
Net sales					
External customer sales	20,873,676	531,175	21,404,851	-	21,404,851
Intersegment transactions and eliminations	-	-	-	-	-
	20,873,676	531,175	21,404,851	-	21,404,851
Operating expenses	15,457,849	406,056	15,863,906	303,499	16,167,406
Operating income	5,415,826	125,118	5,540,945	(303,499)	5,237,445
Assets					
Assets	24,793,472	3,257,831	28,051,304	11,828,457	39,879,762
Depreciation	598,130	58,377	656,508	29,480	685,989
Capital expenditures	467,562	6,165	473,728	5,746	479,474

**March 2003 term**

Because pachinko operations generate more than 90 percent of the sales of all segments and account for more than 90 percent of all segments' operating income and assets, the Company discontinued reporting segment information by type of business from the fiscal year to March 2003.

***Issues requiring action***

1. Reducing costs and improving gross profit margins to generate sufficient profitability amid declining market size in the industry and general economic malaise
2. Fulfilling the mission of an R&D-based company by correctly recognizing changes in the market and swiftly launching products that meet customer needs; differentiating the Company from the competition and establishing superiority in its markets
3. After achieving sufficient profitability on the basis of enhanced brand image and name recognition, increasing market share for prepaid card systems to the No. 3 position in the industry; bringing the Company back to full profitability by the end of its 30<sup>th</sup> anniversary year (ending March 2004)

***Production and sales***

## Production

<b>Thousands of yen</b>	<b>2003</b>	
	<b>Amount</b>	<b>Year-on-year comparison (%)</b>
Pachinko division	17,073,366	140.2
Other division	-	-
	17,073,366	140.2

## Procurement

<b>Thousands of yen</b>	<b>2003</b>	
	<b>Amount</b>	<b>Year-on-year comparison (%)</b>
Pachinko division	891,970	45.6
Other division	94,067	97.0
	986,037	48.0

## Sales by product

<b>Thousands of yen</b>	<b>2003</b>	
	<b>Amount</b>	<b>Year-on-year comparison (%)</b>
Pachinko division	24,438,053	117.1
Other division	521,615	98.2
	24,959,669	116.6

## 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	Number of employees	Land (Square meters)	Current payments	Rent or lease
<b>Parent</b>				
Head office				
Office	74	-	23,631	Rent
OA equipment		-	14,837	Lease
Vehicles and delivery equipment		-	3,483	Lease
Fuchu Technical Center				
Office	13	-	2,006	Rent
Susono Technical Center				
Office	39	-	7,674	Rent
OA equipment		-	227	Lease
Mishima Technical Center				
Office	8	-	4,092	Rent
Gotemba Technology and Distribution Center				
Vehicles and delivery equipment	19	-	37	Lease
Tokyo Branch, etc.				
Office	207	-	134,146	Rent
OA equipment		-	1,814	Lease
Vehicles and delivery equipment		-	69,741	Lease
<b>Mars Corporation</b>				
Peripheral equipment	1	-	1,066,121	Lease
<b>Mars Line-Tech Corporation</b>				
Office	42	-	23,516	Rent
OA equipment		-	3,197	Lease
Vehicles		-	13,974	Lease
<b>Mars Techno-Science Corporation</b>				
Office	42	-	40,527	Rent
Peripheral equipment		-	900,325	Lease
Vehicles and delivery equipment		-	451	Lease
<b>WINTEC Co., Ltd.</b>				
Office	18	-	2,686	Rent
OA equipment		-	105	Lease
Vehicles and delivery equipment		-	1,234	Lease

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Thousands of yen	Number of employees	Land (Square meters)	Current payments	Rent or lease
<b>Hotel Sunroute Hakata, Inc.</b>				
Buildings and structures	14	644	145,977	Rent
Equipment and machinery		-	358	Lease
OA equipment		-	177	Lease

Pro forma information on leased property is as follows:

**Lessee**

Thousands of yen	2002	2003
<b>Tools, appliances and fixtures</b>		
Acquisition cost	1,461,948	1,893,363
Accumulated depreciation	427,593	797,082
Net leased property	1,034,354	1,096,281
<b>Future minimum lease payments, including interest portion</b>		
Due within one year	1,155,419	1,536,282
Due after one year	3,022,868	2,999,465
	4,178,287	4,535,747
Lease payments	941,452	1,497,907
Pro forma depreciation expenses (assuming declining balance method)	261,412	388,176
Pro forma interest expenses	162,909	208,328
<b>Operating leases - future minimum lease payments</b>		
Due within one year	-	1,003
Due after one year	-	3,343
	-	4,346

**Lessor**

Thousands of yen	2002	2003
<b>Tools, appliances and fixtures</b>		
Acquisition cost	4,343,061	488,553
Accumulated depreciation	1,124,467	353,312
Net leased property	3,218,594	135,241
<b>Future minimum lease payments, including interest portion</b>		
Due within one year	977,546	1,257,370
Due after one year	2,681,089	2,796,341
	3,658,636	4,053,711
Lease payments received	966,525	1,423,611
Depreciation expenses	108,558	96,033
Interest revenue	284,199	299,745

## Capital Structure

*Consolidated balance sheet: assets*

March 31; Thousands of yen	2002	2003
<b>Current assets</b>		
Cash and deposits	3,419,786	7,286,078
Notes and accounts receivable	9,531,276	10,313,582
Investment securities	4,626,631	3,425,487
Inventories	3,194,132	3,519,687
Deferred tax assets	364,674	865,704
Income tax refunds receivable	-	933,050
Others	106,859	190,165
Allowance for doubtful accounts	(9,065)	(22,999)
	21,234,295	26,510,757
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings and structures	7,906,200	5,723,107
Accumulated depreciation	2,612,887	1,657,960
	5,293,312	4,065,146
Machinery and transportation equipment	178,832	198,411
Accumulated depreciation	84,549	108,715
	94,283	89,696
Tools, appliances and fixtures	2,259,585	2,348,959
Accumulated depreciation	1,673,568	1,866,976
	586,016	481,983
Land	10,242,712	5,699,374
Construction in progress	7,180	21,000
	16,223,506	10,357,201
<b>Intangible fixed assets</b>		
Consolidation translation adjustments	25,959	16,430
Others	96,362	121,882
	122,321	138,313
<b>Investments and other assets</b>		
Investment securities	1,169,365	706,010
Deferred tax assets	681,628	569,362
Others	611,431	563,551
Allowance for doubtful accounts	(162,785)	(146,077)
	2,299,638	1,692,847
Total fixed assets	18,645,466	12,188,361
<b>Total assets</b>	39,879,762	38,699,119



***Consolidated balance sheet: liabilities and shareholders' equity***

<b>March 31; Thousands of yen</b>	<b>2002</b>	<b>2003</b>
<b>Current liabilities</b>		
Notes and accounts payable	4,289,542	3,417,140
Short-term borrowings	86,632	1,000,000
Long-term debt due within 1 year	-	300,000
Income taxes payable	1,805,334	272,670
Allowance for bonuses	266,839	254,359
Advances received	3,762,361	4,177,561
Others	634,963	749,509
	<u>10,845,673</u>	<u>10,171,241</u>
<b>Long-term liabilities</b>		
Long-term debt	-	700,000
Employees' retirement benefits	4,137	-
Others	2,438,739	2,584,459
	<u>2,442,877</u>	<u>3,284,459</u>
Total liabilities	13,288,551	13,455,701
<b>Minority interests</b>	144,427	212,837
<b>Shareholders' equity</b>		
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	<u>26,446,783</u>	-
Common stock	-	7,934,100
Capital reserves	-	8,371,830
Retained earnings	-	8,865,052
Unrealized gains or losses on other securities	-	(140,110)
Treasury stock	-	(292)
Total shareholders' equity	<u>-</u>	<u>25,030,579</u>
<b>Total liabilities, minority interests and shareholders' equity</b>	<u>39,879,762</u>	<u>38,699,119</u>

*Market value of securities*

## Other quoted securities

Thousands of yen	2002			2003		
	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	126,445	30,699	95,745	108,709	12,964
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	1,030,000	1,036,920	6,920	1,530,000	1,531,825	1,825
	1,125,745	1,163,365	37,619	1,625,745	1,640,534	14,789
Securities for which valuations on the consolidated balance sheet do not exceed purchase cost						
Shares	97,584	85,059	(12,524)	75,204	60,236	(14,967)
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	1,304,151	1,188,966	(115,184)	667,652	426,064	(241,587)
	1,401,735	1,274,026	(127,708)	742,856	486,301	(256,555)
	2,527,480	2,437,391	(90,089)	2,368,601	2,126,835	(241,766)

*During the year ended March 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 the 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 that were sold during the years ended March 31, 2002 and 2003

Thousands of yen	2002	2003
Amount sold	74,547	48,649
Total gains on sales	-	-
Total losses on sales	24,953	52,189

Major investment securities without market prices

Thousands of yen	2002	2003
Bonds being held to maturity		
Corporate bonds	223,192	221,146
Commercial paper	-	299,566
Other securities		
Unlisted stocks (excluding OTC stocks)	41,500	90,000
Money management funds	2,082,834	1,283,815
Medium - term government bond funds	1,011,078	110,134

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	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
<b>2003</b>				
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	-
<b>2002</b>				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	-	223,192	-	-
Others	-	-	-	-
Others	28,391	376,366	216,423	-
	28,391	599,558	216,423	-

*Derivatives*

Thousands of yen	2002				2003			
	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	(730,436)	(730,436)	10,000,000	10,000,000	(511,266)	(511,266)
	10,000,000	10,000,000	(730,436)	(730,436)	10,000,000	10,000,000	(511,266)	(511,266)

## Facilities

Thousands of yen	Buildings and structures	Tools, appliances and fixtures	Land		Other	Total book value	Number of employees
			Book value	Square meters			
<b>Parent</b>							
Higashi Fuji Plant							
Manufacturing equipment	571,342	197,453	597,253	11,447	1,240	1,367,289	26
Gotemba Technology and Distribution Center							
Manufacturing and distribution facilities	677,154	11,101	535,660	2,692	73,959	1,297,875	19
Head Office							
Facilities for corporate administration	-	32,830	-	-	3,128	35,959	74
Fuchu Technical Center							
Facilities for corporate administration	-	1,135	-	-	-	1,135	13
Susono Technical Center							
R&D facilities	-	27,971	-	-	1,282	29,253	39
Gotemba Warehouse							
Warehousing facilities	288,716	3,232	172,813	7,654	5,050	469,812	7
Fuji Training Center							
Training facilities	321,590	774	-	-	-	322,365	-
Mishima Technical Center							
Inactive	-	3,446	-	-	209	3,656	8
Dormitories							
Employee recreation and welfare facilities	194,915	586	550,024	1,202	3,472	748,998	-
Tokyo Branch, etc.							
Sales, installation, and maintenance facilities	3,484	2,508	-	-	-	5,992	207
Others							
Unused land	-	-	1,641,013	16,278	-	1,641,013	-
<b>Mars Corporation</b>							
Buildings and structures	1,502,194	-	2,199,000	5,398	-	3,701,194	1
Equipment and machinery	478,592	13,157	-	-	-	491,750	
OA equipment	-	3,223	-	-	-	3,223	
Peripheral equipment	-	296,701	-	-	-	296,701	
<b>Mars Line-Tech Corporation</b>							
Buildings and structures	19,854	-	3,610	23	-	23,465	42
Equipment and machinery	4,944	905	-	-	-	5,849	
OA equipment	-	765	-	-	-	765	
Dies	-	2,046	-	-	-	2,046	
Vehicles	-	-	-	-	381	381	

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Thousands of yen	Buildings and structures	Tools, appliances and fixtures	Land		Other	Total book value	Number of employees
<b>Mars Techno-Science Corporation</b>							
Equipment and machinery	1,083	3,954	-	-	-	5,038	42
OA equipment	-	12,082	-	-	-	12,082	
Peripheral equipment	-	2,504	-	-	-	2,504	
<b>WINTEC Co., Ltd.</b>							
Buildings and structures	-	-	-	-	21,000	21,000	18
Equipment and machinery	210	722	-	-	-	933	
OA equipment	-	452	-	-	-	452	
Dies	-	7,099	-	-	-	7,099	
Vehicles	-	-	-	-	971	971	
<b>Hotel Sunroute Hakata, Inc.</b>							
Equipment and machinery	1,062	4,970	-	-	-	6,033	14

### *Borrowings*

Thousands of yen	Previous term	Outstanding	Average rate	Maturity
Short-term borrowings	86,632	1,000,000	0.30667%	
Current portion of long-term debt	-	300,000	0.44%	
Long-term debt (excluding current portion of long-term debt)	-	700,000	0.44%	2004 - 2006
Other interest-bearing liabilities	-	-	-	
	86,632	2,000,000	-	

Long-term debt repayable within 5 years of the end of the fiscal year to March 2003 (excluding the amount payable within one year) is as follows:

Thousands of yen	Greater than 1 and up to 2 years	Greater than 2 and up to 3 years	Greater than 3 and up to 4 years
Long-term debt	300,000	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	2002	2003
Retirement benefit liabilities	(736,965)	(832,861)
Pension assets	639,361	683,299
Unaccrued pension benefit liabilities	(97,604)	(149,561)
Unrecognized actuarial gains or losses	261,079	304,266
Net amount shown on consolidated balance sheet	163,475	154,705
Prepaid pension expenses	167,613	154,705
Allowance for retirement benefits	(4,137)	-

### Items related to retirement benefit expenses

Thousands of yen	2002	2003
Current service costs	55,868	70,555
Pension premiums paid under multi-party employers' welfare pension fund	76,737	85,230
Interest expense	17,218	12,458
Expected earnings on pension fund assets	(13,191)	(2,162)
Expensing of actuarial differences	6,680	26,776
Retirement benefit expenses	143,314	192,856

Assumptions underlying the calculation of retirement benefit liabilities

Thousands of yen	2002	2003
Discount rate	Generally 1.7%	1.7%
Expected rate of return	Generally 2.3%	0.3%
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Amortization period for actuarial gains or losses	Generally 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.)

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

Thousands of yen	2002	2003
	726,957	676,766

*Deferred taxes*

Thousands of yen	2002	2003
Deferred tax assets (current)	365,021	865,989
Deferred tax liabilities (current)	346	284
Deferred tax assets - net	364,674	865,704
Deferred tax assets (fixed)	752,201	634,384
Deferred tax liabilities (long-term)	70,573	65,022
Deferred tax assets - net	681,628	569,362

**Percentage**

Legal effective tax rate	The difference between the effective tax rate as stipulated by law and the corporate tax rate	42.05
Expenses not deductible for tax purposes (such as entertainment expenses)	after application of interperiod tax allocation	(2.23)
Per capita rate of inhabitant tax	is less than 5 percent, therefore the figure is not reported in this section.	(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
<b>Net sales</b>		
Net sales - finished goods	17,398,992	20,167,621
Net sales - merchandise	421,575	413,258
	<u>17,820,567</u>	<u>20,580,880</u>
<b>Cost of goods sold</b>		
Cost of finished goods sold		
Finished goods inventory, beginning of term	1,471,750	993,386
Production costs for the term	8,291,917	11,653,380
	<u>9,763,668</u>	<u>12,646,766</u>
Transfers to other accounts	50,881	128,937
Finished goods inventory, end of term	993,386	1,562,263
	<u>8,719,400</u>	<u>10,955,565</u>
Cost of merchandise sold		
Merchandise inventory, beginning of term	4,369	4,017
Merchandise purchased during term	270,366	213,602
	<u>274,735</u>	<u>217,620</u>
Merchandise inventory, end of term	4,017	4,207
	<u>270,717</u>	<u>213,412</u>
	8,990,118	11,168,978
Gross profit on sales	8,830,449	9,411,902
<b>Selling, general and administrative expenses</b>		
After-sales service expenses	304,763	356,981
Directors' salaries	117,420	129,420
Employees' salaries	1,326,536	1,445,079
Bonuses	281,741	272,611
Provision for bonuses	192,606	181,378
Legal welfare expenses	224,230	245,466
Rent	163,254	171,551
Depreciation expenses	207,671	190,614
Others	1,385,734	1,558,302
	<u>4,203,960</u>	<u>4,551,406</u>
Operating income	4,626,488	4,860,496



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Years ended March 31; Thousands of yen	2002	2003
<b>Nonoperating income</b>		
Interest income	31,385	16,242
Interest income from securities	9,995	38,123
Dividend income	7,954	18,604
Foreign exchange gain	1,345	-
Profits from anonymous association	811,993	-
Income from contracted operations	-	10,600
Miscellaneous income	65,412	17,546
	928,085	101,117
<b>Nonoperating expenses</b>		
Interest expenses	153,195	45,956
Loss on sale of securities	4,258	-
Miscellaneous losses	9,332	2,208
	166,786	48,164
Ordinary profit	5,387,787	4,913,449
<b>Extraordinary income</b>		
Reversal of allowance for doubtful accounts	16,950	-
	16,950	-
<b>Extraordinary losses</b>		
Loss on sale of fixed assets	-	5,779,387
Loss on removal of fixed assets	13,311	13,264
Loss on liquidation of subsidiaries	374,600	-
Loss on disposal of inventories	23,590	139,023
Loss on sale of investment securities	24,953	52,189
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
Income (loss) before taxes and other adjustments	4,295,501	(1,129,954)
Corporate, inhabitant and enterprise taxes	1,926,805	42,113
Adjustment for income and other taxes	(63,585)	(479,734)
	1,863,220	(437,620)
Net income (loss) for the term	2,432,281	(692,333)
Retained earnings brought forward from previous term	3,521,578	5,345,863
Interim dividends	227,198	227,198
Unappropriated retained earnings, fiscal year end	5,726,661	4,426,331

***Nonconsolidated appropriation of retained earnings***

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

***Cost of goods sold***

Years ended March 31; Thousands of yen	2002	%	2003	%
Cost of materials	7,175,664	84.8	10,186,258	86.6
Subcontracted processing expenses	531,460	6.3	823,935	7.0
Labor costs	333,762	3.9	307,987	2.6
Manufacturing overhead	425,061	5.0	441,737	3.8
Total manufacturing costs for the term	8,465,949	100.0	11,759,919	100.0
Work-in-process inventory, beginning of term	131,047		185,964	
	8,596,997		11,945,883	
Work-in-process inventory, end of term	185,964		34,447	
Transfers to other accounts	119,115		258,055	
Production costs for the term	8,291,917		11,653,380	

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

**Labor costs**

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

Depreciation expenses	264,011	278,393
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**Transfers to other accounts**

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

***Nonconsolidated balance sheet: assets***

March 31; Thousands of yen	2002	2003
<b>Current assets</b>		
Cash and deposits	2,537,075	5,755,222
Notes receivable	1,059,480	1,184,473
Accounts receivable - trade	3,952,161	4,205,551
Negotiable securities	4,265,079	3,165,074
Merchandise	4,017	4,207
Finished goods	993,386	1,562,263
Materials	987,083	807,245
Work in process	185,964	34,447
Supplies	491,194	509,058
Advances paid	6,557	4,454
Prepaid expenses	29,328	56,118
Short-term loans	518,000	456,000
Deferred tax assets	269,880	724,580
Income tax refunds receivable	-	933,050
Others	12,106	13,035
Allowance for doubtful accounts	(5,418)	(5,856)
	15,305,896	19,408,927
<b>Fixed assets</b>		
<b>Tangible fixed assets</b>		
Buildings	7,513,760	3,506,666
Accumulated depreciation	2,378,694	1,503,591
	5,135,065	2,003,075
Structures	348,368	191,175
Accumulated depreciation	218,937	137,047
	129,430	54,128
Machinery and equipment	148,055	166,207
Accumulated depreciation	60,532	82,224
	87,523	83,983
Vehicles and delivery equipment	26,178	26,178
Accumulated depreciation	20,024	21,817
	6,153	4,360
Tools, appliances and fixtures	1,609,433	1,641,258
Accumulated depreciation	1,251,179	1,360,217
	358,253	281,041
Land	10,239,102	3,496,763
Construction in progress	2,770	-
	15,958,299	5,923,352

MARS ENGINEERING CORPORATION

March 31; Thousands of yen	2002	2003
<b>Intangible fixed assets</b>		
Patents	13,217	15,785
Telephone subscription rights	15,214	15,214
Software	49,367	36,763
	77,799	67,764
<b>Investments and other assets</b>		
Investments in securities	1,169,365	706,010
Capital stock of affiliated companies	466,860	2,476,860
Investments other than securities	1,610	1,610
Long-term loans to affiliates	239,000	103,000
Rental and guarantee deposits	162,165	392,450
Claims in bankruptcy and substantial bankruptcy	76,393	52,791
Long-term prepaid expenses	39,791	18,686
Deferred tax assets	97,939	186,296
Prepaid pension expenses	167,613	154,705
Others	66,100	66,100
Allowance for doubtful accounts	(130,962)	(109,635)
	2,355,877	4,048,876
Total fixed assets	18,391,976	10,039,993
<b>Total assets</b>	33,697,873	29,448,920

***Nonconsolidated balance sheet: liabilities and shareholders' equity***

March 31; Thousands of yen	2002	2003
<b>Current liabilities</b>		
Notes payable	1,422,773	15,830
Accounts payable - trade	2,286,744	2,656,365
Accounts payable - other	183,543	104,911
Income taxes payable	1,553,467	17,407
Consumption taxes payable	143,023	177,359
Accrued expenses	84,256	85,150
Advances from customers	8,400	31,913
Deposits received	13,373	14,646
Deferred income	28,077	15,241
Allowance for bonuses	220,232	207,621
Others	-	12,772
	5,943,893	3,339,219
<b>Long-term liabilities</b>		
Interest rate swap liability	730,436	511,266
Others	72,011	34,500
	802,447	545,766
Total liabilities	6,746,340	3,884,986
<b>Shareholders' equity</b>		
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

<b>March 31; Thousands of yen</b>	<b>2002</b>	<b>2003</b>
Common stock	-	7,934,100
Capital reserves		
Additional paid-in capital	-	8,371,830
	-	8,371,830
Retained earnings		
Legal income reserves	-	372,109
Voluntary reserves - total		
Special reserve	-	4,600,000
Unappropriated retained earnings, fiscal year end	-	4,426,331
	-	9,398,441
Unrealized gains or losses on other securities	-	(140,144)
Treasury stock	-	(292)
Total shareholders' equity	-	25,563,934
<b>Total liabilities and shareholders' equity</b>	<b>33,697,873</b>	<b>29,448,920</b>

*Trade credits*

## Notes receivable

<b>Thousands of yen</b>	<b>2003</b>
Hikari Shinsei	318,500
Niko Tsusho	45,000
GAIA	42,660
Diamond Lease	40,000
Daiei Shoji	37,880
Others	700,432
	<u>1,184,473</u>

## Accounts receivable — trade

<b>Thousands of yen</b>	<b>2003</b>
Tokyo Leasing	406,445
Dynam	295,844
Fuyo General Lease	293,018
SMBC Leasing	160,683
NTT Leasing	142,116
Others	2,907,442
	<u>4,205,551</u>

## Turnover of accounts receivable

<b>Thousands of yen</b>	<b>2003</b>
Beginning balance	3,952,161
Increase	21,718,314
Collected	21,464,924
Ending balance	4,205,551
Turnover	83.6%
Average days for collection	68.5

## Securities

### Marketable and investment securities

Thousands of yen

#### Stocks

	<u>Number of shares</u>	<u>Book value</u>
<b>Investment securities</b>		
Other securities		
Tokyo Tomin Bank (8339)	21,242	23,366
Nissei Plastic Industrial (6293)	1,400	756
Taisei Oncho (1904)	1,500	337
Daiwabo Information System (9912)	1,100	682
Nippon Signal (6741)	5,000	1,530
Japan Cash Machine (6418)	73,205	108,709
UFJ Holdings, Inc. (8307)	50	5,900
Resona Holdings, Inc. (8038)	465,150	26,513
NAGANO KEIKI (7715)	1,331	1,151
TOKYO MAGTEK Inc.	30	-
IRLAN	2,048	-
P ARK	20,000	40,000
Atom Corp. (7412)	1,000	50,000
	<u>593,056</u>	<u>258,945</u>

#### Bonds

	<u>Total face value</u>	<u>Book value</u>
<b>Marketable securities</b>		
Bonds being held to maturity	500,000	499,712
Other securities	1,376,606	2,665,361
	<u>1,876,606</u>	<u>3,165,074</u>
<b>Investment securities</b>		
Bonds being held to maturity	21,000	21,000
Other securities	106,995	426,064
		<u>706,010</u>



## *Tangible fixed assets*

Thousands of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
<b>Tangible fixed assets</b>							
Buildings	7,513,760	286,882	4,293,976	3,506,666	1,503,591	273,609	2,003,075
Structures	348,368	6,839	164,031	191,175	137,047	18,566	54,128
Machinery and equipment	148,055	32,038	13,885	166,207	82,224	28,839	83,983
Vehicles and delivery equipment	26,178	-	-	26,178	21,817	1,793	4,360
Tools, appliances and fixtures	1,609,433	163,620	131,795	1,641,258	1,360,217	212,303	281,041
Land	10,239,102	-	6,742,338	3,496,763	-	-	3,496,763
Construction in progress	2,770	311,388	314,159	-	-	-	-
	19,887,668	800,769	11,660,186	9,028,251	3,104,898	535,113	5,923,352
<b>Intangible fixed assets</b>							
Patents	-	-	-	20,661	4,875	2,193	15,785
Telephone subscription rights	-	-	-	15,214	-	-	15,214
Software	-	-	-	70,142	33,378	15,122	36,763
	-	-	-	106,018	38,253	17,316	67,764
Long-term prepaid expenses	93,490	2,240	30,803	64,927	46,240	22,137	18,686

## *Reserves*

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	136,380	8,159	29,047	115,491
Reserve for bonuses	220,232	207,621	220,232	207,621

## Accounting Policies

### Summary of accounting policies: consolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	<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 shareholder's 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>
<b>Derivatives</b>	Market price method
<b>Inventories</b>	Valued at cost, using the moving average method
<b>Depreciation</b>	<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 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>
<b>Allowance for doubtful accounts</b>	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
<b>Reserve for bonuses</b>	Recognition of expense for current term, based on estimated bonus expense for the bonus period
<b>Retirement benefits</b>	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 2003
<b>Opinion of independent auditors</b>	<p>Auditors: Tohmatsu &amp; Co.</p> <p>Opinion: unqualified</p>

## Summary of accounting policies: nonconsolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	<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 shareholder's 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>
<b>Derivatives</b>	Market price method
<b>Inventories</b>	Merchandise, finished goods, work in process, raw materials and supplies: valued at cost, using the moving average method
<b>Depreciation</b>	<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 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>
<b>Allowance for doubtful accounts</b>	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
<b>Reserve for bonuses</b>	Recognition of expense for current term, based on estimated bonus expense for the bonus period
<b>Retirement benefits</b>	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 2003
<b>Opinion of independent auditors</b>	<p>Auditors: Tohmatsu &amp; Co.</p> <p>Opinion: unqualified</p>

## Share-related Information

## Shares in issue

<b>Class of shares</b>	Common
<b>Number of shares authorized</b>	33,810,000
<b>Issued</b>	
As of March 31, 2003	11,360,000
As of June 30, 2003	11,360,000
<b>Stock exchange listings or registration</b>	Tokyo Stock Exchange, First Section
<b>Comments</b>	-

## Changes in common stock and number of shares outstanding

Shares Thousands of yen Date	Shares outstanding		Common stock		Additional paid-in capital		Remark
	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	48	23,624	20.80
Securities companies	22	330	0.29
Business and other corporations	76	22,674	19.96
Nonresidents (business and corporations)	45	4,734	4.17
Individuals and others	6,892	62,237	54.78
	7,083	113,599	100.00
Shares less than one unit	-	100	-

## Largest shareholders

<b>Name</b>	<b>Thousands of shares owned</b>	<b>Held in trust accounts</b>	<b>% of shares outstanding</b>
EM Planning	2,125.0		18.71
Hirokazu Matsunami	702.8		6.19
Kayoko Matsunami	514.0		4.52
Akihiro Matsunami	500.0		4.40
Japan Trustee Services Bank, Ltd. (Trust Account)	410.5	365,800	3.61
The Master Trust Bank of Japan, Ltd. (Trust Account)	396.4	318,400	3.49
Tokyo Tomin Bank, Ltd.	300.0		2.64
Shigeo Komiya	245.0		2.16
Teruo Gomi	225.0		1.98
Mika Nagai	216.0		1.90
	5,634.7		49.60

## Share information

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

**Contact**

Toshiaki Sato  
Executive Officer  
Accounting Department  
Mars Engineering Corporation  
1-10-7, Shinjuku, Shinjuku-ku  
Tokyo, Japan  
Telephone: 81-3-3352-8555  
Facsimile: 81-3-3351-7368

# **MARS ENGINEERING CORPORATION**

1-10-7, Shinjuku, Shinjuku-ku, Tokyo 160-0022

Phone : 81-3-3352-8555

Facsimile : 81-3-3351-7368

URL : <http://www.mars-eng.co.jp>