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YUHO REPORT **Annual**

Fiscal Year Ended	March 31, 2005
Traded	TSE1
Stock Code	6419



MARS ENGINEERING CORPORATION

YUHOREPORT

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

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Company Profile

Financial highlights

Years ended March 31; Thousands of yen	2001	2002	2003	2004	2005	Change 2005/2001
Consolidated						
Net sales	19,774,357	21,404,851	24,959,669	30,723,810	35,208,425	178%
Ordinary profit	4,593,015	5,958,626	5,521,514	8,263,972	10,587,915	231%
Net income (loss)	1,810,623	3,030,640	(714,837)	4,240,475	6,063,611	335%
Shareholders' equity	23,752,627	26,446,783	25,030,579	28,987,920	34,108,043	144%
Total assets	35,498,374	39,879,762	38,699,119	45,280,360	49,668,130	140%
Shareholders' equity per share (Yen)	2,090.91	2,328.08	2,197.95	2,543.34	1,496.61	72%
Net income (loss) per share (Yen)	159.39	266.78	(68.38)	364.85	262.25	165%
Net income per share, fully diluted (Yen)	-	-	-	-	-	-
Net cash provided by (used in) operating activities	4,793,955	4,158,507	1,853,845	8,948,394	6,394,301	133%
Net cash provided by (used in) investing activities	(1,011,079)	(1,286,444)	(1,030,841)	(823,020)	(1,082,945)	
Net cash provided by (used in) financing activities	(2,195,483)	(2,043,303)	1,343,337	(873,677)	(1,226,356)	
Cash and cash equivalents, end of term	5,688,148	6,513,699	8,680,028	15,931,724	19,787,424	348%
Employees	448	483	510	520	543	121%

The Company conducted a 2-for-1 stock split with a recording date of September 17, 2004. Calculations of shareholders' equity per share and net income (loss) per share for the fiscal year ended March 2005 assume that the split occurred at the beginning of the year.

Common size statements

Years ended March 31; Percent	Consolidated			Parent		
	2003	2004	2005	2003	2004	2005
Balance sheet						
Assets	100.0	100.0	100.0	100.0	100.0	100.0
Current assets	68.5	71.1	74.5	65.9	68.7	73.3
Tangible fixed assets	26.8	23.2	20.8	20.1	16.5	14.8
Intangible fixed assets	0.3	0.2	0.3	0.2	0.2	0.5
Investments and other assets	4.4	5.5	4.4	13.8	14.6	11.4
Total fixed assets	31.5	28.9	25.5	34.1	31.3	26.7
Liabilities and shareholders' equity	100.0	100.0	100.0	100.0	100.0	100.0
Current liabilities	26.3	27.8	24.9	11.3	16.6	15.6
Long-term liabilities	8.5	7.4	5.4	1.9	2.3	1.5
Total liabilities	34.8	35.2	30.3	13.2	18.9	17.1
Minority interests	0.5	0.8	1.0			
Common stock	20.5	17.5	16.0	26.9	22.6	20.6
Capital reserves	21.6	18.5	16.9	28.4	23.9	21.7
Retained earnings	22.9	27.5	35.3	31.9	34.0	39.9
Unrealized gains or losses on other securities	(0.3)	0.5	0.5	(0.4)	0.6	0.7
Treasury stock	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total shareholders' equity	64.7	64.0	68.7	86.8	81.1	82.9
Statement of income						
Net sales	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	54.8	53.7	52.2	54.3	56.2	54.1
Gross profit	45.2	46.3	47.8	45.7	43.8	45.9
Selling, general and administrative expenses	23.2	19.7	18.0	22.1	20.5	19.4
Operating income	22.0	26.6	29.8	23.6	23.3	26.5
Nonoperating income	0.3	0.4	0.3	0.5	0.5	0.5
Nonoperating expenses	0.2	0.1	0.0	0.2	0.0	0.0
Ordinary profit	22.1	26.9	30.1	23.9	23.8	27.0
Extraordinary income	-	0.0	-	-	0.0	0.0
Extraordinary losses	24.2	2.4	0.6	29.4	2.9	1.0
Income (loss) before taxes and other adjustments	(2.1)	24.5	29.5	(5.5)	20.9	26.0
	0.5	10.2	11.7	(2.1)	8.9	10.6
Minority interest in income of consolidated companies	0.3	0.5	0.6			
Net income (loss)	(2.9)	13.8	17.2	(3.4)	12.0	15.4

Business Overview

Description of business

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

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

(1) Pachinko business

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

Because it did not meet the test of significance, Mars Line-Tech Corporation was eliminated from the consolidated accounts in the year ended March 31, 2005.

(2) Other business

Hotel Sunroute Hakata, Inc.

Group companies

Name	Operations	Common stock, Millions of yen	Percent ownership
(Consolidated subsidiaries)			
Mars Corporation	Pachinko business	1,000	100
Mars Techno-Science Corporation	Pachinko business	250	87
WINTEC Co., Ltd.	Pachinko business	107	80
Hotel Sunroute Hakata, Inc.	Other business	10	100
(Nonconsolidated subsidiaries)			
Mars Line-Tech Corporation	Manufacture of table-top auto dispensers	10	100

History

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

Risk factors

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

Research and development

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

The Group spent a total of 635 million yen on research and development during the year ended March 2005.

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

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

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

- A series of new IC card-operated token-issuing machines for installation between game consoles: the SL-740D, SL-745D, SL-740V, SL-745V, SL-840R and SL-845R
- MX-140K1-VI card unit for IC-card machines
- MX-140K2-VI IC-card ball dispenser for installation between game consoles
- MX-140K1-VII card unit for IC card machines
- MX-140K2-VII IC card ball dispenser for installation between game consoles
- e9600 1.5mm adapted stationary prize-redemption machine
- e9600 1mm adapted stationary prize-redemption machine
- e9600 TUC exchange booth adapted stationary prize-redemption machine
- MX-575 IC card counting machine with personal identification capability
- MX-575M magnetic card counting machine with personal identification capability
- RX-585 IC card coin-counting machine
- M-7 parlor computer system
- PC-150 prize reader adapted to IC cards
- ICU-210 IC card reader adapted to USB ports
- ICU-215 IC card reader adapted to USB ports
- RB-70 bill reader adapted to Japan's newly issued banknotes
- FB-33 bill reader adapted to Japan's newly issued banknotes
- GBS-20 bill reader adapted to Japan's newly issued banknotes

The hotel business has no R&D program.

Important agreements with third parties

(1) Technology development agreement

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

(2) Marketing agreements

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

(3) Franchise agreement

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

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

Analysis of financial condition and results of operations

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

Current assets: increased by 4,856 million yen to 37,031 million yen.

- 3,333 million yen increase in cash and deposits, reflecting strong operating performance
- 1,627 million yen increase in marketable securities (the "marketable securities" account including 629 million in long-term bonds with maturities of less than one year and 5,828 million yen in cash equivalents)
- On the other hand, a 436 million decrease in notes and accounts receivable

Fixed assets: decreased by 468 million yen to 12,636 million yen, largely due to 439 million yen decrease in investment securities.

Current liabilities: decreased by 155 million yen to 12,410 million yen.

Long-term liabilities: decreased by 700 million yen to 2,661 million yen.

- 300 million yen decrease in long-term debt
- 298 million yen decrease in long-term deferred income
- 257 million yen decrease in interest rate swap liabilities

Shareholders' equity: increased by 5,120 million yen to 34,108 million yen.

- 5,059 million yen increase in retained earnings
- 61 million yen increase in unrealized gains or losses on other securities

Cash flow

Cash and cash equivalents increased by 3,855 million yen to 19,787 million yen, due to an increase in income before taxes and other adjustments.

Net cash provided by (used in) operating activities amounted to 6,394 million yen, a 2,554 million yen decline.

- 541 million yen decrease in allowances
- 580 million yen increase in inventories
- 3,811 million yen increase in income tax and others

Net cash provided by (used in) investing activities amounted to 1,082 million yen (compared to cash used in the previous term of 823 million yen).

- Purchase of 201 million yen worth of corporate bonds
- Acquisition of 343 million yen in tangible fixed assets (primarily dies)

Net cash provided by (used in) financing activities amounted to 1,226 million yen (compared to cash used in the previous term of 873 million yen).

- 909 million yen in dividends payments
- Repayment of long-term debt of 300 million yen (resulting in long-term debt—including current portion—declining at term-end to 400 million yen)

Analysis of results of operation

Compared to a 14.6% increase in net sales, SG&A expenses increased by 5.0%. The major components of the increase in SG&A expenses were the following:

- 132 million yen increase in legal welfare expenses, related to events held in commemoration of the 30th anniversary of the Company's founding
- 50 million yen increase in entertainment expenses

Corporate governance

Fundamental thinking with regard to corporate governance

- (1) To maintain stable growth and maximize its corporate value, the Company has established a nine-member Board of Directors capable of making speedy and accurate decisions in response to changes in the operating environment. The principal role of the Board of Directors is to create efficiency and health in management through:
 - Effective decision-making concerning management policy and other important issues
 - Strengthened oversight of operations
- (2) To achieve these goals, the Company instituted a system of corporate executive officers in April 2002 that
 - Clearly separates management decision-making from execution of operations
 - Enhances its ability to respond quickly to changes in the environment.

Measures adopted with regard to corporate governance

- (1) Related to decision-making, execution, oversight, etc.
 - As concerns the question of “company with committees” or corporate auditors: adopts a system of corporate auditors.
 - Appointment of outside directors and corporate auditors: employs no outside directors but includes two outside auditors among its three corporate auditors.
 - Nature of committees (compensation, nominating, compliance, etc.): not applicable
 - Full-time staff for outside directors or auditors: none specifically designated, but support provided by General Affairs Department.
 - Mechanism for operations execution and oversight
 - Directors convey decisions made at regular and extraordinary meetings of the Board of Directors to corporate executive officers.
 - When required, meetings between directors and corporate executive officers are convened on specific issues.

- Internal controls

The Company has discontinued its dual-divisional structure (comprising the Manufacturing and Sales Administration Division and the Sales Administration Division) and has replaced it with a flatter departmental organization with lines of reporting directly to the president. This has created an efficient system of interdepartmental checks and balances. The Company has also created mechanisms that enable management decisions to be conveyed rapidly and accurately to the rest of the organization and that encourage greater unity of consciousness in the execution of operations. Furthermore, it has established a system by which operating risks can be avoided through rapid information gathering on such risks. This structure is supplemented by regular operational audits by the Company's Office of Internal Audits.

- Risk-management capabilities

By creating a departmental organization with lines of reporting directly to the president, the Company has established a structure that encourages the rapid diffusion of risk-related information throughout the organization. Concerning legal issues and matters related to regulatory compliance, the Company consults with its outside legal advisers as necessary.

- Internal audits and audits by corporate auditors; financial audits

The corporate auditors participate in Board of Directors meetings and monitor the manner in which the directors execute operations. They also exchange opinions with the directors. With respect to internal audits, the Company has established an Office of Internal Audits (with a staff of one), which conducts periodic audits of the different departments. When necessary, the corporate auditors and the Office of Internal Audits exchange information and coordinate their actions with respect to audit-related issues.

The Company has entered into a financial auditing agreement with Tohmatsu & Co., which audits the Company's financial statements in accordance with the Commercial Code and the Securities and Exchange Law.

Information related to the certified public accountants directly involved in the financial audit is as follows:

Name of CPAs who carried out the audit:

Designated partners: Shigeki Yasunami; Yasuhiko Endo

Others who assisted in the audit:

3 CPAs; 4 junior accountants; 2 other staff

- Compensation to directors and auditors

For the year ended March 2005, the Company paid the following amounts of compensation to its directors and corporate auditors and to its financial auditor:

Compensation paid to directors: 109 million yen

Compensation paid to corporate auditors: 13 million yen

Auditing fees

Remuneration in accordance with Article 2-1 of the Certified Public Accountants Law: 17 million yen

(2) Statement regarding relationships between the Company and its outside directors and corporate auditors (personal, share ownership-based, commercial or other)

- The Company has no relationship—in terms of employment, financing, technology or commercial transactions—with any of its outside corporate auditors or their close relatives, nor with any company in which its corporate auditors or their close relatives serve as directors.
- None of the Company's outside corporate auditors is a former employee of any Mars Engineering Group company.

(3) Actions taken over the past year to enhance corporate governance

- Regular monthly Board of Directors meetings, supplemented by special board meetings as required
- Regular Group management meetings, which contribute to expediting management decision-making through information exchange and reports on the progress of operations
- Regular general managers' meetings, attended by directors, corporate executive officers and general managers

Directors

Name	Title	Date joined company	Previous or current employers/occupations	Date of birth	Shares owned (1,000)
Hirokazu Matsunami	Representative Director	Sep-74	TAKACHIHO KOHEKI	9-Apr-38	1,405.6
Shigeo Komiya	Chairman and Representative Director	Sep-74	TAKACHIHO KOHEKI	19-Dec-50	490.0
Akihiro Matsunami	President and Representative Director	Feb-95	Kawasho Corp.	1-Jul-65	1,000.0
Teruo Gomi	Executive Vice President	Apr-75	Hitachi, TAKACHIHO KOHEKI	10-Mar-44	450.0
Yoshikiyo Kawakami	Managing Director	Nov-78		27-Sep-46	260.0
Toshihisa Oya	Director	Sep-74		29-Nov-44	388.0
Hiroshi Murakami	Director	Mar-96		5-Apr-62	248.0
Toshikatsu Terashima	Director	Jun-04	WINTEC	13-Mar-45	-
Nobuo Takahashi	Director	Jun-04	Tokyo Tomin Bank	12-Apr-41	1.0
Toshiyuki Goto	Standing Corporate Auditor	Sep-89		22-Aug-41	10.0
Koichi Takemata	Corporate Auditor	Jun-91	Tokai Bank	18-Nov-52	-
Chikawo Takashima	Corporate Auditor	Jun-05		4-Aug-33	-
					4,252.6

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

Employees

Consolidated	
Business segment	Number
Pachinko business	528
Other business	15
	543
Parent	
	Total or average
Number	455
Average age	32.6
Average years of service	8.6
Average annual salary (Yen)	5,640,278

The average annual salary includes bonuses.

Union

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

Stock option plan

Date of resolution	June 29, 2005
Categories and numbers of persons to be granted rights	Directors, corporate auditors and employees of the Company and its subsidiaries The actual decision as to number of recipients, etc. will be made at the Board of Directors meeting that follows the Regular General Meeting of Shareholders.
Type of shares subject to rights	Common stock
Number of shares	Maximum of 1,500,000 shares
Amount paid in at time of execution of rights	(Note)
Period of execution of rights	July 1, 2007 - June 30, 2011
Item concerning the assignment of rights	Approval of Board of Directors required.

Payment per share is calculated by the "average closing price in previous month" x 1.01. However, if this amount is less than the closing price of the Company's stock in normal transactions on the Tokyo Stock Exchange on the day on which the stock acquisition rights are issued (or, in the event that the Company's shares are not traded on the day of such issuance, then the closing price on the nearest preceding day), then the closing price on the day of issuance shall be the amount paid in.

Cash Flows

Consolidated statement of cash flows

Years ended March 31; Thousands of yen	2003	2004	2005
Net cash provided by (used in) operating activities			
Net income (loss) before taxes and other adjustments	(530,895)	7,531,525	10,369,558
Depreciation	689,002	568,510	511,257
Increase (decrease) in allowances	(19,392)	690,297	148,546
Interest and dividend income	(46,437)	(72,762)	(28,568)
Interest expenses	45,591	12,996	5,557
Foreign exchange losses (gains)	12	-	-
Amortization of consolidation differences	9,529	9,529	8,565
Loss (gain) on sales of investment securities	52,189	84,993	-
Valuation loss on investment securities	59,539	-	38,879
Loss on disposal and sales of fixed assets	12,180	8,973	13,653
Valuation loss on tangible fixed assets	5,779,387	-	-
Decrease (increase) in trade receivables	(782,305)	(340,062)	434,741
Decrease (increase) in inventories	(309,532)	336,470	(243,752)
Increase (decrease) in trade payables	(872,402)	(24,319)	145,181
Increase (decrease) in advances	415,200	(168,670)	(284,938)
Director's bonuses	(47,000)	(64,000)	(99,000)
Others	(414,756)	783,270	(334,813)
	4,039,911	9,356,752	10,684,868
Interest and dividend income	46,763	71,676	27,333
Interest expenses	(265,176)	(14,388)	(40,775)
Income tax and others	(1,967,652)	(465,645)	(4,277,124)
	1,853,845	8,948,394	6,394,301
Net cash provided by (used in) investing activities			
Net change in holdings of marketable securities	(299,566)	199,168	(392,221)
Payments for acquisition of investment securities	(50,000)	(540,000)	(201,800)
Proceeds from sales of investment securities	48,649	172,483	-
Payments for acquisition of tangible fixed assets	(701,644)	(695,092)	(343,664)
Payments for acquisition of stock of a consolidated subsidiary	-	-	(47,278)
Others	(28,280)	40,420	(97,981)
	(1,030,841)	(823,020)	(1,082,945)

Years ended March 31; Thousands of yen	2003	2004	2005
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term borrowings	913,368	-	-
Proceeds from increase in long-term debt	1,000,000	-	-
Payments of long-term debt	-	(300,000)	(300,000)
Dividends	(566,031)	(569,677)	(909,716)
Dividend payments to minority shareholders	(4,000)	(4,000)	(16,290)
Others	-	-	(350)
	1,343,337	(873,677)	(1,226,356)
Effect of exchange rate changes on cash and cash equivalents	(12)	-	-
Cash and cash equivalents	2,166,328	7,251,696	4,084,998
Cash and cash equivalents, beginning of term	6,513,699	8,680,028	15,931,724
Net change due to elimination of a subsidiary from consolidation	-	-	(229,298)
Cash and cash equivalents, end of term	8,680,028	15,931,724	19,787,424

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

Years ended March 31; Thousands of yen	2003	2004	2005
Cash and deposit accounts at end of term	7,286,078	10,633,446	13,966,457
Money management funds and medium-term government bond funds included in the marketable securities account	1,393,949	-	-
Marketable securities at end of term	-	7,134,206	8,762,072
Short-term investments with redemption periods longer than 3 months	-	(1,835,928)	(2,941,104)
Cash and cash equivalents at end of term	8,680,028	15,931,724	19,787,424

Capital expenditures

The Group conducts necessary investments from a long-term perspective, focusing on R&D projects and business operations that promise growth. During the fiscal year ended March 2005, it spent 343 million yen on capital investments in these areas.

The Group's principal investments in the pachinko business consisted of 119 million yen for product-related dies and 23 million yen for the purchase of land adjacent to the WINTEC Co., Ltd. plant (for the purpose of building a parking lot). The Group made no significant investments in its other business division.

There were no significant disposals or sales of facilities during the fiscal year.

Capital expenditure and disposal plan

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

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

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

Dividend policy

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

Accordingly, the Company took a number of factors into account to determine its dividend for the year, including its achievement of two consecutive years of record high sales and net income and its celebration of the milestone 30th anniversary of the Company's founding. To reward shareholders for their support, the Company will pay a total dividend of 30 yen a share, an amount comprising a regular dividend of 15 yen, a commemorative dividend of 5 yen and a special dividend of 10 yen.

Addition to this of the 20 yen per share paid out as an interim dividend brings the total dividends for the year to 50 yen per share.

Because of the two-for-one stock split the Company carried out effective September 17, 2004, this amounts in real terms to a 40 yen per share increase in dividends compared to the previous term.

In further recognition of the support that our shareholders have provided us, we have inaugurated a preferential program for shareholders who held unit shares (minimum trading units) as of the end of March 2005.

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.

Operations

Consolidated statement of income

Years ended March 31; Thousands of yen	2003	2004	2005
Net sales	24,959,669	30,723,810	35,208,425
Cost of goods sold	13,687,741	16,510,304	18,364,947
Gross profit on sales	11,271,928	14,213,505	16,843,478
Selling, general and administrative expenses	5,783,601	6,038,483	6,340,039
Operating income	5,488,327	8,175,022	10,503,438
Nonoperating income			
Interest income	43,832	69,364	24,831
Rental income	13,510	17,400	17,400
Gain from conclusion of interest rate swap	-	-	34,433
Others	36,694	25,528	24,151
	94,037	112,292	100,815
Nonoperating expenses			
Interest expenses	45,591	12,996	5,557
Others	15,258	10,345	10,781
	60,849	23,342	16,338
Ordinary profit	5,521,514	8,263,972	10,587,915
Extraordinary income			
Gain on sale of investment securities	-	6,962	-
Reversal of allowance for doubtful accounts	-	2,200	-
Gain on sales of memberships	-	5,000	-
Others	-	1,000	-
	-	15,162	-
Extraordinary losses			
Valuation loss on fixed assets	5,779,387	-	-
Loss on disposal of inventories	145,408	158,081	165,824
Valuation loss on investment securities	59,539	-	38,879
Loss on sale of investment securities	-	91,956	-
Provision for directors' retirement allowances for prior years	-	487,669	-
Others	68,075	9,902	13,653
	6,052,410	747,610	218,357
Income (loss) before taxes and other adjustments	(530,895)	7,531,525	10,369,558
Corporate, residents and enterprise taxes	434,988	3,029,952	4,267,214
Deferred taxes	(324,984)	104,940	(150,540)
	110,004	3,134,892	4,116,673
Minority interest in income of consolidated companies	73,937	156,156	189,273
Net income (loss) for the term	(714,837)	4,240,475	6,063,611

Consolidated statement of retained earnings

March 31; Thousands of yen	2003	2004	2005
Capital reserves			
Capital reserves, beginning of term	-	8,371,830	8,371,830
Additional paid-in capital, beginning of term	8,371,830	-	-
	8,371,830	8,371,830	8,371,830
Capital reserves, end of term	8,371,830	8,371,830	8,371,830
Retained earnings			
Retained earnings, beginning of term	-	8,865,052	12,475,532
Retained earnings, beginning of term	10,193,486	-	-
	10,193,486	-	-
Increase in retained earnings			
Net income	-	4,240,475	6,063,611
	-	4,240,475	6,063,611
Decrease in retained earnings			
Net loss	714,837	-	-
Dividends	567,996	567,996	908,793
Directors' bonuses	45,600	62,000	95,800
	1,328,434	629,996	1,004,593
Retained earnings, end of term	8,865,052	12,475,532	17,534,549

Results of operations

Fiscal year ended March 31, 2005

Economic and other factors affecting operations

(1) Mixed economic picture

- Capital spending continuing to increase, supported by ongoing recovery in corporate profits
- Unimpressive recovery in consumer spending
- Other factors weighing on the economy: sharply rising oil prices, fears of pension system insolvency, etc.

(2) Trends in pachinko industry

- Increasing demand for peripheral equipment due to the government's issuance of new yen-denominated banknotes (10,000, 5,000 and 1,000 yen bills)
- Amendment of the Regulation Concerning Certification and Official Inspection of Pachinko Game Machines (effective July 2004), giving rise to a flurry of game machine replacements, resulting in over-investment by pachinko parlor operators

Marketing strategies and results

- (1) Continuing emphasis on Cycle Card prepaid systems—resulting in sales of Cycle Card systems to 404 customers, mostly large parlors
- (2) Proposing and selling *comprehensive system*, which include prize-control systems and table-top auto dispensers
- (3) Adapting rapidly to the government's issuance of new banknotes in November 2004, using the Company's nationwide maintenance capabilities to complete adjustment of existing machines; and, by doing so, creating considerable goodwill among customers because of the slower reaction by the rest of the industry

Financial analysis (year-on-year percentage change)

(1) Second consecutive year of record high sales and profits

(2) Income statement

- Net sales: +14.6%
- Operating income: +28.5%
- Ordinary profit: + 28.1%
- Net income: +43.0%

Segment breakdown (year-on-year percentage change)

(1) Pachinko business: sales increase by 14.9% to 34,679 million yen, due principally to:

- Continued strong support in the market for the Company's ability to offer prize-control capabilities and Cycle Card functions; the Company's large market share for prize-control systems and its ability to set the industry standard for convenience in relation to reusable cards (Cycle Cards)
 - Growth rate in new installations (based on machines in place and being used) moderated, but sales of new Cycle Card systems to existing customers remained strong, resulting in sustained high growth levels in terms of total installations
 - Cumulative installations, as of the end of March 2005, were 1,582, accounting for 13.3% of the market.
- Staying attuned to market opinions and requests and translating these into innovative new products

(2) Other business: Hotel revenues decreased by 0.5% to 528 million yen.

- Both sales and occupancy rates fail to meet targets set by the Company, reflecting:
 - Pricing pressures against the background of a growing trend toward Internet reservations.
 - A decline in leisure and other travel to Fukuoka, reflecting fewer conventions and other special events during the year
- Despite this, higher average revenue per room, due to increases in the numbers of customers choosing more expensive rooms and repeat customers
- Based on customer feedback, the hotel's "front desk department" is ranked No. 1 in the Sunroute chain for the second consecutive year in 2004.

Fiscal year ended March 31, 2004

Economic and other factors affecting operations

(1) Mixed economic picture

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

(2) Trends in pachinko industry

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

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

- (1) Development and sale of wide array of prepaid card (Cycle Card) systems to meet customer needs
- (2) Focus on prepaid card systems generating
 - 426 new customers for such systems during the year (+7.0%)
 - Higher sales per parlor reflecting:
 - Sales to customers wishing to convert all machines (pachinko and pachislot) to prepaid card systems
 - Increased pachinko parlor size

Financial analysis (year-on-year percentage changes)

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

Segment breakdown

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

Issues requiring action

- (1) With pachinko parlors continuing to operate in a weak economic environment, the Company must create corporate value by generating satisfactory profit levels while maintaining a stable rate of growth.
- (2) Required actions—organizationally
- With the Group involved in all aspects of development, manufacture, sales and maintenance, clarifying the roles played by each company in order to optimize results
 - Recognizing changes in the market and responding rapidly with strong product lines to differentiate the Company from other companies and establish advantages in the market
- (3) Required actions—sales
- Aiming for a 20% market share in prepaid card systems
 - Endeavoring to improve brand image and increase brand recognition

Production and sales**Production**

Thousands of yen	2005	
	Amount	Year-on-year comparison (%)
Pachinko business	23,707,150	119.6
Other business	-	-
	23,707,150	119.6

Procurement

Thousands of yen	2005	
	Amount	Year-on-year comparison (%)
Pachinko business	1,258,200	101.2
Other business	94,784	95.0
	1,352,984	100.8

Sales by product

Thousands of yen	2005	
	Amount	Year-on-year comparison (%)
Pachinko business	34,679,727	114.9
Other business	528,698	99.5
	35,208,425	114.6

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	Rent or lease	Number of employees	Land (Square meters)	Current payments
Parent				
Head office				
Office	Rent	78	-	218,307
OA equipment	Lease		-	14,419
Vehicles and delivery equipment	Lease		-	6,395
Susono Technical Center				
Office	Rent	38	-	73,473
OA equipment	Lease		-	193
Vehicles and delivery equipment	Lease		-	279
Mishima Technical Center				
Office	Rent	6	-	44,400
OA equipment	Lease		-	135
Gotemba Technology and Distribution Center				
Parking lot	Rent	35	-	514
OA equipment	Lease		-	136
Vehicles and delivery equipment	Lease		-	5,000
Gotemba Warehouse				
Vehicles and delivery equipment	Lease	6	-	1,382
Tokyo Branch, etc.				
Office	Rent	261	-	180,301
OA equipment	Lease		-	5,720
Vehicles and delivery equipment	Lease		-	77,861
Mars Corporation				
Peripheral equipment	Lease	2	-	1,584,930
Mars Techno-Science Corporation				
Office	Rent	37	-	58,718
Peripheral equipment	Lease		-	1,610,538
OA equipment	Lease		-	2,155
Vehicles and delivery equipment	Lease		-	451
WINTEC Co., Ltd.				
Office	Rent	34	-	2,500
OA equipment	Lease		-	105
Equipment and machinery	Lease		-	231
Vehicles and delivery equipment	Lease		-	1,118

MARS ENGINEERING CORPORATION

Thousands of yen	Rent or lease	Number of employees	Land (Square meters)	Current payments
Hotel Sunroute Hakata, Inc.				
Buildings and structures	Rent	15	644	145,977
Equipment and machinery	Lease		-	1,661
OA equipment	Lease		-	310

Pro forma information on leased property is as follows:

Lessee

Thousands of yen	2004	2005
Tools, appliances and fixtures		
Acquisition cost	2,276,714	1,924,493
Accumulated depreciation	1,336,272	1,246,469
Net leased property	940,442	678,023
Future minimum lease payments, including interest portion		
Due within one year	1,829,531	1,804,235
Due after one year	2,664,180	2,291,107
	4,493,712	4,095,343
Lease payments	2,020,757	2,241,511
Pro forma depreciation expenses (assuming declining-balance method)	538,946	610,481
Pro forma interest expenses	384,482	189,439
Operating leases - future minimum lease payments		
Due within one year	1,003	1,003
Due after one year	2,340	1,337
	3,343	2,340

Lessor

Thousands of yen	2004	2005
Tools, appliances and fixtures		
Acquisition cost	485,598	148,139
Accumulated depreciation	419,357	128,441
Net leased property	66,241	19,698
Future minimum lease payments, including interest portion		
Due within one year	1,409,804	1,456,931
Due after one year	2,466,969	2,243,230
	3,876,774	3,700,161
Lease payments received	1,728,497	1,870,866
Depreciation expenses	67,768	29,627
Revenues from interest	281,990	234,655

Capital Structure

Consolidated balance sheet

Assets

March 31; Thousands of yen	2003	2004	2005
Current assets			
Cash and deposits	7,286,078	10,633,446	13,966,457
Notes and accounts receivable	10,313,582	10,518,982	10,082,028
Marketable securities	3,425,487	7,134,206	8,762,072
Inventories	3,519,687	3,184,929	3,367,321
Deferred tax assets	865,704	499,330	510,895
Income tax refunds receivable	933,050	-	-
Others	190,165	239,754	403,424
Allowance for doubtful accounts	(22,999)	(36,021)	(61,045)
	26,510,757	32,174,627	37,031,152
Fixed assets			
Tangible fixed assets			
Buildings and structures	5,723,107	6,147,187	6,214,459
Accumulated depreciation	1,657,960	1,913,295	2,151,362
	4,065,146	4,233,891	4,063,097
Machinery and transportation equipment	198,411	246,231	247,720
Accumulated depreciation	108,715	127,053	148,841
	89,696	119,177	98,879
Tools, appliances and fixtures	2,348,959	2,357,083	2,241,066
Accumulated depreciation	1,866,976	1,981,340	1,883,713
	481,983	375,742	357,352
Land	5,699,374	5,782,399	5,802,266
Construction in progress	21,000	-	-
	10,357,201	10,511,211	10,321,596
Intangible fixed assets			
Consolidation translation adjustments	16,430	6,901	-
Others	121,882	84,565	151,425
	138,313	91,466	151,425
Investments and other assets			
Investment securities	706,010	1,575,342	1,135,722
Deferred tax assets	569,362	587,287	684,103
Others	563,551	608,629	618,195
Allowance for doubtful accounts	(146,077)	(268,206)	(274,065)
	1,692,847	2,503,053	2,163,955
Total fixed assets	12,188,361	13,105,732	12,636,977
Total assets	38,699,119	45,280,360	49,668,130

Liabilities and shareholders' equity

March 31; Thousands of yen	2003	2004	2005
Current liabilities			
Notes and accounts payable	3,417,140	3,392,821	3,364,138
Short-term borrowings	1,000,000	1,000,000	1,000,000
Long-term debt due within 1 year	300,000	300,000	300,000
Income taxes payable	272,670	2,836,977	2,826,977
Allowance for bonuses	254,359	285,551	348,710
Advances received	4,177,561	4,008,890	3,723,951
Others	749,509	742,424	846,949
	10,171,241	12,566,665	12,410,727
Long-term liabilities			
Long-term debt	700,000	400,000	100,000
Reserve for directors' retirement allowances	-	503,954	522,741
Consolidation translation adjustments	-	-	1,664
Others	2,584,459	2,458,826	2,037,376
	3,284,459	3,362,781	2,661,782
Total liabilities	13,455,701	15,929,447	15,072,510
Minority interests	212,837	362,992	487,576
Shareholders' equity			
Common stock	7,934,100	7,934,100	7,934,100
Capital reserves	8,371,830	8,371,830	8,371,830
Retained earnings	8,865,052	12,475,532	17,534,549
Unrealized gains or losses on other securities	(140,110)	206,751	268,206
Treasury stock	(292)	(292)	(642)
Total shareholders' equity	25,030,579	28,987,920	34,108,043
Total liabilities, minority interests and shareholders' equity	38,699,119	45,280,360	49,668,130

Market value of securities

Other quoted securities

Thousands of yen	2004			2005		
	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	170,949	452,142	281,192	170,949	530,800	359,851
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	1,257,543	1,336,935	79,392	1,658,501	1,763,606	105,105
	1,428,492	1,789,078	360,585	1,829,451	2,294,407	464,956
Securities valued on the consolidated balance sheet at amounts not greater than purchase cost						
Shares	-	-	-	-	-	-
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Others	-	-	-	-	-	-
Others	983,176	971,193	(11,983)	983,176	970,436	(12,739)
	983,176	971,193	(11,983)	983,176	970,436	(12,739)
	2,411,669	2,760,271	348,602	2,812,627	3,264,844	452,216

When the market value of a security at fiscal year-end has fallen to less than 50% of the acquisition price, a valuation write-off is made for the full amount. When the market price has fallen by 30%-50% of the acquisition price, an amount deemed necessary is written off, taking into consideration the actual amount in question and the possibility of recovery.

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

Thousands of yen	2004	2005
Amount sold	172,483	-
Total gains on sales	6,962	-
Total losses on sales	91,956	-

Major investment securities without market prices

Thousands of yen	2004	2005
Bonds being held to maturity		
Corporate bonds	61,000	253,661
Commercial paper	4,018,802	4,548,439
Other securities		
Unlisted stocks	90,000	51,120
Money management funds	1,169,328	1,169,570
Medium-term government bond funds	110,147	110,156
Bonds	500,000	500,000

The Company recognized impairment charges of 38,879,000 yen on unlisted stocks held in its "Other marketable securities" account.

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

Thousands of yen	Up to 1 year	Longer than 1 and up to 5 years	Longer than 5 and up to 10 years	Longer than 10 years
2005				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	8,000	245,661	-	-
Others	4,548,439	-	-	-
Others	701,518	216,705	-	-
	5,257,958	462,366	-	-
2004				
Bonds				
JGB, local government bonds, etc.	-	-	-	-
Corporate bonds	9,000	52,000	-	-
Others	4,018,802	-	-	-
Others	-	389,094	-	-
	4,027,802	441,094	-	-

Derivatives

Thousands of yen	2004				2005			
	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	-	(257,379)	(257,379)	-	-	-	-
	10,000,000	-	(257,379)	(257,379)	-	-	-	-

Facilities

Thousands of yen	Buildings and structures	Tools, appliances and fixtures	Land		Other	Total book value	Number of employees
			Book value	Square meters			
Parent							
Higashi Fuji Plant							
Manufacturing equipment	498,639	157,056	597,253	11,447	1,719	1,254,668	31
Gotemba Technology and Distribution Center							
Manufacturing and distribution facilities	600,944	15,961	535,660	2,692	76,552	1,229,118	35
Head Office							
Facilities for corporate administration	25,449	34,916	-	-	1,388	61,754	78
Susono Technical Center							
R&D facilities	-	23,292	-	-	620	23,913	38
Gotemba Warehouse							
Warehousing facilities	263,203	2,430	172,813	7,654	3,474	441,922	6
Fuji Training Center							
Training facilities	291,078	676	-	-	-	291,754	-
Mishima Technical Center							
Inactive	-	1,112	-	-	-	1,112	6
Dormitories							
Employee recreation and welfare facilities	173,481	348	550,024	1,202	2,556	726,410	-
Tokyo Branch, etc.							
Sales, installation and maintenance facilities	4,140	10,659	-	-	-	14,800	261
Others							
Unused land	-	-	1,641,013	16,278	-	1,641,013	-
Mars Corporation							
Buildings and structures	1,827,854	-	2,214,745	5,398	-	4,042,599	2
Equipment and machinery	-	5,759	-	-	-	5,759	
OA equipment	-	939	-	-	-	939	
Peripheral equipment	-	-	-	-	104,318	104,318	
Mars Techno-Science Corporation							
Equipment and machinery	1,250	29,593	-	-	-	30,844	37
OA equipment	-	6,552	-	-	-	6,552	
Peripheral equipment	-	638	-	-	-	638	
WINTEC Co., Ltd.							
Buildings and structures	376,104	-	90,757	4,038	-	466,861	34
Equipment and machinery	-	6,705	-	-	11,976	18,681	
OA equipment	-	2,416	-	-	-	2,416	
Dies	-	3,923	-	-	-	3,923	
Vehicles and delivery equipment	-	-	-	-	590	590	
Hotel Sunroute Hakata, Inc.							
Equipment and machinery	950	2,947	-	-	-	3,897	15
OA equipment	-	197	-	-	-	197	

Borrowings

Thousands of yen	Previous term	Outstanding	Average rate	Maturity
Short-term borrowings	1,000,000	1,000,000	0.3156%	-
Current portion of long-term debt	300,000	300,000	0.44%	-
Long-term debt (excluding current portion of long-term debt)	400,000	100,000	0.44%	2005 - 2006
Other interest-bearing liabilities	-	-	-	-
	1,700,000	1,400,000	-	-

Long-term debt repayable within 5 years of the end of the fiscal year to March 2005 (excluding the amount payable within one year) is as follows:

Thousands of yen	Longer than 1 and up to 2 years	Longer than 2 and up to 3 years	Longer than 3 and up to 4 years	Longer than 4 and up to 5 years
Long-term debt	100,000	-	-	-

Retirement benefits**Summary 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	2004	2005
Retirement benefit liabilities	(943,283)	(1,041,911)
Pension assets	785,689	901,933
Unaccrued pension benefit liabilities	(157,593)	(139,978)
Unrecognized actuarial gains or losses	288,956	248,237
Net amount shown on consolidated balance sheet	131,363	108,259
Prepaid pension expenses	131,363	108,259
Allowance for retirement benefits	-	-

Items related to retirement benefit expenses

Thousands of yen	2004	2005
Current service costs	77,555	84,501
Pension premiums paid under multi-party employers' welfare pension fund	96,987	106,915
Interest expenses	14,350	16,252
Expected earnings on pension fund assets	-	-
Expensing of actuarial differences	33,621	35,603
Retirement benefit expenses	222,514	243,272

Assumptions underlying the calculation of retirement benefit liabilities

Thousands of yen	2004	2005
Discount rate	1.7%	1.7%
Expected rate of return	0.0%	0.0%
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Amortization period for actuarial gains or losses	10 years (Expensed beginning in the consolidated fiscal year following the year in which the expenses arise, using straight-line amortization over a prescribed number of years that is equal to or less than the average remaining period of service of employees.)	10 years (Expensed beginning in the consolidated fiscal year following the year in which the expenses arise, using straight-line amortization over a prescribed number of years that is equal to or less than the average remaining period of service of employees.)

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

Thousands of yen	2004	2005
	980,330	1,146,296

Deferred taxes

Thousands of yen	2004	2005
Deferred tax assets (current)	499,650	551,732
Deferred tax liabilities (current)	(319)	40,836
Deferred tax assets - net	499,330	510,895
Deferred tax assets (fixed)	786,692	884,995
Deferred tax liabilities (long-term)	(199,404)	200,892
Deferred tax assets - net	587,287	684,103

Nonconsolidated Financial Statements

Nonconsolidated statement of income

Years ended March 31; Thousands of yen	2003	2004	2005
Net sales			
Net sales - finished goods	20,167,621	25,900,391	28,918,150
Net sales - merchandise	413,258	212,688	209,679
	20,580,880	26,113,079	29,127,830
Cost of goods sold			
Cost of finished goods sold			
Finished goods inventory, beginning of term	993,386	1,562,263	1,547,961
Production costs for the term	11,653,380	14,650,062	15,840,204
	12,646,766	16,212,326	17,388,165
Transfers to other accounts	128,937	90,512	126,391
Finished goods inventory, end of term	1,562,263	1,547,961	1,599,592
	10,955,565	14,573,851	15,662,181
Cost of merchandise sold			
Merchandise inventory, beginning of term	4,017	4,207	5,384
Merchandise purchased during term	213,602	107,303	107,359
	217,620	111,511	112,743
Merchandise inventory, end of term	4,207	5,384	4,654
	213,412	106,127	108,088
	11,168,978	14,679,979	15,770,270
Gross profit on sales	9,411,902	11,433,100	13,357,560
Selling, general and administrative expenses			
After-sales service expenses	356,981	410,120	418,286
Directors' salaries	129,420	125,130	122,440
Employees' salaries	1,445,079	1,581,695	1,712,929
Bonuses	272,611	445,467	421,331
Provision for bonuses	181,378	210,956	266,520
Legal welfare expenses	245,466	299,583	310,882
Rent	171,551	525,460	515,069
Depreciation expenses	190,614	83,811	84,721
Provision for directors' retirement allowances	-	36,614	40,629
Others	1,558,302	1,626,330	1,744,882
	4,551,406	5,345,169	5,637,694
Operating income	4,860,496	6,087,931	7,719,866

MARS ENGINEERING CORPORATION

Years ended March 31; Thousands of yen	2003	2004	2005
Nonoperating income			
Interest income	16,242	14,609	6,719
Interest income from securities	38,123	65,975	22,135
Dividend income	18,604	19,378	76,027
Income from contracted operations	10,600	9,600	9,600
Gain from conclusion of interest rate swap	-	-	34,433
Miscellaneous income	17,546	21,733	10,587
	101,117	131,296	159,502
Nonoperating expenses			
Interest expenses	45,956	6,143	-
Miscellaneous losses	2,208	54	4,050
	48,164	6,197	4,050
Ordinary profit	4,913,449	6,213,030	7,875,317
Extraordinary income			
Gains on sales of investment securities	-	6,962	-
Reversal of allowance for doubtful accounts	-	2,200	2,459
	-	9,162	2,459
Extraordinary losses			
Loss on sale of fixed assets	5,779,387	-	-
Loss on removal of fixed assets	13,264	8,979	2,439
Provision for directors' retirement allowances for prior years	-	487,669	-
Loss on disposal of inventories	139,023	158,081	163,841
Loss on sale of investment securities	52,189	91,956	-
Valuation loss on investment securities	59,539	-	38,879
Valuation loss on shares in affiliates	-	-	100,000
	6,043,404	746,687	305,161
Income (loss) before taxes and other adjustments	(1,129,954)	5,475,505	7,572,615
Corporate, inhabitants and enterprise taxes	42,113	2,161,037	3,150,912
Adjustment for income and other taxes	(479,734)	171,440	(63,563)
	(437,620)	2,332,478	3,087,349
Net income (loss) for the term	(692,333)	3,143,026	4,485,265
Retained earnings brought forward from previous term	5,345,863	4,031,533	6,409,965
Interim dividends	227,198	227,198	454,396
Unappropriated retained earnings, fiscal year-end	4,426,331	6,947,362	10,440,834

Nonconsolidated appropriation of retained earnings

Thousands of yen	June 27, 2003	June 29, 2004	June 29, 2005
Unappropriated profit, end of term	4,426,331	6,947,362	10,440,834
Appropriation of retained earnings			
Dividends	340,797	454,396	681,592
Directors' bonuses	54,000	83,000	75,000
[Corporate auditors' bonuses]	[2,000]	[6,000]	[2,000]
	394,797	537,396	756,592
Retained earnings carried forward to following term	4,031,533	6,409,965	9,684,241

Cost of goods sold

Years ended March 31; Thousands of yen	2003	%	2004	%	2005	%
Cost of materials	10,186,258	86.6	13,092,715	88.1	14,262,441	87.7
Subcontracted processing expenses	823,935	7.0	1,112,824	7.5	1,300,164	8.0
Labor costs	307,987	2.6	335,221	2.3	367,470	2.3
Manufacturing overhead	441,737	3.8	314,684	2.1	322,570	2.0
Total manufacturing costs for the term	11,759,919	100.0	14,855,444	100.0	16,252,646	100.0
Work-in-process inventory, beginning of term	185,964		34,447		66,296	
	11,945,883		14,889,893		16,318,942	
Work-in-process inventory, end of term	34,447		66,296		159,192	
Transfers to other accounts	258,055		173,534		319,546	
Production costs for the term	11,653,380		14,650,062		15,840,204	

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

Labor costs

Provision for bonuses	26,242	26,271	27,260
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Manufacturing overhead

Depreciation expenses	278,393	200,062	182,022
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Transfers to other accounts

Selling, general and administrative expenses	223,288	107,689	156,150
Loss on disposal of inventories	31,496	65,844	33,621
Software under development	-	-	129,774
Manufacturing expenses	216	-	-
Tools, appliances and fixtures	3,053	-	-
	258,055	173,534	319,546

Nonconsolidated balance sheet**Assets**

March 31; Thousands of yen	2003	2004	2005
Current assets			
Cash and deposits	5,755,222	8,217,074	10,950,330
Notes receivable	1,184,473	1,801,918	1,791,588
Accounts receivable - trade	4,205,551	3,988,099	3,744,326
Marketable securities	3,165,074	6,873,957	8,501,804
Merchandise	4,207	5,384	4,654
Finished goods	1,562,263	1,547,961	1,599,592
Materials	807,245	463,288	599,347
Work in process	34,447	66,296	159,192
Supplies	509,058	420,965	376,045
Advances paid	4,454	-	-
Prepaid expenses	56,118	54,946	102,274
Short-term loans	456,000	283,000	180,000
Deferred tax assets	724,580	344,647	279,518
Income tax refunds receivable	933,050	-	-
Others	13,035	14,591	14,493
Allowance for doubtful accounts	(5,856)	(10,341)	(9,146)
	19,408,927	24,071,791	28,294,021
Fixed assets			
Tangible fixed assets			
Buildings	3,506,666	3,507,299	3,534,278
Accumulated depreciation	1,503,591	1,613,388	1,717,374
	2,003,075	1,893,910	1,816,904
Structures	191,175	191,175	192,451
Accumulated depreciation	137,047	145,425	152,416
	54,128	45,750	40,034
Machinery and equipment	166,207	216,723	218,388
Accumulated depreciation	82,224	109,156	133,845
	83,983	107,566	84,543
Vehicles and delivery equipment	26,178	18,304	12,324
Accumulated depreciation	21,817	15,302	10,554
	4,360	3,002	1,769
Tools, appliances and fixtures	1,641,258	1,633,514	1,756,557
Accumulated depreciation	1,360,217	1,406,291	1,510,103
	281,041	227,223	246,453
Land	3,496,763	3,496,763	3,496,763
	5,923,352	5,774,217	5,686,468

MARS ENGINEERING CORPORATION

March 31; Thousands of yen	2003	2004	2005
Intangible fixed assets			
Patents	15,785	17,461	14,276
Telephone subscription rights	15,214	15,214	15,214
Software	36,763	23,819	154,032
Software under development	-	-	18,921
	67,764	56,495	202,444
Investments and other assets			
Investment securities	706,010	1,575,342	1,135,722
Capital stock of affiliated companies	2,476,860	2,476,860	2,424,138
Investments other than securities	1,610	454	5,454
Long-term loans to affiliates	103,000	410,000	60,000
Rental and guarantee deposits	392,450	365,400	388,139
Claims in bankruptcy and substantial bankruptcy	52,791	93,309	62,390
Long-term prepaid expenses	18,686	9,694	11,612
Deferred tax assets	186,296	151,271	237,803
Prepaid pension expenses	154,705	131,363	108,259
Others	66,100	66,100	66,100
Allowance for doubtful accounts	(109,635)	(141,895)	(110,805)
	4,048,876	5,137,902	4,388,814
Total fixed assets	10,039,993	10,968,615	10,277,728
Total assets	29,448,920	35,040,407	38,571,749

Liabilities and shareholders' equity

March 31; Thousands of yen	2003	2004	2005
Current liabilities			
Notes payable	15,830	4,160	10,658
Accounts payable - trade	2,656,365	2,939,070	3,137,342
Accounts payable - other	104,911	158,023	135,485
Income taxes payable	17,407	2,165,011	2,137,324
Consumption taxes payable	177,359	138,358	195,367
Accrued expenses	85,150	90,518	56,306
Advances from customers	31,913	39,465	17,476
Deposits received	14,646	25,546	16,663
Deferred income	15,241	3,534	2,957
Allowance for bonuses	207,621	237,228	293,780
Others	12,772	-	-
	3,339,219	5,800,916	6,003,361
Long-term liabilities			
Interest rate swap liability	511,266	257,379	-
Reserve for directors' retirement allowances	-	503,954	522,741
Others	34,500	46,320	59,234
	545,766	807,655	581,976
Total liabilities	3,884,986	6,608,571	6,585,338
Shareholders' equity			
Common stock	7,934,100	7,934,100	7,934,100
Capital reserves			
Additional paid-in capital	8,371,830	8,371,830	8,371,830
	8,371,830	8,371,830	8,371,830
Retained earnings			
Legal income reserves	372,109	372,109	372,109
Voluntary reserves - total			
Special reserve	4,600,000	4,600,000	4,600,000
Unappropriated retained earnings, fiscal year-end	4,426,331	6,947,362	10,440,834
	9,398,441	11,919,471	15,412,943
Unrealized gains or losses on other securities	(140,144)	206,726	268,180
Treasury stock	(292)	(292)	(642)
Total shareholders' equity	25,563,934	28,431,835	31,986,411
Total liabilities and shareholders' equity	29,448,920	35,040,407	38,571,749

Trade credits**Notes receivable**

Thousands of yen	2005
GAIA	381,882
Amenities	76,708
Sanpo Shoji	71,809
Purimeru Kaihatsu	64,000
Newgin Advance	60,480
Others	1,136,707
	<u>1,791,588</u>

Accounts receivable — trade

Thousands of yen	2005
Mitsui Leasing & Development, Ltd.	241,054
Dynam Co Ltd.	216,133
Hoshigaoka Shopping Center	136,546
Mars Techno-Science Corporation	132,465
Kinki Sangyo Lease	130,000
Others	2,888,126
	<u>3,744,326</u>

Turnover of accounts receivable

Thousands of yen	2005
Beginning balance	3,988,099
Increase	30,913,182
Collected	31,156,956
Ending balance	3,744,326
Turnover	89.3%
Average days for collection	45.7

Securities

Marketable and investment securities

Thousands of yen

Stocks	Number of shares	Book value
Investment securities		
Other securities		
Japan Cash Machine (6418)	120,752	332,068
Resona Holdings, Inc. (8038)	465,150	100,007
Atom Corp. (7412)	2,000	11,120
Tokyo Tomin Bank (8339)	21,242	60,964
P ARK	20,000	40,000
UFJ Holdings, Inc. (8307)	50	28,200
Nippon Signal (6741)	5,000	3,010
NAGANO KEIKI (7715)	1,610	2,849
Nissei Plastic Industrial (6293)	1,400	1,223
Daiwabo Information System (9912)	1,100	1,667
Taisei Oncho (1904)	1,500	810
TOKYO MAGTEK Inc.	30	-
	639,834	581,921
Bonds		
	Total face value	Book value
Marketable securities		
Bonds being held to maturity	5,058,000	5,056,439
Investment securities		
Bonds being held to maturity	244,000	245,661
	5,302,000	5,302,101
Others		
	Number of units invested	Book value
Marketable securities		
Other securities	1,362,014	3,445,364
Investment securities		
Other securities	46,990	308,139
	1,409,004	3,753,503

Tangible fixed assets

Thousands of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
Tangible fixed assets							
Buildings	3,507,299	26,979	-	3,534,278	1,717,374	103,986	1,816,904
Structures	191,175	1,275	-	192,451	152,416	6,991	40,034
Machinery and equipment	216,723	1,665	-	218,388	133,845	24,688	84,543
Vehicles and delivery equipment	18,304	-	5,980	12,324	10,554	933	1,769
Tools, appliances and fixtures	1,633,514	150,796	27,754	1,756,557	1,510,103	130,144	246,453
Land	3,496,763	-	-	3,496,763	-	-	3,496,763
Construction in progress	-	28,822	28,822	-	-	-	-
	9,063,782	209,538	62,556	9,210,764	3,524,295	266,743	5,686,468
Intangible fixed assets							
Patents	-	-	-	25,423	11,147	3,185	14,276
Telephone subscription rights	-	-	-	15,214	-	-	15,214
Software	-	-	-	216,891	62,858	16,499	154,032
Software under development	-	-	-	18,921	-	-	18,921
	-	-	-	276,450	74,006	19,685	202,444
Long-term prepaid expenses	69,988	6,670	5,580	71,077	59,465	4,033	11,612

Reserves

Thousands of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	152,236	30,432	62,716	119,951
Reserve for bonuses	237,228	293,780	237,228	293,780
Reserve for directors' retirement allowances	503,954	35,629	16,843	522,741

Accounting Policies

Summary of accounting policies: consolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Other securities:</p> <p>Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the moving-average method.</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Inventories	Valued at cost using the moving-average method
Depreciation	<p>Tangible fixed assets: declining-balance method</p> <p>Provided, however, that buildings acquired after April 1, 1998 (excluding appurtenances) and assets used in hotel operations are depreciated on a straight-line basis.</p> <p>Intangible fixed assets:</p> <p>Software for sale: amortized over a period of three years from the commencement of sales, based on the 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 the minimum amount of amortization.</p> <p>Other: straight-line method</p> <p>Amortization of software for internal use is based on the period of potential use (5 years); patent rights are amortized over 5 years.</p> <p>Long-term prepaid expenses: amortized in equal installments over the period covered</p>
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a historical bad debt ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Reserve for bonuses	Recognition of the expense for the current term, based on the estimated bonus expense for the bonus period
Retirement benefit accounting	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the fiscal year to March 2005.
Opinion of independent auditors	<p>Auditors: Tohmatsu & Co.</p> <p>Opinion: unqualified</p>

Summary of accounting policies: nonconsolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<p>Bonds held to maturity: cost amortization method (straight-line)</p> <p>Shares in subsidiaries and affiliated companies: valued at cost using the moving average method</p> <p>Other securities:</p> <p>Quoted securities: The market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference with the purchase price is booked directly as shareholders' equity, and the cost of securities sold is calculated using the moving-average method.</p> <p>Unquoted securities: valued at cost using the moving-average method</p>
Inventories	Merchandise, finished goods, work in process, raw materials and supplies: valued at cost using the moving-average method
Depreciation	<p>Tangible fixed assets: declining-balance method</p> <p>Provided, however, that buildings acquired after April 1, 1998 (excluding appurtenances) are depreciated on a straight-line basis.</p> <p>Intangible fixed assets:</p> <p>Software for sale: amortized over a period of 3 years from the commencement of sales, based on the 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 the minimum amount of amortization.</p> <p>Others: straight-line method</p> <p>Amortization of software for internal use is based on the period of potential use (5 years); patent rights are amortized over 5 years.</p> <p>Long-term prepaid expenses: amortized in equal installments over the period covered</p>
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a historical bad debt ratio for general accounts receivable, plus an amount for specific accounts for which collection appears doubtful.
Reserve for bonuses	Recognition of the expense for the current term, based on the estimated bonus expense for the bonus period
Reserve for directors' retirement allowances	Recognition of the full amount of liability at term-end based on employment regulations
Retirement benefit accounting	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the fiscal year to March 2005.
Opinion of independent auditors	<p>Auditors: Tohmatsu & Co.</p> <p>Opinion: unqualified</p>

Share-related Information

Shares in issue

Class of shares	Common
Number of shares authorized	67,620,000
Issued	
As of March 31, 2005	22,720,000
As of June 30, 2005	22,720,000
Stock exchange listings	Tokyo Stock Exchange, First Section
Comments	-

Changes in common stock and number of shares outstanding

Thousands of shares Thousands of yen Date	Shares outstanding		Common stock		Additional paid-in capital		Remarks
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
December 24, 1999	1,200	11,360	2,433,600	7,934,100	2,432,400	8,371,830	Public offering of shares
September 17, 2004	11,360	22,720	-	7,934,100	-	8,371,830	Split 2 for 1

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	50	44,715	19.68
Securities companies	37	1,984	0.87
Business and other corporations	59	44,642	19.65
Non-residents (businesses and corporations)	93	35,574	15.66
Non-residents (individuals)	1	2	0.00
Individuals and others	5,899	100,280	44.14
	6,139	227,197	100.00
Shares less than one unit	-	300	-

Largest shareholders

Name	Thousands of shares owned	Held in trust accounts	% of shares outstanding
EM Planning	4,250.0		18.71
Hirokazu Matsunami	1,405.6		6.19
Japan Trustee Services Bank, Ltd. (Trust Account)	1,203.5	1,028.3	5.30
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,165.1	786.6	5.13
Kayoko Matsunami	1,028.0		4.52
Akihiro Matsunami	1,000.0		4.40
Mizuho Trust & Banking Co., Ltd., employee pension trust; sub-trustee, Tokyo Tomin Bank, Ltd. asset management service trust for sub-trustees	600.0		2.64
Shigeo Komiya	490.0		2.16
Teruo Gomi	450.0		1.98
Mika Nagai	432.0		1.90
	12,024.2		52.92

Share information

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

By a resolution adopted at the 31st Regular General Shareholders Meeting held on June 29, 2005, the Company amended its Articles of Incorporation with respect to official announcements. The gist of the amendment is as follows: "The Company's official announcements shall be made electronically. However, when matters arise which cannot be conveyed electronically or when electronic announcements cannot be made for some other justifiable reason, the Company shall make its official announcements through the Nihon Keizai Shimbun."

The Company's electronic announcements can be accessed through the Company's home page, which is located at: <http://www.mars-eng.co.jp/kessan/index.html>.

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