# ANNUAL REPORT 2001

Year ended March 31, 2001

GLORY®

The World Cultural Heritage-**Himeji Castle**
Himeji Castle is located in Himeji City, where the Head Office of Glory Ltd. is.

## CONTENTS

# FINANCIAL HIGHLIGHTS

GLORY LTD. and its consolidated subsidiaries
Years ended March 31, 2000 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **For the Year:** | 2000 | **2001** | **2001** |
| Net sales | ¥ 108,544 | **¥ 151,704** | **$ 1,224,406** |
| Operating profit | 8,776 | **26,197** | **211,436** |
| Income before income taxes and minority interests | 4,344 | **19,182** | **154,818** |
| Net income | 1,756 | **11,191** | **90,322** |
| **At Year End:** | | | |
| Total assets | 159,419 | **186,937** | **1,508,773** |
| Shareholders' equity | 93,566 | **101,315** | **817,715** |

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Per share:** | 2000 | **2001** | **2001** |
| Net income | ¥ 50.19 | **¥ 297.62** | **$ 2.40** |
| Cash dividends | 16.00 | **24.00** | **0.19** |

*(Note)*
*The U.S. dollar amounts are translated, for convenience only, at the rate of ¥123.90=US$1, the approximate exchange rate at March 31, 2001.*

# PRESIDENT'S MESSAGE

Hideto Nishino, President

Reported below is the general review of our company's business results for its 55th term (from April 1, 2000 to March 31, 2001).

During this fiscal year for the present consolidated financial statement, the Japanese economy has gradually recovered thanks to capital investment mainly in the IT-related industries. But because of a slump in personal consumption and a sluggish U.S. economy, there has been increasing uncertainty in the future of the Japanese economy.

In such an economic environment, our company group (Glory Ltd., its consolidated subsidiaries, and affiliates accounted for by the equity method) has confidently strengthened research and development of new technologies and new products to swiftly meet various market needs, struggled to rationalize and streamline the development and design operations and made efforts to promote sales in all fields. For this term we took all possible measures to handle newly issued 2000 yen banknote and 500 yen coin.

As a result, the net sales amounted to ¥151,704 million (up 39.8% from the previous term).

As for the incomes, as a result of improved sales-cost ratio by increased production and further cost reduction activities, the profit rate significantly rose and operating profit income drastically increased to ¥26,197 million (up 198.5% from the previous term). The net income for this term amounted to ¥11,191 million (up 537.3% from the previous term) despite an extraordinary loss such as ¥4,331 million appropriated for the transition amount arising from adopting the new Japanese accounting standard for retirement benefits during the fiscal year.

As for the cash dividend, our basic policy is to attach much importance to continuous and stable dividend to live up to the expectations of stockholders while considering the present business environment and earnings to strengthen the management foundation for a long term.

The total cash dividend for this term is ¥24.0 per share for the year, consisting of the normal dividend of ¥8.0, the interim dividend of ¥8.0 and a special dividend of ¥8.0 in commemoration of the First Section of the Tokyo Stock Exchange listing.

As for the future prospect, the economic conditions in the financial industry that serves as our greatest marketplace are likely to be continuously harsh as it is expected that merger/integration of financial institutions and integration and reorganization of financial institution branches will be extensively made.

As Glory group, we will further enhance the competitive strength of the money handling system business through quality improvement and cost reduction according to the medium-term business planning. We will also provide products that can satisfy customers requirements by fusing information technology into our existing cash processing technology. As it is also expected that the money flow will be controlled by many participants like distributing shops and security companies rather than by only banks, we will develop equipment that can support this change in the money flow. We also plan to expand non-money related business like document processing business, electronic funds transfer equipment business and system software business which is expected to grow in future so as to provide "total solutions" for customers.

For the vending machine market, the market for the cigarette vending machine, the prime product, has already matured, whereby price competition is likely to be increasingly harsh, but we are determined to expand our market share even more by adding new products taking advantage of our position as the first runner.

In the amusement game industry, we are also determined to positively develop equipment that can allow usage of cards and customer management systems that can exactly meet customer needs, and to expand our market share. Additionally, we plan to improve self-completeness within each business group and accelerate business expansion. In this manner, we would also like to adapt ourselves to fit environmental change more swiftly and properly, thus improving the group's income by combining the total strength of our company group.

I thank you for your continued support and cooperation.

June 2001

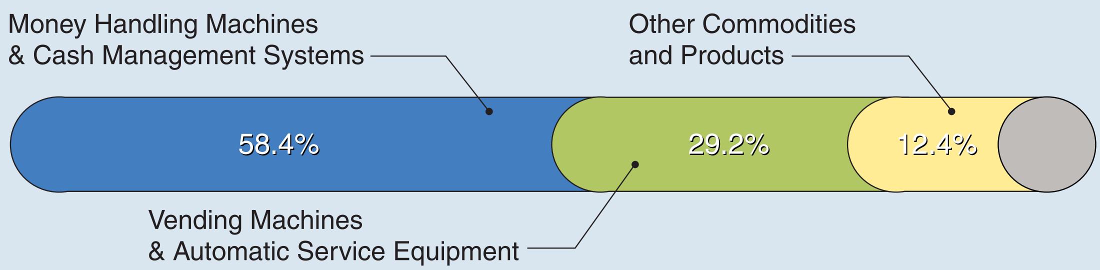
Hideto Nishino

Hideto Nishino
President

# BUSINESS RESULTS

GLORY LTD. and its consolidated subsidiaries
Year ended March 31, 2001

## Net Sales by Business Segments




## Shown below are Corporate Achievements by Business Groups.

### Money Handling Machines & Cash Management Systems


Automatics Coin Counting and Wrapping Machine <WR-400>


Currency Sorter<UW-200>

For the domestic market, sales of coin wrapping machines with counterfeit detection measures, banknote recognition sorters, which are components of automated deposit and dispensing systems for laborsaving and rationalization have increased significantly partially because of replacement demand for new products that can handle newly issued 2000 yen banknote and 500 yen coin. Additionally sales of recycle-type banknote deposit and dispense units and coin deposit and dispense units, which are used in window operation in financial institutions as peripheral equipment, and new currency deposit units that can handle both banknotes and coins increased favorably, and sales of coin deposit and dispense units installed in ATMs (automatic teller machines) increased significantly partially because of replacement demand for new products.

As for export sales, while sales of banknote counters for Asia, Europe and the U.S.A. and banknote deposit machines for the U.S.A. declined, sales of banknote accepting systems and coin wrapping machines for Europe and sales of banknote recognition sorters to the U.S.A. and Asia increased favorably.

As a result, sales amounted to ¥88,563 million (up 49.2% from the previous term). As for income, operating profit amounted to ¥17,307 million (up 182.7% form the previous term) because of reduced sales-cost ratio by increased production and cost reduction activities.



GLORY®

## Vending Machines & Automatic Service Equipment

Medal Vending Machine
<EMS-5N/5NA>

Since demand has increased in the amusement game industry due to business recovery, sales of related equipment such as card vending machines, card processing machines, and premium control terminals significantly increased. Sales of multifunction money exchanger for financial institutions and retailing industries also sharply increased because of replacement demand and induced demand for new products that can handle newly issued 2000 yen banknote and 500 yen coin. Additionally sales of cigarette vending machines increased favorably because of increased demand of some cigarette manufacturers. As a result sales amounted to ¥44,283 million (up 41.2% from the previous term). As for income, operating profit amounted to ¥6,528 million (up 843.3% from the previous term) as a result of further cost reduction activities as well as reduced sales-cost ratio by increased production.

## Other Commodities and Products


2000 yen banknote and
new 500 yen coin

While this product group includes mainly the goods, parts, fixtures, and accessories outsourced from companies other than our company's group, sales were favorable as there were demands for modification to the products that had been deployed in the market because of newly issued 2000 yen banknote and 500 yen coin. As a result, sales and operating profit amounted to ¥18,857 million (up 5.8% from the previous term) and ¥2,418 million (up 24.9% from the previous term) respectively.

Operating profit by business groups is the amount before ¥57 million elimination including unrealized loss due to internal transfer of fixed assets.

All the figures in this report do not include consumption tax etc.

# COMPANY PROFILE

As of March 31, 2001


| | | |
|---|---|---|
| Company name | : | GLORY LTD. |
| Founded | : | November 27, 1944 |
| Capital stock | : | ¥12,892,947,600 |
| Employees | : | 1,744 (4,631 including subsidiaries) |
| Fiscal Year-end | : | March 31 |
| URL | : | http://www.glory.co.jp |
| Location | : | |

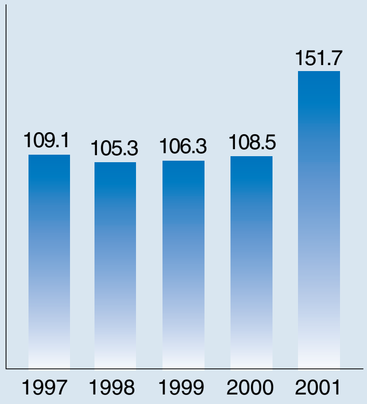
| | | |
|---|---|---|
| Head Office / Factory | : | 1-3-1 Shimoteno, Himeji City, Hyogo 670-8567, Japan<br>Phone: +81-792-97-3131<br>Fax : +81-792-94-6233 |
| Tokyo Office | : | 5-4-6 Osaki, Shinagawa-ku, Tokyo 141-8581, Japan<br>Phone: +81-3-3495-6301 |
| Saitama Factory | : | 2-4-1 Furukawa, Kazo City, Saitama 347-0004, Japan<br>Phone: +81-480-68-4661 |

# FIVE-YEAR SUMMARY

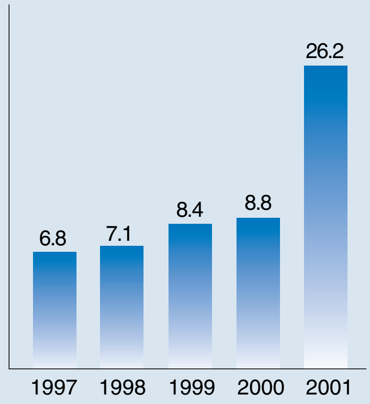
GLORY LTD. and its consolidated subsidiaries
Years ended March 31

| | Millions of yen | | | | | Thousands of U. S. dollars |
|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | **2001** | **2001** |
| **For the Year :** | | | | | | |
| Net sales | ¥ 109,117 | ¥ 105,300 | ¥ 106,284 | ¥ 108,544 | **¥ 151,704** | **$ 1,224,406** |
| Operating profit | 6,783 | 7,132 | 8,419 | 8,776 | **26,197** | **211,436** |
| Income before income taxes and minority interests | 5,289 | 5,045 | 5,470 | 4,344 | **19,182** | **154,818** |
| Net income | 2,640 | 1,900 | 1,686 | 1,756 | **11,191** | **90,322** |
| Depreciation and amortization | 3,882 | 3,907 | 4,065 | 5,031 | **5,105** | **41,202** |
| **At Year End :** | | | | | | |
| Total assets | 156,386 | 150,765 | 156,389 | 159,419 | **186,937** | **1,508,773** |
| Shareholders' equity | 80,076 | 81,284 | 82,293 | 93,566 | **101,315** | **817,715** |
| **Per share of common stock (Yen and U.S. dollars) :** | | | | | | |
| Net income | ¥ 76.04 | ¥ 54.73 | ¥ 48.55 | ¥ 50.19 | **¥ 297.62** | **$ 2.40** |
| Cash dividends | 16.00 | 16.00 | 16.00 | 16.00 | **24.00** | **0.19** |
| Shareholders' equity | 2,305.62 | 2,340.49 | 2,369.45 | 2,474.04 | **2,777.01** | **22.41** |
| Shareholders' equity ratio | 51.2% | 53.9% | 52.6% | 58.7% | **54.2%** | |
| Rate of Return On Equity(ROE) | 3.3 | 2.4 | 2.1 | 2.0 | **11.5** | |

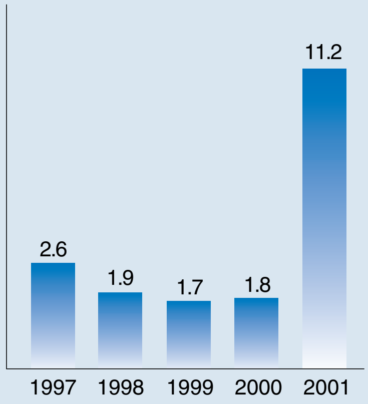
**Net sales**
(Billions of yen)




**Operating profit**
(Billions of yen)




**Net income**
(Billions of yen)



# TOPICS

## Listed on the TSE


| | |
|---|---|
| November 1983 | Listed on the Second Section of the Osaka Securities Exchange |
| September 2000 | Listed on the First Section of the Osaka Securities Exchange |

December 20, 2000
Listed on the First Section of the Tokyo Stock Exchange

## Introduction electronic money settlement terminal


At cash register in a convenience store
《SIP-40》

We have developed the SIP-40 settlement terminal for stores that can instantly settle purchase by prepaid electronic money by putting a non-contact IC card over it, and the PIM-30 compact IC card electronic money charger that can accept 1000 yen note. Both machines are used as terminals for the prepaid electronic money service “Edy” promoted by bitwallet, Inc., an electronic money system business promoter. We will promote this electronic money related device business.

## Glory products are working in the Universal Studios Japan™


In a popcorn cart

Vending machine for ponchos



A lot of Glory products make the flow of money much smoother in the Universal Studios Japan™ that opened in Osaka March 2001.

The RT-10 coin change machines, the No. 1 holder of the market share in Japan, are used in every shop.

Glory’s cash settlement systems are used by cashiers. We also provided moneychangers and coin-operated lockers for its locker corners.

## Launching debit card business


Debit card at cash register

We have started a debit card business for shopping payment by cash cards issued by financial institutions. The debit card system instantly debits customer accounts with the price by using terminals placed at registers in retail shops.

We place multi-settlement terminals supporting debit cards in various retail shops and conduct settlement operations such as payment and remittance for them by using our own GCAN (Glory Card and Network) Center.

## Supporting newly issued 2000 yen banknote and 500 yen coin

The 2000 yen banknote and the 500 yen coin were issued on July and August 2000 respectively.

We coped with the new demand for various money handling machines of financial institutions and retail shops as well as modification of existing machines to make them handle new currencies with all our might.

We introduced the EN-100 multifunction money exchanger that can handle 2000 yen banknote as the first in the industry.


Multifuncton Money Exchanger《EN-100》

## Introduction of a new system for Pachinko industry

The P-BANK SQUARE (hall total system) can centrally control various data such as members, premiums, sales and Pachinko machines. By this system, customers can enjoy much advanced services by centrally processed, analyzed, and controlled data, and Pachinko parlors can realize much efficient management.


Pachinko Ball Vender
《JSP-31A》


At Pachinko parlor

# CONSOLIDATED BALANCE SHEETS

GLORY LTD. and its consolidated subsidiaries
At March 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2001** | 2000 | **2001** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 56,015** | ¥ 52,581 | **$ 452,098** |
| Time deposits | **1,034** | 711 | **8,345** |
| Notes and accounts receivable | | | |
| Notes | **5,860** | 3,018 | **47,296** |
| Accounts | **32,730** | 23,887 | **264,164** |
| Other | **599** | 148 | **4,834** |
| Less: allowance for credit losses | **(237)** | (186) | **(1,912)** |
| | **38,952** | 26,867 | **314,382** |
| Inventories (Note 4) | **29,504** | 21,963 | **238,127** |
| Deferred tax assets (Note 14) | **3,826** | 1,425 | **30,879** |
| Other current assets | **1,588** | 794 | **12,816** |
| **Total current assets** | **130,919** | 104,343 | **1,056,650** |
| **Property,plant and equipment:** | | | |
| Land (Note 5) | **12,798** | 12,819 | **103,292** |
| Buildings and structures (Note 5) | **26,985** | 26,887 | **217,796** |
| Machinery and equipment | **38,798** | 37,821 | **313,139** |
| Construction in progress | **15** | 40 | **121** |
| | **78,596** | 77,567 | **634,348** |
| Less: accumulated depreciation | **(44,728)** | (43,016) | **(361,000)** |
| **Net property, plant and equipment** | **33,869** | 34,552 | **273,357** |
| **Investments and other assets:** | | | |
| Investments in securities (Note 3) | **7,638** | 7,421 | **61,646** |
| Investments in and advances to unconsolidated subsidiaries and affiliates | **1,353** | 1,082 | **10,920** |
| Deferred tax assets (Note 14) | **4,140** | 1,742 | **33,414** |
| Software costs,net | **3,825** | 3,162 | **30,871** |
| Other | **5,236** | 7,029 | **42,259** |
| | **22,192** | 20,436 | **179,110** |
| Less: allowance for credit losses | **(46)** | (178) | **(371)** |
| **Total investments and other assets** | **22,147** | 20,260 | **178,740** |
| **Translation adjustments on foreign currency financial statements** | — | 263 | — |
| **Total asset** | **186,937** | 159,419 | **1,508,773** |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2001 | 2000 | Thousands of U.S. dollars (Note 1) 2001 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term debt (Note 5) | **¥ 26,742** | ¥ 31,704 | **$ 215,835** |
| Notes and accounts payable: | | | |
| Notes | **11,773** | 6,594 | **95,020** |
| Accounts | **8,374** | 7,899 | **67,586** |
| | **20,147** | 14,493 | **162,606** |
| Accrued income taxes (Note 14) | **11,155** | 1,947 | **90,032** |
| Accrued expenses | **6,032** | 3,875 | **48,684** |
| Other current liabilities | **10,445** | 7,374 | **84,301** |
| **Total current liabilities** | **74,524** | 59,395 | **601,485** |
| **Long-term liabilities:** | | | |
| Accrued severance indemnities (Note 6) | **9,071** | 4,334 | **73,212** |
| Other long-term liabilities (Note 5) | **379** | 542 | **3,058** |
| **Total long-term liabilities** | **9,450** | 4,877 | **76,271** |
| **Minority interests** | **1,646** | 1,580 | **13,284** |
| **Contingencies (Note 7)** | | | |
| **Shareholders' equity: (Note 10)** | | | |
| Common stock, ¥50 par value per share: | | | |
| Authorized - 128,664,000 shares | | | |
| Issued -36,484,205 shares at March 31,2001 and | **12,892** | 12,892 | **104,051** |
| 37,820,205 shares at March 31,2000 | — | — | — |
| Additional paid-in capital | **19,119** | 19,119 | **154,309** |
| Retained earnings | **69,376** | 61,555 | **559,935** |
| Net unrealized holding gains on securities | **10** | — | **80** |
| Translation adjustments on foreign currency financial statements | **(82)** | — | **(661)** |
| Less: treasury stock, at cost | **(0)** | (1) | **(7)** |
| **Total shareholders' equity** | **101,315** | 93,566 | **817,715** |
| **Total liabilities and shareholders' equity** | **186,937** | 159,419 | **1,508,773** |

# CONSOLIDATED STATEMENTS OF INCOME

GLORY LTD. and its consolidated subsidiaries
Years ended March 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Operating income:** | | | |
| Net sales | **¥ 151,704** | ¥ 108,544 | **$ 1,224,406** |
| **Operating expenses:** | | | |
| Cost of sales | **(91,611)** | (70,707) | **(739,394)** |
| Selling, general and administrative expenses (Note 12) | **(33,895)** | (29,060) | **(273,567)** |
| **Total operating expenses** | **(125,507)** | (99,767) | **(1,012,970)** |
| **Operating profit** | **26,197** | 8,776 | **211,436** |
| **Other income(expenses):** | | | |
| Interest and dividend income | **225** | 203 | **1,815** |
| Interest expense | **(449)** | (711) | **(3,623)** |
| Foreign exchange gain(loss), net | **176** | (346) | **1,420** |
| Loss on disposal or sale of inventories | **(676)** | (680) | **(5,456)** |
| Prior year adjustment of accrued severance indemnities | **(4,331)** | (2,210) | **(34,955)** |
| Loss on disposal of software | **(870)** | — | **(7,021)** |
| Net loss on disposal or sale of property and equipment | **(385)** | (149) | **(3,107)** |
| Impairment loss on deposits for golf club membership | **(1,065)** | — | **(8,595)** |
| Other, net | **362** | (539) | **2,921** |
| **Total other income(expenses), net** | **(7,015)** | (4,432) | **(56,618)** |
| **Income before income taxes and minority interests** | **19,182** | 4,344 | **154,818** |
| **Income taxes: (Note 14)** | | | |
| Current | **(12,630)** | (3,166) | **(101,937)** |
| Deferred | **4,774** | 875 | **38,531** |
| | **(7,855)** | (2,291) | **(63,405)** |
| **Income before minority interests** | **11,326** | 2,054 | **91,412** |
| **Minority interests** | **(134)** | (297) | **(1,081)** |
| **Net income** | **11,191** | 1,756 | **90,322** |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

GLORY LTD. and its consolidated subsidiaries
Years ended March 31, 2001 and 2000

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares issued | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains on securities | Translation adjustments on foreign currency financial statements | Treasury stock |
| **Balance at March 31, 1999** | 34,730,969 | ¥ 12,738 | ¥ 12,207 | ¥ 57,347 | ¥ — | ¥ — | ¥ (0) |
| Net income for the year | — | — | — | 1,756 | — | — | — |
| Cash dividends paid | — | — | — | (555) | — | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (128) | — | — | — |
| Prior years' tax effect from initial application of accounting for income taxes | — | — | — | 1,878 | — | — | — |
| Increase in retained earnings due to acquisition of a new consolidated subsidiary | — | — | — | 70 | — | — | — |
| Increase in retained earnings due to acquisition of additional shares for a consolidated subsidiary | 3,089,236 | 154 | 6,912 | 1,186 | | | |
| Increase in treasury stock | — | — | — | — | — | — | (1) |
| **Balance at March 31, 2000** | 37,820,205 | 12,892 | 19,119 | 61,555 | — | — | (1) |
| Net income for the year | — | — | — | 11,191 | — | — | — |
| Net unrealized holding gains on securities | — | — | — | — | 10 | — | — |
| Translation adjustments on foreign currency financial statements | — | — | — | — | — | (82) | — |
| Cash dividends paid | — | — | — | (605) | — | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (160) | — | — | — |
| Treasury stock retired | (1,336,000) | — | — | (2,605) | — | — | — |
| Decrease in treasury stock | — | — | — | — | — | — | 0 |
| **Balance at March 31, 2001** | 36,484,205 | ¥ 12,892 | ¥ 19,119 | ¥ 69,376 | ¥ 10 | ¥ (82) | ¥ (0) |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings | Net unrealized holding gains on securities | Translation adjustments on foreign currency financial statements | Treasury stock |
| **Balance at March 31, 2000** | $ 104,051 | $ 154,309 | $ 496,811 | $ — | $ — | $ (8) |
| Net income for the year | — | — | 90,322 | — | — | — |
| Net unrealized holding gains on securities | — | — | — | 80 | — | — |
| Translation adjustments on foreign currency financial statements | — | — | — | — | (661) | — |
| Cash dividends paid | — | — | (4,882) | — | — | — |
| Bonuses to directors and corporate auditors | — | — | (1,291) | — | — | — |
| Treasury stock retired | — | — | (21,025) | — | — | — |
| Decrease in treasury stock | — | — | — | — | — | 0 |
| **Balance at March 31, 2001** | $ 104,051 | $ 154,309 | $ 559,935 | $ 80 | $ (661) | $ (7) |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

GLORY LTD. and its consolidated subsidiaries
Years ended Mrch 31, 2001 and 2000

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Operating activities:** | | | |
| Income before income taxes and minority interests | **¥ 19,182** | ¥ 4,344 | **$ 154,818** |
| Adjustments for: | | | |
| Depreciation and amortization | **5,105** | 5,031 | **41,202** |
| Provision for accrued severance indemnities | **4,736** | 2,043 | **38,224** |
| Interest and dividend income | **(225)** | (203) | **(1,815)** |
| Interest expenses | **449** | 711 | **3,623** |
| Net loss on sales or disposal of property and equipment | **385** | 149 | **3,107** |
| Loss on disposal of software | **870** | — | **7,021** |
| Impairment loss on deposits for golf club membership | **1,065** | — | **8,595** |
| Increase in notes and accounts receivable | **(11,139)** | (2,605) | **(89,903)** |
| Decrease (Increase) in inventories | **(7,338)** | 933 | **(59,225)** |
| Increase in notes and accounts payable | **6,683** | 1,278 | **53,938** |
| Increase in accrued expenses | **2,157** | 125 | **17,409** |
| Other, net | **313** | (158) | **2,526** |
| **Sub total** | **22,246** | 11,650 | **179,548** |
| Interest and dividend income received | **223** | 206 | **1,799** |
| Interest expenses paid | **(447)** | (716) | **(3,607)** |
| Income taxes paid | **(3,422)** | (3,902) | **(27,619)** |
| **Net cash provided by operating activities** | **18,599** | 7,238 | **150,112** |
| **Investing activities:** | | | |
| Payments for purchase of property and equipment | **(3,479)** | (3,371) | **(28,079)** |
| Proceeds from sales of property and equipment | **60** | 208 | **484** |
| Payments for purchase of investments in securities | **(567)** | (672) | **(4,576)** |
| Proceeds from sales of investments in securities | **247** | 341 | **1,993** |
| Payments for purchase of software | **(2,566)** | (836) | **(20,710)** |
| Net increase in time deposits | **(315)** | (313) | **(2,542)** |
| Increase in cash due to acquisition of a new consolidated subsidiary | **—** | 376 | **—** |
| Increase (decrease) in other investments, net | **(183)** | 23 | **(1,476)** |
| **Net cash used in investing activities** | **(6,803)** | (4,245) | **(54,907)** |
| **Financing activities:** | | | |
| Net increase (decrease) in short-term loans | **(4,793)** | 440 | **(38,684)** |
| Redemption of the uncollateralized convertible yen bonds | **—** | (5,000) | **—** |
| Cash dividends paid | **(605)** | (556) | **(4,882)** |
| Treasury stock retired | **(2,605)** | — | **(21,025)** |
| Other, net | **(411)** | (499) | **(3,317)** |
| **Net cash used in financing activities** | **(8,415)** | (5,615) | **(67,917)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **53** | (65) | **427** |
| **Net increase (decrease) in cash and cash equivalents** | **3,433** | (2,687) | **27,715** |
| **Cash and cash equivalents at beginning of the year** | **52,581** | 55,268 | **424,382** |
| **Cash and cash equivalents at end of the year** | **56,015** | 52,581 | **452,098** |

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GLORY LTD. and its consolidated subsidiaries

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by GLORY LTD. (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Director of Kanto Finance Bureau in Japan have been reclassified and relevant-notes have been added, if appropriate, for the convenience for readers outside Japan. Certain prior-year amounts have been reclassified to conform with current year's presentation.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90=U.S.$1, the rate of exchange prevailing at March 31, 2001 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

### 2. Summary of Significant Accounting Policies

**(a) Consolidated Principles**

The accompanying consolidated financial statements include the accounts of the Company and its 11 subsidiaries.

All significant inter-company accounts and transactions are eliminated in consolidation.

The consolidated subsidiaries are listed below.

| 2001 | | 2000 | |
|---|---|---|---|
| Name | Year end | Name | Year end |
| GLORY SHOJI CO., LTD. | March 31 | GLORY SHOJI CO., LTD. | March 31 |
| GLORY KIKI CO.,LTD. | March 31 | GLORY KIKI CO.,LTD. | March 31 |
| HOKKAIDO GLORY CO.,LTD. | March 31 | HOKKAIDO GLORY CO.,LTD. | March 31 |
| GLORY SERVICE CO.,LTD. | March 31 | GLORY SERVICE CO.,LTD. | March 31 |
| GLORY • LINCS CO.,LTD. | March 31 | GLORY • LINCS CO.,LTD. | March 31 |
| G • A • M CO.,LTD. | March 31 | G • A • M CO.,LTD. | March 31 |
| KASAI GLORY LTD. | March 31 | KASAI GLORY LTD. | March 31 |
| SAYO GLORY LTD. | March 31 | SAYO GLORY LTD. | March 31 |
| GLORY TEC LTD. | March 31 | GLORY TEC LTD. | March 31 |
| Glory (U.S.A.) Inc. | March 31 | Glory (U.S.A.) Inc. | March 31 |
| Glory GmbH | March 31 | Glory GmbH | March 31 |

As a result of the Company's additional acquisition of G・A・M CO., LTD. became a majority-owned subsidiary of the Company and started to be consolidated from the fiscal year ended March 31, 2000.

Considering materiality for the consolidated financial statements, investments in three unconsolidated subsidiaries, A・Z INC., SYSTEM RESEARCH CO., LTD., GLORY IST CO., LTD. are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and affiliates, which would have immaterial effect for the consolidated financial statements, are carried at cost.

**(b) Translation of Foreign Currency**

Revenue and expense items arising from transactions denominated in foreign currencies are in generally translated into Japanese yen at the rates effective at the respective transaction rates.

As of March 31, 2000, foreign currencies and short-term receivable and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates prevailing at the balance sheet date, and long-term receivables and payables denominated in foreign currencies were translated at the historical rates prevailing at the transaction dates.

Effective from the year ended March 31, 2001, the Company and its subsidiaries have adopted the Financial Accounting Standard for Foreign Currency Transaction revised by the Business Accounting Deliberation Council, which requires that all monetary assets and liabilities denominated in foreign currencies, whether short-term or long-term, are translated into Japanese yen at the current exchange rates prevailing at the balance sheet date. The effect of adoption of the revised standard for the year ended March 31, 2001 is to increase income before income taxes and minority interests by ¥26 million ($209 thousand).

The resulting translation gains or losses are included in determination of net income for the current year.

The foreign currency financial statements of overseas subsidiaries are translated into Japanese yen for consolidation purposes under the method prescribed by the Business Accounting Deliberation Council. Balance sheet accounts other than shareholders' equity, which is translated at the historical rates, are translated at the current rate prevailing the respective balance sheet date.

Differences arising from translation stated under the section entitled “Translation adjustments on foreign currency financial statements” in assets as of March 31, 2000 has been charged to be included in shareholders' equity (¥−82 million ($−661 thousand)) and minority interest (¥−51 million ($−411 thousand)) in accordance with the revised standard as of March 31, 2001.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents compose of cash in hand, deposits held at call with bank and all highly liquid investments with original maturities of three months or less which present insignificant risk of change in value.

**(d) Short-term Investments and Investments in Securities**

As of March 31,2000, securities listed on stock exchanges were stated at the lower of cost or market, cost being determined by the moving average method.

Other securities were stated at cost, cost being determined by the moving average method.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the new Financial Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council. Following the new standard, the management determines the appropriate classification of securities, and all securities other than investments in subsidiaries and affiliates are classified as “Other securities” which represent securities other than trading securities and held-to-maturity securities. Marketable “Other securities” are stated at market value. Adjustments to market value net of tax are recorded as increase or decrease in shareholders' equity. Such unrealized holding gains on “Other securities” in shareholders' equity are not available for distribution as dividends and bonuses to directors and corporate auditors under the Commercial Code. Costs of their sales are determined by the moving average method. “Other securities” which are not marketable are stated at cost, cost being determined by the moving average method.

The effect of adoption of the new standard for the year ended March 31, 2001 is to increase income before income taxes and minority interests by ¥508 million ($4,100 thousand).

**(e) Inventories**

The Company and its subsidiaries' inventories other than the subsidiaries' merchandise are stated at cost, mainly cost being determined by the periodic average method. The subsidiaries' merchandise is stated at cost, mainly cost being determined by the moving average method.

**(f) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic subsidiaries' property and equipment other than buildings acquired on and after April 1, 1998 is computed using the declining balance method. The Company and its domestic subsidiaries' buildings acquired on and after April 1, 1998 are depreciated based on the straight-line method.

Depreciation of overseas subsidiaries is mainly computed using the straight-line method.

The range of the estimated useful lives is as follows:

| | 2001 | 2000 |
|---|---|---|
| Buildings and structures | 3 to 50 years | 3 to 60 years |
| Machinery and equipment | 2 to 20 years | 2 to 20 years |

Expenditures for maintenance, repairs and minor renewals are charged to income as incurred.

**(g) Finance Leases**

Where the finance leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property is not capitalized, and the relating lease expenses are charged to income in the period incurred in accordance with the Accounting Standard for Lease issued by the Business Accounting Deliberation Council.

**(h) Capitalized Software Costs**

Effective April 1, 1999, the Company and its domestic subsidiaries capitalized the costs of software for internal-use and the costs are amortized based on the straight-line method over the estimated useful lives, 5 years. On the other hand, the capitalized costs of software for sales are amortized at the greater amount based on the ratio determined by the estimated sales quantity of each product or based on the straight-line method over the remaining estimated economic lives (not exceeding 3 years), in accordance with new Practical Guidance for Accounting for Research and Development Costs and Software Costs issued by the Japanese Institute of Certified Public Accountants. The effects of this change for the year ended March 31, 2000 were immaterial.

**(i)Allowance for Credit Losses**

Allowance for credit losses of the Company and its domestic subsidiaries is provided at the higher of the average percentage of bad debt loss on actual defaults suffered during certain past periods or statutory percentage prescribed under the Income Taxes Laws, together with an amount necessary to cover possible uncollectible amounts based on management's judgement. Allowance for credit losses of the Company's overseas subsidiaries is provided in an amount deemed uncollectible based on management's judgement.

**(j) Accrued Bonuses**

Accrued employees' bonuses is recorded to provide for bonus payments to employees based on the actual estimated amounts.

**(k) Accrued Severance Indemnities**

As of March 31, 1999 the accrued severance indemnities represented 40% of the liability that the Company and its domestic subsidiaries would be required to pay if all eligible employees voluntarily terminated employment at the balance sheet date, less the benefits payable under the non-contributory pension plan. Such liability is not funded.

For the year ended March 31, 2000, the Company and its domestic subsidiaries changed its accounting policy in respect of the accounting for the accrued severance indemnities, providing accrued severance indemnities in the total amount of 100% of the liability that the Company and its domestic subsidiaries would be required to pay if all eligible employees voluntarily terminated employment at balance sheet date, less the benefits payable under the non-contributory pension plan, and the past service cost for the pension plan estimated at the balance sheet date.

This accounting change is made to provide a more proper allocation of the cost of retirement benefits and further strengthen the financial position, preparing for future adoption of new retirement benefit accounting which results in the deficiency of the accrued severance indemnities balance against the benefit obligation to be provided being considerable. The effect of this change for the year ended March 31, 2000 was to increase operating income by ¥40 million and decrease income before income taxes and minority interests by ¥2,169 million, respectively.

The pension contribution of the Company and its domestic subsidiaries was charged to income when paid.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries have adopted the new Financial Accounting Standard for Retirement Benefits issued by the Business Accounting Deliberation Council. In accordance with the new standard, accrued severance indemnities of employees are provided based on the estimated amount of projected benefit obligations in excess of the plan assets at fair value. The transition amount arising from adopting the new standard was ¥4,331 million ($ 34,955 thousand) and charged to income during the current year. The actuarial differences are amortized using the declining balance method over 15years of certain years within the average remaining service period counting from the next year in which they arise.

The effect of adoption of the new standard for the year ended March 31, 2001 is to decrease income before income taxes and minority interests by ¥ 5,148 million ($ 41,549 thousand).

The accrued severance indemnities includes lump-sum retirement benefit for the Company and its consolidated subsidiaries' directors and corporate auditors. The amount would be paid at the balance sheet date in accordance with the Company's internal regulations if all directors and corporate auditors retired at that date. Amounts payable to directors and corporate auditors on retirement are subject to the approval of the shareholders' meeting.

**(l) Income Taxes**

In the year ended March 31, 1999, the Company and its subsidiaries provided for income taxes based on the amounts currently payable upon the tax return filed with tax authorities for each fiscal year.

Effective for the year ended March 31, 2000, the Company and its subsidiaries have adopted the Financial Accounting Standard on Accounting for Deferred Income Taxes issued by the Business Accounting Deliberation Council, which requires that deferred income taxes be provided for temporary difference between the carrying amount of assets and liabilities for financial reporting and income tax purpose. The effect of initial adoption for the year ended March 31, 2000 was to increase the net income by ¥875 million and retained earnings by ¥2,754 million, respectively.

**(m) Research and Development**

Effective April 1, 1999, research and development expenditures for trial products, except for the expenditure recorded as inventories at March 31, 1999 are charged to income as incurred in accordance with new Practical Guidance for Accounting for Research and Development Costs and Software Costs issued by the Japanese Institute of Certified Public Accountants. As permitted under the new Practice Guidance, the research and development expenditures recorded as inventories at March 31, 1999 are continued to be capitalized until the trail production completes, which was the accounting treatment adopted before or in the year ended March 31, 1999, and thereafter are charged as other expenses. The effects of the change for the year ended March 31, 2000 were to increase operating income by ¥60 million and decrease income before income taxes and minority interests by ¥526 million.

**(n) Acquisition of Subsidiaries' Share**

Details of the acquisition cost of G･A･M CO., LTD's share and its reconciliation in the accompanying consolidated statement of cash flows for the year ended March 31, 2000 are as follows:

| | Millions of yen |
|---|---|
| Current assets | ¥ 1,582 |
| Property, plant, and equipment and Investments and other assets | 377 |
| Current liabilities | (1,489) |
| Long-term liabilities | (388) |
| Minority interest | (30) |
| Difference resulting from elimination of the Company's investment and its equity of the subsidiary | (14) |
| Acquisition cost | 37 |
| Cash and cash equivalents | 413 |
| Increase in cash due to acquisition of a new consolidated subsidiary | ¥ 376 |

**(o) Net Income and Dividend Per Share**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not applicable due to no outstanding warrant or convertible bond.

Cash dividends per share represent interim dividend paid and annual dividends declared as applicable to the respective years.

**(p) Appropriation of Retained Earnings**

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, a proposal by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriation referred to the above.

## 3. Investments in Securities

As of March 31, 2001, "Other securities" are analyzed as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Carrying Amounts | Acquisition Costs | Difference |
| Market value available | | | |
| Securities of which carrying amounts exceed their acquisition cost | | | |
| Equity securities | ¥ 3,090 | ¥ 2,340 | ¥ 750 |
| Bond and debenture | 201 | 200 | 1 |
| | 3,292 | 2,540 | 752 |
| Securities of which carrying amounts do not exceed their acquisition cost | | | |
| Equity securities | 3,062 | 3,797 | (735) |
| | 6,355 | ¥ 6,338 | ¥ 16 |
| Market value not available | 1,283 | | |
| total | ¥ 7,638 | | |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Carrying Amounts | Acquisition Costs | Difference |
| Market value available | | | |
| Securities of which carrying amounts exceed their acquisition cost | | | |
| Equity securities | $ 24,939 | $ 18,886 | $ 6,053 |
| Bond and debenture | 1,630 | 1,614 | 16 |
| | 26,569 | 20,500 | 6,069 |
| Securities of which carrying amounts do not exceed their acquisition cost | | | |
| Equity securities | 24,722 | 30,654 | (5,932) |
| | 51,291 | $ 51,154 | $ 137 |
| Market value not available | 10,355 | | |
| total | $ 61,646 | | |

"Other securities" sold
for the year ended March 31, 2001 were summarized as follows:

| | Millions of Yen | Thousands of U.S. dollars |
|---|---|---|
| Proceeds of sales | ¥ 206 | $ 1,662 |
| Gains of sales | 20 | 161 |
| Losses of sales | 17 | 137 |

The aggregate annual maturities of bonds and debenture included in "Other securities" outstanding as of March 31, 2001 were as follows:

| Year ending March 31 | Millions of Yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 | ¥ 100 | $ 807 |
| 2003-2006 | 100 | 807 |

As of March 31, 2000, investments in securities were as follows:

| | Millions of Yen | | |
|---|---|---|---|
| | Carrying Amounts | Market value | Unrealized gain(loss) |
| Investments in securities: | | | |
| Market value available | | | |
| Equity securities | ¥ 6,205 | ¥ 7,483 | ¥ 1,277 |
| Bonds and debentures | 200 | 203 | 3 |
| | 6,405 | ¥ 7,686 | ¥ 1,280 |
| Market value not available | 1,016 | | |
| Total | ¥ 7,421 | | |

The fair value information in respect of investments in securities, whose market value is not available, is not required under Japanese regulation.

## 4. Inventories

Inventories as of March 31, 2001 and 2000 comprised the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Finished goods and merchandise | **¥ 14,480** | ¥ 12,415 | **$ 116,868** |
| Work in process | **9,316** | 6,392 | **75,189** |
| Raw materials and supplies | **5,708** | 3,156 | **46,069** |
| | **¥ 29,504** | ¥ 21,963 | **$ 238,127** |

## 5. Short-term debt and Long-term debt

Short-term debt as of March 31, 2001 and 2000 comprised the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Loans from banks and an insurance Company | **¥ 26,700** | ¥ 31,431 | **$ 215,496** |
| | **¥ 26,700** | ¥ 31,431 | **$ 215,496** |

The average interest rate applicable to short-term bank loans as of March 31, 2001 and 2000 was 1.4% and 1.3%, respectively.

Long-term debt (included in Other long-term liabilities on the accompanying consolidated balance sheet) as of March 31, 2001 and 2000 comprised the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Loans from banks and an insurance Company, due from 2001 to 2005 | **¥ 181** | ¥ 581 | **$ 1,460** |
| Less: portion due within one year | **(42)** | (272) | **(338)** |
| | **¥ 139** | ¥ 308 | **$ 1,121** |

The average interest rate applicable to long-term loans as of March 31, 2001 and 2000 was 2.6% and 2.5%, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 | ¥ 42 | $ 338 |
| 2003 | 42 | 338 |
| 2004 | 42 | 338 |
| 2005 and thereafter | 52 | 419 |
| | ¥ 181 | $ 1,460 |

As of March 31, 2001 and 2000, assets pledged as collateral for long-term debt, including the current portion of long-term debt, were as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Land | **¥ 400** | ¥ 474 | **$ 3,228** |
| Building and structures | **122** | 237 | **984** |

## 6. Severance and Pension Plan

Employees of the Company and eight domestic consolidated subsidiaries with more than one year of service are entitled to receive lump-sum indemnities upon termination .The amount of the benefits is determined based upon current basic rate of pay, length of service and cause of retirement.

The Company and its domestic subsidiaries have five non-contributory pension plans, which are defined benefit plans, covering a portion of their indemnities under their internal regulations for employees. The Company's non-contributory pension plans cover approximately 70% of the indemnities under the Company's internal regulation for employees.

In addition, the Company and its domestic subsidiaries have one united contributory funded benefit pension plan which is pursuant to the Japanese Welfare Pension Insurance Law and defined benefit plan. This plan covers a portion of the governmental welfare pension program, under which both of the employer and employees contribute.

The extra indemnities upon termination which may be paid to employees are not included in accrued severance indemnities.

The following provided a reconciliation of projected benefit obligation to accrued severance indemnities for employees recognized on the accompanying consolidated balance sheet as of March 31,2001.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Projected benefit obligation | ¥ 26,737 | $ 215,795 |
| Fair value of plan assets | (16,541) | (133,502) |
| Funded status | 10,195 | 82,284 |
| Unrecognized actuarial differences | (2,235) | (18,038) |
| Net liability recognized in balance sheet | 7,960 | 64,245 |
| Prepaid pension expense | 153 | 1,234 |
| Accrued severance indemnities for employees | ¥ 8,113 | $ 65,480 |

Projected benefit obligation of certain subsidiaries were calculated using the simplified method, which is permitted to be applied by small size of companies, in conformity with the Accounting Standard for Retirement Benefits.

Components of net periodic benefit cost for the year ended March 31, 2001 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Service cost | ¥ 1,725 | $ 13,922 |
| Interest cost | 812 | 6,553 |
| Expected return on plan assets | (290) | (2,340) |
| Transition amount recognized | 4,331 | 34,955 |
| Net periodic benefit cost | ¥ 6,578 | $ 53,091 |

Service cost does not include employees' contribution of contributory funded benefit pension plan.

Projected benefit obligation was determined using a discount rate of 3.5%, and the expected rates of return on planes assets were range of 0.9% to 2.1% for the year ended March 31, 2001. Projected benefit obligation is attributed to periods based on year of service.

## 7. Contingencies

The Company provided guarantees for bank loans drawn by its employees. Such guarantees aggregated ¥139 million ($1,121 thousand) and ¥147 million as of March 31, 2001 and 2000, respectively.

The Company's group provided guarantees for lease obligations owed by its customers. Such guarantees amounted to ¥ 804 million ($6,489 thousand) as of March 31, 2001.

## 8. Lease

Where the financing leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property is not capitalized and the relating lease expenses are charged to income in the period incurred as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Lease expense | **¥ 865** | ¥ 969 | **$ 6,981** |

Future lease payments under non-cancelable operating lease are as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Due within one year | **¥ 56** | ¥ 58 | **$ 451** |
| Due after one year | **140** | 162 | **1,129** |
| Total | **¥ 197** | ¥ 220 | **$ 1,580** |

Additional information, assuming capitalization of the leased property, requested by the Business Accounting Deliberation Council, which are disclosed as not included in the profit and loss accounts or balance sheets, is as follows:

Notional acquisition cost, and accumulated depreciation:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Leased property: | **2001** | 2000 | **2001** |
| Machinery and equipment | **¥ 4,021** | ¥ 4,381 | **$ 32,453** |
| Computer software costs | **3** | 8 | **24** |
| Less: | | | |
| Accumulated depreciation | **1,685** | 2,343 | **13,599** |
| | **¥ 2,340** | ¥ 2,046 | **$ 18,878** |

Notional depreciation expenses for the year ended March 31, 2001 and 2000 were ¥865 million ($6,981 thousand) and ¥969 million, respectively.
Notional acquisition cost means the cost which is characterized as the total lease payment, including interest due to the immateriality of the leased property against tangible fixed assets capitalized on the accompanying consolidated balance sheets. Notional depreciation expenses are calculated by the straight-line method assuming that there is no scrap value over the term of the lease based on notional acquisition cost.

## 9. Financial Instruments

The Company and certain consolidated subsidiaries enter into forward foreign exchange contracts for the year ended March 31, 2000. These contracts are designed to hedge certain exposures to foreign exchange rate fluctuations on monetary assets and liabilities denominated in foreign currencies and manage stabilization of income. The Company and certain consolidated subsidiaries do not hold or issue any financial instruments for trading or speculative purpose.
The Company and its consolidated subsidiaries' management believe that there is no risk on foreign exchange fluctuation for forward foreign exchange contracts.

## 10. Shareholders' Equity

The Japanese Commercial Code provides that at least 50% of the issue price of new shares, with a minimum of the par value thereof, designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.
Under the Japanese Commercial Code, an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period is set aside in a legal reserve until such reserve equals 25% of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit with the approval of a shareholders' meeting but is not available for dividend payments. The legal reserve of the Company and its consolidated subsidiaries are included in the retained earnings and are not shown separately in the accompanying consolidated Balance sheets.

## 11. Unrealized Holding Gains on Securities

Unrealized holding gains on securities in shareholders' equity as of March 31, 2001 are analyzed as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Market value in excess of cost | ¥ 16 | $ 137 |
| Deferred tax assets | (6) | (57) |
| Unrealized holding gains on securities, net of tax | 10 | 80 |

## 12. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of income mainly consisted of the following:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Employees' salaries and bonuses | **¥ 10,416** | ¥ 8,985 | **$ 84,067** |
| Rent | **3,594** | 3,557 | **29,007** |

## 13. Research and Development

Research and development expenditures charged to administrative expense and manufacturing cost for the year ended March 31, 2001 and 2000 were ¥10,961 million ($ 88,466 thousand) and ¥9,458 million, respectively.

## 14. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which resulted in statutory tax rate of approximately 42.0% in the aggregate for the year ended March 31, 2000. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective tax rate for the year ended March 31, 2000 differed from the statutory tax rate for the following reasons:

| | |
|---|---|
| Statutory tax rate | 42.0 % |
| Expenses not deductible for income tax purposes, entertainment expense and others | 9.9 |
| Revenue not deductive for income tax purposes, Dividend received and others | (0.7) |
| Inhabitant tax levied per capital | 0.8 |
| Equity in net income of unconsolidated subsidiaries | 0.9 |
| Other | (0.2) |
| Effective tax rate | 52.7 % |

Since the difference between the effective tax rate and the statutory tax rate is immaterial, such information is not required to be disclosed under Japanese regulation for the year ended March 31, 2001.

The components of the Company and its subsidiaries' deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Deferred tax assets: | | | |
| Accrued severance indemnities | **¥ 3,586** | ¥ 1,541 | **$ 28,942** |
| Accrued bonuses | **1,426** | 441 | **11,509** |
| Enterprise tax | **1,019** | 153 | **8,224** |
| Unrealized profit among the Company and its consolidated subsidiaries eliminated | **971** | 551 | **7,836** |
| Impairment loss on deposits for golf club membership | **429** | — | **3,462** |
| Research and development expenditures | **304** | 136 | **2,453** |
| Other | **464** | 412 | **3,744** |
| Total gross deferred tax assets | **8,204** | 3,237 | **66,170** |
| Deferred tax liabilities: | | | |
| Reserve for special depreciation | **(177)** | (69) | **(1,428)** |
| Other | **(60)** | — | **(484)** |
| Total gross deferred tax liabilities | **(238)** | (69) | **(1,912)** |
| Net deferred tax assets | **7,966** | 3,167 | **64,294** |

## 15. Segment Information

The Company and its consolidated subsidiaries have divided its operations into three reportable business segments "Money handling machines and cash management system", "Vending machines and automatic service equipment", and "Others", based on similarities in function of finish goods and merchandise.
The reporting segments follow the same accounting policies used for the Company's consolidated financial statements and described in summary of significant accounting policies.
The effect of adoption of the new Financial Accounting Standard for Retirement Benefits for the year ended March 31, 2001, was to decrease segment operating profit of "Money handling machines and cash management system", "Vending machines and automatic service equipment", and "Others", by ¥ 503 million ($ 4,059 thousand), ¥ 218 million ($ 1,759 thousand) and ¥ 94 million ($ 758 thousand), respectively. The effect of these changes for the assets of each segment is immaterial.
The effect of the changes in the accounting for the accrued severance indemnities and research and development expenditures for the year ended March 31, 2000, was to increase segment operating profit of "Money handling machines and cash management system", "Vending machines and automatic service equipment", and "Others" by ¥74 million, ¥21 million and ¥5 million, respectively. The effect of these changes for the assets of each segment is immaterial.
All operating expenses are allocated to each business segment.
Major components of the assets shown as "Corporate" are the Company and its consolidated subsidiaries' surplus funds included in cash and cash equivalent, long-term investment fund included in investment in securities, and assets in administrative department.

**Business Segments**

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| **Net sales** | | | |
| Money handling machines and cash management system | | | |
| Customers | **¥ 88,563** | ¥ 59,354 | **$ 714,794** |
| Inter segment | **—** | — | **—** |
| Total | **88,563** | 59,354 | **714,794** |
| Vending machines and automatic service equipment | | | |
| Customers | **44,283** | 31,367 | **357,409** |
| Inter segment | **—** | — | **—** |
| Total | **44,283** | 31,367 | **357,409** |
| Other commodities and products | | | |
| Customers | **18,857** | 17,822 | **152,195** |
| Inter segment | **2,694** | 4,121 | **21,743** |
| Total | **21,552** | 21,943 | **173,946** |
| Elimination | **(2,694)** | (4,121) | **(21,743)** |
| Consolidated total | **¥ 151,704** | ¥ 108,544 | **$ 1,224,406** |

**Operating expenses**

| | Millions of Yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2001** | 2000 | **2001** |
| Money handling machines and cash management system | **¥ 71,256** | ¥ 53,232 | **$ 575,108** |
| Vending machines and automatic service equipment | **37,754** | 30,675 | **304,713** |
| Other commodities and products | **19,133** | 20,007 | **154,422** |
| Elimination | **(2,637)** | (4,148) | **(21,283)** |
| Consolidated total | **¥ 125,507** | ¥ 99,767 | **$ 1,012,960** |

**Operating profit**

| | | | |
|---|---|---|---|
| Money handling machines and cash management system | **¥ 17,307** | ¥ 6,121 | **$ 139,685** |
| Vending machines and automatic service equipment | **6,528** | 692 | **52,687** |
| Other commodities and products | **2,418** | 1,936 | **19,515** |
| Elimination and corporate | **(57)** | 27 | **(460)** |
| Consolidated total | **¥ 26,197** | ¥ 8,776 | **$ 211,427** |

**Assets**

| | | | |
|---|---|---|---|
| Money handling machines and cash management system | **¥ 70,848** | ¥ 64,239 | **$ 571,815** |
| Vending machines and automatic service equipment | **36,038** | 33,157 | **290,863** |
| Other commodities and products | **21,983** | 11,860 | **177,425** |
| Elimination | **(1,994)** | (1,696) | **(16,093)** |
| Corporate | **60,062** | 51,857 | **484,761** |
| Consolidated total | **¥ 186,937** | ¥ 159,419 | **$1,508,773** |

**Depreciation and amortization**

| | | | |
|---|---|---|---|
| Money handling machines and cash management system | **¥ 3,472** | ¥ 3,238 | **$ 28,022** |
| Vending machines and automatic service equipment | **1,347** | 1,449 | **10,871** |
| Other commodities and products | **285** | 343 | **2,300** |
| Corporate | **—** | — | **—** |
| Consolidated total | **¥ 5,105** | ¥ 5,031 | **$ 41,193** |

**Capital expenditure for segment assets**

| | | | |
|---|---|---|---|
| Money handling machines and cash management system | **¥ 3,978** | ¥ 2,995 | **$ 32,106** |
| Vending machines and automatic service equipment | **1,447** | 1,120 | **11,678** |
| Other commodities and products | **279** | 249 | **2,251** |
| Corporate | **—** | — | **—** |
| Consolidated total | **¥ 5,705** | ¥ 4,366 | **$ 46,035** |

There is no major geographic area other than Japan, in which net sales and assets are material. Ratio of sales to foreign customers for consolidated sales is also not material.

## 16. Subsequent Event

The following appropriation of the Company's retained earnings in respect of the year ended March 31, 2001 was proposed by the Board of Directors and approved by the shareholders at the annual gene00ral meeting held on June 28, 2001:

| Appropriations | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Cash dividends (¥16 per share) | ¥ 583 | $ 4,705 |
| Bonuses to directors and corporate auditors | 76 | 613 |
| Transfer to reserve for special depreciation | 32 | 258 |
| Transfer to general reserve | 4,400 | 35,512 |
| Total appropriations | ¥ 5,092 | $ 41,088 |

## Report of Independent Accountants

The Board of Directors
GLORY LTD.

We have audited the accompanying consolidated balance sheets of GLORY LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of GLORY LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, made as of March 31, 2000, in the method of accounting for accrued severance indemnities as described in Note 2 .

As described in Notes 1 and 2, GLORY LTD. and its domestic consolidated subsidiaries have adopted new Japanese accounting standards for consolidated of cash flows, research and development costs and income taxes, effective April 1, 1999, and retirement benefits, financial instruments and foreign currency transaction, effective April 1, 2000.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

**ChuoAoyama Audit Corporation**

Osaka, Japan
June 28, 2001

# STOCK INFORMATION

As of March 31, 2001

## Common Stock

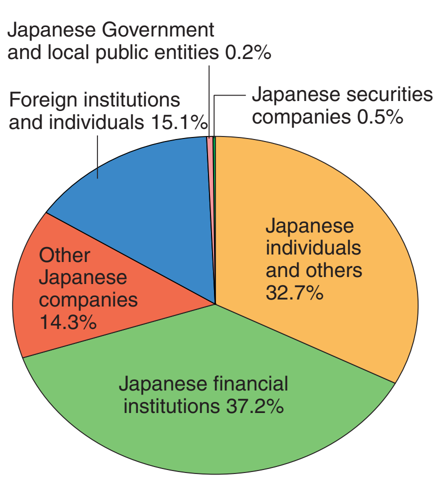
| | | |
|---|---|---|
| Number of shares authorized | : | 120,000,000 |
| Number of shares issued | : | 36,484,205 |
| Per Value | : | ¥50 |
| Unit for Trading | : | 1,000 |
| Number of shareholders | : | 3,750 |
| Stock Exchange Listings | : | Tokyo, Osaka |
| Ticker Symbol Number | : | 6457 |

## Major Shareholders

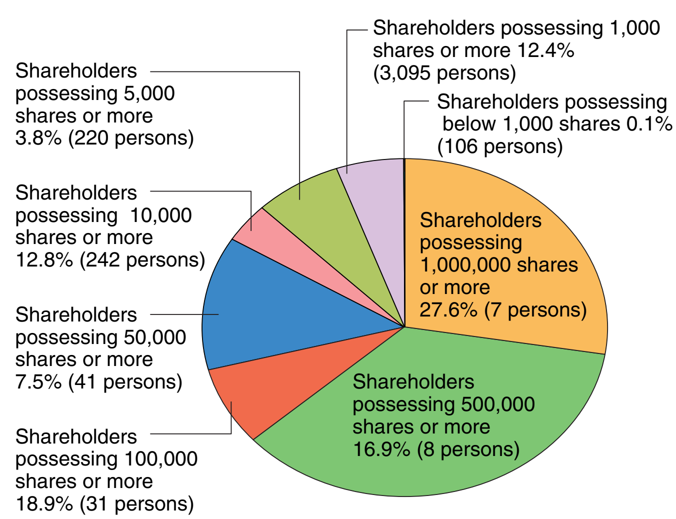
| | Investment to the Company | | Investment to the Company's major shareholders | |
|---|---|---|---|---|
| | Thousands of shares | Proportion | Thousands of shares | Proportion |
| Nippon Life Insurance Company | 2,094 | 5.7 % | – | – |
| Tatsuta Boseki Kaisha, Limited | 1,969 | 5.4 | – | – |
| The Chase Manhattan Bank, N.A. London | 1,528 | 4.2 | – | – |
| The Sakura Bank, Limited | 1,218 | 3.3 | 1,651 | 0.0 |
| Boston Safe Deposit BSDT Treaty Clients Omnibus | 1,167 | 3.2 | – | – |
| Onoe International Limited | 1,100 | 3.0 | – | – |
| Winning Limited | 1,000 | 2.7 | – | – |
| Glory group employees' holdings gathering | 964 | 2.6 | – | – |
| Japan Trustee Services Bank, Ltd (Trusty Account) | 894 | 2.5 | – | – |
| The Dai-Ichi Mutual Life Insurance Company | 858 | 2.4 | – | – |

*(Note) 1.Number of shares less than thousands of shares are omitted.*
*2.As of April 1, 2001, the Sakura Bank and the Sumitomo Bank merged to form Sumitomo Mitsui Banking Corporation.*

## Distribution by Ownership of Shares




## Distribution by Number of Shares



# CONSOLIDATED SUBSIDIARIES

As of March 31, 2001

| | | |
|---|---|---|
| **Japan** | | |
| GLORY SHOJI CO., LTD. | : | Osaka |
| GLORY KIKI CO., LTD. | : | Hyogo |
| HOKKAIDO GLORY CO., LTD. | : | Hokkaido |
| GLORY SERVICE CO., LTD. | : | Osaka |
| GLORY･LINCS CO., LTD. | : | Tokyo |
| G･A･M CO., LTD. | : | Tokyo |
| KASAI GLORY LTD. | : | Hyogo |
| SAYO GLORY LTD. | : | Hyogo |
| GLORY TEC LTD. | : | Hyogo |
| **Overseas** | | |
| Glory (U.S.A.) Inc. | : | New Jersey, U.S.A. |
| Glory GmbH | : | Düsseldorf, F.R. Germany |

# DIRECTORS AND CORPORATE AUDITORS

As of June 28, 2001

| | | |
|---|---|---|
| *Chairman | : | Hisao Onoe |
| *President | : | Hideto Nishino |
| Senior Executive Director | : | Katsuhiko Onoe |
| Senior Executive Director | : | Masatoshi Murakami |
| Executive Director | : | Kunihiro Ogami |
| Executive Director | : | Masatoshi Ushio |
| Executive Director | : | Norishige Matsuoka |
| Director | : | Terumi Urakawa |
| Director | : | Hideaki Matsushita |
| Director | : | Yuichi Funabiki |
| Director | : | Hirokazu Onoe |
| Director | : | Koichi Hashimoto |
| Director | : | Yoshio Onoe |
| Director | : | Shinya Tatsuta |
| Standing Corporate Auditor | : | Toru Ariyoshi |
| Standing Corporate Auditor | : | Akio Ueba |
| Corporate Auditor | : | Naohiro Yahata |
| Corporate Auditor | : | Kazuhiko Yasuhira |

*(Note)* * *indicates that the individual is a Representative Director.*

GLORY LTD.