

# SEMIANNUAL REPORT 2002

**Nissen Co., Ltd. and Consolidated Subsidiaries**

*For the six months ended June 20, 2002*

(Unaudited)

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## Message from the President

### To Our Shareholders

During the first half of fiscal 2002 (from December 21, 2001, to June 20, 2002), the Japan's economy showed signs of having bottomed out in some sectors, including the recovery in production driven by exports. However, capital investment continued to drop, and remained sluggish in general throughout the period. Consumer spending also continued to be weak as a whole, due to concerns about future employment and income. The environment surrounding businesses is becoming increasingly crucial.

In the merchandising industry, while there is a tendency toward lower product pricing, the creation of added value is becoming increasingly important as a pointer to customer satisfaction (high quality and advanced service), in addition to cheap prices.

In such an economic environment, Nissen Co., Ltd. and consolidated subsidiaries further promoted the stimulation of employees and improvements in the management structure, through the strict implementation of the merit system and the diffusion of a new personnel evaluation scheme, pursuant to the basic spirit of the medium-term, 5-year management plan, which recognizes that human resources constitute the core competence.

For the mail-order sales business, we promoted the development of an even lower cost structure, under our basic policy to focus on profitability rather than on the expansion of sales. On the other hand, for the direct sales business, we actively expanded operations while maintaining high profitability.

As a result, we posted ¥74,240 million in sales (a year-on-year rate of change of 4.5%), ¥4,770 million in operating income (214.6%), ¥4,532 million in ordinary profit (136.3%) and ¥3,070 million in interim net income (92.2%).

We sincerely seek the continued support and encouragement of our shareholders.

September 2002



Toshio Katayama  
President and Representative Director

### Trends in Sales Performance and Asset Status (Interim Period)

For the six month periods ended June 20,	1999	2000	2001	2002
Net Sales (millions of yen)	¥ 71,042	¥ 66,485	¥ 71,039	¥ 74,240
Ordinary Profit (Loss) (millions of yen)	¥ (999)	¥ 2,385	¥ 1,918	¥ 4,532
Interim Profit (Loss) (millions of yen)	¥ (1,069)	¥ 2,169	¥ 1,597	¥ 3,070
Total Assets (millions of yen)	¥ 108,493	¥ 102,715	¥ 84,227	¥ 72,467
Net Assets (millions of yen)	¥ 14,530	¥ 15,161	¥ 16,090	¥ 20,714

Note: The figures up until 2000 are on a non-consolidated basis, whereas those in 2001 and thereafter are on a consolidated basis.

## Review of Operations

### **Mail-order Sales Department**

The mail-order sales industry is no different from other sectors in that the impact of sluggish consumption is becoming increasingly hard. Major mail-order sales companies continue struggling in maintaining their business performance, with a few exceptions.

Under these circumstances, we promoted the development of a low cost structure focusing on profitability rather than on the expansion of sales based on the basic management policies for FY2002, aimed at the total optimization of all operations, in succession to the previous year.

Specifically, we promoted the development of Supply Chain Management (SCM), actively engaged in reorganizing overseas subcontract plants, and fostered our relationship based on trust with suppliers by deepening communications. We thoroughly confirmed production plans and production progress by repeating such low-profile activities, and managed to improve the gross margin percentage and reduce the lead time for the production of products, as shown below. This resulted in a higher percentage of sales and lower delivery costs, based on a higher percentage of quick product delivery.

Our efforts to enhance customer segmentation technologies led to greater cost effectiveness of the catalog system relative to sales (advertising costs), while our endeavors in reviewing the efficiency of gift vouchers in sales promotion resulted in lower sales promotion costs.

On the other hand, sales generated through the Internet have steadily increased from the previous year. The number of registered users as of the end of the interim accounting period increased to 870,000, up 250,000 from 620,000 in the preceding accounting period, partly attributable to enhancements in the content. Sales generated through the Internet increased to ¥6,311 million (a year-on-year increase of 86.1%).

As a result, sales totaled ¥60,439 million (a year-on-year increase of 2.5%), and operating income was ¥4,072 million (a year-on-year increase of 209.4%).

### **Direct Sales Department \***

For the direct sales business, we implemented an expansionary policy to actively open new offices while maintaining its high-profitability constitution under our management policy. During the first half of fiscal 2002 interim accounting period, we sought to expand the business by opening 12 offices, surpassing the original plan of opening 10 offices. (During the same period in the previous year, we opened 6 offices.)

We plan to continue actively opening new offices, which are expected to total 33 in number on a full-year basis. This is 26.9% more than the original plan of opening 26 offices. It should be noted that the new offices have got into gear within six months of launch, with some exceptions.

The monthly sales per existing shop also exceeded the level in the previous year.

(Interim accounting period in FY2002: ¥15,530 thousand/month, interim accounting period in FY2001: ¥15,120 thousand/month, a year-on-year increase of 2.7%).

As a result, sales were ¥13,801 million (a year-on-year increase of 14.6%), while operating income was ¥1,600 million (a year-on-year decrease of 4.5%).

\*Note: Nissen's unique sale system in which customers are invited to come to special sales events and parties where Nissen's sales staff sells valuable merchandises, such as Kimono or jewelry.

Nissen Co., Ltd. and Consolidated Subsidiaries

**Consolidated Balance Sheets**

June 20, 2002 and 2001

(Unaudited)

	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	¥ 9,145	¥ 16,132	\$ 73,572
Short-term investment	10	-	80
Marketable securities	-	800	-
Notes and accounts receivable:			
Trade	13,551	14,639	109,019
Other	10,587	8,795	85,173
Allowance for doubtful receivables	(220)	(406)	(1,770)
Merchandise	7,910	9,546	63,636
Deferred income taxes	526	6	4,232
Other current assets	2,332	3,668	18,761
Total current assets	<u>43,841</u>	<u>53,180</u>	<u>352,703</u>
Property, plant and equipment :			
Buildings and structures	25,440	25,464	204,666
Machinery, equipment and vehicles	2,666	2,628	21,448
Tools, furniture and fixtures	690	721	5,551
Construction in progress	1	-	8
Land	6,626	6,626	53,307
	<u>35,423</u>	<u>35,439</u>	<u>284,980</u>
Accumulated depreciation	(12,294)	(11,479)	(98,906)
Property, plant and equipment, net	<u>23,129</u>	<u>23,960</u>	<u>186,074</u>
Investments and other assets:			
Investments in securities	756	597	6,082
Investments in unconsolidated subsidiaries and affiliates	1,237	612	9,952
Deferred income taxes	530	0	4,264
Other assets	2,974	5,878	23,926
Total investments and other assets	<u>5,497</u>	<u>7,088</u>	<u>44,224</u>
Total assets	<u>¥ 72,467</u>	<u>¥ 84,227</u>	<u>\$ 583,001</u>

Nissen Co., Ltd. and Consolidated Subsidiaries

**Consolidated Balance Sheets**

June 20, 2002 and 2001

(Unaudited)

(continued)

	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Short-term bank loans	¥ 6,000	¥ 6,158	\$ 48,270
Current portion of long-term debt	5,632	13,264	45,310
Notes and accounts payable:			
Trade	24,280	29,106	195,334
Other	6,641	6,060	53,427
Income taxes payable	1,771	175	14,248
Other current liabilities	2,168	2,055	17,442
Total current liabilities	<u>46,492</u>	<u>56,818</u>	<u>374,031</u>
Long-term liabilities:			
Long-term debt	4,882	10,577	39,276
Accrued retirement benefits for employees	161	225	1,295
Accrued retirement benefits for directors and statutory auditors	141	439	1,134
Other	14	22	113
Total long-term liabilities	<u>5,198</u>	<u>11,263</u>	<u>41,818</u>
Minority interests	63	56	507
Shareholders' equity:			
Common stock, (June 20):			
Authorized – 70,000,000 shares:			
Issued – 27,153,166 shares	7,666	7,666	61,673
Additional paid-in capital	7,347	7,347	59,107
Retained earnings	6,197	1,030	49,855
Net unrealized holding gain on securities	9	11	72
Translation adjustments	38	36	306
Less treasury stock, at cost	(543)	(0)	(4,368)
Total shareholders' equity	<u>20,714</u>	<u>16,090</u>	<u>166,645</u>
Total liabilities and shareholders' equity	<u>¥72,467</u>	<u>¥84,227</u>	<u>\$583,001</u>

Nissen Co., Ltd. and Consolidated Subsidiaries

**Consolidated Statements of Income**

For the six-month periods ended June 20, 2002 and 2001

(Unaudited)

	<b>2002</b>	<b>2001</b>	<b>2002</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
Net sales	<b>¥74,240</b>	¥71,039	<b>\$597,265</b>
Cost of sales	<b>34,722</b>	34,892	<b>279,340</b>
Gross profit	<b>39,518</b>	36,147	<b>317,925</b>
Selling, general and administrative expenses	<b>34,748</b>	34,631	<b>279,550</b>
Operating income	<b>4,770</b>	1,516	<b>38,375</b>
Other income (expenses):			
Interest and dividend income	<b>16</b>	27	<b>129</b>
Commission income	<b>106</b>	191	<b>853</b>
Interest expense	<b>(294)</b>	(408)	<b>(2,365)</b>
Equity in earnings of affiliates	<b>91</b>	25	<b>732</b>
Exchange gain, net	<b>627</b>	1,047	<b>5,044</b>
Loss on devaluation of merchandise	<b>(949)</b>	(520)	<b>(7,635)</b>
Loss on sales or disposal of fixed assets	<b>(157)</b>	(2)	<b>(1,263)</b>
Amortization of the net retirement benefit obligation at transition	–	(71)	–
Other, net	<b>341</b>	(74)	<b>2,743</b>
Income before income taxes and minority interests	<b>4,551</b>	1,731	<b>36,613</b>
Income taxes:			
Current	<b>1,737</b>	126	<b>13,974</b>
Deferred	<b>(255)</b>	(3)	<b>(2,051)</b>
Income before minority interests	<b>1,482</b>	123	<b>11,923</b>
Income before minority interests	<b>3,069</b>	1,608	<b>24,690</b>
Minority interests in earnings (loss) of consolidated subsidiaries	<b>1</b>	(11)	<b>8</b>
Net income	<b>¥ 3,070</b>	¥ 1,597	<b>\$ 24,698</b>

Nissen Co., Ltd. and Consolidated Subsidiaries

**Consolidated Statements of Shareholders' Equity**

For the six-month periods ended June 20, 2002 and 2001

(Unaudited)

	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Common stock:</b>			
Balance at beginning of year	¥7,666	¥ 7,276	\$61,673
Private placement	–	390	–
Balance at June 20	<u>¥7,666</u>	<u>¥ 7,666</u>	<u>\$61,673</u>
<b>Additional paid-in capital:</b>			
Balance at beginning of year	¥7,347	¥ 6,957	\$59,107
Private placement	–	390	–
Balance at June 20	<u>¥7,347</u>	<u>¥ 7,347</u>	<u>\$59,107</u>
<b>Retained earnings (deficit):</b>			
Balance at beginning of year	¥3,493	¥ (555)	\$28,101
Net income	3,070	1,597	24,698
Cash dividends	(272)	–	(2,188)
Bonuses to directors and statutory auditors	(100)	–	(805)
(Decrease) increase in retained earnings resulting from inclusion of consolidated subsidiaries	4,966	(12)	39,952
Balance at June 20	<u>¥6,197</u>	<u>¥(1,030)</u>	<u>\$49,855</u>
<b>Translation adjustments:</b>			
Balance at beginning of year	¥ 88	¥ –	\$ 708
Net change during the year	(50)	36	(402)
Balance at June 20	<u>¥ 38</u>	<u>¥ 36</u>	<u>\$ 306</u>

Nissen Co., Ltd. and Consolidated Subsidiaries  
Consolidated Statements of Cash Flows  
For the six-month periods ended June 20, 2002 and 2001  
(Unaudited)

	<u>2002</u>	<u>2001</u>	<u>2002</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 1)</i>
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥ 4,551	¥ 1,731	¥ 36,613
Adjustments for:			
Depreciation and amortization	838	914	6,742
Increase (decrease) in allowance for doubtful receivables	10	(279)	80
(Decrease) increase in accrued retirement benefits for employees	(412)	225	(3,315)
(Decrease) increase in accrued retirement benefits for directors and statutory auditors	(408)	3	(3,282)
Loss on sales or disposal of fixed assets	156	2	1,255
Equity in earnings of an affiliate	(91)	(25)	(732)
Interest and dividend income	(16)	(46)	(129)
Interest expense	294	408	2,365
Decrease (increase) in notes and accounts receivable, trade	803	(4,125)	6,460
Decrease in merchandise	5,434	2,583	43,717
(Decrease) increase in notes and accounts payable	(1,805)	2,921	(14,521)
Other, net	(1,422)	965	(11,440)
Subtotal	<u>7,932</u>	<u>5,277</u>	<u>63,813</u>
Interest and dividends received	6	46	48
Interest paid	(297)	(393)	(2,389)
Income taxes paid	(124)	(134)	(998)
Net cash provided by operating activities	<u>7,517</u>	<u>4,796</u>	<u>60,474</u>
<b>Investing activities:</b>			
Purchases of property, plant and equipment	(176)	(540)	(1,416)
Proceeds from sales of property, plant and equipment	5	-	40
Purchases of investments in securities	(300)	(58)	(2,413)
Proceeds from sales of investments in securities	139	-	1,118
Collections of loans receivable	9	50	73
Proceeds from sale of Credit Service Division	-	5,055	-
Other, net	(40)	(223)	(322)
Net cash (used) provided by investing activities	<u>(363)</u>	<u>4,284</u>	<u>(2,920)</u>
<b>Financing activities:</b>			
Increase (decrease) in short-term bank loans, net	3,080	(6,289)	24,779
Proceeds from long-term debt	-	50	-
Repayment of long-term debt	(1,108)	(1,882)	(8,914)
Proceeds from issuance of bonds	-	500	-
Repayment of bonds	(9,622)	(1,151)	(77,410)
Purchases of treasury stock	(543)	-	(4,368)
Payment of dividends	(268)	-	(2,156)
Proceeds from private placement	-	780	-
Other, net	(2)	(4)	(16)
Net cash used in financing activities	<u>(8,463)</u>	<u>(7,996)</u>	<u>(68,085)</u>
Effect of exchange rate changes on cash and cash equivalents	77	265	620
Net (decrease) increase in cash and cash equivalents	<u>(1,232)</u>	<u>1,349</u>	<u>(9,911)</u>
Cash and cash equivalents at beginning of year	10,346	15,416	83,234
Increase in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	31	157	249
Cash and cash equivalents at end of year	<u>¥ 9,145</u>	<u>¥ 16,922</u>	<u>¥ 73,572</u>

**Segment Information**

For the six-month periods ended June 20,2002 and 2001

(Unaudited)

**Business Segments**

The Company and its consolidated subsidiaries operate in two business segments: a mail-order sales business and a direct sales business. The mail-order sales business includes principally sales by catalogue and an insurance agency business. The direct sales business primarily relates to “Nissen Lady” sales which are conducted directly with the customers rather than through retail outlets.

The information on business segments of the Company and consolidated subsidiaries for the six-month periods ended June 20,2002 and 2001 is presented as follows:

	<b>For the six-month periods ended June 20,2002</b>				
	<b>Mail-order sales</b>	<b>Direct sales</b>	<b>Total</b>	<b>Eliminations or corporate</b>	<b>Consolidated</b>
	<i>(Millions of yen)</i>				
<b>Sales and operating income</b>					
Sales to third parties	¥ 60,439	¥13,801	¥74,240	¥ –	¥ 74,240
Intergroup sales and transfers	–	–	–	–	–
Total sales	60,439	13,801	74,240	–	74,240
Operating expenses	56,367	12,201	68,568	902	69,470
Operating income	¥ 4,072	¥ 1,600	¥ 5,672	¥ (902)	¥ 4,770

	<b>For the six-month periods ended June 20,2001</b>				
	<b>Mail-order sales</b>	<b>Direct sales</b>	<b>Total</b>	<b>Eliminations or corporate</b>	<b>Consolidated</b>
	<i>(Millions of yen)</i>				
<b>Sales and operating income</b>					
Sales to third parties	¥58,992	¥12,047	¥71,039	¥ –	¥71,039
Intergroup sales and transfers	–	–	–	–	–
Total sales	58,992	12,047	71,039	–	71,039
Operating expenses	57,676	10,371	68,047	1,476	6,953
Operating income	¥ 1,316	¥ 1,676	¥ 2,992	¥ (1,476)	¥ 1,156

	<b>For the six-month periods ended June 20,2002</b>				
	<b>Mail-order sales</b>	<b>Direct sales</b>	<b>Total</b>	<b>Eliminations or corporate</b>	<b>Consolidated</b>
	<i>(Thousands of U.S. dollars)(Note 1)</i>				
<b>Sales and operating income</b>					
Sales to third parties	\$ 486,235	\$ 111,030	\$ 597,265	\$ –	\$ 597,265
Intergroup sales and transfers	–	–	–	–	–
Total sales	486,235	111,030	597,265	–	597,265
Operating expenses	453,475	98,158	551,633	7,257	558,890
Operating income	\$ 32,760	\$ 12,872	\$ 45,632	\$ (7,257)	\$ 38,375

## 1. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥124.3 = U.S.\$1, the approximate rate of exchange in effect on June 20, 2002. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### Corporate Data

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**Date of Established:**

April 10, 1970

**Paid-in Capital:**

¥7,665,517 thousand

**Common Stock Listing:**

Osaka Securities Exchange, Second Section

**Number of Shares Outstanding:**

27,153,166 (As of June 20,2002)

**Number of Shareholders:**

7,668

**Number of Employees:**

825 (Nissen Co., Ltd.)

**Investor Relations**

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