

## Consolidated Financial Results for the Year Ended December 2003 (December 21, 2002 to December 20, 2003)

Company name:	Nissen Co., Ltd.
Stock code:	8248
Stock exchange listing:	Tokyo Stock Exchange, First section Osaka Securities Exchange, First Section
Head office:	Kyoto
URL:	<a href="http://info.nissen.co.jp/">http://info.nissen.co.jp/</a>
President & Representative Director:	Toshio Katayama
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Board meeting for approving financial results:	February 5, 2004
Accounting principle:	Japanese GAAP

### 1. Financial Results (December 21, 2002 – December 20, 2003)

#### (1) Results of Operations

*(Amounts rounded down to million yen)*

	Net sales		Operating income		Ordinary income	
	Million yen	YoY change (%)	Million yen	YoY change (%)	Million yen	YoY change (%)
Year ended Dec. 2003	156,694	9.8	12,571	20.6	11,101	17.4
Year ended Dec. 2002	142,730	5.1	10,421	139.2	9,456	109.2

	Net income		Net income per share (basic)	Net income per share (diluted)
	Million yen	%	Yen	Yen
Year ended Dec. 2003	6,241	17.7	113.76	112.79
Year ended Dec. 2002	5,304	30.6	94.93	90.54

	Return on equity	Ratio of ordinary income to total assets	Ratio of ordinary income to net sales
	%	%	%
Year ended Dec. 2003	24.6	14.3	7.1
Year ended Dec. 2002	26.0	12.5	6.6

Notes: 1. Equity in earnings (losses) of unconsolidated subsidiaries

Year ended December 2003: 67 millions yen

Year ended December 2002: 358 millions yen

2. Average number of shares outstanding

Year ended December 2003: 53,113,416 shares

Year ended December 2002: 53,880,901 shares

3. Changes in accounting principles applied: None

4. Each “YoY change” represents its relevant change in percentage compared to the same period of the previous year.

**(2) Financial Position**

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
As of Dec. 20, 2003	81,731	28,476	34.8	534.08
As of Dec. 20, 2002	74,069	22,233	30.0	413.55

Note: Number of shares outstanding

As of December 20, 2003: 52,945,688 shares

As of December 20, 2002: 53,303,855 shares

**(3) Cash Flows Position**

	Net cash provided by (used in)			Cash and cash equivalents at end of year
	Operating activities	Investing activities	Financing activities	
	Million yen	Million yen	Million yen	Million yen
Year ended Dec. 2003	4,292	(2,584)	(965)	9,784
Year ended Dec. 2002	11,493	(310)	(12,467)	9,094

**(4) Scope of consolidation and application of equity method**

Consolidated subsidiaries: 11

Unconsolidated subsidiaries under equity method application: 0

Affiliates under equity method application: 1

**(5) Changes in the scope of consolidation and affiliates under the equity method**

Consolidated subsidiaries

Newly added: 0

Excluded: 1

Affiliates accounted for under the equity method

Newly added: 0

Excluded: 0

**2. Forecasts for the Year Ending December 2004 (December 21, 2003 to December 20, 2004)**

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Interim	85,300	6,600	3,800
Full year	164,000	12,300	7,100

Reference: Estimated net income per common share for the full year: ¥134.10

Forecasts regarding future performance and plans in these materials are based on judgments made in accordance with information available to management at the time this report was prepared. Forecasts therefore embody risks and uncertainties. Actual results may differ significantly from these forecasts for a number of factors, including but not limited to the operating environment. Please refer to pages 11, 12 and 15 of the supplementary materials for further information concerning these projections.

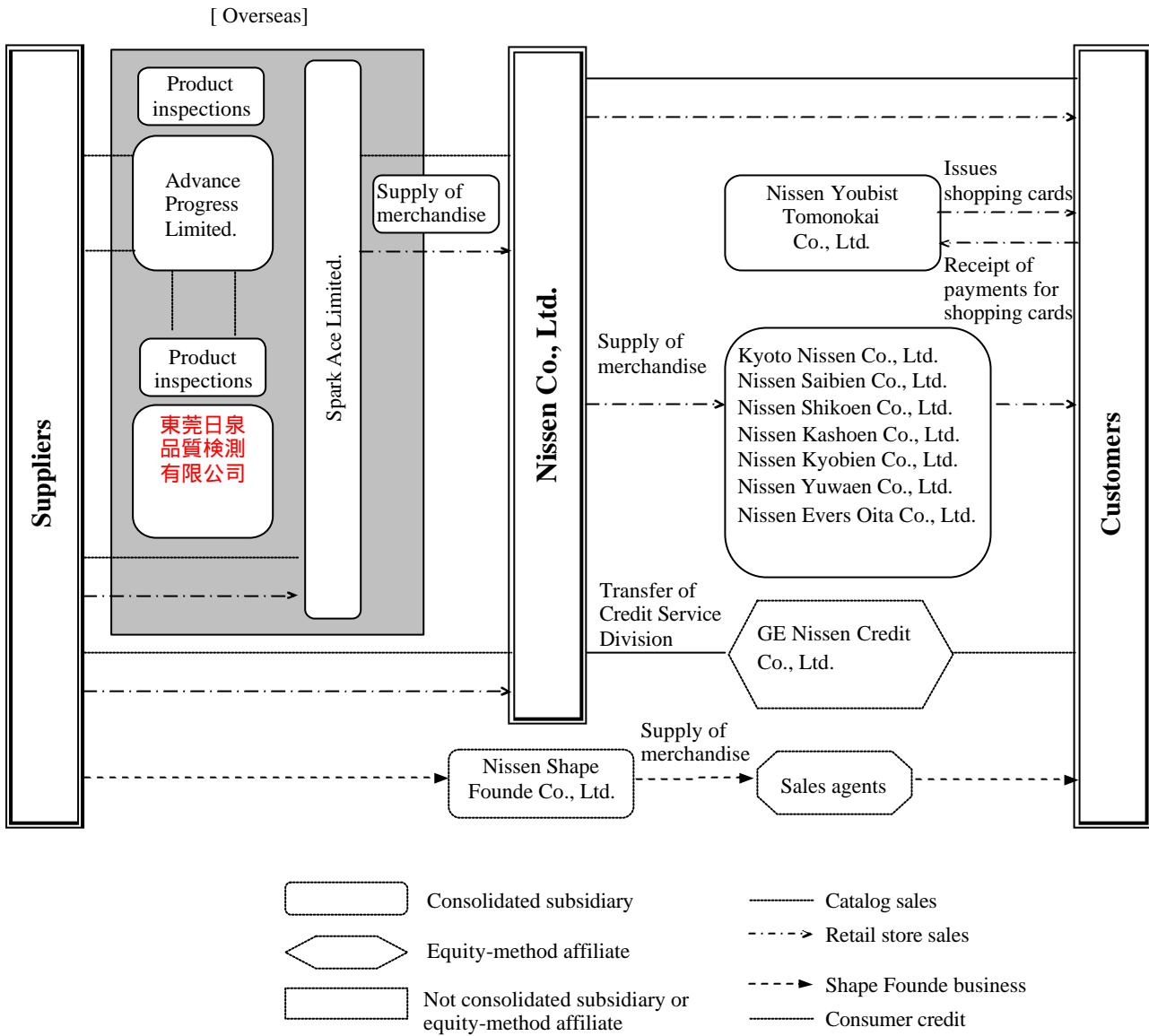
## 1. The Nissen Group of Companies

Name	Location	Capital or Investment (thousand yen)	Major activities	Nissen ownership (%)	Relationship
(Consolidated subsidiaries)					
Spark Ace Limited.	Hong Kong	48,358 (HK\$2,500 thousand)	Mail-order sales	100	Export to Nissen of products procured in Hong Kong and neighboring countries. Three directors are from Nissen.
Advance Progress Limited.	Hong Kong	23,766 (HK\$1,700 thousand)	Mail-order sales	82.35 (82.35)	Inspection of products imported by Nissen. Three directors from Nissen.
Kyoto Nissen Co., Ltd.	Nakagyo-ku, Kyoto	10,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) Three directors from Nissen.
Nissen Saibien Co., Ltd.	Otaru	40,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) Three directors from Nissen.
Nissen Shikoen Co., Ltd.	Morioka	20,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) and financial support. Three directors from Nissen.
Nissen Kashoen Co., Ltd.	Haramachi, Fukuoka	30,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) Three directors from Nissen.
Nissen Kyobien Co. Ltd.	Niigata	30,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) Three directors from Nissen.
Nissen Yuwaen Co. Ltd.	Saga	60,000	Direct sales	100	Sales of products supplied by Nissen (fur, jewelry, kimonos, etc.) Three directors from Nissen.
Nissen Evers Oita Co., Ltd.	Oita	10,000	Direct sales	100	Leasing of products and financial support. Two directors from Nissen.
Nissen Shape Founde Co., Ltd.	Nakagyo-ku Kyoto	50,000	Direct sales	100	Sales of undergarment for controlling body Two directors from Nissen.
Nissen Youbist Tomonokai Co., Ltd.	Minami-ku, Kyoto	20,000	Direct sales	100	Prepaid sales using installment credit.
(Equity-method affiliate)					
GE Nissen Credit Co., Ltd.	Shimogyo-ku Kyoto	4,050,000	Mail-older sales	50	Provision of credit to Nissen customers. One director from Nissen.

### Notes:

1. Major activities use the same names as for the respective business segments.
2. There are no subsidiaries classified as specified subsidiaries.
3. None of the above companies prepares a securities registrations statement or a securities report (*yuka shoken hokokusho*) for the MOF.
4. The ownership figure shown in parentheses includes shares owned indirectly.
5. Kyoto Nissen Co., Ltd. was absorbed by Nissen Co., Ltd. on December 21, 2003.

The following diagram presents major relationships among the group companies.



## 2. Management Policies

### (1) Fundamental Management Policy

Since Nissen's inception in 1970, we have repeatedly made improvements to the retailing infrastructure to perform a pioneering role in the retailing industry. With mail-order sales and direct sales as its core businesses, we have been conducting business activities in a unique fashion in order to earn the support and satisfaction of customers.

We will continue to adopt the standpoint of its customers, constantly providing products and services that can earn customer satisfaction. We will also work harder at earning the trust of shareholders and fostering mutually beneficial ties with vendors. Goals also include being a respected corporate citizen and providing employees with a rewarding workplace. In sum, we will focus its collective energy on being an organization that leaves a favorable impression with people of all kinds.

### (2) Fundamental Policy Regarding Distribution of Earnings

We are constantly striving to increase its enterprise value for the purposes of maximizing shareholder value as well as to strengthen its operating base and ability to generate earnings. The fundamental policy is to continuously pay a dividend in line with the operating results of each fiscal period to share earnings with shareholders. We aim to further increase its dividend payout ratio by improving operating results in order to satisfy shareholders.

Retained earnings will be used to reduce debt and strengthen established businesses in order to reinforce the financial position as well as to invest in new businesses.

### (3) Policy Regarding Reduction of Investment Unit

On April 25, 1994, Nissen reduced its *tangen* (unit stock) from 1,000 to 100 shares and on December 5, 2002, there was a 2-for-1 stock split. Both actions were taken to increase the liquidity of its shares and enlarge its shareholder base, particularly with regard to attracting more individual shareholders. In the future, similar actions will be considered based on the share price, distribution of investment units in the stock market, and the number and composition of shareholders. At this time, no decision has been made regarding the timing or nature of any such action.

### (4) Key Performance Indicators

To improve management of the Group, Nissen Economic Value Added (Nissen EVA), a metric that emphasizes the cost of capital and cash flows, is being adopted to evaluate all operations of the Group. To establish Nissen EVA within the Group, indicators with a high correlation to Nissen EVA are currently employed to evaluate each business unit at monthly meetings and other management meetings.

These indicators are called key performance indicators (KPI) within the Company. All are highly important with regard to the adoption of Nissen EVA. These indicators are already being used to evaluate the operations of business units and internal groups beginning with fiscal 2003.

### (5) Strategies and Key Issues for the Medium to Long Terms

We are currently conducting a medium-term management plan that will end in December 2006. Two goals are net sales of ¥1,900 million and ordinary income of ¥150 million in fiscal 2006.

To maximize the benefits of the medium-term management plan, we will focus on the following issues based on its fundamental strategy of generating solid growth while enhancing the quality of its management.

#### a) Strengthen the operating bases of each business

Mail-order business and direct sales business are the two core businesses. We will build a business model for each one that can maximize Nissen EVA. Another priority is leveraging the customer database and other group strengths to launch new businesses.

In the mail-order sales business, we have advanced to the business expansion phase (the second stage) in fiscal 2003 ahead of schedule because progress in improving profitability (the first stage) was faster than had been planned. Due to these measures, this business recorded a 10.3% sales increase and an all-time high operating margin of 9.4%. This

business will continue to work toward achieving the goals of the medium-term management plan while building a resilient business structure that can withstand rapid changes in the operating climate.

To further reduce operating expenses, the mail-order sales business is working to build on profitability improvements made during the first stage and taking aggressive measures to expand (second stage) by offering services that leave a favorable impression with customers. Additionally, this business is effectively utilizing the customer database and other group resources to expand.

In the direct sales business, numerous strategic actions were taken following the brief downturn in operating results in the previous fiscal year's first half to dramatically revamp operations and generate profits. Due to these actions, results began showing signs of recovery in the second half. Nevertheless, this business has revised its rapid growth policy based on the belief that more time will be needed for a broad-based recovery. For the time being, this business is working on enhancing the merchandise line and sales capabilities while continuing to develop human resources in line with its fundamental strategy of consolidating business activities to prepare for the next period of growth.

b) Increase enterprise value

The goals in this regard are upgrading our corporate governance, further strengthening the corporate brand and conducting a stringent compliance program. Through these efforts, we plan to build a distinctive management model that can compete on a global stage, thereby increasing its enterprise value.

c) Create a framework for developing human resources

We regard "people power" as the basis for its ability to grow. Each business unit will continue to focus efforts on building merit-based personnel systems for employee evaluations and other tasks. Training programs and career plans will be enhanced to promote the development of the employees, the driving force of our growth.

As a means of measuring the value of our employees, a metric called Nissen Value has been established. The objective is to eliminate the tendency to base personnel evaluations on a short-term perspective and instead switch to medium- and long-term views. We want to nurture its employees not only as workers but also as individuals who can be valued members of society.

(6) Measures Regarding Corporate Governance

a) Fundamental corporate governance policy and the management structure for decision-making, execution, and supervision of the business

i. Fundamental approach

Management corporate governance is an important issue with regard to heightening the soundness and transparency of management as well as increasing shareholder value. We will continue to act aggressively to make consistent improvements in corporate governance while taking into account the importance and relative priority of corporate governance within the company as well as the need to meet the required standards.

ii. Status of measures

(a) Nissen has adopted the corporate auditor system.

(b) There are 13 directors, two of whom are external directors. The external directors provide valuable opinions from an objective and fair standpoint. Management therefore believes that the external directors make board meetings more effective.

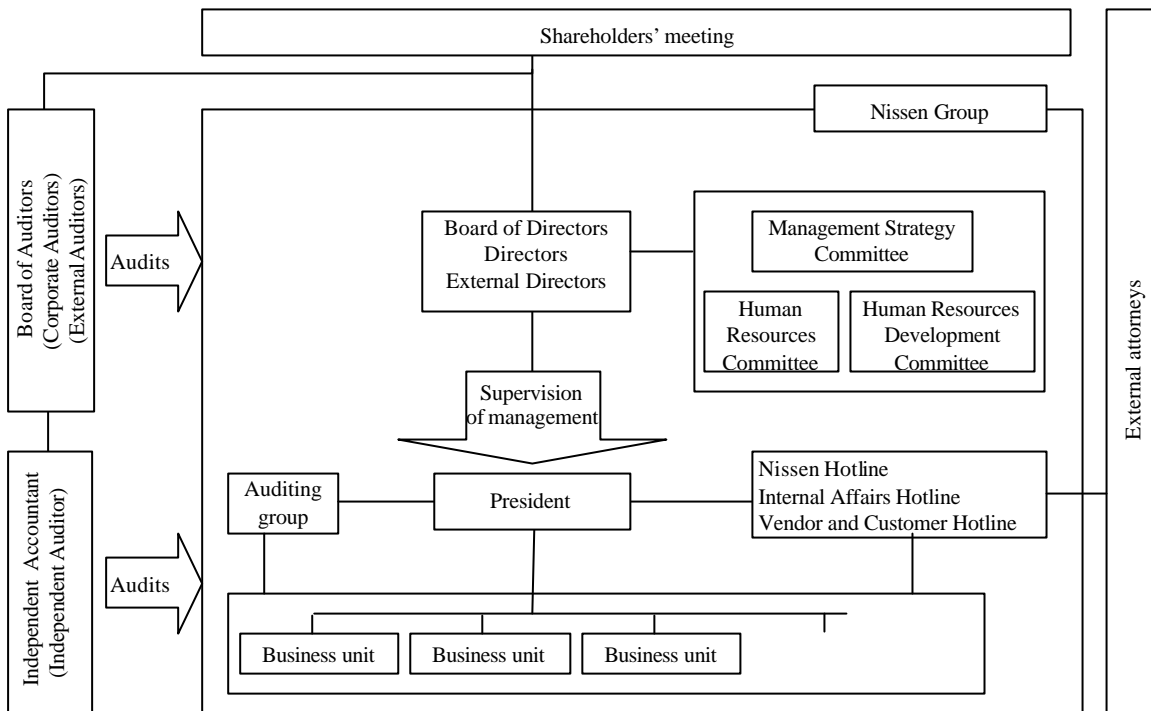
(c) There are three corporate auditors, two of whom are external auditors. In addition, the internal auditing group performs its own internal audits.

(d) Although not established as prescribed by law, there are committees (Human Resources, Management Strategy and Human Resources Development) made up of small numbers of directors that include the external directors. These committees strengthen the supervision of our operations of our business units and formulate proposals for important group strategies.

(e) The executive officer system has been adopted to strengthen the delegation of authority and speed up decision-making.

(f) To facilitate the supervision of management by vendors, customers and employees, an internal reporting system (Nissen Hotline) in the Company and a law firm have been established.

iii. Framework for business execution, supervision and internal controls



b) Personal, financial, business and other relationships between Nissen and external directors and external auditors  
No applicable relationships.

c) Actions taken during past year to improve corporate governance

- i. We established Human Resources Committee, Corporate Strategy Committee, and Human Resources Development Committee for effective human resources allocation, rigorous supervision of the business units, and corporate strategy formulation within the Group.
  - Human Resources Committee is in charge of election and dismissal of directors and executive officers.
  - Corporate Strategy Committee formulates fundamental strategies for the Group.
  - Human Resources Development Committee selects individuals for future management members and develop their skills and capabilities.
- ii. The Human Resources Committee proposed one individual for an executive officer to the board of directors. .
- iii. Nissen began announcing quarterly operating results during the past fiscal year.
- iv. The Nissen Hotline was set up in order to strengthen supervision of the group, thereby establishing a code of ethics.
- v. To allow employees to participate more in management, a campaign was conducted to increase membership in the employee shareholding program that doubled the percentage of employees who participate in this program.

### 3. Results of Operation and Financial Condition

#### (1) Results of Operations

##### a) Overview and analysis of past fiscal year

During the past fiscal year, Japan's economy began to stage a rebound that was backed by growing exports in some industries and increasing corporate capital expenditures. Despite the emergence of these favorable trends, consumer spending remained lackluster due to a difficult climate for personal income, a persistently high unemployment rate and concerns about the pension payments in the future. The result was a generally difficult operating environment for Japanese companies.

In the retailing industry, the operating environment remained difficult as sales slowed due to soft demand for fall products because of the extended economic downturn and high temperatures late in the summer. The mail-order sales industry expanded, however, driven by the expansion of sales through the Internet and television.

In this environment, the Nissen Group based its operations on the core theme of having all businesses deliver "favorable impressions" and on the fundamental concepts of the ongoing five-year management plan. To motivate employees further, measures were taken to further apply a new personnel evaluation system that rigorously applies merit-based evaluations. Actions were also focused on improving the management framework. In the mail-order sales business, initiatives placed priority on the basic theme of improving profitability as well as on raising sales (attracting more new customers and issuing a midsummer catalog). The aim was operating this business in the optimal manner. In the direct sales business, actions during the fiscal year reflected shifts in the market environment and the effects of the rapid increase in the number of sales offices during fiscal 2002. The framework for conducting this business was revised. Numerous improvements were made during fiscal 2003, including raising the efficiency of sales exhibitions, attracting more new customers and reexamining policies for opening new sales offices.

Due to the above factors, consolidated results of operations were as follows.

#### Consolidated financial results

(Millions of yen)

Item	Amount	YoY change (%)
Net sales	156,694	9.8
Operating income	12,571	20.6
Ordinary income	11,101	17.4
Net income	6,241	17.7

#### Non-consolidated financial results

(Millions of yen)

Item	Amount	YoY change (%)
Net sales	136,926	6.3
Operating income	11,620	19.0
Ordinary income	10,174	17.7
Net income	5,810	22.2

b) Results by Business Segment

(Mail-order sales business)

This business is encountering growing challenges posed by Japan's slumping consumer spending as well as by intense competition with other mail-order sales companies as well as other types of retailers. The result is a situation somewhat like trying to climb an escalator going down.

As this business was profitable in fiscal 2002, the fundamental policy for fiscal 2003 was to further improve profitability and expand the scale of operations. For this purpose, the following actions were taken to achieve the optimal operation of this business.

- i. Increased the number and share of active customers by upgrading customer segmentation technology and conducting customer relationship management (CRM).
- ii. Improved the ratio of cancellation of order received and percentage of merchandise discontinued by implementing supply chain management (SCM) to cut lead times on merchandise produced overseas while supplying necessary items in a timely manner. Increased the share of sales from apparel and took advantage of the yen's strength against the U.S. dollar to cut the cost of sales ratio.
- iii. Worked on increasing the share of Internet sales to cut the cost of processing orders.

In addition, the following actions were taken to expand this business.

- i. Began issuing five full-line (collective) catalogs each year by launching another summer catalog. This increased the frequency of customer purchases and the share of active customers, raising sales as planned (a year-on-year increase of 10.3%).
- ii. Printed more publication of the Mature catalog (renamed Tesera in 2004) for mature customers and expanded the merchandise selection, increasing sales as planned (a year-on-year increase of 113.6%) in this category.
- iii. Established a B-to-B Division and opened a sales office in Tokyo to bolster sales capabilities. These actions increased relationships with new customers and solidified ties with existing customers, producing a year-on-year increase of 38.5% in B-to-B sales.
- iv. Increased the number of Internet members by improving content offered. Internet sales increased 63.2%, or ¥8,697 million, year on year to ¥22,458 million.
- v. Measures to attract new customers raised the total number of active customers, producing additional active customers by 10.0% than the previous year.

Due to the above factors, mail-order sales increased 10.3%, or ¥11,763 million, to ¥125,752 million and operating income increased 28.0%, or ¥2,585 million, to ¥11,802 million.

Mail-order sales business operating highlights

Item	FY 2002	FY 2003	YoY change
Gross profit margin	51.9%	54.0%	2.1%
Active customers	4,327 thousand	4,758 thousand	431 thousand
New active customers (including newly located customers)*1	1,354 thousand	1,578 thousand	224 thousand
Lead time for apparel production *2	57 days	55 days	(2) days
Lead time for large interior goods production	53 days	53 days	-
Lead time for small interior goods production	48 days	47 days	(1) day
Service ratio*3	86.6%	87.5%	0.9%
Ratio of sales to orders received *4	71.9%	72.9%	1.0%
Shipment costs *5	¥8,415 million	¥10,039 million	¥1,624 million
(Shipment costs-to-sales)	7.4%	8.0%	0.6%
Catalog system expenses *6	¥16,386 million	19,237 million	2,851 million
(Catalog system expenses-to-sales)	14.3%	15.3%	1.0%
Internet sales	¥13,761 million	¥22,458 million	¥8,697 million
Internet sales contribution	12.5%	18.7%	6.2%

\*1 Newly located customers

Customers who had made no purchases during the past three years but have been re-activated in fiscal 2003.

\*2 Merchandise production lead-time

Time from placement of order to vendor until merchandise is ready for shipment to customers

\*3 Service ratio

Percentage of customer orders where there is inventory that can be shipped the same day

\*4 Ratio of sales to orders received

The ratio of sales booked to the total amount of orders received.

\*5 Shipment costs

Cost of transporting merchandise (reflects growth in the total number of items shipped and growth in unit prices of large items)

\*6 Catalog system expenses

Total expenses for the production of catalogs and their delivery to customers

(Direct sales business)

Rapid growth in the number of sales offices during fiscal 2002 caused a deterioration in the sales capabilities of existing sales offices as talented individuals were assigned to manage the new sales offices. There was a particularly notable drop in profitability and efficiency in the first quarter of fiscal 2003. Average monthly sales at each existing sales office dropped more than 15% year on year and the efficiency of sales exhibitions dropped.

In response, the decision was made to revise the operating framework of this business during the fiscal year. Specific actions included changes in the general manager and other senior managers of this business, a stronger merchandise policy to address changes in markets, and the expansion of efficient, large-scale events. The result was a recovery in sales that began in the second quarter.

Regarding new sales offices, there were 169 sales offices at the end of fiscal 2002 and 14 new sales offices opened during fiscal 2003. However, the total number of sales offices was the same at the end of fiscal 2003 as 14 unprofitable sales offices were closed or consolidated with other sales offices.

The result was an increase of 7.7%, or ¥2,212 million, in sales to ¥30,977 million.

Operating income decreased 13.0%, or ¥388 million, to ¥2,595 million because of growth in selling, general and administrative expenses caused by higher personnel expenses as the workforce increased and by poor efficiency of events in the first and second quarters.

Direct sales business operating highlights

(Thousands of yen)

Item	FY 2002	FY 2003	YoY change
Number of sales offices	169	169	-
Avg. monthly sales per existing sales office	15,119	14,244	(875)
Avg. monthly sales per new sales office	11,241	9,831	(1,410)
Efficiency of sales exhibition #	12.4%	12.8%	0.4%

# Efficiency of sales exhibition is the total cost of exhibition events as a percentage of sales (improved from 13.2% to 12.5% in the second half of fiscal 2003).

(Results by Business Segment)

Sales and operating income for each business segment were as follows.

(Millions of yen)

	Net sales			Operating income		
	FY 2002	FY 2003	YoY change	FY 2002	FY 2003	YoY change
Mail-order sales	113,988	125,752	10.3%	9,217	11,802	28.0%
Retail sales	28,765	30,977	7.7%	2,983	2,595	(13.0)%
Eliminations and Corporate	(22)	(35)	-	(1,780)	(1,826)	-
Total	142,730	156,694	9.8%	10,421	12,571	20.6%

c) Fiscal 2004 forecasts for sales and earnings

Although the outlook for Japan's economy remains unclear, the Nissen Group will continue to take the actions that were started in the past fiscal year.

Note that subsidiary Kyoto Nissen Co., Ltd. was absorbed by Nissen Co., Ltd. on December 21, 2003.

Consolidated forecasts

(Millions of yen)

Item	Amount	YoY change (%)
Net sales	164,000	4.7
Operating income	13,400	6.6
Ordinary income	12,300	10.8
Net income	7,100	13.8

Non-consolidated forecasts

(Millions of yen)

Item	Amount	YoY change (%)
Net sales	149,000	8.8
Operating income	12,700	9.3
Ordinary income	11,100	9.1
Net income	6,400	10.2

d) Fiscal 2004 consolidated forecasts by business segment

(Mail-order sales business)

The mail-order sales business has been making good progress in improving profitability, the first stage, and increasing sales, the second stage. In fiscal 2004, efforts will continue to build a low-cost framework to further improve the earnings structure and earn the support of customers. The fundamental policy is to take a balanced approach that places priority on qualitative improvements while also aiming for growth. Based on this stance, the following actions will be taken.

- a. Expand full-line (collective) catalogs by increasing the number of active customers
  - Improve the merchandise selection (more pages and more catalogs printed)
  - Increase the total number of pages by 3.0% year on year
  - Increase sales by ¥30 million year on year
- b. Expand the Tesera catalog that targets mature customers
  - Improve the merchandise selection (more pages and more catalogs printed)
  - Increase the total number of pages by 35.0% year on year
  - Increase sales by 700 million year on year
- c. Start and expand new businesses at the B-to-B Business (year-on-year sales growth of 13.0%)
  - Expand the media business
  - Expand the telemarketing business
  - Develop a research business

d. Expand Internet sales

Increase sales by ¥7.5 billion

Achieve 2.9 million active customers

e. Develop low-cost management (LCM)

Realize cost reductions from the second-stage LCM initiatives begun in the second half of fiscal 2003

Streamline logistics processes in order to improve productivity and cut fixed costs

Streamline the catalog production process to reduce the sales to fixed cost ratio

Modify order practices for regular merchandises to cut the cost of sales

(Direct sales business)

The business model of this business will be reviewed in fiscal 2004. It includes a moderate expansion of the sales offices for profitability, market environment, product offerings, and sales practices. The new business model will be developed to make a distinct difference from our competitors. Further, employee-training programs will be modified to train future management for the next stage of company's development.

To accomplish these goals, emphases are being placed on the following measures.

a. Attract new customers

b. Use customer feedback to develop merchandise and improve services

c. Revise the earnings structure by conducting low-cost management

d. Review training programs and the personnel evaluation system

Ten sales offices are to be opened in fiscal 2004, concentrating exclusively on locations that are certain to be profitable.

e) Economic indicator that may have a significant impact on operations

Foreign exchange rates

Fiscal 2004 forecasts are based on an average U.S. dollar exchange rate of ¥110. Furthermore, it is estimated that each change of one yen in this rate raises or lowers ordinary income by ¥37 million.

(2) Financial position

a) Assets, liabilities and shareholders' equity (Consolidated)

Assets, liabilities and shareholders' equity, as of the end of the current fiscal year, were as follows.

(Millions of yen)

	FY 2002	FY 2003	Change
Total assets	74,069	81,731	7,661 # (1)
Total liabilities	51,780	53,231	1,450 # (2)
Assets -net	22,233	28,476	6,243
Shareholders equity ratio	30.0%	34.8%	4.8%
Net assets per share	¥413.55	¥534.08	¥120.53

Note: Shares outstanding (consolidated): 52,945,688 shares (FY2003)

# (1) Principal components of the increase in the assets of mail-order sales business were inventories and investment securities.

Inventories

(Millions of yen)

Mail-order sales business	FY 2002	FY 2003	Change
Merchandise to be sold at list price	7,697	9,459	1,761
Discount merchandise	973	1,012	38
Total inventory	8,671	10,471	1,800

Note: Inventories increased mainly because the Company moved up procurement of merchandise for sales in the next fiscal year.

Investments in securities

(Millions of yen)

	FY 2002	FY 2003	Change
Investments in securities	3,458	7,435	3,976

Note: The change represents additional purchases of investments in securities worth ¥1,258 million and revaluation of the current investment security portfolio.

# (2) The principal component of the increase in liabilities was an increase in accounts payable-other.

Accounts payable-other

(Millions of yen)

	FY 2002	FY 2003	Change
Accounts payable-other	6,741	8,741	2,000

Note: The settlement method for certain payables (expenses) was changed from notes to cash.

Interest-bearing debt

(Millions of yen)

	FY2002	FY2003	Change
Short-term bank loans	4,000	2,500	(1,500)
Current portion of long-term loans from banks and insurance companies	4,845	2,106	(2,739)
Current portion of corporate bonds	-	300	300
Corporate bonds	800	1,000	200
Long-term loans from banks and insurance companies	3,667	7,726	4,059
Total	13,312	13,633	320

b) Cash flow position

Cash flows for the consolidated fiscal year ended December 2003 are as follows.

(Millions of yen)

	FY2002	FY2003	Change
Net cash provided by operating activities	11,493	4,292	(7,201)
Net cash used in investment activities	(310)	(2,584)	(2,273)
Net cash used in financing activities	(12,467)	(965)	11,501
Translation adjustments to cash and cash equivalents	1	(35)	(37)
Increase/decrease in cash and cash equivalents	(1,283)	706	1,989
Decrease in cash and cash equivalents at beginning of period due to changes in fiscal year end of consolidated subsidiaries	-	(15)	(15)
Increase in cash and cash equivalents due to additional consolidation of subsidiaries	31	-	(31)
Cash and cash equivalents at the end of period	9,094	9,784	690

In fiscal 2003, net cash provided by operating activities was ¥4,292 million.

The principal sources of cash from operating activities were ¥10,283 million in income before income taxes and ¥1,441 million in depreciation. The principal uses of cash in operating activities were a ¥2,313-million increase in inventories and a ¥4,536-million payment of corporation and other taxes.

Net cash used in investment activities was ¥2,584 million.

This included ¥1,258 million for the purchase of investment securities and ¥1,480 million for the acquisition of IT equipment.

Net cash used in financing activities was ¥965 million.

This cash outflow from financing activities included a ¥179-million decline in short-term bank loans and long-term debt, ¥797 million in cash dividends and ¥487 million for the purchase of treasury stock. The principal item contributing to cash flow from financing activities was ¥500 million in proceeds from a corporate bond issue.

c) Cash flow indices

The following table illustrates the historical movements of certain cash flow indices.

	FY2002	FY2003
Shareholders' equity ratio (%)	30.0	34.8
Shareholders' equity ratio based on market prices (%)	75.6	99.8
Debt to annual cash flow ratio (years)	1.2	3.2
Interest coverage ratio	26.0	22.1

Notes:

1. All indices are calculated as follows on the consolidated basis:

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders equity ratio based on market prices: Market capitalization / Total assets

Debt to annual cash flow: Interest-bearing liabilities / Operating cash flow

Interest coverage ratio: Operating cash flow / Interest payments

2. Market capitalization: Closing price of stock on the balance sheet date x Number of shares outstanding (net of treasury stock) on the balance sheet date.

3. Interest-bearing liabilities: Liabilities carried on the balance sheets that incur interest.

4. Operating cash flow: Net cash provided by operating activities reported on the statement of cash flow

Interest in the calculation of the interest-coverage ratio: Based on interest paid reported on the income statements.

d) Outlook for cash flow in fiscal 2004

1. Net cash provided by operating activities is estimated at ¥8,000 million

The principal sources of cash flows will be an estimated ¥12,300 million in income before income taxes and minority interests and ¥1,450 million in depreciation. The principal use of cash in operating activities will be an estimated ¥4,700 million in income taxes.

2. Net cash to be used in investing activities is estimated at ¥3,500 million

This includes ¥1,500 million for upgrading distribution facilities for the mail-order sales business, ¥1,500 million for investment in IT systems and equipment and ¥500 million for additional investments in subsidiaries.

3. Net cash to be used in financing activities is an estimated ¥3,890 million

This cash outflow from financing activities includes an estimated ¥2,400 million in repayment of short-term bank loans and long-term debt, ¥1,190 million in cash dividends and ¥300 million in redemption of corporate bonds.

e) Changes expected in the financial position after fiscal 2004

No reportable information.

#### 4. Consolidated Financial Statements

##### Consolidated Balance Sheets

(Thousands of yen)

Item	FY 2002 (As of Dec.20, 2002)		FY 2003 (As of Dec.20, 2003)		Differences		
	Amount	%	Amount	%	Amount		
Assets							
I Current assets							
1.Cash and deposits		9,104,300		9,794,824	690,524		
2.Notes and accounts receivable-trade		11,929,127		12,303,168	374,041		
3. Inventories		9,013,901		11,326,917	2,313,015		
4. Accounts receivable-other		9,616,767		10,314,978	698,211		
5.Prepaid expenses		3,717,768		3,972,941	255,172		
6.Deferred income taxes		701,302		531,330	(169,971)		
7.Other current assets		695,851		1,134,525	438,674		
Allowance for doubtful receivables		(244,073)		(275,064)	(30,991)		
Total current assets		44,534,945	60.1	49,103,622	60.1	4,568,677	
II Fixed assets							
1.Property, plant and equipment							
(1) Buildings and structures	*3	25,655,460		25,670,182			
Accumulated depreciation		9,942,383	15,713,077	10,710,224	14,959,958	(753,119)	
(2) Machinery equipment and vehicles		2,662,291		2,694,391			
Accumulated depreciation		2,234,841	427,449	2,340,501	353,890	(73,559)	
(3) Tools, furniture, and fixtures		716,200		1,855,031			
Accumulated depreciation		595,226	120,973	686,648	1,168,382	1,047,408	
(4) Land	*3		6,623,397		6,602,022	(21,374)	
(5) Construction in progress			-		2,423	2,423	
Total property, plant and equipment			22,884,898	30.9	23,086,676	28.2	201,778
2.Intangible assets							
(1) Software			1,049,718		364,472	(685,245)	
(2) Other intangible assets			4,328		4,462	133	
Total intangible assets			1,054,046	1.4	368,934	0.5	(685,112)
3.Investments and other assets							
(1) Investments in securities	*1		3,458,889		7,435,628	3,976,739	
(2) Long-term loans receivable			4,262		2,923	(1,338)	
(3) Deferred income taxes			530,040		-	(530,040)	
(4) Other assets	*1		2,338,441		2,470,034	131,593	
Allowance for doubtful receivables			(735,553)		(736,367)	(814)	
Total investments and other assets			5,596,079	7.6	9,172,219	11.2	3,576,140
Total fixed assets			29,535,023	39.9	32,627,830	39.9	3,092,807
Total assets			74,069,969	100.0	81,731,453	100.0	7,661,484

(Thousands of yen)

Item		FY 2002 (As of Dec. 20, 2002)		FY 2003 (As of Dec. 20, 2003)		Differences
		Amount	%	Amount	%	Amount
<b>Liabilities</b>						
<b>I Current liabilities</b>						
1. Notes and accounts payable-trade	*4	24,795,770		24,383,730		(412,039)
2. Short-term bank loans	*3	8,845,800		4,606,800		(4,239,000)
3. Corporate bonds due within one year		-		300,000		300,000
4. Income taxes payable		3,065,079		2,117,709		(947,369)
5. Consumption taxes payable		929,827		-		(929,827)
6. Reserve for guarantee of anticipated loss		660,676		-		(660,676)
7. Reserve for bonuses		180,506		-		(180,506)
8. Accounts payable-other		6,741,305		8,741,572		2,000,266
9. Others		1,656,607		3,538,941		1,882,334
Total current liabilities		46,875,572	63.3	43,688,755	53.5	(3,186,817)
<b>II Long-term liabilities</b>						
1. Corporate bonds	*3	800,000		1,000,000		200,000
2. Long-term loans from banks and insurance companies	*3	3,667,000		7,726,200		4,059,200
3. Accrued retirement benefits for employees		163,173		172,356		9,182
4. Accrued retirement benefits for directors and statutory auditors		263,912		-		(263,912)
5. Deferred tax liabilities		-		633,483		633,483
6. Other		11,311		10,631		(680)
Total long-term liabilities		4,905,396	6.6	9,542,670	11.7	4,637,274
Total liabilities		51,780,968	69.9	53,231,425	65.2	1,450,456
<b>Minority interests</b>						
Minority interests		55,722	0.1	23,590	0.0	(32,131)
<b>Shareholders' equity</b>						
<b>I Common stock</b>						
I Common stock	*5	7,665,517	10.3	7,665,517	9.4	-
<b>II Capital surplus</b>						
II Capital surplus		7,347,371	9.9	7,347,371	9.0	-
<b>III Retained earning</b>						
III Retained earning		8,230,089	11.1	13,443,499	16.4	5,213,410
<b>IV Net unrealized holding gain (loss) on securities</b>						
IV Net unrealized holding gain (loss) on securities		(24,856)	(0.0)	1,530,098	1.8	1,554,954
<b>V Translation adjustments</b>						
V Translation adjustments		28,945	0.0	(8,992)	(0.0)	(37,937)
<b>VI Treasury stock, at cost</b>						
VI Treasury stock, at cost	*6	(1,013,787)	(1.3)	(1,501,056)	(1.8)	(487,269)
Total shareholders' equity		22,233,279	30.0	28,476,437	34.8	6,243,158
Total liabilities, minority interests and shareholders' equity		74,069,969	100.0	81,731,453	100.0	7,661,484

## Consolidated Statements of Income

(Thousands of yen)

Item	FY 2002 (Dec.21, 2001 to Dec. 20, 2002)		FY 2003 (Dec. 21, 2002 to Dec.20, 2003)		Differences		
	Amount	%	Amount	%	Amount		
I Net sales		142,730,913	100.0		156,694,667	100.0	13,963,753
II Cost of sales		65,030,611	45.6		68,768,869	43.9	3,738,258
Gross profit		77,700,302	54.4		87,925,797	56.1	10,225,495
III Selling, general and administrative expenses							
1. Advertisement	16,938,363			20,363,019			
2. Shipment expenses	8,552,365			10,166,023			
3. Sales promotion expenses	5,907,238			7,100,723			
4. Provision of allowance for doubtful receivables	559,190			523,442			
5. Salaries and allowances	11,565,267			13,977,202			
6. Bonuses	3,783,068			3,486,561			
7. Provision of reserve for bonuses	180,506			-			
8. Provision of accrued retirement benefits for directors and statutory auditors	143,767			-			
9. Welfare expenses	1,760,874			-			
10. Telecommunication expenses	1,375,877			-			
11. Rents	4,380,978			4,063,735			
12. Depreciation	1,700,513			1,438,830			
13. Commissions	5,494,857			5,621,137			
14. IT system expenses	1,389,575			-			
15. Other	3,546,355	67,278,800	47.1	8,253,555	75,354,230	48.1	8,075,429
Ordinary income		10,421,501	7.3		12,571,567	8.0	2,150,065
IV Non-operating income							
1. Interest income	23,337			1,374			
2. Dividend income	5,808			35,738			
3. Commission income	334,629			335,868			
4. Exchange gain, net	358,869			-			
5. Equity in earnings of an affiliate	358,177			67,823			
6. Other non-operating income	305,933	1,386,755	1.0	226,423	667,228	0.4	(719,527)
V. Non-operating expenses							
1. Interest expense	431,318			189,069			
2. Exchange loss, net	-			503,405			
3. Loss on write-off of merchandise	1,806,277			1,331,062			
4. Other non-operating loss	114,467	2,352,064	1.7	114,127	2,137,664	1.3	(214,399)
Ordinary income		9,456,192	6.6		11,101,131	7.1	1,644,938

(Thousands of yen)

Item	FY 2002 (Dec 21, 2001 to Dec 20, 2002)			FY 2003 (Dec 21, 2001 to Dec 20, 2003)			Differences
	Amount		%	Amount		%	Amount
VI Extraordinary income							
1. Profit from prior period adjustments	105,645			-			
2. Gain on sales of fixed assets	*1 1,083			13,589			
3. Gain on reversal of accrued retirement benefits for employees	102,974			-			
4. Gain on reduction of accrued retirement benefits for directors and statutory auditors	-			289,421			
5. Other extraordinary income	440	210,142	0.1	4,443	307,454	0.2	97,312
VII Extraordinary loss							
1. Loss on disposal of fixed assets	*2 258,794			537,609			
2. Loss on write-down of investments in securities	92,508			11,096			
3. Loss on bad debt related to guarantee of anticipated loss	333,698			245,206			
4. Provision of reserve for guarantee of anticipated loss	660,676			-			
5. Loss on liquidation of accrued retirement benefits for directors and statutory auditors	-			289,421			
6. Other extraordinary losses	31,892	1,377,569	0.9	41,570	1,124,905	0.7	(252,664)
Income before income taxes and minority interests		8,288,765	5.8		10,283,681	6.6	1,994,915
Current income taxes	3,395,120			3,708,743			
Deferred income taxes	(404,889)	2,990,230	2.1	333,250	4,041,993	2.6	1,051,762
Minority interest in income/loss of consolidated subsidiaries		(5,964)	(0.0)		245	0.0	6,210
Net income		5,304,499	3.7		6,241,441	4.0	936,942

Consolidated Statements of Retained Earnings

(Thousands of yen)

	FY 2002 (Dec 21, 2001 to Dec 20, 2002)		FY 2003 (Dec 21, 2002 to Dec 20, 2003)	
	Amount		Amount	
Capital surplus				
I. Balance at beginning of year		7,347,371		7,347,371
II. Balance at end of year		7,347,371		7,347,371
Retained earnings				
I. Balance at beginning of year		3,493,662		8,230,089
II. Increase in retained earnings				
1. Net income	5,304,499		6,241,441	
2. Increase in retained earnings resulting from inclusion of consolidated subsidiaries	4,966	5,309,465	-	6,241,441
III. Decrease in retained earnings				
1. Dividends	473,039		797,514	
2. Bonuses to directors and statutory auditors	100,000		189,578	
3. Decrease in retained earnings due to change in fiscal year end of consolidated subsidiaries	-	573,039	40,938	1,028,030
IV. Balance at end of year		8,230,089		13,443,499

## Consolidated Statements of Cash Flows

(Thousands of yen)

	FY 2002 (Dec 21, 2001 to Dec. 20, 2002)	FY 2003 (Dec.21, 2002 to Dec. 20, 2003)	Differences
<b>I Operating activities</b>			
1. Income before income taxes and minority interests	8,288,765	10,283,681	1,994,915
2. Depreciation and amortization	1,704,890	1,441,729	(263,160)
3. Increase (decrease) in allowance for doubtful receivables	(58,474)	2,254	60,728
4. Increase (decrease) in accrued retirement benefits for employees	(409,528)	10,254	419,783
5. Increase in reserve for bonuses	44,525	-	(44,525)
6. Decrease in accrued retirement benefits for directors and statutory auditors	(284,924)	(266,117)	18,807
7. Increase (decrease) in reserve for guarantee of anticipated loss on bad debt	660,676	(660,676)	(1,321,352)
8. Loss on write-down of investments in securities	92,508	11,096	(81,411)
9. Loss on sales or disposal of fixed assets	257,711	524,020	266,309
10. Equity in earnings of an affiliate	(358,177)	(67,823)	290,354
11. Interest and dividend income	(29,145)	(37,113)	(7,967)
12. Interest expense	431,318	189,069	(242,249)
13. Increase in notes and accounts receivable	(1,022,625)	(1,139,411)	(116,785)
14. (Increase) decrease in inventories	4,330,952	(2,313,015)	(6,643,968)
15. Increase (decrease) in notes and accounts payable	(1,287,138)	894,445	2,181,583
16. Other, net	(78,959)	104,434	183,394
Subtotal	12,282,375	8,976,829	(3,305,545)
17. Interest and dividends received	129,014	46,692	(82,321)
18. Interest paid	(442,703)	(194,271)	248,431
19. Income taxes paid	(474,848)	(4,536,739)	(4,061,890)
Net cash provided by operating activities	11,493,837	4,292,511	(7,201,326)
<b>II Investing activities</b>			
1. Purchases of fixed assets	(538,166)	(1,480,449)	(942,282)
2. Proceeds from sales of fixed assets	8,418	35,271	26,852
3. Increase in investments in securities	(1,080,045)	(1,025,982)	54,062
4. Proceed from sales of investments in securities	183,935	112,004	(71,930)
5. Acquisition of shares and bonds issued by affiliates	(600,000)	(232,794)	367,205
6. Payment for loans receivable	(10,500)	(3,691)	6,808
7. Collections of loans receivable	12,225	11,106	(1,118)
8. Proceeds from sale of Credit Service Division *2	1,706,372	-	(1,706,372)
9. Other, net	7,125	-	(7,125)
Net cash used in investing activities	(310,634)	(2,584,535)	(2,273,901)
<b>III Financing activities</b>			
1. Increase (decrease) in short-term bank loans, net	1,080,000	(1,500,000)	(2,580,000)
2. Proceeds from long-term loans from banks and insurance companies	-	7,090,000	7,090,000
3. Repayment of long-term loans from banks and insurance companies	(2,309,862)	(5,769,800)	(3,459,938)
4. Proceeds from issuance of corporate bonds	-	500,000	500,000
5. Repayment of corporate bonds	(9,628,000)	-	9,628,000
6. Purchases of treasury stock	(1,013,723)	(487,269)	526,453
7. Payment of dividends to minority shareholders	(1,459)	(1,377)	82
8. Dividends paid	(594,705)	(797,514)	(202,809)
Net cash used in financing activities	(12,467,749)	(965,960)	11,501,788
<b>IV. Effect of exchange rate changes on cash and cash equivalents</b>	1,457	(35,616)	(37,074)
<b>V. Net increase (decrease) in cash and cash equivalents</b>	(1,283,088)	706,398	1,989,486
<b>VI. Cash and cash equivalents at beginning of year</b>	10,346,323	9,094,300	(1,252,023)
<b>VII. Decrease in cash and cash equivalents at beginning of period due to changes in fiscal year end of consolidated subsidiaries</b>	-	(15,873)	(15,873)
<b>VIII. Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries</b>	31,065	-	(31,065)
<b>VIII. Cash and cash equivalents at end of year</b> *1	9,094,300	9,784,824	690,524

Basis of Preparation of Consolidated Financial Statements

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>1. Basis of Consolidation</p> <p>(1) Consolidated subsidiaries: 12 Major consolidated subsidiaries Spark Ace Limited. Advance Progress Limited. Kyoto Nissen Co., Ltd. Nissen Saibien Co., Ltd. Nissen Shikoen Co., Ltd. Nissen Kashoen Co., Ltd. Nissen Kyobien Co., Ltd. Nissen Yuwaen Co., Ltd. Nissen Evers Oita Co., Ltd. Nissen Youbist Tomonokai Co., Ltd. Nissen Shape Founde Co., Ltd.</p> <p>Effective the current consolidated fiscal year, Nissen Youbist Tomonokai Co., Ltd. is included in the consolidation, given the fact that it has increased the materiality of impact on consolidated financial statements.</p> <p>Effective the current consolidated fiscal year, Nissen Shape Founde Co., Ltd. is included in the consolidation due to establishment and given the fact that it has significant impact on consolidated financial statements.</p> <p>Liquidation of Nihon Nassen was completed on July 18, 2002.</p> <p>(2) Major non-consolidated subsidiaries <b>東莞日泉品質檢測有限公司</b> (Reason for excluding from the consolidation) The consolidated financial statements do not include the accounts of two non-consolidated subsidiaries since the entities are small-scale businesses whose combined assets, sales revenues, net income/loss (equity in earnings/loss) or retained earnings (equity in earnings) have no significant effect on the overall results of consolidated financial statements.</p> <p>2. Application of the equity method of accounting</p> <p>(1) Companies accounted for under the equity method of accounting: 1 The company name: GE Nissen Credit Co., Ltd.</p> <p>(2) Major non-consolidated subsidiaries and affiliates not accounted for under the equity method of accounting: <b>東莞日泉品質檢測有限公司</b> (Reason for exclusion from the application of the equity method of accounting) The afore mentioned subsidiaries are not accounted for under the equity method because of the fact that each has a very minor effect on consolidated net income/loss and consolidated retained earnings and are relatively insignificant in the context of consolidated financial statements.</p>	<p>1. Basis of Consolidation</p> <p>Consolidated subsidiaries: 11 Major consolidated subsidiaries Spark Ace Limited. Advance Progress Limited. Kyoto Nissen Co., Ltd. Nissen Saibien Co., Ltd. Nissen Shikoen Co., Ltd. Nissen Kashoen Co., Ltd. Nissen Kyobien Co., Ltd. Nissen Yuwaen Co., Ltd. Nissen Evers Oita Co., Ltd. Nissen Youbist Tomonokai Co., Ltd. Nissen Shape Founde Co., Ltd.</p> <p>(2) Major non-consolidated subsidiaries <b>東莞日泉品質檢測有限公司</b> (Reason for excluding from the consolidation) The consolidated financial statements do not include the accounts of three non-consolidated subsidiaries since the entities are small-scale businesses whose combined assets, sales revenues, net income/loss (equity in earnings/loss) or retained earnings (equity in earnings) have no significant effect on the overall results of consolidated financial statements.</p> <p>2. Application of the equity method of accounting</p> <p>(1) Companies accounted for under the equity method of accounting: 1 The company name: GE Nissen Credit Co., Ltd.</p> <p>(2) Major non-consolidated subsidiaries and affiliates not accounted for under the equity method of accounting: <b>東莞日泉品質檢測有限公司</b> (Reason for exclusion from the application of the equity method of accounting) The afore mentioned subsidiaries are not accounted for under the equity method because of the fact that each has a very minor effect on consolidated net income/loss and consolidated retained earnings and are relatively insignificant in the context of consolidated financial statements.</p>

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<p>3. Fiscal year end of consolidated subsidiaries Balance sheet dates of consolidated subsidiaries are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Subsidiaries</th> <th style="text-align: left;">Balance sheet date</th> </tr> </thead> <tbody> <tr><td>Spark Ace Limited.</td><td>Oct. 31</td></tr> <tr><td>Advance Progress Limited.</td><td>Oct. 31</td></tr> <tr><td>Kyoto Nissen Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Saibien Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Shikoen Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Kashoen Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Kyobien Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Yuwaen Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Evers Oita Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Youbist Tomonokai Co., Ltd.</td><td>Sep. 20</td></tr> <tr><td>Nissen Shape Founde Co., Ltd.</td><td>Dec. 20</td></tr> </tbody> </table> <p>Appropriate adjustment was made for significant transactions during the period from their respective balance sheet dates and the balance sheet date of consolidated financial statements.</p>	Subsidiaries	Balance sheet date	Spark Ace Limited.	Oct. 31	Advance Progress Limited.	Oct. 31	Kyoto Nissen Co., Ltd.	Sep. 20	Nissen Saibien Co., Ltd.	Sep. 20	Nissen Shikoen Co., Ltd.	Sep. 20	Nissen Kashoen Co., Ltd.	Sep. 20	Nissen Kyobien Co., Ltd.	Sep. 20	Nissen Yuwaen Co., Ltd.	Sep. 20	Nissen Evers Oita Co., Ltd.	Sep. 20	Nissen Youbist Tomonokai Co., Ltd.	Sep. 20	Nissen Shape Founde Co., Ltd.	Dec. 20	<p>3. Fiscal year end of consolidated subsidiaries Balance sheet dates of consolidated subsidiaries are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Subsidiaries</th> <th style="text-align: left;">Balance sheet date</th> </tr> </thead> <tbody> <tr><td>Spark Ace Limited.</td><td>Oct. 31</td></tr> <tr><td>Advance Progress Limited.</td><td>Oct. 31</td></tr> <tr><td>Kyoto Nissen Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Saibien Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Shikoen Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Kashoen Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Kyobien Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Yuwaen Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Evers Oita Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Youbist Tomonokai Co., Ltd.</td><td>Dec. 20</td></tr> <tr><td>Nissen Shape Founde Co., Ltd.</td><td>Dec. 20</td></tr> </tbody> </table> <p>Appropriate adjustment was made for significant transactions during the period from their respective balance sheet dates and the balance sheet date of consolidated financial statements.</p> <p>Effective the current consolidated fiscal year, the following subsidiaries changed their balance sheet dates to December 20.</p> <ul style="list-style-type: none"> <li>Kyoto Nissen Co., Ltd.</li> <li>Nissen Saibien Co., Ltd.</li> <li>Nissen Shikoen Co., Ltd.</li> <li>Nissen Kashoen Co., Ltd.</li> <li>Nissen Kyobien Co., Ltd.</li> <li>Nissen Yuwaen Co., Ltd.</li> <li>Nissen Evers Oita Co., Ltd.</li> <li>Nissen Youbist Tomonokai Co., Ltd.</li> </ul>	Subsidiaries	Balance sheet date	Spark Ace Limited.	Oct. 31	Advance Progress Limited.	Oct. 31	Kyoto Nissen Co., Ltd.	Dec. 20	Nissen Saibien Co., Ltd.	Dec. 20	Nissen Shikoen Co., Ltd.	Dec. 20	Nissen Kashoen Co., Ltd.	Dec. 20	Nissen Kyobien Co., Ltd.	Dec. 20	Nissen Yuwaen Co., Ltd.	Dec. 20	Nissen Evers Oita Co., Ltd.	Dec. 20	Nissen Youbist Tomonokai Co., Ltd.	Dec. 20	Nissen Shape Founde Co., Ltd.	Dec. 20
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Nissen Youbist Tomonokai Co., Ltd.	Sep. 20																																																
Nissen Shape Founde Co., Ltd.	Dec. 20																																																
Subsidiaries	Balance sheet date																																																
Spark Ace Limited.	Oct. 31																																																
Advance Progress Limited.	Oct. 31																																																
Kyoto Nissen Co., Ltd.	Dec. 20																																																
Nissen Saibien Co., Ltd.	Dec. 20																																																
Nissen Shikoen Co., Ltd.	Dec. 20																																																
Nissen Kashoen Co., Ltd.	Dec. 20																																																
Nissen Kyobien Co., Ltd.	Dec. 20																																																
Nissen Yuwaen Co., Ltd.	Dec. 20																																																
Nissen Evers Oita Co., Ltd.	Dec. 20																																																
Nissen Youbist Tomonokai Co., Ltd.	Dec. 20																																																
Nissen Shape Founde Co., Ltd.	Dec. 20																																																
<p>4. Accounting standards (1) Valuation criteria and methods for principal assets a. Securities</p> <p style="text-align: center;">-</p> <p>Subsidiary and affiliate stock Subsidiary and affiliate stock is stated at cost, cost being determined by the moving-average method.</p> <p>Other securities Securities with market quotations Other securities that have market value are carried at fair value on the balance sheet date. (Unrealized holding gain or loss is included directly in shareholders' equity. Cost of securities sold is determined primarily by the moving-average method.) Securities without market quotations Securities without market quotations are stated at cost, cost being determined by the moving-average method.</p> <p>b. Inventories Merchandise: Inventories are stated at cost, cost being determined by the first-in first-out method.</p>	<p>4. Accounting standards (1) Valuation criteria and methods for principal assets a. Securities</p> <p>Held-to-maturity debt securities Amortized cost method (straight-line method) Subsidiary and affiliate stock Same as on the left.</p> <p>Other securities Securities with market quotations Same as on the left.</p> <p>Securities without market quotations Same as on the left.</p> <p>b. Inventories Merchandise: Same as on the left.</p>																																																

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>(2) Depreciation and amortization method for principal depreciable assets</p> <p>a. Property, plant and equipment Buildings (excluding fixtures) Depreciation on buildings is computed by the straight-line method. Other Depreciation is computed by the declining-balance method. Useful life of principal assets is as follows: Buildings and structures: 2-49 years Machinery, equipment and vehicles: 2-13 years Tools, furniture and fixtures: 2-20 years</p> <p>b. Intangible assets Amortization is computed by the straight-line method. The development costs of software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.</p> <p>c. Long-term pre-paid expenses Depreciation of long-term pre-paid expenses is computed by the straight-line method.</p> <p>(3) Recognition of significant allowances</p> <p>a. Allowance for doubtful receivables To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are provided for general receivables based on the historical write-off ratio, and bad receivables based on a case-by-case determination of collectibility.</p> <p>b. Reserve for guarantee of anticipated loss On July 14, 2000, the Company entered into a Business Transfer Agreement with GE Nissen Credit Co., Ltd. In accordance with the agreement, the Company guaranteed a certain portion of anticipated future loss. If the sum of annual loss on bad debts and the provision for bad debts on receivables exceeds a certain amount, the Company will compensate for the excess of any such loss. The Company has provided a reserve for this guarantee of anticipated loss. This guarantee will remain in effect through the fiscal year ending December 20, 2003.</p> <p>c. Reserve for bonuses To provide for accrued employee bonuses, the Company provides an allowance on estimated bonus obligations.</p> <p>d. Accrued retirement benefits for employees To provide for accrued employees' retirement benefits (female sales force called "Nissen Ladies"), the Company provides an allowance in the amount deemed to have accrued at the end of the current consolidated fiscal year based on future estimated retirement benefit obligations.</p> <p>e. Accrued retirement benefits for directors and statutory auditors. To provide for accrued directors and statutory auditors' retirement benefits, the Company provides an allowance for the aggregate amount payable at the end of the current consolidated fiscal year pursuant to the Company's rules on retirement benefits for directors and statutory auditors.</p>	<p>(2) Depreciation and amortization method for principal depreciable assets</p> <p>a. Property, plant and equipment Same as on the left.</p> <p>b. Intangible assets Same as on the left.</p> <p>c. Long-term pre-paid expenses Same as on the left.</p> <p>(3) Recognition of significant allowances</p> <p>a. Allowance for doubtful receivables Same as on the left.</p> <p>b. Reserve for guarantee of anticipated loss -</p> <p>c. Reserve for bonuses -</p> <p>d. Accrued retirement benefits for employees Same as on the left.</p> <p>e. Accrued retirement benefits for directors and statutory auditors. -</p>

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>(4) Translation of principal foreign currency-denominated assets and liabilities Foreign currency-denominated monetary assets and liabilities are translated into yen at the exchange spot rate in effect on the consolidated balance sheet date. Translation gain or loss is accounted as profit or loss. The balance sheet accounts of overseas consolidated subsidiaries are also translated at the exchange spot rate in effect on the balance sheet dates. The revenue and expense accounts of foreign consolidated subsidiaries are translated into yen at the average exchange rate for the year. Translation adjustments are stated as a component of minority interests and shareholders' equity.</p> <p>(5) Accounting for leases Finance leases other than those which are deemed to transfer the ownership of the leased assets to the lessees are accounted for by the method similar to that applicable to ordinary operating leases.</p> <p>(6) Significant accounting policies for hedges</p> <p>a. Hedge accounting method With respect to forward foreign exchange contracts, a hedge is accounted for by the short-cut method since the hedging relationship meets certain criteria.</p> <p>b. Hedging instrument and the risk hedged Hedging method: Forward foreign exchange contracts Risk hedged: Foreign currency-denominated monetary liabilities.</p> <p>c. Hedging policy The Company enters into forward foreign exchange futures contracts, under a risk-control policy established by the Company, to reduce exposure to risks from fluctuations in foreign currency exchange.</p> <p>d. Assessing the effectiveness of a hedge Effectiveness is assessed by rate analysis of the sum total of price fluctuation involving hedged transactions, or cash flows, and the sum total of price fluctuation involving the hedge method, or cash flows. The Company considers that its hedges are effective since there was a high correlation between hedging instruments and the risk hedged at the end of the current consolidated fiscal year.</p> <p>(7) Other significant accounting policies in the preparation of consolidated financial statements</p> <p>a. Accounting for consumption taxes All amounts stated are exclusive of consumption and local taxes.</p> <p>5. Valuation of assets and liabilities of consolidated subsidiaries Assets and liabilities of the consolidated subsidiaries are valued at market.</p> <p>6. Amortization of goodwill Goodwill is amortized lump sum in the year in which it is recognized.</p> <p>7. Appropriation of retained earnings The consolidated financial statements include cash dividends declared by consolidated subsidiaries during the current fiscal year.</p>	<p>(4) Translation of principal foreign currency-denominated assets and liabilities Same as on the left.</p> <p>(5) Accounting for leases Same as on the left.</p> <p>(6) Significant accounting policies for hedges</p> <p>a. Hedge accounting method Same as on the left.</p> <p>b. Hedging instrument and the risk hedged Same as on the left.</p> <p>c. Hedging policy Same as on the left.</p> <p>d. Assessing the effectiveness of a hedge Same as on the left.</p> <p>(7) Other significant accounting policies in the preparation of consolidated financial statements</p> <p>a. Accounting for consumption taxes Same as on the left.</p> <p>5. Valuation of assets and liabilities of consolidated subsidiaries Same as on the left.</p> <p>6. Amortization of goodwill Same as on the left.</p> <p>7. Appropriation of retained earnings Same as on the left.</p>

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>8. Scope of cash and cash equivalents in statements of cash flows For the purpose of consolidated statements of cash flows, cash and cash equivalents consist of vault cash, deposits that can be withdrawn on demand, and short-term investments with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.</p>	<p>8. Scope of cash and cash equivalents in statements of cash flows Same as on the left</p>

Reclassification

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>Consolidated balance sheets</p> <p>1. Effective the current consolidated fiscal year, “Prepaid expenses,” included as a component of “Other current assets” under current assets in prior periods, is reclassified and presented as a separate line item, given that the amount has increased the materiality of impact in the context of consolidated financial statements. “Prepaid expenses” were ¥2,790,356 thousand in the previous consolidated fiscal year.</p> <p>2. Effective the current consolidated fiscal year, “Consumption taxes payable,” included as a component of “Other current liabilities” under current assets in prior periods, is presented as a separate line item, given that the amount has increased the materiality of impact in the context of consolidated financial statements. “Consumption taxes payable” were ¥153,508 thousand in the previous consolidated fiscal year.</p> <p style="text-align: right;">-</p> <p style="text-align: right;">-</p> <p style="text-align: right;">-</p>	<p style="text-align: center;">-</p> <p style="text-align: center;">-</p> <p>Consolidated statements of income</p> <p>1. Effective the current consolidated fiscal year, “Welfare expenses,” presented as a separate line item in prior periods, is reclassified and included as a component of “Other” under selling, general and administrative expenses, given that the amount has decreased the materiality of impact in the context of consolidated financial statements. “Welfare expenses” were ¥2,370,315 thousand in the current consolidated fiscal year.</p> <p>2. Effective the current consolidated fiscal year, “Telecommunications expenses,” presented as a separate line item in prior periods, is reclassified and included as a component of “Other” under selling, general and administrative expenses, given that the amount has decreased the materiality of impact in the context of consolidated financial statements. “Telecommunications expenses” in the current consolidated fiscal year were ¥1,325,853 thousand.</p> <p>3. Effective the current consolidated fiscal year, “IT system expenses,” presented as a separate line item in prior periods, is reclassified and included in “Other” under selling, general and administrative expenses, given that it has decreased the materiality of impact in the context of consolidated financial statements. “IT system expenses” was ¥999,946 thousand in the current consolidated fiscal year.</p>

Supplementary information

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
<p>(Retirement benefit accounting) Following the enactment of the Defined-contribution Enterprise Pension Law, the Company and its domestic consolidated subsidiaries terminated their defined-benefit pension plans (tax-qualified pension plans) on June 20, 2002 (Excluding certain employees so-called “Nissen Ladies”) and simultaneously introduced a defined-contribution pension plan. With respect to the termination of the defined-benefit pension plan, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards Implementation Guidance No. 1; “Accounting for Transfers Among Retirement Benefit Plans” issued by the Accounting Standards Board of Japan. As a result, the Company’ retirement benefit liabilities expired as of the balance sheet date. The effect of this change was to increase extraordinary income and income before income taxes and minority interests by ¥102,974 thousand respectively, compared to the amounts that would have been reported if the previous system had been used consistently.</p> <p>(Accounting for treasury stock and reduction of regal reserves) Effective the current consolidated period, the Company has adopted the new accounting standards for treasury stock and reduction of legal reserves (Financial Accounting Standard No. 1: Accounting Standards for Treasury Stock and Reduction of Legal Reserves; ASBJ). The effect of this change on profit/loss for the current consolidated fiscal year is insignificant. Effective the consolidated fiscal year, in accordance with Cabinet Office Ordinance No.11 (Supplementary Provision No. 2) promulgated on March 26, 2002 amending Regulations of Consolidated Financial Statements, the “Shareholders’ Equity Section” in the “Consolidated balance Sheets” and the “Consolidated Statements of Retained Earnings” conform to the revised Regulations of Consolidated Financial Statements.</p>	<p style="text-align: center;">-</p> <p style="text-align: center;">-</p> <p>(Changes in tax rates for deferred tax accounting) Following the Partial Revision of the Local Finance Act (Law No. 9 of 2003) that became effective on March 31, 2003, the Company adopted the new accounting standards for deferred tax accounting (Practical Guidelines on Tax Effect Accounting for Pro Forma Standard Taxation System; JICPA, March 25, 2003). The statutory tax rate employed for calculating deferred tax assets and liabilities (only for items to be amortized after December 21, 2004) for the current consolidated fiscal year conforms to the revised regulations. The effect of this change was to increase deferred tax assets (net of deferred tax liabilities) as of the end of the current consolidated fiscal year by ¥21,853 thousand and increase unrealized holding gain on other securities by ¥36,062 thousand. In addition, income tax adjustment as of the end of current consolidated the fiscal year increased by ¥14,209 thousand.</p>

FY 2002 December 21, 2001 – December 20, 2002	FY 2003 December 21, 2002 – December 20, 2003
-	<p>(Accrued retirement benefits for directors and statutory auditors)</p> <p>To provide for retirement benefits for directors and statutory auditors, the Company and its domestic consolidated subsidiaries provided an allowance for the aggregate amount payable at the end of the fiscal year, pursuant to the Company's internal rules on retirement benefits for directors and statutory auditors. However, the system of retirement benefits for directors and statutory auditors was terminated on December 20, 2002.</p> <p>Following the termination of the directors' and statutory auditors' retirement benefit system, the Company withdrew the reserve for retirement benefits for directors and statutory auditors (¥289,421 thousand) and accounted it as extraordinary income. An equivalent amount was accounted as extraordinary loss on liquidation of the accrued retirement benefits for directors and statutory auditors.</p>

## Notes

## Notes to consolidated balance sheets

(Thousands of yen)

FY 2002 As of December 20, 2002		FY 2003 As of December 20, 2003	
*1	The following items are applicable to non-consolidated subsidiaries and affiliates Investments in securities (Equity securities) 1,894,024 Other (Investments in capital and corporate bonds) 9,000	*1	The following items are applicable to non-consolidated subsidiaries and affiliates Investments in securities (Equity securities) 2,158,689 Other (Investments in capital and corporate bonds) 9,000
*2	Loan guarantees Guarantees for loans taken out by employees from financial institutions 59,906	*2	Loan guarantees Guarantees for loans taken out by employees from financial institutions 54,884
*3	Assets pledged as collateral and corresponding liabilities Assets pledged as collateral Buildings and structures 14,223,372 Land 4,330,102 Total 18,553,475 Liabilities corresponding to assets pledged as collateral Short-term bank loans 8,375,800 Long-term loans from banks and insurance companies 3,667,000 Corporate bonds (Unsecured corporate bonds with bank guarantees) 800,000 Total 12,842,800	*3	Assets pledged as collateral and corresponding liabilities Assets pledged as collateral Buildings and structures 13,026,911 Land 3,800,401 Total 16,827,312 Liabilities corresponding to assets pledged as collateral Short-term bank loans 1,271,600 Long-term loans from banks and insurance companies 6,699,900 Corporate bonds (Unsecured corporate bonds with bank guarantees) 800,000 Total 8,771,500
*4	-	*4	Accounting treatment of notes receivable/payable on the balance sheet date: Notes receivable/payable maturing on the balance sheet date are treated as if they were settled at the clearing date of notes. Consequently, as the balance sheet date was a bank holiday, the following notes payable maturing on the balance sheet date were included in the ending balance of notes payable. Notes payable 170,528
*5	Class and number of shares outstanding Common stock 54,306,332 shares	*5	Class and number of shares outstanding Common stock 54,306,332 shares
*6	Class and number of treasury shares Common stock 1,002,477 shares	*6	Class and number of treasury shares outstanding Common stock 1,360,644 shares

## Notes to consolidated statements of income

(Thousands of yen)

FY 2002 December 21, 2001 – December 20, 2002		FY 2003 December 21, 2002 – December 20, 2003	
*1	Principal components of gain on sales of fixed assets Machinery, equipment and vehicles 1,083	*1	Principal components of gain on sales of fixed assets Land 13,539 Tools, furniture and fixtures 49 Total 13,589
*2	Principal components of loss on disposal of fixed assets Loss on disposal of fixed assets Software 176,291 Other (Property, plant and equipment) 75,702 Other (Intangible assets) 294 Total 252,288 Principal components of loss on sales of fixed assets Buildings and structures 2,467 Tools, furniture and fixtures 3,844 Land 194 Total 6,505	*2	Principal components of loss on disposal of fixed assets Loss on disposal of fixed assets Software 489,250 Buildings and structures 46,980 Tools, furniture and fixtures 1,378 Total 537,609 -

## Notes to consolidated statements of cash flows

(Thousands of yen)

FY 2002 December 21, 2001 – December 20, 2002		FY 2003 December 21, 2002 ? December 20, 2003	
*1	Reconciliation of balance sheet items to cash and cash equivalents in the consolidated statements of cash flows: Cash and deposits 9,104,300 Term deposits with original maturities longer than three months (10,000) Cash and cash equivalents 9,094,300	*1	Reconciliation of balance sheet items to cash and cash equivalents in the consolidated statements of cash flows: Cash and deposits 9,794,824 Term deposits with original maturities longer than three months (10,000) Cash and cash equivalents 9,784,824
*2	Effective October 20, 2000, the Company transferred its Credit Service Division to GE Nissen Credit Co., Ltd. Payment for the transfer of the business is being recovered in installments. The amount received for the current fiscal year is ¥1,706,372 thousand.	*2	-

## (1) Lease Transactions

(Thousands of yen)

FY 2002 December 21, 2001 – December 20, 2002				FY 2003 December 21, 2002 – December 20, 2003			
Finance lease transactions other than those in which the title to the leased property is transferred to the lessee.				Finance lease transactions other than those in which the title to the leased property is transferred to the lessee.			
1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property.				1. Acquisition cost, accumulated depreciation and year-end balance equivalents of the leased property.			
	Acquisition cost	Accumulated depreciation	Year-end balance		Acquisition cost	Accumulated depreciation	Year-end balance
Machinery and equipment	9,808,887	7,112,046	2,696,840	Machinery and equipment	9,794,887	8,186,593	1,608,293
Tools, furniture and fixtures	2,069,073	1,078,778	990,295	Tools, furniture and fixtures	2,069,965	1,011,776	1,058,188
Software	397,381	198,596	198,785	Software	356,681	187,893	168,788
Total	12,275,342	8,389,420	3,885,921	Total	12,221,533	9,386,264	2,835,269
2. Outstanding lease commitments as of the end of the period:				2. Outstanding lease commitments as of the end of the period:			
			1,671,041	Within one year			1,784,184
			2,825,321	Over one year			1,522,096
	Total		4,496,362	Total			3,306,280
3. Lease payments, Depreciation and interest equivalents				3. Lease payments, Depreciation and interest equivalents			
			2,517,861	Lease payments			1,930,770
			1,972,693	Depreciation			1,610,810
			259,645	Interest expense			182,147
4. Calculation of accumulated depreciation equivalents and interest equivalents				4. Calculation of accumulated depreciation equivalents and interest equivalents			
Calculation of depreciation equivalents				Calculation of depreciation equivalents			
Depreciation is based on the straight-line method, assuming the lease period to be the useful life and a residual value of zero.				Same as on the left.			
Calculation of interest equivalents				Calculation of interest equivalents			
Interest equivalent is the difference between the total lease payments and the acquisition cost of the leased property and is allocated to each period based on the interest method.				Same as on the left.			

(2) Securities

FY 2002 (December 21, 2001 – December 20, 2002)

Securities

(1) Marketable securities classified as other securities

(Thousands of yen)

Item	FY 2002 As of December 20, 2002		
	Acquisition cost	Carrying value	Unrealized gain/(loss)
Securities whose carrying value exceeds their acquisition cost			
1. Equity securities	29,411	38,725	9,313
2. Other securities	41,395	42,796	1,400
Subtotal	70,807	81,521	10,714
Securities whose acquisition cost exceeds their carrying value			
1. Equity securities	352,218	318,279	(33,938)
2. Other securities	110,284	90,653	(19,631)
Subtotal	462,503	408,932	(53,570)
Total	533,310	490,454	(42,855)

(2) Sales of securities classified as other securities during the year

(Thousands of yen)

1. Sales amount	209,165
2. Aggregate gain	25,671

(3) Securities without market quotations

Other securities

(Thousands of yen)

Security	Carrying value
1. Unlisted stock (excluding OTC stock)	1,074,410
2. Corporate bonds	1,000
Total	1,075,410

(4) The redemption schedule for securities with maturity dates

No reportable information.

FY 2003 (December 21, 2002 – December 20, 2003)

1. Held-to-maturity bonds and debentures with market quotations

(Thousands of yen)

	Security	Carrying value	Market value	Unrealized gain/(loss)
Securities whose carrying value exceeds their acquisition cost	Japanese government bonds, municipal bonds etc.	201,219	201,319	99
Securities whose acquisition cost exceeds their carrying value	Japanese government bonds, municipal bonds etc.	65,159	64,889	(270)
	Total	266,378	266,208	(170)

2. Marketable securities classified as other securities

(Thousands of yen)

	FY 2003 As of December 20, 2003		
	Acquisition cost	Carrying value	Unrealized gain/(loss)
Securities whose carrying value exceeds their acquisition cost			
(1) Equity securities	751,456	3,323,244	2,571,788
(2) Other securities	40,173	52,851	12,677
Subtotal	791,629	3,376,095	2,584,466
Securities whose acquisition cost exceeds their carrying value			
(1) Equity securities	955	955	-
(2) Other securities	131,005	122,462	(8,542)
Subtotal	131,960	123,417	(8,542)
Total	923,590	3,499,513	2,575,923

3. Sales of securities classified as other securities during the period

No information is provided since the total sales amount is insignificant.

4. Securities without market quotations

Other securities

(Thousands of yen)

Security	Carrying value
(1) Unlisted stock (excluding OTC stock)	1,511,046
(2) Corporate bonds	1,000
Total	1,512,046

5. The redemption schedule for held-to-maturity bonds and debentures

(Thousands of yen)

Security	Due in one year or less	Due after one year through five years
Bonds and debentures	170,113	96,265

### (3) Derivatives

FY 2002 (December 21, 2001 – December 20, 2002)

#### 1. Financial derivatives information

FY 2002 December 21, 2001 – December 20, 2002
<p>The Company utilizes forward foreign exchange contracts to reduce the risk of fluctuation in foreign currency exchange rates in its import transactions. In addition, the Company utilizes interest-rate swap contracts and currency options for the same purpose. The Accounting Service Group manages derivative positions. In addition to strict compliance with internal company rules, the Company has established risk-control procedures, which require prior approval of the board of directors and after-the-fact reporting to the board of directors in the case of executing transactions exceeding the position limits authorized for the Manager of the Accounting Service Group under internal company rules. Moreover, the Audit Group regularly conducts internal audits.</p> <p>The Company considers that there is no significant credit risk arising from counter party default in its forward foreign exchange, interest-rate swap and currency options transactions. The Company's counter parties are major domestic banks with high credit ratings. The Company's derivative transactions are also exposed to certain market risks arising from foreign exchange rate and interest rate fluctuations.</p>

#### 2. Contract values etc.

No information is presented since the Company and its consolidated subsidiaries do not engage in derivative transactions (excluding hedge accounting method).

FY 2003 (December 21, 2002 – December 20, 2003)

#### 1. Financial derivative information

FY 2003 December 21, 2002 – December 20, 2003
<p>The Company utilizes forward foreign exchange contracts to reduce the risk of fluctuation in foreign currency exchange rates in its import transactions. In addition, the Company utilizes interest-rate swap contracts and currency options for the same purpose. The Accounting Service Group manages derivative positions. In addition to strict compliance with internal company rules, the Company has established risk control procedures, which require prior approval of the board of directors and after-the-fact reporting to the board of directors in the case of executing transactions exceeding the position limits authorized for the Manager of the Accounting Service Group under internal company rules. Moreover, the Audit Group regularly conducts internal audits.</p> <p>The Company considers that there is no significant credit risk arising from counter party default in its forward foreign exchange, interest-rate swap and currency options transactions. The Company's counter parties are major domestic banks with high credit ratings. The Company's derivative transactions are also exposed to certain market risks arising from foreign exchange rate and interest rate fluctuations.</p>

#### 2. Contract values etc.

No information is presented since the Company and its consolidated subsidiaries do not engage in derivative transactions (excluding hedge accounting method).

### (3) Retirement benefits

FY 2002 (December 21, 2001 – December 20, 2002)

#### 1. Retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined-benefit plans; that is, lump-sum payment plans for their “Nissen Lady” employees (sales women).

Following the enactment of the Defined-contribution Enterprise Pension Law, the Company and its domestic consolidated subsidiaries terminated their defined-benefit pension plans (tax-qualified pension plans) on June 20, 2002 (Excluding certain employees of the so-called “Nissen Lady” division) and introduced a defined-contribution pension plan. With respect to the termination of the defined-benefit pension plan, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards Implementation Guidance No. 1; “Accounting for Transfers Among Retirement Benefit Plans” issued by the Accounting Standards Board of Japan.

The foreign consolidated subsidiaries have their own defined-contribution pension plans.

#### 2. Retirement benefit obligations

(Thousands of yen)

	FY 2002 As of December 20, 2002
(1) Retirement benefit obligation	(163,173)
(2) Accrued retirement benefits	(163,173)

#### 3. Components of retirement benefit expenses

(Thousands of yen)

	FY 2002 Dec. 21, 2001 - Dec. 20, 2002
(1) Service cost	103,949
(2) Interest cost	17,974
(3) Expected return on plan assets	(13,981)
(4) Amortization of difference at transition to new accounting standard	-
(5) Amortization of actuarial differences	14,720
(6) Amortization of prior service cost	-
(7) Other	49,648
(8) Retirement benefit expenses	172,311

FY 2003 (December 21, 2002 – December 20, 2003)

#### 1. Retirement benefit plans

The Company and its domestic consolidated subsidiaries have defined-benefit plans; that is, lump-sum payment plans for their “Nissen Lady” division employees (sales women). The Company and its domestic subsidiaries use the simple method for assessing benefit obligations.

Following the enactment of the Defined Contribution Pension Fund Law, the Company and its domestic consolidated subsidiaries terminated their defined-benefit pension plans (tax-qualified pension plans) on June 20, 2002 (excluding certain employees of the so-called “Nissen Lady” division) and introduced a defined-contribution pension plan. With respect to the termination of the defined-benefit pension plan, the Company and its domestic consolidated subsidiaries adopted the Financial Accounting Standards Implementation Guidance No. 1; “Accounting for Transfers Among Retirement Benefit Plans” issued by the Accounting Standards Board of Japan.

The foreign consolidated subsidiaries have their own defined-contribution pension plans.

#### 2. Retirement benefit obligations

(Thousands of yen)

	FY 2003 As of December 20, 2003
(1) Retirement benefit obligation	172,356
(2) Accrued retirement benefits	172,356

3. Components of retirement benefit expenses

(Thousands of yen)

	FY 2003 Dec. 21, 2002 - Dec.20, 2003	
(1) Funding cost (defined-contribution pension plan)		142,123
(2) Service cost		27,288
(3) Total retirement benefit expenses		169,411

Note: Retirement benefit expenses related to "Nissen Lady" employees (sales women) are included in above "(2) Service Cost."

(5) Deferred tax accounting

(Thousands of yen)

FY 2002 As of December 20, 2002		FY 2003 As of December 20, 2003	
1. Significant components of deferred tax assets and liabilities		1. Significant components of deferred tax assets and liabilities	
Deferred tax assets		Deferred tax assets	
Reserve for guarantee of anticipated loss	277,483	Software amortization expense in excess of maximum allowed for inclusion in expenses	355,501
Software amortization expense in excess of maximum allowed for inclusion in expenses	270,099	Loss carried forward	238,611
Accrued enterprise tax	264,388	Accrued enterprise tax	198,424
Accrued retirement benefits for directors and statutory auditors	109,173	Accrued retirement benefits for directors and statutory auditors	103,032
Loss carried forward	108,223	Loss on write-down of investment securities	58,631
Loss on write-off of inventories	102,423	Loss on write-off of inventories	51,648
Loss on write-down of investment securities	81,190	Amortization of telephone rights	49,080
Prepaid expenses (Mail-order)	71,273	Accrued retirement benefits for employees	45,970
Accrued retirement benefits for employees	55,671	Other	122,835
Amortization of telephone rights	50,700	Deferred tax assets (subtotal)	1,223,738
Provision of reserve for bonuses in excess of maximum allowed for inclusion in expenses	34,401	Valuation reserve	(280,066)
Other	83,381	Total deferred tax assets	943,671
Deferred tax assets (subtotal)	1,508,411	Deferred tax liabilities	
Valuation reserve	(277,069)	Net unrealized holding loss on securities	(1,045,824)
Total deferred tax assets	1,231,342	Total deferred tax liabilities	(1,045,824)
2. Significant sources of difference between statutory and effective tax rates		2. Significant sources of difference between statutory and effective tax rates	
Statutory tax rate	42.0%	Statutory tax rate	42.0%
(Adjustments)		(Adjustments)	
Prior-year income taxes	(7.7)%	Corporation Tax deduction	(1.7)%
Foreign tax deduction	(0.7)%	Per capita residential tax	0.9%
Per capita residential tax	1.2%	Entertainment expenses and other items not to be included in expenses indefinitely	0.2%
Additional taxes	2.9%	Other	(2.1)%
Difference in tax rates with overseas consolidated subsidiaries	0.4%	Corporation tax rate in effect after application of deferred tax accounting	39.3%
Entertainment expenses and other items not to be included in expenses indefinitely	0.3%		
Other	(2.3)%		
Corporation tax rate in effect after application of deferred tax accounting	36.1%		

## (6) Segment information

FY 2002 (December 21, 2001 ? December 20, 2002)

(Thousands of yen)

	Mail-order Sales	Direct sales	Total	Eliminations or Corporate	Consolidated
1. Sales and operating income					
Net sales					
(1) Sales to third parties	113,965,636	28,765,277	142,730,913	-	142,730,913
(2) Inter-group sales and transfers	22,728	-	22,728	(22,728)	-
Total	113,988,364	28,765,277	142,753,642	(22,728)	142,730,913
Operating expenses	104,770,662	25,781,325	130,551,987	1,757,424	132,309,411
Operating income	9,217,702	2,983,951	12,201,654	(1,780,152)	10,421,501
2. Assets, depreciation, and capital expenditures					
Total assets	48,295,312	9,926,746	58,222,058	15,847,910	74,069,969
Depreciation and amortization	1,568,757	109,119	1,677,876	22,636	1,700,513
Capital expenditures	220,849	381,358	602,207	21,130	623,338

## Notes:

- The business segments of the Company and its consolidated subsidiaries are based on operating segments. Effective the year ended December 20, 2002, the Company transferred its Information Systems Section from the Corporate Division to the Mail-Order Sales Division following a change in the Company's organization. The effect of this change decreased operating income from Mail-order Sales and Direct Sales by ¥1,538,143 thousand and ¥341,159 thousand, respectively, and increased operating income from Corporate by ¥1,879,302 thousand, compared to amounts that would have been reported if the previous system had been applied consistently.
- Principal business segments
  - Mail-order sales business: The mail-order sales business principally includes mail-order sales, mail-order sales on consignment and insurance agency businesses.
  - Direct sales business: The Direct Sales Business primarily relates to "Nissen Lady" sales, which are conducted directly with customers rather than through retail outlets.
- Operating expenses included in Eliminations and Corporate consist primarily of expenses related to the administration division at the Company and its consolidated subsidiaries. Operating expenses included in Eliminations and Corporate totaled ¥1,757,424 thousand.
- Corporate assets included in Eliminations and Corporate consist primarily of the Company's surplus funds, including financial assets (cash, short-term investments), investments in securities (investment securities) and assets of the administration division of the Company. Corporate assets included in Eliminations and Corporate totaled ¥16,353,507 thousand.
- Depreciation and capital investment include long-term prepaid expenses and their amortization expense.

FY 2003 (December 21, 2002 – December 20, 2003)

(Thousands of yen)

	Mail-order Sales	Direct sales	Total	Eliminations or Corporate	Consolidated
1. Sales and operating income					
Net sales					
(1) Sales to third parties	125,717,029	30,977,637	156,694,667	-	156,694,667
(2) Inter-group sales and transfers	35,079	-	35,079	(35,079)	-
Total	125,752,109	30,977,637	156,729,747	(35,079)	156,694,667
Operating expenses	113,949,347	28,382,074	142,331,422	1,791,677	144,123,099
Operating income	11,802,762	2,595,563	14,398,325	(1,826,757)	12,571,567
2. Assets, depreciation, and capital expenditures					
Total assets	52,352,885	9,832,954	62,185,840	19,545,613	81,731,453
Depreciation and amortization	1,266,163	153,760	1,419,924	18,905	1,438,830
Capital expenditures	1,388,444	93,464	1,481,909	17,953	1,499,862

Notes:

- The business segments of the Company and its consolidated subsidiaries are based on operating segments.
- Principal business segments
  - Mail-order sales business: The mail-order sales business principally includes mail-order sales, mail-order sales on consignment and insurance agency businesses.
  - Direct sales business: The Direct Sales Business primarily relates to “Nissen Lady” sales, which are conducted directly with customers rather than through retail outlets.
- Operating expenses included in Eliminations and Corporate consist primarily of expenses related to the administration division at the Company and its consolidated subsidiaries. Operating expenses included in Eliminations and Corporate totaled ¥1,791,677 thousand.
- Corporate assets included in Eliminations and Corporate consist primarily of the Company’s surplus funds, including financial assets (cash, short-term investments), investments in securities (investment securities) and assets of the administration division of the Company. Corporate assets included in Eliminations and Corporate totaled ¥19,545,613 thousand.
- Depreciation and capital investment include long-term prepaid expenses and their amortization expense.

Geographical segment information

FY 2002 (December 21, 2001 – December 20, 2002)

No information on geographic segments has been presented because the Company and its consolidated subsidiaries have conducted 90% of their sales in Japan and over 90% of the Company’s consolidated total assets were located in Japan.

FY 2003 (December 21, 2002 – December 20, 2003)

No information on geographic segments has been presented because the Company and its consolidated subsidiaries have conducted 90% of their sales in Japan and over 90% of the Company’s consolidated total assets were located in Japan.

Overseas sales

FY 2002 (December 21, 2001 – December 20, 2002)

No information on overseas sales is presented since overseas sales accounted for less than 10% of total consolidated sales.

FY 2003 (December 21, 2002 – December 20, 2003)

No information on overseas sales is presented since overseas sales accounted for less than 10% of total consolidated sales.

(7) Related-party transactions

FY 2002 (December 21, 2001 – December 20, 2002)

No reportable information.

FY 2003 (December 21, 2002 – December 20, 2003)

No reportable information.

Per-share information

FY 2002 Dec. 21, 2001 – Dec. 20, 2002		FY 2003 Dec. 21, 2002 – Dec. 20, 2003	
Shareholders' equity per share	¥413.55	Shareholders' equity per share	¥534.08
Net income per share (basic)	¥94.93	Net income per share (basic)	¥113.76
Net income per share (diluted)	¥90.54	Net income per share (diluted)	¥112.79
(Additional information)			
Effective the current fiscal year, the Company adopted the new accounting standards for earnings per share Accounting Standard No. 2: "Accounting Standards for Earnings Per Share," (ASBJ) and Accounting Standard Implementation Guidance No. 4. "Implementation Guidance on Accounting Standard for Earnings Per Share," (ASBJ))			
Restatement of per share data for the fiscal year ended December 20, 2002 to conform to the revised standards and guidance:			
Shareholders' equity per share	¥340.16		
Net income per share (basic)	¥75.79		
Net income per share (diluted)	¥69.32		
(The above amounts are calculated based on the average number of shares outstanding during the period, retroactively adjusted for stock split to beginning of period).			

Notes:

1. The Company implemented a two-for-one stock split effective December 5, 2002. Net income per share (basic) and net income per share (diluted) are calculated based on the average number of shares outstanding during the period, retroactively adjusted for the stock split to beginning of period.)
2. The following is a reconciliation of basic net income per share to diluted net income per share.

FY2002 Dec. 21, 2001 – Dec. 20, 2002		FY2003 Dec. 21, 2002 – Dec. 20, 2003	
Basic net income per share		Basic net income per share	
Net income (thousands of yen)	5,304,499	Net income (thousands of yen)	6,241,441
Net income not available to common shareholders (thousands of yen)	189,350	Net income not available to common shareholders (thousands of yen)	199,050
Net income available to common shareholders (thousands of yen)	5,115,149	Net income available to common shareholders (thousands of yen)	6,042,391
Weighted average number of shares outstanding (shares)	53,880,901	Weighted average number of shares outstanding (shares)	53,113,416
Diluted net income per share		Diluted net income per share	
Effect of dilutive securities (thousands of yen)	72,124	Effect of dilutive securities (thousands of yen)	-
Interest on convertible bonds (thousands of yen)	56,113	Interest on convertible bonds (thousands of yen)	-
Other commissions etc.	16,011	Other commissions etc.	-
Increase in the number of common stock (shares)	3,409,278	Increase in the number of common stock (shares)	460,816
Stock subscription rights (shares)	86,426	Stock subscription rights (shares)	191,771
Stock acquisition rights (shares)	-	Stock acquisition rights (shares)	269,045
Convertible bonds (shares)	3,322,852	Convertible bonds (shares)	-
Summary of potential stock not included in the calculation of "net income per share (diluted)" since there was no dilutive effect in the current fiscal year.	-	Summary of potential stock not included in the calculation of "net income per share (diluted)" since there was no dilutive effect in the current fiscal year.	-

## 5. Sales and Purchases

### (1) Sales

Sales by business segments for the current fiscal year are as follows:

(Thousands of yen)

Segment	Net sales	Year-on-year change (%)
Mail-order sales	125,717,029	110.3
Direct sales	30,977,637	107.7
Total	156,694,667	109.8

Note: The above amounts do not include consumption taxes.

### (1) Purchases

Purchases by business segments for the current fiscal year are as follows:

(Thousands of yen)

Segment	Procurement	Year-on-year change (%)
Mail-order sales	60,876,152	116.9
Direct sales	11,525,533	111.3
Total	72,401,686	115.9

Notes:

1. The above amounts are calculated on the basis of procurement prices.
2. The amounts do not include consumption taxes.

*\* This is a translation of Japanese Kessan Tanshin (including attachments), a summary of financial statements prepared in accordance with accounting principles generally accepted in Japan. This translation is prepared and provided for the purpose of the reader's convenience. All readers are recommended to refer to the original version in Japanese of the report for complete information.*