

a mass merchandiser of home electronic appliances

**KOJIMA** Co.,Ltd.

# Semiannual Report 2011

For the Six Months Ended Sep. 30, 2010



## **Kojima Co., Ltd. is promoting structural reforms with a focus on becoming the industry leader in profitability, and working vigorously to create a “family of top-ranked regional stores.”**

I would like to extend our wishes for our shareholders' health and happiness. I would also like to express our deep gratitude for your continued patronage.

Enclosed is the Mid-Term Report for our 48<sup>th</sup> fiscal year (cumulative second quarter: April 1, 2010 – September 30, 2010).

The Eco-point program, initiated by the Japanese government in 2009 as part of its efforts to fight global warming, has provided a favorable tailwind to the home electronics appliance industry. Sales of eligible products, such as flat panel televisions and air conditioners, have been brisk. There are numerous products that are likely to fuel fresh growth once the Eco-point system ends in March 2011, but at the same

time one can't deny feeling a sense of uncertainty about our business.

To date, our company has promoted the establishment of large sales outlets, and has also enacted initiatives such as improving our gross margin ratio through significant inventory reductions, and standardizing store operations. Moreover, we are currently in the midst of an intensive effort to further overhaul our sales outlets, products and operations, so that we may respond flexibly to changes in economic conditions. Our entire company is tackling a project aimed at making Kojima the industry leader in profitability by the time the Eco-point program ends on March 31.

Moving forward, we will continue our efforts to boost the competitive strength of each of our stores and to achieve sustainable profitability. And we will press ahead in our quest to create a “family of top-ranked regional stores” capable of satisfying an even greater number of customers.

In closing, I ask for your continued support and cooperation.

December 2010



*Akitoshi Kojima*

Chairman and Representative Director, Kojima Co., Ltd.

## Summary of Results for the Cumulative Second Quarter, Year to March 31, 2011

In the cumulative second quarter, the outlook for the Japanese economy remained unclear amid sluggishness in employment and personal income and the yen's prolonged appreciation. In the home electronics retail industry, however, the Japanese government's Eco-point program stimulated consumption of eligible consumer electronics products. Sales of televisions in particular rose sharply ahead of Japan's switch to digital terrestrial broadcasting in 2011. Sales of air conditioners also increased significantly year-on-year due to a summer heat wave in Japan.

During the period under review, the Kojima corporate group worked to realize a more robust earnings structure by strengthening the efficiency of our stores' operations, and also by revising our sales strategy through such measures as shifting our focus from a system of rewarding points for purchases to cash discounts. Our corporate group's cumulative second quarter net sales dropped by 0.3% year-on-year to ¥215.71 billion. Sales of flat-panel televisions rose by 5% on the tailwind provided by

the Eco-point program and air conditioner sales jumped 18%. However, consumers held back on purchases of refrigerators and other products due to a variety of factors. Our gross margin ratio decreased by 0.7% on an increase in cash discounts, but our ordinary profit expanded by 2.1 times year-on-year to ¥2.89 billion, fueled in part by a reduction in sales promotion fees. This fiscal year we have adopted an accounting standard for asset retirement obligations under which we booked the estimated future expense of retiring leased sales outlets. As a result, we posted an extraordinary loss of ¥2.68 billion and a net loss of ¥234 million (compared to a net profit of ¥270 million in the same period the previous year).

With regard to our results for the full year to March 2011, we expect net sales of ¥483 billion (up 0.1% year-on-year), ordinary income of ¥7 billion (up 14.7% year-on-year), and net income of ¥4 billion (up 26.4% year-on-year).

# SEMIANNUAL CONSOLIDATED BALANCE SHEETS

KOJIMA Company, Ltd. and its Consolidated Subsidiary

As of September 30, 2010 and 2009

ASSETS	Millions of Japanese Yen		Thousands of U.S. dollars (Notes)
	2010	2009	2010
Current assets:			
Cash and cash equivalents	¥19,359	¥19,241	\$230,970
Notes and accounts receivable, trade	15,510	13,905	185,046
Inventories	48,646	57,520	580,373
Deferred tax assets	2,046	2,514	24,418
Others	5,297	4,406	63,207
Allowance for doubtful accounts	(165)	(145)	(1,969)
<b>Total current assets</b>	<b>90,697</b>	<b>97,443</b>	<b>1,082,046</b>
Property and equipment, net	45,371	46,002	541,292
Other assets:			
Investment securities	733	811	8,746
Lease deposits	26,817	25,776	319,938
Deferred tax assets	628	1,064	7,494
Others	6,142	6,567	73,287
Allowance for doubtful accounts	(20)	(0)	(248)
<b>Total other assets</b>	<b>34,300</b>	<b>34,219</b>	<b>409,217</b>
<b>Total assets</b>	<b>¥170,368</b>	<b>¥177,664</b>	<b>\$2,032,555</b>
<b>LIABILITIES AND EQUITY</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>
Current liabilities:			
Short-term loans	¥36,700	¥33,820	\$437,843
Current portion of long-term debt	16,863	22,316	201,192
Accounts payable	28,493	23,512	339,941
Income taxes payable	249	284	2,981
Others	13,887	12,141	165,686
<b>Total current liabilities</b>	<b>96,195</b>	<b>92,075</b>	<b>1,147,643</b>
Noncurrent liabilities:			
Long-term debt, net of current portion	14,163	31,207	168,977
Capital lease obligations	867	1,222	10,349
Allowance for award credits granted to customers	2,721	3,681	32,465
Employee benefits obligations	36	37	430
Retirement allowance for directors and statutory corporate auditors	267	247	3,187
Asset retirement obligations	4,737	—	56,520
Others	2,087	2,237	24,905
<b>Total noncurrent liabilities</b>	<b>24,880</b>	<b>38,632</b>	<b>296,832</b>
<b>Total liabilities</b>	<b>121,075</b>	<b>130,708</b>	<b>1,444,475</b>
Shareholders' Equity:			
Common stock	18,916	18,916	225,682
Additional paid-in capital	20,940	20,940	249,823
Retained earnings	9,431	7,102	112,523
Treasury stock, at cost	(0)	(0)	(10)
Unrealized gains (losses) on investments	5	(2)	63
<b>Total shareholders' equity</b>	<b>49,292</b>	<b>46,956</b>	<b>588,081</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥170,368</b>	<b>¥177,664</b>	<b>\$2,032,555</b>

See notes to semiannual consolidated financial statements.

# SEMIANNUAL CONSOLIDATED STATEMENTS OF OPERATIONS

KOJIMA Company, Ltd. and its Consolidated Subsidiary  
For the periods ended September 30, 2010 and 2009

	Millions of Japanese Yen		Thousands of U.S. dollars (Notes)
	2010	2009	2010
Net sales	¥215,714	¥216,259	\$2,573,542
Cost of sales	170,738	169,862	2,036,967
<b>Gross profit</b>	<b>44,975</b>	<b>46,396</b>	<b>536,575</b>
Selling, general and administrative expenses	41,872	44,897	499,547
<b>Operating income</b>	<b>3,103</b>	<b>1,499</b>	<b>37,028</b>
Other income (expenses):			
Interest and dividend income	91	84	1,090
Interest expense	(754)	(731)	(9,004)
Income from cooperation with manufacturers on sales promotion activities of vendors	708	482	8,452
Impairment loss on fixed assets	(282)	(764)	(3,371)
Loss on asset retirement	(2,682)	—	(31,999)
Other expenses, net	(317)	(206)	(3,785)
<b>Total other expenses, net</b>	<b>(3,236)</b>	<b>(1,135)</b>	<b>(38,618)</b>
<b>Income (loss) before income taxes</b>	<b>(133)</b>	<b>364</b>	<b>(1,590)</b>
Income taxes:			
Current	101	93	1,211
Deferred	—	—	—
	101	93	1,211
<b>Net income (loss)</b>	<b>¥(234)</b>	<b>¥270</b>	<b>\$(2,802)</b>

See notes to semiannual consolidated financial statements.

# NOTES TO SEMIANNUAL CONSOLIDATED FINANCIAL STATEMENTS

KOJIMA Company, Ltd. and its Consolidated Subsidiary

## Statement of Compliance

The semiannual consolidated financial statements have been translated from the original unaudited semiannual consolidated financial statements generally prepared in accordance with the same accounting policies as those adopted for the preparation of the annual consolidated financial statements included in the Company's annual report for the year ended March 31, 2010 and 2009.

## U.S. Dollar Amounts

The U.S. Dollar amounts included in the semiannual consolidated financial statements represent the arithmetic results of translating Japanese yen into U.S. dollars at the rate of ¥83.82 to U.S.\$1.00, the approximate exchange rate prevailing on September 30, 2010.