

NOHMI BOSAI LTD.



NOHMI

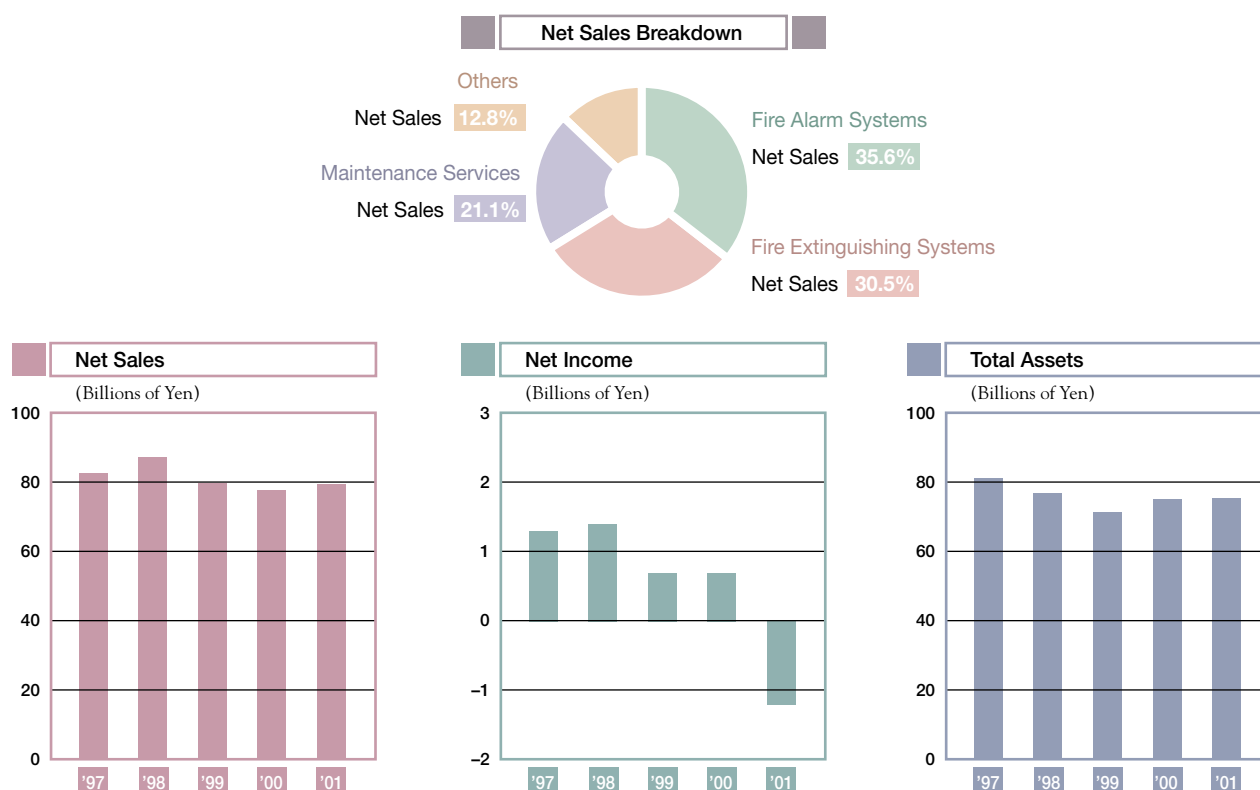
Consolidated Financial Highlights

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 1999, 2000 and 2001

	Millions of Yen			Percentage Change	Thousands of U.S. Dollars
	1999	2000	2001	2001/2000	2001
For the year:					
New orders	¥76,266	¥77,247	¥75,080	-2.8%	\$605,972
Net sales	79,688	77,666	79,494	2.4	641,598
Cost of sales	59,946	58,559	60,394	3.1	487,441
Operating income	1,661	1,437	1,879	30.8	15,169
Net income (loss)	719	702	(1,213)	—	(9,790)
At year-end:					
Total assets	¥71,498	¥75,265	¥75,569	0.4%	\$609,923
Total stockholders' equity	27,750	29,972	28,371	-5.3	228,985
Backlog of orders	36,105	35,687	31,273	-12.4	252,405
Number of employees	—	2,078	2,011		
Per share (in yen and U.S. dollars):					
Net income (loss), adjusted—primary	¥16.98	¥16.57	¥(28.65)	—%	\$(0.23)
Cash dividends, historical	10.00	10.00	10.00	—	0.08

Notes: 1. Per share amounts are based on the weighted average number of shares outstanding during each period.
2. All dollar figures herein refer to U.S. currency unless otherwise specified. The dollar amounts in this report represent translation of yen, for convenience only, at the rate of ¥123.90=US\$1, the approximate effective rate of exchange prevailing on March 31, 2001.
3. All amounts are in millions of yen or thousands of U.S. dollars, except number of employees and per share amounts.



A Message from the President

Business Environment and Results

In fiscal 2001, ended March 31, 2001, information technology (IT) capital investment and exports improved and there were continuing signs of economic recovery, particularly among corporations. However, employment conditions and consumer spending remained weak, and real recovery seems distant.

Against this backdrop, there was a recovery in private sector capital spending in the fire protection industry, but a decrease in public sector construction. This was an additional factor that contributed to a stagnant construction market and a continuing harsh environment.

In these conditions, Nohmi Bosai attempted to strengthen its business in the building renovation market by increasing its share in the existing fire protection market with enhanced marketing strategies and unique product development as well as aggressive implementation of performance checks and update proposals for existing fire protection equipment.

As part of our efforts to reorganize our business, Nohmi Bosai has endeavored to bring greater efficiency to asset use by consolidating and closing business offices and leasing land, and Companywide operations which resulted in improved revenues. At the same time, we continued our entry into new markets such as fire prevention-related markets.

Consolidated new orders for the period fell 2.8%, to ¥75,079 million, but consolidated net sales rose 2.4%, to ¥79,493 million. Net sales of fire alarm systems rose 0.6%, to ¥28,281 million, and net sales of fire extinguishing systems increased 9.7%, to ¥24,288 million. Maintenance services generated sales of ¥16,764 million, down 0.3%, and others' sales fell 4.1%, to ¥10,159 million.

Cost of sales increased 3.1%, to ¥60,393 million, while selling, general and administrative expenses fell 2.5%, to ¥17,220 million. Operating income jumped 30.8%, to ¥1,879 million, but net loss for this period was ¥1,213 million, due

to a lump-sum payment made to cover discrepancies resulting from the application of new accounting procedures for calculating retirement benefits. Despite these disappointing results, we paid cash dividends for this period of ¥5.00 per share.

Operating Highlights

During the period under review, we supplied a sophisticated comprehensive fire protection system to Harumi Island Triton Square. This spring, an extensive area on the Tokyo waterfront comprising spaces for work, play and residence was created, using our up-to-date, comprehensive fire protection system. This system was also supplied to the main stadium of the Oita Sports Park. This multifunctional stadium, boasting a retractable ceiling, will be used in the 2002 World Cup games, and our automatic fire alarm systems and water discharge nozzles have been installed to provide protection to the stadium's visitors. New products include a concealed-type residential sprinkler—an extinguishing system using the residences' tap water—and the COMPACT VESDA (very early smoke detection apparatus).

Management Policies and Strategies

In line with our role as pioneer in the fire protection industry, our basic policy continues to be to provide the most suitable, up-to-date and highest quality fire protection systems and services to protect life and property, while emphasizing conservation of the environment, energy and resources. We are striving to create a corporate structure that enables us to respond flexibly to rapid changes in the operating environment, while shifting the Group's business portfolio from manufacturing to services.

Specifically, we will expand our business by cultivating the fire protection market and overseas markets, raising our share in existing fire protection markets, fostering new sales channels, encouraging activities that will improve

Companywide revenues, offering innovative new products that will lead to reforms in the business structure, as well as approaching organizational business operations as management issues. These measures will enable us to develop even in this period of low economic growth.

Working with the Environment

As a manufacturer of fire protection products, Nohmi Bosai is making great efforts to address environmental concerns by developing new products that will not contribute to such problems as global warming. Consequently, in January 2001, we established environmental principles and basic policies. We are currently working to achieve ISO 14001 certification at our Menuma and Mitaka factories.

Outlook

While expectations that the Japanese government and the Bank of Japan will implement measures to boost the economy are high, the slowdown in the United States and other overseas economies as well as the stock slump have heightened worries of a recession. These conditions make it difficult to predict Japan's economic future. The environment for fire protection products and services will continue to be harsh, paralleling an ambiguous outlook for the construction market and tough competition among companies. To adjust to this environment, the Group has established a business plan for the new century that aims to reform our marketing system by strengthening marketing abilities, developing new systems and products that will cut costs and freeing ourselves from dependence on new construction by enhancing marketing skills in the renovation market. We will also promote the development and sale of products for residences, including new fire and security systems, in cooperation with SECOM Co., Ltd. We are making every effort to cut cost of sales and improve the Company structure through systematic business operations. We anticipate



sales of ¥80 billion and new income totaling ¥1 billion in fiscal 2002.

Message to our Shareholders

Nohmi Bosai places a high priority on returning profits to shareholders. At the same time, it is imperative we strengthen our corporate structure and supplement internal reserves for future expansion. Accordingly, we will implement a continuous and stable dividend policy that takes into account our dividend payout ratio and other aspects of our financial standing.

On behalf of the Board of Directors of Nohmi Bosai, I thank our shareholders for their continued understanding and support.

June 30, 2001

A handwritten signature in dark ink, reading "Shoichi Kimura".

Shoichi Kimura
President

Fire Alarm Systems



Fire Monitoring Panels in Control Center



Analog Heat Detector

Major Products and Services

- Heat, Smoke and Gas Detectors
- Infrared Ray Flame Detectors
- Control Panels
- Fire Alarms and Bells
- Very Early Smoke Detection Apparatus
- Smoke Control Systems
- Transmitters
- Auxiliary Equipment

Nohmi Bosai offers a wide variety of fire alarm systems, such as automatic fire alarm systems, environmental monitoring systems, fire doors and smoke control systems, for homes as well as large commercial and industrial facilities. Our products are highly rated in the marketplace for their cutting-edge functions, practicality and safety, backed by our quality assurance. We continue to develop reliable products to meet the variety of conditions of diverse buildings and carry out research and development in the area of analog addressable fire alarm systems to satisfy overseas standards.

The Year in Review

In fiscal 2001, ended March 31, 2001, sales of fire alarm systems rose 0.6%, to ¥28,282 million, and accounted for 35.6% of consolidated net sales. New orders grew 4.9%, to ¥27,547 million, while the backlog of orders stood at ¥8,679 million on March 31, 2001, a 7.8% decrease. Despite the increase in new orders, harsh competition among companies limited sales to a slight rise.

In the period under review, we developed and began marketing the COMPACT VESDA. This ultrasensitive smoke detection system is able to sense the onset of a fire very quickly and is one-fifth the size of the previous model. It is particularly suited to our increasingly networked advanced society.

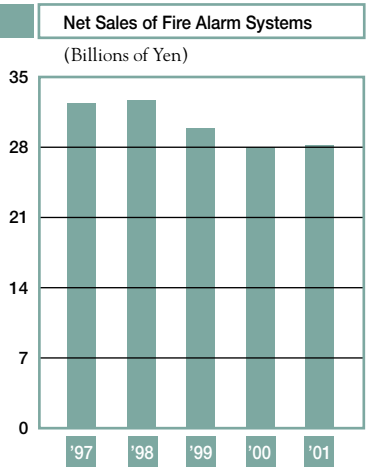
In cooperation with Hitachi Cable, Ltd., Nohmi Bosai developed and began marketing a fire detection system that uses a fiber-optic temperature laser radar—also used in temperature monitoring systems—to detect heat from fires. This system is characterized by its accuracy in fire detection made possible by the optical fiber and its numerous uses. It is suited for a variety of environments, including large spaces such as factories and warehouses, multipurpose facilities and facilities housing cultural treasures.

We also developed the single station fire alarm *Mamoru-kun*, a small heat detector for residences. These new peripheral devices accord with the Residence Quality Assurance Law.

Outlook

As the future for fire protection and construction industries remains unclear, we anticipate continuing harsh conditions in fiscal 2002, with intensifying competition among companies. Despite this environment, strengthening our new position in the building renovation market and reducing costs by cutting management costs will lead to expanded sales and profits.

Major projects for fiscal 2002 include renovation of systems at the Mitsui Marine Co., Ltd.'s head office and Japan Railways' Ueno Station, as well as a fire protection project at Himeji Castle and installation at the New Mito Plaza Hotel.





High-Expansion Foam Extinguishing System



Foam Extinguishing Test

Major Products and Services

- Sprinklers
- Spray Heads and Nozzles
- Fire Extinguishers
- High-Expansion Foam Extinguishing Systems
- Dry Chemical Extinguishing Systems
- Heat and Gas Dispersion Control Systems
- Water Cannons
- Flame Detectors

Nohmi Bosai provides sprinklers as well as foam extinguishing equipment and fire protection equipment for large-scale buildings, including office buildings, leisure complexes, factories, manufacturing plants and tunnels. We have established a strong reputation for sophisticated design and installation technologies for fire extinguishing systems in special facilities, such as waste management facilities and chemical plants. We are using our in-house technologies to develop unique products to help us enter new markets generated by Japan's ageing society.

The Year in Review

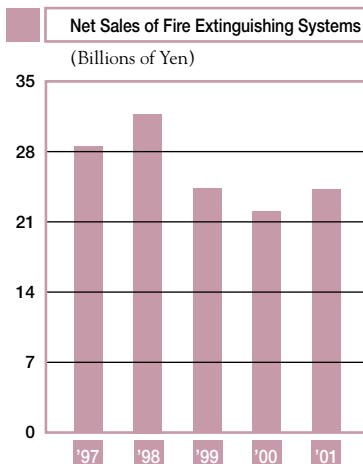
Sales of fire extinguishing systems rose by 9.7%, to ¥24,289 million, equivalent to 30.6% of consolidated net sales. New orders fell by 11.2%, to ¥21,649 million, while the backlog of orders at fiscal year-end amounted to ¥17,279 million, down 13.3%. Sales of large items contributed to sales growth.

We focus particularly on developing and marketing fire extinguishing equipment that is environment friendly. The *NN100* system, which uses nitrogen as its extinguishing agent in place of halogen, has received certification from the U.S. Environmental Protection Agency (EPA) and praise from the United Nations Environment Program (UNEP). This has raised the international reputation of our products and bolstered domestic and international sales. We began sales of *SQALL* (Spray System with Quick Application of Less Liquid Agent), a closed-water spray fire-extinguishing system for indoor parking lots and a concealed-type residential sprinkler system, at half the cost of conventional products but giving the maximum effect with the minimum amount of water. We also launched *Thermo Joint* (which uses a heat sensing element), a type of sprinkler extinguishing system.

Outlook

We predict that sales will fall in fiscal 2002, due to a reduction in new building construction and public works, and lower sales from highway construction projects presently under way in the current five-year plan. Nevertheless, we will strive to develop specialized products differentiated from those of other companies and expand business areas to assure revenues.

Major projects for fiscal 2002 include fire extinguishing equipment for the National Diet Library's Kansai Wing, the Japan Nuclear Fuel Reprocessing Plant, the Kurosaki Station West Redevelopment Project and the National Growth Medical Center.





Maintenance Services

Major Services

- Maintenance Services
- Inspection Services

Research and development help to create the best fire protection systems, but maintenance services are indispensable in maintaining the quality that ensures proper functioning. Nohmi Bosai guarantees safety by offering a wide variety of services, such as repairs and fire protection equipment leases, as well as around-the-clock online monitoring systems and telephone support services for all of its fire protection equipment. We are also involved in fire protection consulting for building owners.

The Year in Review

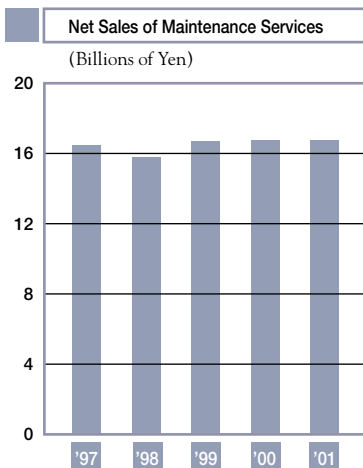
Sales from maintenance services dipped 0.3%, to ¥16,764 million, in fiscal 2001, and represented 21.0% of consolidated net sales. New orders grew 2.5%, to ¥16,393 million, while the backlog of orders on March 31, 2001, amounted to ¥4,683 million, a 7.3% decrease. Despite an increase in new orders, sales growth was slight due to customer demands for discounts.

The Japanese Fire Service Law stipulates that all fire alarm and fire extinguishing equipment be regularly inspected, thereby creating a continuous and stable demand for maintenance services. Equipment development, design and installation are all carried out in-house, resulting in a comprehensive maintenance service of the whole system. We are adapting to advances in building construction technology by enhancing the technical skills and specialized knowledge of our maintenance staff through intensive training programs.

In the period under review we began sales of the “CS Best Plan,” a fire protection equipment maintenance plan that includes disaster compensation. Its special features include high-quality regular inspections, around-the-clock support system and payment of disaster compensation if a fire does occur. We also began offering “Slim Plan,” a fire insurance product, as an agent of SECOM. Insurance premiums are lowered for customers buying both plans.

Outlook

We forecast that the building renovation market will continue to grow as the 25-year service life of many facilities expires and buildings constructed in Japan’s postwar period of intense economic growth require renovation. As part of our Company’s spirit of renewal, we are endeavoring to lessen our reliance on new building construction and strengthen our consulting business in the building renovation market.





Printed Circuit Board Assembly

The main line of business in the others segment is the assembly of printed circuit boards and the installation and operation of parking lot control systems. Because printed circuit boards are an essential part of high-tech fire protection equipment, and assembly requires advanced technical skills and state-of-the-art equipment, we are seeing a surge in orders from medical equipment and telecommunications/electronics manufacturers.

Nohmi Bosai has developed parking lot control systems that make driving in parking lots safer and raises the efficiency of their use and operation. We also offer a complete range of systems suited to any size of parking lot.

The Year in Review

Sales in the segment fell 4.1%, to ¥10,159 million, accounting for 12.8% of net consolidated sales. New orders decreased 10.4%, to ¥9,489 million, while the backlog of orders as of March 31, 2001, totaled ¥612 million, a 52.2% decrease. The low sales and new orders were due to reduced demand brought on by the economic slump in the IT industry.

Assembly of printed circuit boards comprises 80% of sales in this segment. Although the fire protection industry is our principal customer here, our sophisticated technical skills and reliability are attracting orders from other industries as well. Despite intense price competition, we predict that gains in orders in our printed circuit boards assembly business will boost the operating rates at our factory, thus becoming a profitable industry for Nohmi Bosai.

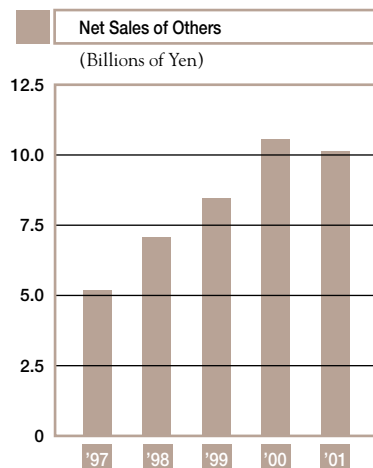
We utilize our wealth of experience in creating parking lot control systems, a sector that comprises 20% of the others segment. Extensive experience has enabled us to develop parking lot control systems with automatic vacancy/occupied controls, alarm signals, parking guidance controls and parking lot surveillance. We have also been able to enhance functionality and profitability with the addition of fee collection systems. By raising the efficiency of parking lot operations, we not only contribute operating solutions and improved service to users but play a key role in cities.

Outlook

It is difficult to predict economic conditions for the IT industry in fiscal 2002. However, we expect returns for printed circuit boards will be favorable, and that the parking lot maintenance business will see positive results.

Major Products and Services

- Printed Circuit Board Assembly Operations
- Parking Lot Maintenance Services



NOHMI

An Integrated Fire Protection Service

Nohmi Bosai's mission is to ensure that people have effective fire protection so they can enjoy safe and comfortable lives. To this end, we have established an integrated series of services that assumes consistent responsibility for giving customers the best fire protection system for their needs.

Manufacturing and Quality Assurance



All of Nohmi Bosai's products are manufactured under a strict quality control system. Evincing our commitment to quality is the certification of our Menuma factory under ISO 9002—an internationally recognized standard for quality systems.

Research and Development



Simulation experiments are then performed in Nohmi Bosai's laboratories to enable the Company to develop the fire alarm and extinguishing system that provides an optimum degree of fire protection for the customer.

Risk Analysis



The first step in providing fire protection is to understand the customer's specific requirements. Nohmi Bosai conducts detailed analyses of the customer's premises to evaluate important environmental factors and potential fire hazards.

Maintenance



Nohmi Bosai's maintenance services give customers extra safety assurance. We ensure that existing systems work properly. Also, we check the appropriateness of existing systems in the event of a change in the occupancy or installation conditions of a building.

Consultation and System Design



Information obtained from simulation experiments and client consultation is important for both designing and developing customized fire protection systems.

Installation



After designing an appropriate fire protection system, our specialists install the new system. Nohmi Bosai's abundant experience in installing fire protection systems ensures that work proceeds quickly and smoothly.

Commissioning



The commissioning stage is vital. At project completion, our specialists conduct a thorough inspection of the newly installed fire protection system to ensure that all fire alarm and extinguishing systems are working properly. The results of this inspection are then explained to the customer.

Management Discussion and Analysis

Overview

In fiscal 2001, ended March 31, 2001, information technology (IT) capital investment and exports improved and there were continuing signs of economic recovery, particularly among corporations. Employment conditions and consumer spending, however, remained weak, and real recovery seemed distant.

Against this backdrop, there was a surge in private sector capital spending in the fire protection industry, but spending on public sector construction was lower. The stagnant construction market contributed to this harsh environment. In these conditions, Nohmi Bosai attempted to strengthen its business in the building renovation market by increasing its share in the existing fire protection market with enhanced marketing strategies and unique product development as well as continued aggressive implementation of performance evaluations and updated proposals.

In this environment, consolidated net sales grew 2.4%, to ¥79,494 million, and operating income jumped 30.8%, to ¥1,879 million. Due to the adoption of new accounting methods for charges for transitional obligations of retirement benefits, we made a lump-sum payment to cover this obligation, resulting in a ¥1,213 million loss this period.

Operating Income and Expenses

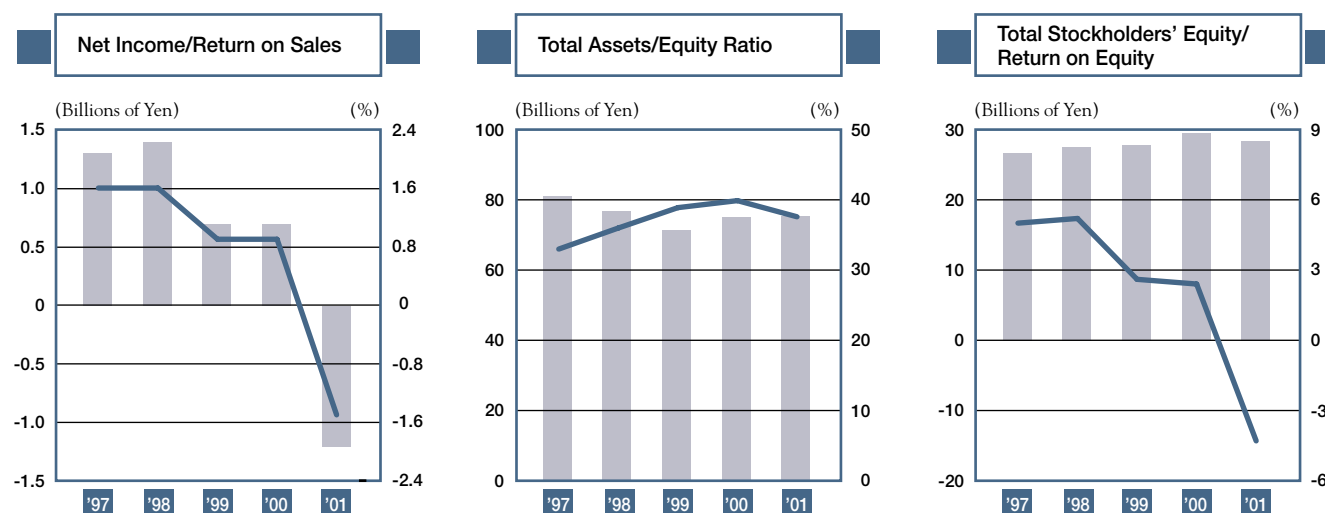
Cost of sales grew 3.1%, to ¥60,394 million, and gross profit remained level at ¥19,100 million. The gross profit margin was 24.0%, down from 24.6% in fiscal 2000. Selling, general and administrative (SGA) expenses fell 2.5%, to ¥17,221 million, and accounted for 21.7% of net sales. Due to the 2.5% drop in SGA expenses, operating income jumped 30.8%, to ¥1,879 million.

Other Income and Expenses

The adoption of retirement benefit accounting and accounting for financial instruments was the primary factor in the fluctuations in other expenses. As of April 1, 2001, retirement benefit accounting was introduced to Japanese accounting methods in an effort to harmonize with international accounting standards. Amortization of transitional obligations incurred at the time of the adoption of the new retirement benefit accounting methods totaled ¥3,124 million. As a result, income before income taxes went from a positive ¥1,569 million to negative ¥1,596 million. Please refer to Note 7 for more information concerning retirement benefits for consolidated companies.

Net Income

The amortization of transitional obligations incurred with the adoption of the retirement benefit accounting methods resulted in a net loss of ¥1,213 million this period. We paid cash dividends at ¥5.00 per share, in line with our commitment to providing stockholders a continuous and stable return on investment.



Financial Position and Liquidity

Assets

Total current assets remained level with fiscal 2000, at ¥52,843 million. Fixed assets fell 17.0%, to ¥10,777 million, due to our business reorganization, which involved the consolidation of business offices, the leasing of land previously used as office space and changes in the purpose of our holdings. One factor in asset fluctuations was the adoption of new accounting standards. With the new accounting for financial instruments, introduced April 1, 2000, we have divided marketable securities according to purpose and consolidated accounting, transferring marketable securities from current assets to investments in securities. Please see Note 2 (6) for more details. Similarly, the exchange rate standards for foreign currency transactions adjusted as of April 1, 2000, and exchange conversions are displayed under capital rather than assets.

Liabilities

Convertible bonds will be redeemed within one year, moving this item from long-term liabilities to current liabilities and raising total current liabilities 28.1%, to ¥38,312 million. Long-term liabilities fell 42.5%, to ¥8,796 million, due to an additional ¥2,982 million calculated under retirement benefits.

Stockholders' Equity

Stockholders' equity amounted to ¥28,371 million, a decrease of 5.3%, as retained earnings fell 9.4%, to ¥16,287 million. As a consequence, the equity ratio was 37.5%, from 39.8%, and debt ratio fell from 50.7%, to 49.3%. Stockholders' equity per share fell to ¥670.20, from ¥708.02.

Cash Flows

At fiscal 2001 year-end, cash and cash equivalents were ¥9,629 million, 16.6% higher than at fiscal 2000 year-end. Net cash provided by operating activities was ¥2,793 million, compared to ¥4,084 million in fiscal 2000, primarily due to ¥2,819 million in additional retirement obligations, an appraisal loss of ¥133 million on golf membership rights and a decrease in amounts received for incomplete projects, to ¥812 million. Net cash provided by investing activities was ¥150 million, compared to ¥1,075 million used in investing activities in fiscal 2000. This was due to ¥171 million in revenue from the sale of short-term investments, ¥168 million in revenue from the sale of fixed assets and lower expenditures on acquiring marketable securities. Net cash used in financing activities was ¥1,619 million, from ¥223 million in fiscal 2000, caused by an increase in expenditures on short-term bank loans and less income from long-term debt.

Outlook

While expectations that the Japanese government and the Bank of Japan will implement measures to support the economy are high, the slowdown in the United States and other overseas economies as well as the stock slump have heightened worries of a recession. These conditions make it difficult to predict Japan's economic future. The environment for the fire protection market will continue to be harsh, with an ambiguous future for the construction market and tough competition between companies. In response, the Group has established a business plan for the new century that aims to reform the marketing system and strengthen marketing ability, develop new systems and products that will cut costs and eliminate dependence on new construction by enhancing marketing skills in the building renovation market. We will also promote the development and sale of products for residences, including new fire and security systems, in cooperation with SECOM Co., Ltd. We are making every effort to cut cost of sales and improve the Company structure through systematic business operations.

Consolidated Statements of Income and Retained Earnings

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 1999, 2000 and 2001

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1999	2000	2001	2001
Net Sales	¥79,688	¥77,666	¥79,494	\$641,598
Cost of Sales	59,946	58,559	60,394	487,441
Gross profit	19,742	19,107	19,100	154,157
Selling, General and Administrative Expenses	18,081	17,670	17,221	138,988
Operating income	1,661	1,437	1,879	15,169
Other Income (Expenses):				
Interest income	56	30	31	251
Interest expense	(287)	(286)	(268)	(2,164)
Dividend on insurance policies	38	26	30	244
Rental revenue	126	104	179	1,444
Gain (loss) on sale of short-term investments and investments in securities	71	(6)	(8)	(63)
Loss on disposal and write-down of inventories	(75)	(16)	(161)	(1,303)
Loss on sale/disposal of property and equipment	(42)	(27)	(67)	(543)
Loss from revaluation of investments in securities	—	(3)	(82)	(665)
Amortization of difference between investment costs and equity in net assets acquired	9	25	25	200
Equity in earnings of affiliates	(6)	77	109	879
Amortization of transitional obligation (Note 7)	—	—	(3,124)	(25,216)
Provision for allowance for bad debts	—	—	(135)	(1,088)
Loss on write-off of memberships	—	—	(133)	(1,074)
Other, net	373	208	129	1,048
	<u>263</u>	<u>132</u>	<u>(3,475)</u>	<u>(28,050)</u>
Income (loss) before income taxes	1,924	1,569	(1,596)	(12,881)
Income Taxes				
Current (Note 9)	1,220	984	1,111	8,968
Deferred (Note 9)	—	(116)	(1,490)	(12,024)
	<u>704</u>	<u>701</u>	<u>(379)</u>	<u>(3,056)</u>
Minority Interests in Consolidated Subsidiaries	15	1	4	35
Net income (loss)	<u>719</u>	<u>702</u>	<u>(1,213)</u>	<u>(9,790)</u>
Retained Earnings:				
Balance at beginning of year	15,651	15,764	17,986	145,168
Increase:				
Cumulative effect of applying deferred tax accounting	—	1,790	—	—
Increase due to additions of consolidated subsidiaries and affiliates	22	229	—	—
Decrease:				
Cash dividends	(423)	(423)	423	3,417
Directors' bonuses	(81)	(75)	63	508
Decrease due to application of equity method to investments in an affiliate	(124)	—	—	—
Balance at end of year	<u>¥15,764</u>	<u>¥17,987</u>	<u>¥16,287</u>	<u>\$131,453</u>
	Yen			U.S. Dollars (Note 1)
Per share (Note 2 (14)):				
Net income (loss)—primary	¥16.98	¥16.57	¥(28.65)	\$(0.23)
—fully diluted	16.35	16.28	—	—
Cash dividends	10.00	10.00	10.00	0.08
Weighted Average Number of Shares Issued (in thousands)	42,333	42,333	42,333	

The accompanying notes are an integral part of the statements.

Consolidated Balance Sheets

Nohmi Bosai Ltd. and its Subsidiaries

As of March 31, 2000 and 2001

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Current Assets:			
Cash on hand and in banks (Note 3)	¥ 3,405	¥ 3,868	\$ 31,223
Short-term investments (Notes 3 and 4)	5,317	6,162	49,732
Trade receivables:			
Notes	8,947	9,632	77,741
Accounts	20,729	19,189	154,878
Unconsolidated subsidiaries and affiliates	337	317	2,555
Other	371	450	3,631
	30,384	29,588	238,805
Less: Allowance for bad debts	(234)	(297)	(2,396)
	30,150	29,291	236,409
Inventories (Note 5)	12,945	12,697	102,476
Deferred tax assets (Note 9)	339	596	4,806
Prepaid expenses and other current assets	640	229	1,848
Total current assets	52,796	52,843	426,494
Investments and Advances:			
Investments in securities (Note 4)	1,834	1,583	12,773
Investments in and advances to unconsolidated subsidiaries and affiliates	2,184	2,355	19,005
Loans to employees	387	332	2,680
Deferred tax assets (Note 9)	1,536	2,770	22,356
Other investments and advances	2,641	4,111	33,188
	8,582	11,151	90,002
Property, Plant and Equipment:			
Buildings and structures	8,452	8,272	66,764
Machinery and equipment	2,407	2,445	19,729
Tools and furniture	5,386	5,120	41,324
	16,245	15,837	127,817
Less: Accumulated depreciation	(8,345)	(8,428)	(68,022)
	7,900	7,409	59,795
Construction in progress	26	1	12
Land	5,059	3,367	27,177
	12,985	10,777	86,984
Deferred Charges and Intangibles	902	798	6,443
	¥75,265	¥75,569	\$609,923

The accompanying notes are an integral part of the statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Current Liabilities:			
Short-term debt (Note 6)	¥ 5,369	¥13,469	\$108,711
Trade payables:			
Notes	7,428	7,642	61,679
Accounts	3,597	2,996	24,182
Unconsolidated subsidiaries and affiliates	1,715	2,248	18,144
	12,740	12,886	104,005
Non-trade accounts payable	4,618	4,651	37,541
Advances received on uncompleted construction contracts	4,106	3,347	27,010
Accrued bonuses to employees	1,520	1,573	12,692
Accrued warranty costs	60	63	509
Income taxes payable (Note 9)	508	1,128	9,104
Other current liabilities	980	1,195	9,645
Total current liabilities	29,901	38,312	309,217
Long-term Liabilities:			
Long-term debt (Note 6)	9,819	522	4,217
Accrued retirement benefits (Note 7)	5,367	8,192	66,118
Other long-term liabilities	31	29	228
Difference between investment costs and equity in net assets acquired	78	53	426
	15,295	8,796	70,989
Minority Interests in Consolidated Subsidiaries	97	90	732
Contingent Liabilities (Note 10)			
Stockholders' Equity:			
Common stock, par value ¥50 per share; Authorized: 160,000,000 shares at March 31, 2000 and 2001			
Issued: 42,332,771 shares at March 31, 2000 and 2001	6,272	6,272	50,624
Additional paid-in capital	5,713	5,713	46,113
Retained earnings (Note 11)	17,987	16,287	131,453
Foreign currency translation adjustments	—	99	795
	29,972	28,371	228,985
	¥75,265	¥75,569	\$609,923

Consolidated Statements of Cash Flows

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 2000 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Cash Flows from Operating Activities:			
Income (loss) before income taxes	¥1,569	¥(1,596)	\$(12,881)
Adjustments for:			
Depreciation and amortization	1,265	1,195	9,647
Amortization of difference between investment costs and equity in net assets acquired	(25)	(25)	(200)
Increase (decrease) in allowance for bad debts	349	(139)	(1,125)
Increase (decrease) in accrued retirement benefits	(186)	2,819	22,756
Increase (decrease) in accrued bonuses	(260)	33	265
Increase (decrease) in accrued warranty costs	(4)	3	22
Interest and dividend income	(65)	(73)	(589)
Interest expenses	286	268	2,164
Equity in earnings of affiliates	(77)	(109)	(879)
Loss on write-off of memberships	—	133	1,074
Loss from revaluation of short-term investments	40	—	—
Loss on sales/retirement of property, plant and equipment	27	67	543
Loss from revaluation of investments in securities	3	82	665
Loss on sales of investments in securities	8	9	72
Decrease in receivables	1,819	1,083	8,738
Decrease in inventories	423	305	2,463
Increase in payables	779	46	370
Increase (decrease) in advances received on uncompleted construction contracts	535	(812)	(6,560)
Decrease in notes discounted	(1,091)	(15)	(122)
Directors' bonuses paid	(76)	(64)	(514)
Other, net	(17)	288	2,318
Subtotal	5,302	3,497	28,228
Interest and dividend income received	67	75	605
Interest expenses paid	(281)	(265)	(2,136)
Income taxes paid	(1,004)	(514)	(4,148)
Net cash provided by operating activities	¥4,084	¥ 2,793	\$ 22,549

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	2001	2001
Cash Flows from Investing Activities:			
Refund of (increase in) time deposits	¥ (4)	¥ 74	\$ 596
Payments for purchase of short-term investments	(44)	—	—
Proceeds from sales of short-term investments	13	171	1,378
Payments for purchase of property, plant and equipment	(630)	(796)	(6,428)
Proceeds from sales of property, plant and equipment	1	168	1,352
Payments for purchase of investments in securities	(363)	(34)	(271)
Proceeds from sales of investments in securities	178	13	107
Payments for purchase of investments in affiliates	(12)	—	—
Increase of loans receivable	(398)	(124)	(1,002)
Decrease of loans receivable	313	359	2,898
Other, net	(129)	319	2,578
Net cash provided by (used in) investing activities	(1,075)	150	1,209
Cash Flows from Financing Activities:			
Decrease in short-term debt	(20)	(871)	(7,028)
Issuance of long-term debt	550	—	—
Repayment of long-term debt	(328)	(324)	(2,616)
Cash dividends paid	(423)	(423)	(3,417)
Cash dividends paid to minority shareholders	(2)	(1)	(11)
Purchase (proceeds from sales) of treasury stock	0	0	2
Net cash used in financing activities	(223)	(1,619)	(13,070)
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents	2,786	1,324	10,688
Cash and cash equivalents at beginning of year	5,330	8,259	66,655
Cash and cash equivalents of newly consolidated subsidiaries	143	46	372
Cash and cash equivalents at end of year	¥8,259	¥9,629	\$77,715

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 1999, 2000 and 2001

1. Basis of Presenting the Consolidated Financial Statements

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

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the “MOF”) in Japan have been reclassified for the convenience of readers outside Japan.

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

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

Consolidated statements of cash flows have been required to be prepared with effect from the year ended March 31, 2000, in accordance with a new accounting standard.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation and Elimination

The Company had 25 subsidiaries (majority-owned companies) at March 31, 2001 (26 at March 31, 2000). The consolidated financial statements include the accounts of the Company and 19 subsidiaries at March 31, 2001 (18 at March 31, 2000).

The 19 major subsidiaries which have been consolidated with the Company are listed as follows:

	Equity ownership percentage
Nohmi Setsubi Co., Ltd.	100.0%
Ichibou Co., Ltd.	73.2%
Fukuoka Nohmi Co., Ltd.	100.0%
Chiyoda Service Co., Ltd.	70.0%
Bosai Engineering Co., Ltd.	100.0%
Nohmi System Co., Ltd. (**)	100.0%
Iwate Nohmi Co., Ltd.	100.0%
Tohoku Bosai Plant Co., Ltd.	100.0%
Aomori Nohmi Co., Ltd.	100.0%
Osaka Nohmi Co., Ltd.	100.0%
NISSIN BOHSAI Co., Ltd.	100.0%
Shikoku Nohmi Co., Ltd.	100.0%
Nagoya Nohmi Co., Ltd.	100.0%
Nohmi Techno Engineering Co., Ltd. (*)	100.0%
Akita Nohmi Co., Ltd.	100.0%
Kyushu Nohmi Engineering Co., Ltd.	88.5%
Fukushima Nohmi Co., Ltd. (*)	100.0%
Tohoku Nohmi Co., Ltd.	100.0%
Hokkaido Nohmi Co., Ltd.	100.0%

(*) Newly consolidated with effect from the year ended March 31, 2001.

(**) Merged with Joto Nohmi Co., Ltd. at April 1, 2000.

The accounts of the remaining six unconsolidated subsidiaries had insignificant amounts of total assets, net sales, net income and surplus, and therefore have been excluded from consolidation.

(2) Elimination of Intercompany Accounts

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been entirely eliminated, and the portion attributable to minority interests is charged/credited to “Minority interests.”

Until March 31, 1999, for the elimination of investments in the common stock of consolidated subsidiaries, together with the equity in net assets of such subsidiaries, any difference between such investment costs and the amount of underlying equity in net assets of the subsidiaries was being amortized to income over a five-year period on a straight-line basis.

Since the beginning of April 1, 1999, the assets and liabilities of consolidated subsidiaries are incorporated into the financial statements at fair value and the difference between net assets at fair value and investment amount are amortized over a five-year period on a straight-line basis.

(3) Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 2001, the Company had six affiliates (six at March 31, 2000) (meaning those companies of which between 20% to 50% of the share capital is held by the Company). Investments in unconsolidated subsidiaries and affiliates are generally accounted for by the equity method by which such investments are carried at cost adjusted for equity in unconsolidated earnings (deficit), and the Company's net income includes its equity in net income (loss) or such companies, net of cash dividend received, with elimination of intercompany profits.

The equity method is applied to the investments in three affiliates in the consolidated financial statements.

However, the remaining six subsidiaries and three affiliates do not have a material effect on "Net income" or "Retained Earnings" in the consolidated financial statements. Accordingly, the investments in the unconsolidated six subsidiaries and three affiliates are carried at cost.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(5) Inventories

Inventories are stated at cost determined by the following methods according to each class of inventory items:

Products and raw materials Average-cost method
Work in process and cost of construction contracts in progress Individually identified cost method

(6) Financial Instruments

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese Accounting Standard for Financial Instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adoption of the new accounting standard, loss before income taxes for the year ended March 31, 2001 has increased by ¥346 million as compared with the amount which would have been reported if the previous standards had been applied consistently.

Securities held by the Company and its subsidiaries are, under the new standard, classified into four categories:

Trading securities, which are held for the purpose of generating profits on short-term differences in prices, are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

Held-to-maturity debt securities, which the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method.

Other securities for which market quotations are available are stated at fair value. However, marketable securities included in other securities have not been measured at fair value (mark-to-market accounting of such securities is allowed to be implemented in the next fiscal year). With respect to marketable securities included in other securities, the carrying value, fair value, unrealized gain, net of tax to be recorded, and deferred income taxes would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Carrying value	¥1,654	\$13,353
Fair value	1,836	14,820
Unrealized gain, net of tax	105	854
Deferred income taxes	75	613

Other securities for which market quotations are unavailable are stated at cost.

Under the new standard, trading securities and debt securities due within one year are presented as “current” and all the other securities are presented as “non-current.” The securities held by the Company and its subsidiaries have been reclassified as of April 1, 2000 (the beginning of the year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥172 million and the securities in the non-current portfolio have increased by the same.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the straight-line method, over the estimated useful lives as designated in the Japanese corporate income tax laws.

(8) Amortization

As to intangible fixed assets, amortization of software for internal use is computed under a straight-line method over expected useful life (five years).

Amortization of intangible fixed assets and deferred charges other than software is computed under a straight-line method from 2 to 20 years based on the Japanese income tax laws. Additionally, until the year ended March 31, 1999, amortization of software contained in deferred charges is computed under a straight-line method from 2 to 20 years.

(9) Allowance for Bad Debts

Under the Japanese Accounting Standards for Financial Instruments, which have been effective for the fiscal year, beginning on or after April 1, 2000, future credit losses on receivables are estimated by the following classification of receivables.

Receivables from debtors who are not seriously in trouble with their financial status are called “normal receivables.” The allowance for doubtful accounts against normal receivables is estimated by applying the historical credit loss rates or another appropriate basis or on a disaggregated basis by category of similar receivables.

Receivables from debtors who have not failed, but who are or would probably be seriously in trouble if

they had to repay debts are called “doubtful receivables.” The allowance for doubtful accounts against these doubtful receivables is estimated by first deducting future cash inflows to be generated from foreclosure or guarantors from the recorded receivable amount, and then by considering the debtor’s financial condition and operating results for the remaining amount.

Receivables from debtors who have either failed or substantially failed are called “failed receivables.” The allowance for doubtful accounts against failed receivables and other similar receivables is estimated as the recorded receivables amount less cash inflows from foreclosures or guarantors.

(10) Accrued Warranty Costs

Accrued warranty costs have been provided by the Company and its consolidated subsidiaries for cost of warranty on completed construction contracts estimated to be incurred subsequent to year-end dates. In estimating the accrued costs of warranty, the formula prescribed by the Japanese corporate income tax laws is applied which is primarily based on past experience.

(11) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(12) Income Taxes

In accordance with accounting standards for deferred taxes effective from the fiscal year ended March 31, 2000, the Company and its consolidated subsidiaries adopted the deferred tax assets and liability approach used to recognize deferred tax assets.

(13) Accrued Retirement Benefits

Under the Japanese Accounting Standards for Accrued Retirement Benefits, which have been effective for the fiscal year beginning on or after April 1, 2000, accrued retirement benefits as of March 31, 2001, represents the estimated present value of projected benefit obligations in excess of fair value of the plan assets.

The transitional obligation of ¥3,124 million at April 1, 2000 (the beginning of the fiscal year) is fully recognized in the fiscal year ended March 31, 2001, and unrecognized actuarial differences are amortized on a straight-line basis over the period of ten years from the next year in which they arise.

As a result of adopting the new standard, net pension expense for the year ended March 31, 2001 has increased by ¥2,982 million and income before income taxes has decreased by ¥2,988 million as compared with the amounts which would have been reported if the previous standard had been applied consistently.

(14) Net Income and Dividends per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Net income per share adjusted for dilution is computed on the assumption of full conversion of all convertible bonds of the Company outstanding with related reduction in interest expenses. Cash dividends per share, shown for each period in the accompanying consolidated statements of income, represent dividends declared as applicable to the respective periods.

(15) Reclassification

Certain reclassifications previously reported have been made to conform with current classifications.

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Cash and bank deposits	¥3,405	¥ 3,868	\$31,223
Short-term investments	5,317	6,162	49,732
Total	8,722	10,030	80,955
Time deposits with deposit term of over three months ...	(275)	(201)	(1,625)
Corporate shares, bond investment trusts and convertible bonds	(188)	(200)	(1,615)
Cash and cash equivalents	¥8,259	¥ 9,629	\$77,715

4. Securities

Summary of other securities sold in the year ended March 31, 2001, is shown below:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Total amount of sales	¥34	\$274
Total amount of gains on sales	1	9
Total amount of losses on sales	9	72

The carrying amount of other securities which have maturities at March 31, 2001, by contractual maturity, are shown below:

	Millions of Yen		Thousands of U.S. Dollars	
	2001		2001	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Government bonds	¥200	¥—	\$1,614	\$—
Corporate bonds	—	3	—	24
Other	300	—	2,421	—
Total	¥500	¥ 3	\$4,035	\$24

5. Inventories

Inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Products	¥ 1,848	¥ 1,999	\$ 16,133
Raw materials	2,840	3,746	30,237
Work in process	742	706	5,701
Cost of construction contracts in progress	7,515	6,245	50,405
	¥12,945	¥12,697	\$102,476

6. Short-term Debts and Long-term Debts

Short-term debts at March 31, 2001, bore interest at annual rates ranging from 0.88% to 2.13% and were represented generally by bank overdrafts, short-term notes maturing at various dates within one year and domestic convertible bonds due in March 2002.

Long-term debts at March 31, 2001 comprised the following:

	Millions of Yen	Thousands of U.S. Dollars
Unsecured loans, principally from banks and insurance companies due from 2001 to 2004 with interest rates ranging from 1.40% to 2.43%:	¥ 411	\$ 3,315
Unsecured 2.1% domestic convertible bonds due in March 2002	9,051	73,051
Guarantee deposits received	356	2,874
	<u>9,818</u>	<u>79,240</u>
Less portion due within one year	<u>(9,295)</u>	<u>(75,023)</u>
Total long-term debt	<u>¥ 522</u>	<u>\$ 4,217</u>

The 2.1% unsecured convertible bonds due March 29, 2002, were issued on December 21, 1994, in the principal amount of ¥10,000 million. The holders of the bonds are entitled to convert the bonds held to shares of common stock of the Company at the current conversion price of ¥1,241.0 per share during the conversion period from February 1, 1995 to March 28, 2002. The exercise price and conversion price are subject to adjustment for subsequent stock splits and other circumstances.

Aggregate annual maturities of long-term debt, excluding guarantee deposits received, subsequent to March 31, 2001, are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥9,295	\$75,023
2003	117	939
2004	40	323
2005	10	81
2006 and thereafter	—	—
	<u>¥9,462</u>	<u>\$76,366</u>

7. Accrued Retirement Benefits and Pension Plan

The composition of amounts recognized in the consolidated balance sheets, excluding directors' retirement benefits, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Benefit obligation at end of year	¥(11,078)	\$(89,413)
Fair value of plan assets at end of year	<u>2,919</u>	<u>23,565</u>
Funded status	(8,159)	(65,848)
Unrecognized actuarial loss	340	2,743
Unrecognized prior service cost	—	—
Net amount recognized	(7,819)	(63,105)
Prepaid pension expense	—	—
Accrued retirement benefits	<u>¥ (7,819)</u>	<u>\$(63,105)</u>

The components of net pension and employees' severance costs for the year ended March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service cost	¥ 555	\$ 4,481
Interest cost	355	2,867
Expected return on plan assets	(79)	(644)
Amortization of transitional obligation ...	3,124	25,216
Recognized actuarial loss	—	—
Amortization of prior service cost	—	—
Extra severance cost	109	880
Net periodic benefit cost	<u>¥4,064</u>	<u>\$32,800</u>

Notes: 1. Actuarial loss is recognized using straight-line method over ten years from next fiscal year.

2. Prior service cost is amortized using straight-line method over ten years from next fiscal year.

3. Full amount of transitional obligation is recognized in the fiscal year ended March 31, 2001.

Assumptions used as of March 31, 2001 were as follows:

	2001
Discount rate	3.0%
Expected rate of return on plan assets	3.5%

The disclosure of composition of amounts recognized in the consolidated balance sheets, and the disclosure of components of net pension and severance costs had been required under new accounting standards from the fiscal year beginning from April 1, 2000. Accordingly, the disclosure as of March 31, 2000 is not available.

8. Accounting for Leases

The Companies have various lease agreements whereby the Companies act both as a lessee and as a lessor. The Companies' finance lease contracts are not deemed to transfer the ownership of the leased assets. Certain key information on such lease contracts of the Companies for the years ended March 31, 2000 and 2001 were as follows:

As a lessee:

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, which included the portion of interest thereon, were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Machinery and equipment	¥ 998	¥ 855	\$ 6,897
Tools and furniture	920	597	4,822
Others	143	238	1,919
	2,061	1,690	13,638
Less: Accumulated depreciation	(1,316)	(1,179)	(9,515)
Net book value	¥ 745	¥ 511	\$ 4,123
Depreciation	¥ 330	¥ 289	\$ 2,336

Depreciation is based on the straight-line method over the lease term of the lease assets.

The scheduled maturities of future lease rental payments on such lease contracts as of March 31, 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Due within one year	¥287	¥235	\$1,899
Due over one year	458	276	2,224
	¥745	¥511	\$4,123
Lease rental expenses for the year	¥330	¥289	\$2,336
As a lessor:			
Leased tools and furniture:			
Purchase cost	¥436	¥438	\$3,535
Accumulated depreciation	(266)	(302)	(2,435)
Net, book value	¥170	¥136	\$1,100

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2000 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Due within one year	¥166	¥158	\$1,277
Due over one year	440	401	3,235
	¥606	¥559	\$4,512
Lease rental expenses for the year	¥177	¥177	\$1,430
Depreciation for the year	¥ 38	¥ 37	\$ 298

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2001 was 41.8%.

At March 31, 2001, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	2001	2001
Deferred tax assets:			
Accrued employees retirement benefits	¥1,312	¥2,576	\$20,790
Allowance for bad debts	178	180	1,451
Accrued bonuses	167	364	2,941
Tax loss carry forward	—	323	2,603
Directors' retirement allowance	149	156	1,259
Loss on write-off of property and equipment ..	—	108	869
Unrealized earnings	52	57	456
Accrued enterprise taxes ...	35	91	738
Accrued warranty costs	24	26	213
Other	60	62	505
Subtotal	1,977	3,943	31,825
Valuation allowance	—	(463)	(3,737)
Total	¥1,977	¥3,480	\$28,088
Deferred tax liabilities:			
Depreciation	¥ (102)	¥ (115)	\$ (925)
Net deferred tax assets ...	¥1,875	¥3,365	\$27,163

At March 31, 2000, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

Statutory tax rate	41.8%
Increase (decrease) in taxes resulting from:	
Entertainment and other non-deductible expenses	8.6
Dividends and other non-adding income	(1.1)
Equalization tax	4.9
Other	1.1
Effective tax rate	<u>55.3%</u>

The disclosure of reconciliation of the statutory tax rate to the effective income tax rate is not required in the case of loss before income taxes. Accordingly reconciliation for the year ended March 31, 2001 is not required to be disclosed.

10. Contingent Liabilities

The Company and its consolidated subsidiaries were contingently liable for trade notes endorsed for payment to third parties in the ordinary course of business in the amount of ¥831 million (\$6,704 thousand), and trade discounted by bank in the aggregate amount of ¥50 million (\$405 thousand) at March 31, 2001.

11. Appropriations of Retained Earnings

The Japanese Commercial Code provides that an amount equal to at least 10% of cash outlay with respect to each financial period should be appropriated to legal reserve until such reserve equals 25% of the common stock account. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution at the stockholders' meeting, but is not available for dividend payments.

The following appropriations were approved at the stockholders' meeting of the Company held on June 28, 2001.

	Millions of Yen	Thousands of U.S. Dollars
Appropriations for:		
Cash dividends (¥5.00 per share)	¥212	\$1,708
Directors' bonuses	55	444
Legal reserve	30	242

12. Segment Information

The Company and its consolidated subsidiaries operate principally in the following four industrial segments:

Fire alarm systems	fire alarms and bells; heat, smoke and gas detectors
Fire extinguishing systems....	sprinklers and fire extinguishers
Maintenance services.....	maintenance services and inspection services
Others	construction and maintenance of parking spaces and sales of other products

The sales of the consolidated subsidiaries located in countries or regions other than Japan are not presented due to insignificant effect.

	Millions of Yen			Thousands of U.S. Dollars
	1999	2000	2001	2001
Net sales:				
Fire alarm systems	¥30,034	¥28,124	¥28,282	\$228,262
Fire extinguishing systems	24,422	22,133	24,289	196,033
Maintenance services	16,716	16,811	16,764	135,306
Others	8,516	10,598	10,159	81,997
	<u>79,688</u>	<u>77,666</u>	<u>79,494</u>	<u>641,598</u>
Operating expenses:				
Fire alarm systems	27,601	26,327	26,266	211,991
Fire extinguishing systems	23,645	21,257	23,162	186,941
Maintenance services	13,217	13,360	13,315	107,463
Others	8,391	10,488	10,199	82,321
	<u>72,854</u>	<u>71,432</u>	<u>72,942</u>	<u>588,714</u>
Operating income before unallocatable costs	6,834	6,234	6,553	52,884
Less: unallocatable operating expenses	(5,173)	(4,797)	(4,674)	(37,715)
Operating income ...	<u>¥ 1,661</u>	<u>¥ 1,437</u>	<u>¥ 1,879</u>	<u>\$ 15,169</u>

	Millions of Yen			Thousands of U.S. Dollars
	1999	2000	2001	2001
Total assets:				
Fire alarm systems	¥28,433	¥29,051	¥28,737	\$231,938
Fire extinguishing systems	18,304	17,450	17,321	139,799
Maintenance services	8,530	8,009	8,448	68,183
Others	4,234	4,913	3,618	29,197
	59,501	59,423	58,124	469,117
Unallocatable or headquarters	11,997	15,842	17,445	140,806
	¥71,498	¥75,265	¥75,569	\$609,923
Depreciation:				
Fire alarm systems	¥ 437	¥ 529	¥ 520	\$ 4,199
Fire extinguishing systems	122	152	139	1,121
Maintenance services	88	123	114	921
Others	29	25	27	215
	676	829	800	6,456
Unallocatable or headquarters	306	418	379	3,060
	¥ 982	¥ 1,247	¥ 1,179	\$ 9,516

Capital expenditure:

Fire alarm systems	¥ 705	¥ 349	¥ 423	\$ 3,415
Fire extinguishing systems	127	87	80	649
Maintenance services	92	48	50	400
Others	56	11	20	159
	980	495	573	4,623
Unallocatable or headquarters	237	212	200	1,611
	¥ 1,217	¥ 707	¥ 773	\$ 6,236

13. Related Party Information

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries, which are eliminated in the consolidated financial statements, and other than those disclosed elsewhere in these financial statements, for the three years ended March 31, 2001, were as follows:

Name of related company	As of March 31, 2001			Description of the Company's transactions	Millions of Yen/Thousands of U.S. Dollars				
	Paid-in capital	Principal business	Equity ownership percentage by the Company		Volume of transactions made in the year ended March 31			Resulting account balances as at March 31	
					1999	2000	2001	2000	2001
SECOM Incorporated	¥66,097 million	Security service	— ^(*)	Sales of products	¥1,235	¥1,355	¥1,576 (\$12,720)	Trade receivables ¥ 187	Trade receivables ¥ 146 (\$ 1,186)
KOATSU Co., Ltd.	¥ 60 million	Fire extinguishing systems	20.83%	Purchase of raw materials	¥4,267	¥3,886	¥4,615 (\$37,249)	Trade payables ¥1,656	Trade payables ¥2,239 (\$18,069)

^(*) The Company has been an affiliate of SECOM Incorporated.

The terms and conditions on the above transactions are the same as those of the arm's-length transactions.

Report of the Independent Certified Public Accountants

The Board of Directors
Nohmi Bosai Ltd.

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

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Nohmi Bosai Ltd. and its consolidated subsidiaries as of March 31, 2000 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, Nohmi Bosai Ltd. and its consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments and accrued retirement benefits effective from the year ended March 31, 2001, and new Japanese accounting standards for preparation of consolidated financial statements, research and development costs and income taxes effective from the year ended March 31, 2000.

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



ChuoAoyama Audit Corporation

Tokyo, Japan
June 28, 2001



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