

NOHMI BOSAI LTD.



NOHMI

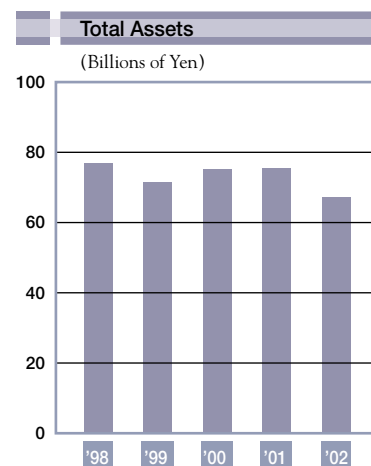
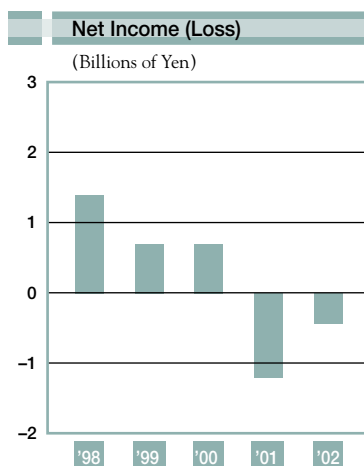
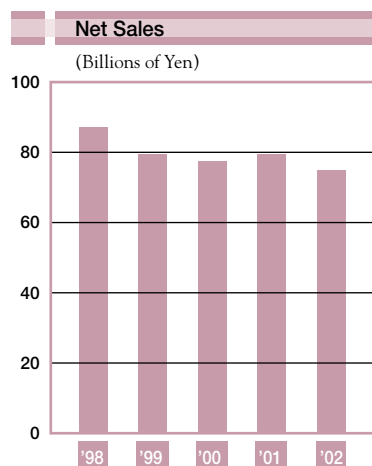
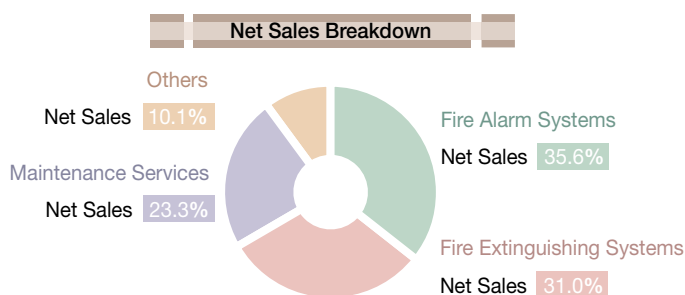
Consolidated Financial Highlights

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 2000, 2001 and 2002

	Millions of Yen			Percentage Change	Thousands of U.S. Dollars
	2000	2001	2002	2002/2001	2002
For the year:					
New orders	¥77,247	¥75,080	¥76,106	1.4%	\$571,152
Net sales	77,666	79,494	74,910	-5.8	562,174
Cost of sales	58,559	60,394	56,140	-7.0	421,311
Operating income	1,437	1,879	1,872	-0.4	14,051
Net income (loss)	702	(1,213)	(434)	—	(3,260)
At year-end:					
Total assets	¥75,265	¥75,569	¥67,331	-10.9%	\$505,298
Total stockholders' equity	29,972	28,371	27,468	-3.2	206,138
Backlog of orders	35,687	31,273	32,469	3.8	243,670
Number of employees	2,033	2,011	1,964		
Per share (in yen and U.S. dollars):					
Net income (loss)—primary	¥16.57	¥(28.65)	¥(10.26)	—%	\$(0.08)
Cash dividends	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 ¥133.25=US\$1, the approximate effective rate of exchange prevailing on March 29, 2002.
 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 2002, ended March 31, 2002, business conditions for the fire protection industry continued to be difficult, with a drop in private sector capital investment, a decrease in public sector construction and no sign of recovery in the construction market.

Under its “Business Plan for the New Century,” started in fiscal 2001, Nohmi Bosai implemented various reforms to its organization. These included revamping our marketing structure to strengthen marketing capabilities, developing new systems and products to cut total costs, and developing and marketing new fire protection and security products for residences, in cooperation with SECOM Co., Ltd. Branching out from our reliance on new construction projects, expanding our business sphere and adopting a new personnel system also contributed to a revitalized corporate climate.

Against this backdrop, we endeavored to cut cost of sales and improve revenue by introducing greater efficiency to companywide operations. These efforts were not sufficient to counteract the harsh business environment, however, and consolidated new orders for the period rose 1.4%, to ¥76,106 million, while consolidated net sales fell 5.8%, to ¥74,910 million. Net sales of fire alarm systems dropped 5.6%, to ¥26,691 million, and net sales of fire extinguishing systems fell 4.5%, to ¥23,194 million. Maintenance services rose 4.3%, to ¥17,479 million, and sales of others dropped 25.7%, to ¥7,545 million.

Operating income dipped 0.4%, to ¥1,872 million, but the transfer of ¥3,502 million in provision for allowance for bad debts resulted in an extraordinary loss, leading to a net loss of ¥434 million. Despite these disappointing results, we paid cash dividends for this period of ¥5.00 per share.

Operating Highlights

In January 2001, we established environmental principles and basic policies as part of our environmental conservation activities. In addition to ISO 9001 certification, in August 2001 our Menuma and Mitaka factories received ISO 14001 certification. Nohmi Bosai bases all of its actions on consideration of environmental conservation, and we have developed a corporate philosophy that reflects this environmental stance.

Management Policies and Strategies

In line with our mission as pioneers in the fire protection industry, our basic policy continues 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.

Nohmi Bosai is promoting reforms to its management structure to bring greater transparency to management, and creating a corporate climate that can respond flexibly to sudden changes in the business environment. The Group companies are shifting their business portfolio from manufacturing to a combination of manufacturing and services, and are also expanding their business base by cultivating the fire protection peripheral market and overseas markets.

We are also promoting our business activities by increasing 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 overall business structure and regarding organizational business operations as priority management issues. These measures will allow the Company to expand even in periods of low growth.

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

We also believe it is essential that we create an environment in which it is easy for stockholders to make investments, and are therefore examining the possibility of lowering investment share units and taking into account the liquidity of our stocks and the number of stockholders.

Outlook

Falling demand, declining value of orders and harsh competition between companies are expected to prolong the severe business environment in the fire protection industry. To adjust to this environment, we will continue to promote our business plan, revamp our organizational structure to strengthen the marketing system, cultivate the renovation and overseas markets and strengthen our competitiveness through alliances with other companies.

Nohmi Bosai is also developing and marketing new systems and products that meet market needs, cutting costs, reforming the corporate structure by bringing greater systematization and efficiency to operations, intensifying personnel training and reinforcing technological abilities.

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

July 2002



Tadashi Tanoue

Tadashi Tanoue
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 and equipment, 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 rated highly in the marketplace for their cutting-edge functions, practicality and safety, backed up by our quality assurance. We continue to develop reliable products to meet the variety of conditions of diverse buildings and strive to carry out research and development in the area of analog addressable systems to satisfy overseas standards.

The Year in Review

In fiscal 2002, net sales of fire alarm systems fell 5.6%, to ¥26,691 million, and accounted for 35.6% of consolidated net sales. New orders dipped 0.2%, to ¥27,495 million. These figures can be attributed to harsh competition among companies and customer demands for lower prices.

In January 2002, we began sales of *Integlex*, a new fire alarm system intended for the overseas market that meets the U.S. National Fire Protection Association (NFPA) requirements and the U.S. Underwriters Laboratories Inc. (UL) standards. We have typically altered products developed according to Japan's standards for sale overseas, but the need for products that have satisfied international criteria in the Southeast Asian market has changed our development patterns. Our entry into the Southeast Asian market represents Nohmi Bosai's first step in expanding its sales in overseas markets.

Integlex is distinct as a system that can connect to as many as 64 fire alarm control panels and cathode ray tube (CRT) units through local area networks (LANs). This network function makes it possible to use this flexible and multifunctional system in a broad range of situations in small and medium-sized buildings such as conventional buildings and factories as well as large-scale high-rise buildings, international airports and large-scale plants. It is also compatible with a wide variety of applications, including fire alarm systems and fire extinguishing systems such as the *NN100*, which extinguishes fires using nitrogen gas. Aiming for expansion into overseas markets, we also developed and met UL standards with the *Integlex Phase II*, which has greatly expanded the number of addresses the analog addressable system can connect to.

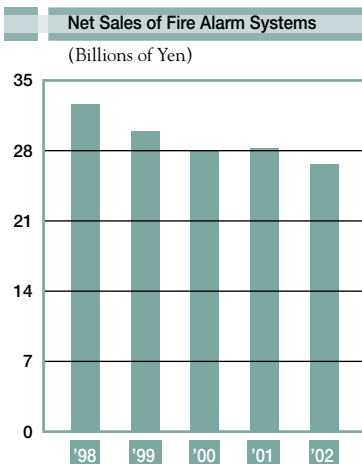
In addition to a control panel with a unified operation display section for fire protection systems and security systems, we developed a central supervisory panel that received a system evaluation from the Japan Fire Protection Equipment and Safety Center. We are aiming to bring greater efficiency to building management by unifying their fire protection and fire security systems. Our residential information system met the Public Safety Division's Safety and Prevention Alarm System Quality Certification Center standards in the People's Republic of China, and the system was launched for the Chinese market.

In February 2002, we supplied the JR Tokyu Meguro Building—a new landmark in combined office and commercial building, in JR Tokyu Meguro station—with our R-Type fire protection system and CRT system.

In regard to fire protection/security systems for multi-family apartment complexes, we are currently developing systems for large real estate developers, in addition to our conventional basic systems.

Outlook

Although customer demands for lower prices are strong, we will cut costs, strengthen marketing in Southeast Asia and China—focusing on Shanghai—and endeavor to boost our share in the domestic and overseas markets.



Fire Extinguishing Systems



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 and structures, 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 incineration 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 aging society.

The Year in Review

Net sales of fire extinguishing systems fell 4.5%, to ¥23,194 million, equivalent to 31.0% of consolidated net sales. New orders climbed 10.1%, to ¥23,826 million.

We developed the new *SR100 System* series, a sprinkler system for medium-scale open spaces such as atriums and exhibition spaces. This system is unique because its fire detection components and water-discharging components are covered with decorative panels and concealed within the walls so as not to mar the appearance of the space. This system is activated upon receiving a signal from an automatic fire detection device; the sensor directs the nozzle directly on the fire source and automatically discharges water, so there is no waste and water quantity can be controlled.

As part of our efforts to expand our share in overseas markets, we applied for UL certification for the *NN100*, a fire extinguishing system that uses nitrogen gas as its extinguishing agent and is therefore more environment-friendly. We also developed a water cannon system that contains a fire detector for locating a fire source in large open spaces such as sports domes. We are currently applying to the Japan Fire Equipment Inspection Institute for sprinkler system evaluation.

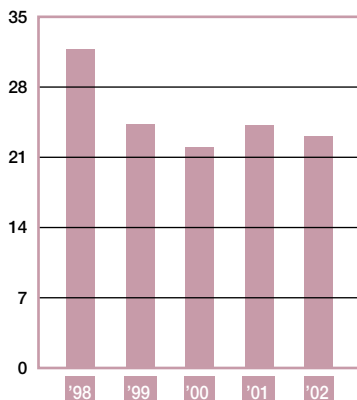
We initiated full-scale sales of *Thermo Joint*, a type of sprinkler extinguishing equipment that uses a heat sensing element, effectively utilized in places where ordinary sprinklers cannot be used due to obstructions.

Outlook

In late 2001, we formed an affiliation with TOTO Ltd. to develop and market residential fire protection systems. The goal is the joint development of low-cost products such as residential sprinklers, which historically have been slow to catch on. We plan to launch the first residential sprinkler developed in this joint venture, and will continue to use our unrivaled sprinkler technology to strengthen our alliances and sales.

Net Sales of Fire Extinguishing Systems

(Billions of Yen)



Maintenance Services



Maintenance Services

Research and development helps 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 offering fire protection consulting for building owners.

The Year in Review

Net sales of maintenance services rose 4.3%, to ¥17,479 million, and represented 23.3% of consolidated net sales. New orders grew 4.3%, to ¥17,100 million.

We began sales of the “CS Best Plan,” a fire protection equipment maintenance service that includes disaster compensation. We also began offering “Slim Plan,” a fire insurance policy, as an agent of SECOM General Insurance Co., Ltd. Insurance premiums are lowered for customers buying both plans. These products are featured by high-quality regular inspections, an around-the-clock support system and payment of disaster compensation up to ¥2 million a year if a fire does occur. Having achieved accreditation as a SECOM agent, Nohmi Bosai now handles damage insurance. Customers buying both “CS Best Plan” and “Slim Plan” pay as much as 50% less in fire insurance premiums than at most insurance companies.

Outlook

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.

We are endeavoring to strengthen our proposal business in the building renovation market, as well as to further implement a marketing style that encourages sales of maintenance contracts simultaneously with orders for new installation projects.

Major Services

- Maintenance Services
- Inspection Services





Printed Circuit Board Assembly

Major Products and Services

- Printed Circuit Board Assembly Operations
- Parking Lot Maintenance Services

The main line of business in the others segment is the assembly of printed circuit boards and 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 raise 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

Net sales in the segment fell 25.7%, to ¥7,545 million, accounting for 10.1% of net consolidated sales. New orders dropped 19.0%, to ¥7,683 million. The primary reason for lower sales and new orders is constricting demand caused by the slump in the information technology (IT) industry.

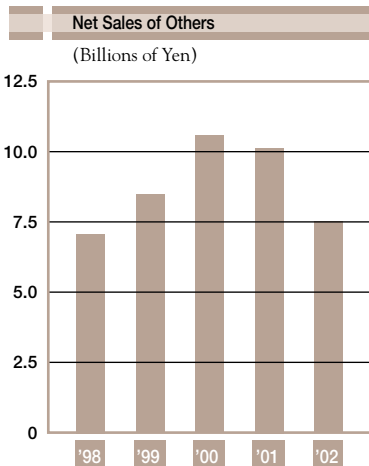
Assembly of printed circuit boards comprises 80% of sales in this segment. Although the fire protection industry is our principal customer here, our sophisticated technical skills and reliability are attracting orders from other industries as well. Despite intense price competition, we incorporate awareness of profitability in all our sales activities.

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/full” 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.

In fiscal 2002, we began Internet sales of fire protection-related products in a joint affiliation with Rescuenow.net Inc., which distributes fire and natural disaster information. In this venture, Nohmi Bosai chooses the products available through the Internet service and manages the logistics, with sales made on the comprehensive web site for fire prevention-related information managed by Rescuenow.net Inc. Rescuenow.net also processes orders, while, besides product logistics, Nohmi Bosai arranges shipping.

Outlook

Although the future outlook for IT demand is not clear, we are endeavoring to cut costs and raise our competitiveness.



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 assume consistent responsibility for giving customers the best fire protection system for their needs.



Research and Development

Simulation experiments are 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.



Consultation and System Design

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

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.

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.

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.

Management Discussion and Analysis

Overview

The business environment was very harsh in fiscal 2002, ended March 31, 2002, with an economic slowdown in the United States, slower demand in the IT market and continuing employment anxiety. In the fire protection industry, low public sector capital investment reflected the difficult financial situation of Japan's national government and local governments. Investment retrenchments are forcing governments at every level to cancel, scale down or modify ongoing public works projects. This has led to fewer opportunities in the construction market overall, and competition for orders has intensified. Due to these adverse conditions, consolidated net sales fell 5.8%, to ¥74,910 million.

Cost of Sales, Selling, General and Administrative Expenses and Income

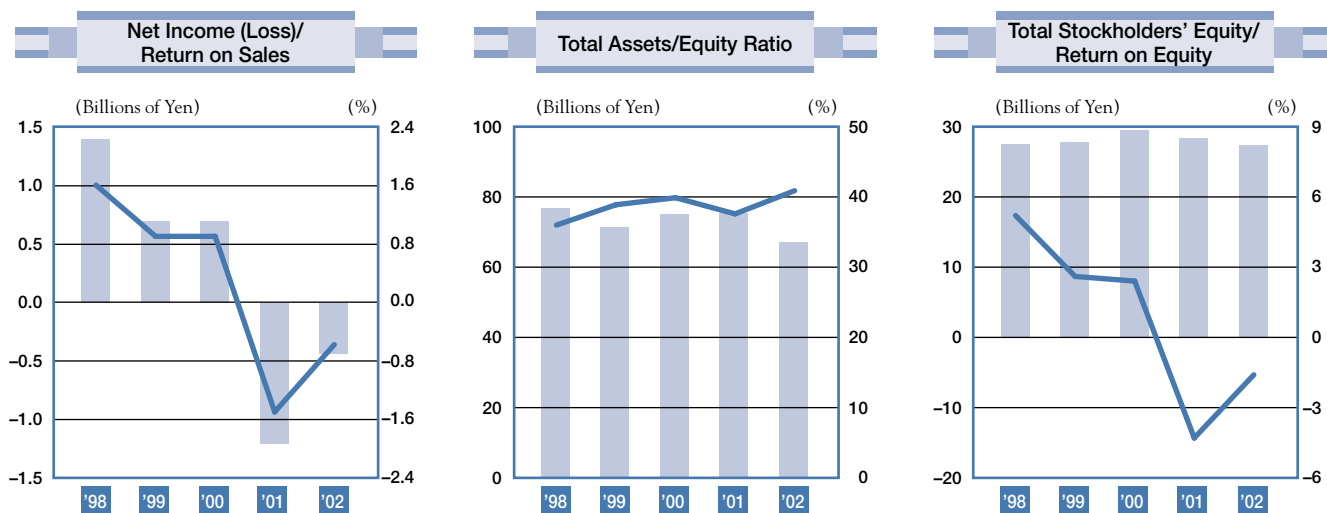
As a result of efforts to lower costs, cost of sales fell 7.0%, to ¥56,140 million, and the cost of sales ratio dipped from 76.0% to 74.9%. Gross profit dropped 1.7%, to ¥18,770 million, but the gross profit margin improved by 1.1 percentage points, to 25.1%.

Selling, general and administrative (SGA) expenses fell 1.9%, to ¥16,898 million, due to cuts in personnel expenses. SGA accounted for 22.6% of net sales, slightly up from 21.7% in fiscal 2001.

Operating income dipped 0.4%, to ¥1,872 million. The transfer of ¥3,502 million in provision for allowance for bad debts resulted in an extraordinary loss, leading to a net loss of ¥434 million in fiscal 2002. Net loss, primary, per share was ¥10.26.

Assets, Liabilities and Stockholders' Equity

Total assets fell 10.9%, to ¥67,331 million, while total current assets dropped 14.7%, to ¥45,071 million. This can be mainly attributed to a reduction in short-term investments. Property, plant and equipment dipped 2.3%, to ¥10,526 million. We sold a vacant lot that was previously occupied by our Shinjuku office for more efficient use of assets.



In January 2002, the Company issued its first and second series of straight bonds and recorded ¥6,000 million as money earmarked for ¥9,051 million for purchase of convertible bonds with a maturity date of March 2002. Consequently, total current liabilities and total long-term liabilities amounted to ¥39,769 million, down 15.6% from fiscal 2001.

As a result of the above factors, interest-bearing debt fell 24.2%, to ¥10,599 million. Stockholders' equity fell 3.2%, to ¥27,468 million. The equity ratio rose from 37.5% to 40.8%, while stockholders' equity per share amounted to ¥648.97, down from ¥670.20 in fiscal 2001.

Cash Flows

Net cash used in operating activities was ¥1,220 million, compared with net cash provided by operating activities of ¥2,794 million in fiscal 2001. Despite an improvement in loss before income taxes, from ¥1,596 million in fiscal 2001 to ¥816 million in fiscal 2002, gain on sale of real estate for investments was ¥809 million, but decrease in payables amounted to ¥4,932 million, compared with increase in payables of ¥46 million in fiscal 2001.

Net cash provided by investing activities was ¥2,009 million, up ¥1,859 million from fiscal 2001. This was due to ¥2,500 million in proceeds from sale of real estate for investments.

Although decrease in short-term debt totaled ¥75 million, compared with ¥871 million in fiscal 2001, ¥5,901 million in proceeds from issuance of bonds—up for redemption in March 2002—was recorded as revenue, while ¥9,051 million was used for purchase of convertible bonds. This resulted in net cash used in financing activities totaling ¥3,899 million, compared with ¥1,619 million in fiscal 2001.

Net decrease in cash and cash equivalents amounted to ¥3,109 million, compared with net increase in cash and cash equivalents of ¥1,324 million in fiscal 2001. Cash and cash equivalents at end of year were ¥6,520 million, down from ¥9,629 million in fiscal 2001.

Subsequent Event

On June 27, 2002, the annual general stockholders' meeting authorized cash dividends of ¥5.00 per share to be paid to the stockholders of record with a total of ¥212 million in shares as of March 31, 2002.

Outlook

Although we expect that the Japanese government will implement financial stimulus policies and that the U.S. economy will continue its recovery, drastic cuts in corporate capital investment, coupled with fears that the harsh employment and salary conditions and the fall in prices will push down consumer demand paint an uncertain future.

In this harsh environment for the fire protection industry, Nohmi Bosai will carry out capital investment focusing on priority areas consistent with its business plan. Although it is difficult to predict future conditions, we forecast net sales amounting to ¥76,000 million and net income of ¥1,000 million.

Consolidated Statements of Income and Retained Earnings

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	2001	2002	2002
Net Sales	¥77,666	¥79,494	¥74,910	\$562,174
Cost of Sales	58,559	60,394	56,140	421,311
Gross profit	19,107	19,100	18,770	140,863
Selling, General and Administrative Expenses	17,670	17,221	16,898	126,811
Operating income	1,437	1,879	1,872	14,051
Other Income (Expenses):				
Interest income	30	31	19	139
Interest expense	(286)	(268)	(254)	(1,905)
Dividend on insurance policies	26	30	68	508
Rental revenue	104	179	209	1,569
Loss on sale of short-term investments and investments in securities	(6)	(8)	(14)	(106)
Loss on disposal and write-down of inventories	(16)	(161)	(91)	(685)
Loss on sale/disposal of property and equipment	(27)	(67)	(31)	(234)
Loss from revaluation of investments in securities	(3)	(82)	(68)	(508)
Amortization of bond issue expense	—	—	(100)	(747)
Amortization of difference between investment costs and equity in net assets acquired	25	25	24	182
Equity in earnings of affiliates	77	109	132	987
Amortization of transitional obligation (Note 7)	—	(3,124)	—	—
Provision for allowance for bad debts	—	(135)	(3,502)	(26,284)
Loss on write-off of memberships	—	(133)	(4)	(28)
Gain on sale of real estate for investments	—	—	809	6,068
Other, net	208	129	116	1,048
	<u>132</u>	<u>(3,475)</u>	<u>(2,688)</u>	<u>(20,175)</u>
Income (loss) before income taxes	1,569	(1,596)	(816)	(6,124)
Income Taxes				
Current (Note 9)	984	1,111	1,444	10,838
Deferred (Note 9)	(116)	(1,490)	(1,831)	(13,742)
	<u>868</u>	<u>(379)</u>	<u>(387)</u>	<u>(2,904)</u>
Minority Interests in Consolidated Subsidiaries	<u>1</u>	<u>4</u>	<u>(5)</u>	<u>(41)</u>
Net income (loss)	<u>702</u>	<u>(1,213)</u>	<u>(434)</u>	<u>(3,260)</u>
Retained Earnings:				
Balance at beginning of year	15,764	17,986	16,287	122,229
Increase:				
Cumulative effect of applying deferred tax accounting	1,790	—	—	—
Increase due to additions of consolidated subsidiaries and affiliates	229	—	—	—
Decrease:				
Cash dividends	(423)	(423)	(423)	(3,177)
Directors' bonuses	(75)	(63)	(62)	(464)
Balance of end year	<u>¥17,987</u>	<u>¥16,287</u>	<u>¥15,367</u>	<u>\$115,328</u>
		Yen		U.S. Dollars (Note 1)
Per Share (Note 2):				
Net income (loss)—primary	¥16.57	¥(28.65)	¥(10.26)	\$(0.08)
—fully diluted	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, 2001 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
Current Assets:			
Cash on hand and in banks (Note 3)	¥ 3,868	¥ 6,658	\$ 49,968
Short-term investments (Notes 3 and 4)	6,162	10	75
Trade receivables:			
Notes	9,632	6,545	49,121
Accounts	19,189	18,083	135,704
Unconsolidated subsidiaries and affiliates	317	268	2,013
Other	450	567	4,255
	29,588	25,463	191,092
Less: Allowance for bad debts	(297)	(332)	(2,488)
	29,291	25,131	188,604
Inventories (Note 5)	12,697	12,274	92,114
Deferred tax assets (Note 9)	596	822	6,166
Prepaid expenses and other current assets	229	176	1,321
Total current assets	52,843	45,071	338,248
Investments and Advances:			
Investments in securities (Note 4)	1,583	1,500	11,260
Investments in and advances to unconsolidated subsidiaries and affiliates	2,355	2,557	19,188
Loans to employees	332	307	2,306
Long-term receivables	—	3,547	26,622
Deferred tax assets (Note 9)	2,770	4,445	33,359
Other investments and advances	4,616	2,643	19,835
	11,656	15,000	112,569
Less: Allowance for bad debts	(505)	(3,987)	(29,920)
	11,151	11,013	82,649
Property, Plant and Equipment:			
Buildings and structures	8,272	8,305	62,330
Machinery and equipment	2,445	2,503	18,781
Tools and furniture	5,120	5,201	39,030
	15,837	16,009	120,140
Less: Accumulated depreciation	(8,428)	(8,925)	(66,978)
	7,409	7,084	53,162
Construction in progress	1	77	576
Land	3,367	3,365	25,254
	10,777	10,526	78,992
Deferred Charges and Intangibles	798	721	5,410
Total Assets	¥75,569	¥67,331	\$505,298

The accompanying notes are an integral part of the statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
Current Liabilities:			
Short-term debt (Note 6)	¥13,469	¥ 4,215	\$ 31,632
Trade payables:			
Notes	7,642	4,508	33,830
Accounts	2,996	1,930	14,481
Unconsolidated subsidiaries and affiliates	2,248	1,955	14,668
	12,886	8,392	62,979
Non-trade accounts payable	4,651	4,212	31,608
Advances received on uncompleted construction contracts	3,347	4,182	31,384
Accrued bonuses to employees	1,573	1,470	11,033
Accrued warranty costs	63	59	443
Income taxes payable (Note 9)	1,128	1,471	11,043
Other current liabilities	1,195	1,019	7,650
Total current liabilities	38,312	25,021	187,772
Long-term Liabilities:			
Long-term debt (Note 6)	522	6,384	47,911
Accrued retirement benefits (Note 7)	8,192	8,307	62,344
Other long-term liabilities	29	28	212
Difference between investment costs and equity in net assets acquired	53	29	214
Total long-term liabilities	8,796	14,748	110,681
Minority Interests in Consolidated Subsidiaries	90	94	707
Contingent Liabilities (Note 10)			
Stockholders' Equity:			
Common stock, par value;			
Authorized: 160,000,000 shares at March 31, 2001 and 2002			
Issued: 42,332,771 shares at March 31, 2001 and 2002	6,272	6,272	47,072
Additional paid-in capital	5,713	5,713	42,877
Retained earnings (Note 11)	16,287	15,367	115,328
Net unrealized loss on securities	—	(98)	(732)
Foreign currency translation adjustments	99	216	1,624
	28,371	27,472	206,168
Less: Treasury stock, at cost—			
7.3 thousand shares at March 31, 2002	—	(4)	(30)
Total liabilities and stockholders' equity	¥75,569	¥67,331	\$505,298

Consolidated Statements of Cash Flows

Nohmi Bosai Ltd. and its Subsidiaries

For the years ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	2001	2002	2002
Cash Flows from Operating Activities:				
Income (loss) before income taxes	¥ 1,569	¥(1,596)	¥ (816)	\$ (6,124)
Adjustments for:				
Depreciation and amortization	1,265	1,195	1,152	8,647
Amortization of difference between investment costs and equity in net assets acquired	(25)	(25)	(24)	(182)
Increase (decrease) in allowance for bad debts	349	(139)	3,517	26,390
Amortization of bond issue costs	—	—	100	747
Increase (decrease) in accrued retirement benefits	(186)	2,819	115	865
Increase (decrease) in accrued bonuses	(260)	33	(102)	(768)
Increase (decrease) in accrued warranty costs	(4)	3	(4)	(31)
Interest and dividend income	(65)	(73)	(52)	(389)
Interest expenses	286	268	254	1,905
Equity in earnings of affiliates	(77)	(109)	(132)	(987)
Loss on write-off of memberships	—	133	4	28
Loss from revaluation of short-term investments	40	—	—	—
Gain on sale of real estate for investments	—	—	(809)	(6,068)
Loss on sales/retirement of property, plant and equipment	27	67	31	238
Loss from revaluation of investments in securities	3	82	68	508
Loss on sales of investments in securities	8	9	14	106
Decrease in receivables	1,819	1,083	825	6,188
Decrease in inventories	423	305	423	3,172
Increase (decrease) in payables	779	46	(4,932)	(37,010)
Increase (decrease) in advances received on uncompleted construction contracts	535	(813)	835	6,269
Decrease in notes discounted	(1,091)	(15)	(50)	(377)
Directors' bonuses paid	(76)	(64)	(63)	(469)
Other, net	(17)	288	(285)	(2,130)
Subtotal	5,302	3,497	70	529
Interest and dividend income received	67	75	55	409
Interest expenses paid	(281)	(265)	(244)	(1,830)
Income taxes paid	(1,004)	(514)	(1,101)	(8,260)
Net cash provided by (used in) operating activities	¥ 4,084	¥ 2,794	¥(1,220)	\$ (9,153)

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	2001	2002	2002
Cash Flows from Investing Activities:				
Refund of (increase in) time deposits	¥ (4)	¥ 74	¥ 36	\$ 269
Payments for purchase of short-term investments	(44)	—	—	—
Proceeds from sales of short-term investments	13	171	200	1,501
Payments for purchase of property, plant and equipment	(630)	(796)	(872)	(6,545)
Proceeds from sales of property, plant and equipment	1	168	16	119
Payments for purchase of investments in securities	(363)	(34)	(186)	(1,397)
Proceeds from sales of investments in securities	178	13	20	147
Proceeds from sale of real estate for investments	—	—	2,500	18,762
Payments for purchase of investments in affiliates	(12)	—	—	—
Increase of loans receivable	(398)	(124)	(63)	(471)
Decrease of loans receivable	313	359	192	1,438
Other, net	(129)	320	167	2,578
Net cash provided by (used in) investing activities	<u>(1,075)</u>	<u>150</u>	<u>2,009</u>	<u>15,077</u>
Cash Flows from Financing Activities:				
Decrease in short-term debt	(20)	(871)	(75)	(566)
Issuance of long-term debt	550	—	—	—
Repayment of long-term debt	(328)	(324)	(244)	(1,834)
Proceeds from issuance of bonds	—	—	5,901	44,281
Purchase of convertible bonds	—	—	(9,051)	(67,925)
Cash dividends paid	(423)	(423)	(423)	(3,177)
Cash dividends paid to minority stockholders	(2)	(1)	(1)	(9)
Proceeds from sales (purchase) of treasury stock	0	0	(4)	(28)
Net cash used in financing activities	<u>(223)</u>	<u>(1,619)</u>	<u>(3,899)</u>	<u>(29,257)</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—
Net increase (decrease) in cash and cash equivalents	2,786	1,324	(3,109)	(23,333)
Cash and cash equivalents at beginning of year	5,330	8,259	9,629	72,262
Cash and cash equivalents of newly consolidated subsidiaries	143	46	—	—
Cash and cash equivalents at end of year	<u>¥ 8,259</u>	<u>¥ 9,629</u>	<u>¥ 6,520</u>	<u>\$ 48,929</u>

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, 2000, 2001 and 2002

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 Director of the Kanto Local Finance Bureau 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 ¥133.25=US\$1, the rate of exchange on March 29, 2002, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation and Elimination

The Company had 25 subsidiaries (majority-owned companies) at March 31, 2002 (25 at March 31, 2001). The consolidated financial statements include the accounts of the Company and 19 subsidiaries at March 31, 2002 (19 at March 31, 2001).

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%

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 profit among the Companies have been entirely eliminated, and the portion attributable to minority interests is charged/credited to "Minority interests."

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, 2002, the Company had six affiliates (six for 2001) (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.

(a) Securities

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, that 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.

Net unrealized loss on the securities is reported as a separate item in the stockholders' equity at a net-of-tax amount. However, marketable securities included in other securities had not been measured at fair value (mark-to-market accounting of such securities was allowed to be implemented in this 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 at March 31, 2001, 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

Effective from the year ended March 31, 2002, the Company and its subsidiaries adopted mark-to-market accounting of the securities at fair value. As a result of such statement, investments in securities have decreased by 168 million yen; Net unrealized loss on securities has newly accounted by 98 million yen (debit) and deferred tax assets have increased by 70 million yen.

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 had decreased by 172 million yen and the securities in the non-current portfolio had 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.

(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

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the leases term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(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 which is used to recognize deferred tax assets.

(13) Accrued Retirement Benefits

Under the Japanese Accounting Standards for Accrued Retirement Benefits, which have been effective from fiscal 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 year), is fully recognized in 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.

(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	2002	2002
Cash on hand and in banks	¥3,405	¥ 3,868	¥6,658	\$49,968
Short-term investments	5,317	6,162	10	75
Total	8,722	10,030	6,668	50,043
Time deposits with deposit term of over three months	(275)	(201)	(148)	(1,114)
Corporate shares, bond investment trusts and convertible bonds	(188)	(200)	—	—
Cash and cash equivalents	¥8,259	¥ 9,629	¥6,520	\$48,929

4. Securities

Summary of other securities sold in the year ended March 31, 2001 and 2002, 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

	Millions of Yen	Thousands of U.S. Dollars
	2002	2002
Total amount of sales	¥16	\$117
Total amount of gains on sales.....	2	17
Total amount of losses on sales	20	152

The carrying amount of other securities which have maturities at March 31, 2001 and 2002, 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

	Millions of Yen		Thousands of U.S. Dollars	
	2002		2002	
	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	¥—	¥—	\$—	\$—
Corporate bonds	—	3	—	26
Other	—	—	—	—
Total	¥—	¥ 3	\$—	\$26

5. Inventories

Inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Products	¥ 1,999	¥ 1,659	\$12,453
Raw materials	3,746	2,511	18,842
Work in process	706	711	5,341
Cost of construction contracts in progress	6,245	7,392	55,478
	<u>¥12,697</u>	<u>¥12,274</u>	<u>\$92,114</u>

6. Short-term Debts and Long-term Debts

Short-term debts at March 31, 2002, bore interest at annual rates ranging from 0.55% to 2.18% and were represented generally by bank overdrafts, short-term notes maturing at various dates within one year.

It is normal business custom in Japan for short-term borrowings to be rolled over each year.

Long-term debts at March 31, 2002, comprised the following:

	Millions of Yen	Thousands of U.S. Dollars
Unsecured loans, principally from banks and insurance companies due from 2002 to 2005 with interest rates ranging from 1.55% to 2.25%	¥ 166	\$ 1,248
Unsecured 1.4% domestic standard bonds due in 2007	3,500	26,266
Unsecured 0.88% domestic standard bonds due in 2007	2,500	18,762
Guarantee deposits received	334	2,508
	<u>6,500</u>	<u>48,784</u>
Less—portion due within one year	(116)	(873)
Total long-term debt	<u>¥6,384</u>	<u>\$47,911</u>

Aggregate annual maturities of long-term debt, excluding guarantee deposits received, subsequent to March 31, 2002, are as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2003	¥116	\$ 873
2004	40	300
2005	10	75
2006	—	—
2007 and thereafter	—	—
	<u>¥166</u>	<u>\$1,248</u>

7. Accrued Retirement Benefits and Pension Plan

The composition of amounts recognized in the consolidated balance sheets at March 31, 2001 and 2002, excluding directors' retirement benefits, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Benefit obligation at end of year	¥(11,078)	¥(11,070)	\$(83,077)
Fair value of plan assets at end of year	2,919	2,827	21,216
Funded status	(8,159)	(8,243)	(61,861)
Unrecognized actuarial loss	340	367	2,752
Unrecognized prior service cost	—	—	—
Net amount recognized ...	(7,819)	(7,876)	(59,108)
Prepaid pension expense ...	—	9	69
Accrued retirement benefits	¥ (7,819)	¥ (7,885)	\$(59,177)

The components of net pension and employees' severance costs for the year ended March 31, 2001 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Service cost	¥ 555	¥647	\$4,854
Interest cost	355	305	2,289
Expected return on plan assets ...	(79)	(68)	(512)
Amortization of transitional obligation	3,124	—	—
Recognized actuarial loss	—	34	255
Amortization of prior service cost	—	—	—
Extra severance cost	109	7	50
Net periodic benefit cost	<u>¥4,064</u>	<u>¥924</u>	<u>\$6,936</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, 2002.

Assumptions used as of March 31, 2001 and 2002, were as follows:

	2001	2002
Discount rate	3.0%	3.0%
Expected rate of return on plan assets	3.5%	3.0%

8. Accounting for Leases

The Companies have various lease agreements whereby the Companies act both as a lessee and 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, 2001 and 2002, was 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
	2001	2002	2002
Machinery and equipment	¥ 855	¥ 809	\$ 6,072
Tools and furniture	597	483	3,628
Others	238	221	1,660
	<u>1,690</u>	<u>1,513</u>	<u>11,360</u>
Less—accumulated depreciation	<u>(1,179)</u>	<u>(1,208)</u>	<u>(9,066)</u>
Net book value	<u>¥ 511</u>	<u>¥ 306</u>	<u>\$ 2,294</u>
Depreciation	<u>¥ 289</u>	<u>¥ 236</u>	<u>\$ 1,770</u>

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, 2001 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year	¥235	¥163	\$1,225
Due over one year	276	142	1,069
	<u>¥511</u>	<u>¥306</u>	<u>\$2,294</u>
Lease rental expenses for the year	<u>¥289</u>	<u>¥236</u>	<u>\$1,770</u>
As a lessor:			
Leased tools and furniture:			
Purchase cost	¥438	¥395	\$2,960
Accumulated depreciation	(302)	(294)	(2,203)
Net, book value	<u>¥136</u>	<u>¥101</u>	<u>\$ 757</u>

The scheduled maturities of future lease rental income on such lease contracts as of March 31, 2001 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year	¥158	¥141	\$1,060
Due over one year	401	313	2,347
	<u>¥559</u>	<u>¥454</u>	<u>\$3,407</u>
Lease rental expenses for the year	<u>¥177</u>	<u>¥157</u>	<u>\$1,180</u>
Depreciation for the year	<u>¥ 37</u>	<u>¥ 32</u>	<u>\$ 239</u>

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2002, was 41.8%.

At March 31, 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Deferred tax assets:			
Accrued employees retirement benefits	¥2,576	¥2,666	\$20,005
Allowance for bad debts	180	1,647	12,357
Accrued bonuses	364	404	3,030
Tax loss carry forward	323	220	1,650
Directors' retirement allowance	156	176	1,323
Loss on write-off of property and equipment ..	108	92	691
Unrealized earnings	57	45	335
Accrued enterprise taxes ...	91	125	939
Accrued warranty costs	26	25	185
Other	62	293	2,197
Subtotal	3,943	5,691	42,711
Valuation allowance	(463)	(316)	(2,373)
Total	<u>¥3,480</u>	<u>¥5,375</u>	<u>\$40,388</u>
Deferred tax liabilities:			
Depreciation	¥ (115)	¥ (108)	\$ (813)
Net deferred tax assets ...	<u>¥3,365</u>	<u>¥5,267</u>	<u>\$39,525</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 and 2002, 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 ¥93 million (\$696 thousand) at March 31, 2002.

11. Appropriations of Retained Earnings

The Japanese Commercial Code requires all the Companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserves equal 25% of stated capital. Earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital.

Legal reserves may be transferred to stated capital through suitable directors' actions or offset against deficit through suitable stockholders' actions.

The following appropriations were approved at the stockholders' meeting of the Company held on June 27, 2002.

	Millions of Yen	Thousands of U.S. Dollars
Appropriations for:		
Cash dividends (¥5.00 per share)	¥212	\$1,588

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 park- ing 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
	2000	2001	2002	2002
Net sales:				
Fire alarm systems	¥28,124	¥28,282	¥26,691	\$200,311
Fire extinguishing systems	22,133	24,289	23,194	174,065
Maintenance services	16,811	16,764	17,479	131,176
Others	10,598	10,159	7,545	56,622
	<u>77,666</u>	<u>79,494</u>	<u>74,910</u>	<u>562,174</u>
Operating expenses:				
Fire alarm systems	26,327	26,266	25,529	191,591
Fire extinguishing systems	21,257	23,162	22,035	165,365
Maintenance services	13,360	13,315	13,716	102,933
Others	10,488	10,199	7,583	56,906
	<u>71,432</u>	<u>72,942</u>	<u>68,863</u>	<u>516,795</u>
Operating income before unallocatable costs	6,234	6,553	6,046	45,379
Less: unallocatable operating expenses	<u>(4,797)</u>	<u>(4,674)</u>	<u>(4,174)</u>	<u>(31,328)</u>
Operating income ...	<u>¥ 1,437</u>	<u>¥ 1,879</u>	<u>¥ 1,872</u>	<u>\$ 14,051</u>

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	2002
Total assets:				
Fire alarm systems	¥29,051	¥28,737	¥26,173	\$196,422
Fire extinguishing systems	17,450	17,321	17,785	133,467
Maintenance services	8,009	8,448	7,529	56,505
Others	4,913	3,618	1,312	9,843
	59,423	58,124	52,799	396,237
Unallocatable or headquarters	15,842	17,445	14,532	109,061
	¥75,265	¥75,569	¥67,331	\$505,298
Depreciation:				
Fire alarm systems	¥ 529	¥ 520	¥ 533	\$ 3,998
Fire extinguishing systems	152	139	140	1,048
Maintenance services	123	114	102	764
Others	25	27	26	196
	829	800	800	6,007
Unallocatable or headquarters	418	379	340	2,555
	¥ 1,247	¥ 1,179	¥ 1,141	\$ 8,562

Capital expenditure:				
Fire alarm systems	¥ 349	¥ 423	¥ 444	\$ 3,333
Fire extinguishing systems	87	80	90	673
Maintenance services	48	50	51	381
Others	11	20	15	113
	495	573	600	4,500
Unallocatable or headquarters	212	200	118	886
	¥ 707	¥ 773	¥ 718	\$ 5,387

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, 2002, were as follows:

Name of related company	As of March 31, 2002			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	
					2000	2001	2002	2001	2002
SECOM Incorporated	¥66,360 million	Security service	— ^(*)	Sales of products	¥1,355	¥1,576	¥2,085 (\$15,650)	Trade receivables ¥ 146	Trade receivables ¥ 417 (\$ 3,127)
KOATSU Co., Ltd.	¥ 60 million	Fire extinguishing systems	20.83%	Purchase of raw materials	¥3,886	¥4,615	¥4,862 (\$36,491)	Trade payables ¥2,239	Trade payables ¥1,983 (\$14,885)

^(*) 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, 2001 and 2002, 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, 2001 and 2002, 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.

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 statements.

Chuo Aoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2002



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