

NOHMI BOSAI LTD.

SEMIANNUAL REPORT 2003



For the Six-Month Period Ended
September 30, 2003

NOHMI

A MESSAGE FROM THE PRESIDENT

Business Environment and Results

The Japanese economy showed signs of improvement during the first half of fiscal 2004, ended September 30, 2003. Exports and capital investment appeared to pick up and some companies—particularly those in the manufacturing industry—reported improved earnings. Consumer spending remained weak, however, owing to depressed salary levels and unemployment. Deflation and the sluggish business climate also persisted.

Harsh conditions still prevailed in the fire protection industry as sharp declines in private-sector capital investment and flagging public-sector capital investment continued to hinder domestic construction demand.

In response to this situation, the Nohmi Bosai Group reformed its organization to strengthen sales capabilities. At the same time, we stepped up marketing activities nationwide for such distinctive products as *advanced P*, a competitive upgraded version of the conventional P-Type fire alarm system with automatic testing functions; *LI&SA Integrated Home Security Panel*, which combines a fire alarm system with an interphone system; and *Sqall α*, a new extinguishing system that replaces conventional foam extinguishing systems in indoor parking lots.

In the area of maintenance services, we targeted a top share of the market in every region of Japan for each service we provide. To this end, we made concerted efforts to enhance our Customer Satisfaction (CS) Support System.

During the period, we continued to sell integrated fire protection and security systems in cooperation with SECOM Co., Ltd., Japan's leading provider of comprehensive security services. We also strove to improve our financial health by continuing to reduce costs and ensure systematic and efficient operations. Owing to these efforts, we recorded the following results.

The value of orders received as of September 30, 2003, increased 4.7%, compared with the second half of the previous fiscal year, to ¥38,048 million. Net sales rose 10.9%, to ¥29,977 million. Net sales of fire alarm systems amounted to ¥10,366 million, up 7.3%, while net sales of fire extinguishing systems edged down 0.5%, to ¥8,062 million. Net sales of maintenance services climbed 3.6%, to ¥8,140 million. Net sales of others jumped 140.0%, to ¥3,407 million. Reflecting the fact that our sales tend to be concentrated in the second half of the fiscal year, especially in the fourth quarter, we recorded an operating loss of ¥1,148 million and a net loss of ¥701 million in the first half of fiscal 2004. Nonetheless, we maintained interim dividends at ¥5.00 per share.

Management Policies

As pioneers in the fire protection industry, our mission is 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 global environment, energy and resources.

In line with our medium-to-long-term business plan, we are working to reinforce our marketing capabilities by updating our sales organization and developing new systems and products that respond to market needs. In addition, we are ensuring systematic and efficient operations and making a concerted effort to develop the human resources needed to implement these strategies.

We currently face several challenges. These include fulfilling our responsibilities as a corporate citizen and maintaining stable growth by reforming our management system. We aim to increase customer satisfaction by providing the best possible solutions and create a

corporate culture that can respond flexibly to sudden changes in the business environment. We are also prioritizing such key management issues as reinforcing our marketing capabilities in existing fire protection markets; expanding our operating base by cultivating the fire protection peripherals markets and overseas markets; fostering new sales channels; providing innovative products; and implementing well-organized operations.

To enhance corporate governance, we have taken a number of steps, including the appointment of three directors and two corporate auditors from outside the Company. This will increase management transparency and enable quicker decision making.

We place a high priority on returning profits to shareholders. We also recognize the need to supplement internal reserves to improve our financial condition and prepare for future growth. Accordingly, we will maintain a dividend policy that takes into account our dividend payout ratio and other aspects of our financial situation.

Outlook

Stock prices are rising and exports are expected to increase gradually. Despite these positive signs, sluggish consumer spending and deflationary trends are likely to continue. Moreover, employment and income levels are expected to remain stagnant. Consequently, it is extremely difficult to make firm predictions concerning the economy.

We forecast a continuation of harsh conditions in the fire protection industry, owing to decreases in the total floor area of new non-residential buildings and the persistently low average value of orders.

To overcome these obstacles, we will focus on meeting the needs of customers in each of our primary markets. In the market for fire protection for new buildings, we will adopt a long-term approach to securing orders and profits. In the maintenance services market, we will utilize our sales support systems—centered on the CS Support System—and implement proposal-driven sales that focus on customer satisfaction. In the renovation market, we will promote marketing of our distinctive products. For the China market, we have developed the *R-23Z*, a new analog fire alarm system, and will localize production, which will facilitate more flexible responses to changes in the business environment and thereby help us to achieve a greater market share.

On October 1, 2003, amendments to the Fire Service Law were passed that expanded its scope to include small buildings. We will respond by ensuring our products meet new performance-based standards specified in these amendments and others scheduled for introduction in the future. In addition, we will capitalize on our outstanding research capabilities to develop products suited to new kinds of hazardous material and factory fires which have been occurring with increasing frequency in Japan. We will also revise our standard operating practices, implement stricter cost control and continuously promote cost reduction activities.

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

February 2004



Tadashi Tanoue
President

CONSOLIDATED BALANCE SHEETS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
As of September 30, 2002 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2003	2003
Current Assets:			
Cash on hand and in banks	¥ 6,296	¥ 9,415	\$ 84,629
Short-term investments	10	10	90
Trade receivables:			
Notes	6,210	5,225	46,971
Accounts	10,780	11,519	103,543
Unconsolidated subsidiaries and affiliates	191	84	754
Other	477	456	4,098
	17,658	17,284	155,365
Less: allowance for bad debts	(331)	(325)	(2,929)
	17,327	16,958	152,436
Inventories	16,893	12,926	116,190
Deferred tax assets	1,812	1,715	15,412
Prepaid expenses and other current assets	374	358	3,214
Total current assets	42,712	41,382	371,971
Investments and Advances:			
Investments in securities	1,389	1,332	11,973
Investments in and advances to unconsolidated subsidiaries and affiliates	2,446	2,374	21,335
Loans to employees	285	242	2,173
Deferred tax assets	3,755	3,005	27,014
Other investments and advances	6,148	3,314	29,786
	12,634	8,934	80,308
Less: allowance for bad debts	(3,921)	(449)	(4,031)
	8,713	8,486	76,277
Total investments and advances	10,102	9,818	88,250
Property, Plant and Equipment:			
Buildings and structures	8,320	8,327	74,847
Machinery and equipment	2,511	2,157	19,390
Tools and furniture	5,332	5,436	48,867
	16,163	15,920	143,104
Less: accumulated depreciation	(9,270)	(9,454)	(84,982)
	6,893	6,466	58,123
Construction in progress	30	40	356
Land	3,484	3,473	31,220
Total property, plant and equipment	10,407	9,979	89,699
Deferred Charges and Intangibles	682	734	6,602
Total assets	¥63,903	¥61,193	\$550,049

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2003	2003
Current Liabilities:			
Short-term bank loans	¥ 4,040	¥ 3,949	\$ 35,497
Trade payables:			
Notes	4,536	1,929	17,337
Accounts	1,896	4,048	36,388
Unconsolidated subsidiaries and affiliates	1,478	1,086	9,762
	7,910	7,063	63,487
Non-trade accounts payable	3,109	2,807	25,229
Advances received on uncompleted construction contracts	5,786	3,677	33,056
Accrued bonuses to employees	1,388	1,426	12,819
Accrued warranty costs	30	46	416
Income taxes payable	80	88	790
Other current liabilities	617	865	7,776
Total current liabilities	22,960	19,922	179,070
Long-Term Liabilities:			
Long-term debt	6,360	6,332	56,913
Accrued retirement benefits	8,177	7,766	69,807
Other long-term liabilities	29	29	263
Difference between investment costs and equity in net assets acquired	22	7	65
Total long-term liabilities	14,588	14,134	127,047
Minority Interests in Consolidated Subsidiaries	92	160	1,436
Contingent Liabilities (Note 2)	—	—	—
Stockholders' Equity:			
Common stock:			
Authorized: 160,000,000 shares at September 30, 2002 and 2003			
Issued: 42,332,771 shares at September 30, 2002 and 2003	6,272	6,272	56,380
Additional paid-in capital	5,714	5,713	51,357
Retained earnings	14,268	14,886	133,630
Revaluation of investments in marketable securities	(93)	165	1,487
Foreign currency translation adjustments	114	113	1,013
	26,275	27,150	244,047
Less: treasury stock, at cost— 23 and 870 thousand shares at September 30, 2002 and 2003	(12)	(173)	(1,551)
Total liabilities and stockholders' equity	¥63,903	¥61,193	\$550,049

Notes: (1) U.S. dollar amounts are translated at the rate of ¥111.25=US\$1, for convenience only.
(2) The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
For the Six-Month Periods Ended September 30, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2003	2003
Net Sales	¥27,041	¥29,977	\$269,455
Cost of Sales	19,919	22,699	204,032
Gross profit	7,122	7,278	65,423
Selling, General and Administrative Expenses	8,266	8,426	75,738
Operating loss	(1,144)	(1,148)	(10,315)
Other Income (Expenses):			
Interest income	7	5	49
Interest expense	(57)	(54)	(484)
Dividend on insurance policies	1	57	511
Rental revenue	46	43	384
Loss on disposal and write-down of inventories	(6)	—	—
Loss on sale/disposal of property and equipment	(9)	(22)	(201)
Loss from revaluation of investments in securities	(102)	—	—
Amortization of difference between investment costs and equity in net assets acquired	7	7	64
Equity in earnings of affiliates	40	51	456
Loss on write-off of membership rights	(0)	—	—
Other, net	69	(97)	(870)
	(4)	(10)	(91)
Loss before income taxes	(1,148)	(1,158)	(10,406)
Income Taxes:			
Current	74	84	752
Deferred	(305)	(517)	(4,652)
	(230)	(434)	(3,900)
Minority Interests in Consolidated Subsidiaries	0	(23)	(207)
Net loss	(918)	(701)	(6,299)
Retained Earnings:			
Balance at beginning of year	15,367	15,850	142,467
Increase:			
Increase due to additions of consolidated subsidiaries and affiliates	38	—	—
Decreases:			
Cash dividends	(212)	(211)	(1,899)
Directors' bonuses	(8)	(51)	(459)
Balance at end of year	¥14,268	¥14,886	\$133,810
	Yen		U.S. Dollars (Note 1)
Per Share:			
Net loss—primary fully diluted	¥(21.69)	¥(16.66)	\$(0.15)
Cash dividends	5.00	5.00	0.04
Weighted Average Number of Shares Issued (in thousands)	42,319	42,059	

Notes: (1) U.S. dollar amounts are translated at the rate of ¥111.25=US\$1, for convenience only.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
For the Six-Month Periods Ended September 30, 2002 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2003	2003
Cash Flows from Operating Activities:			
Loss before income taxes	¥(1,148)	¥(1,158)	\$(10,406)
Adjustments for:			
Depreciation and amortization	543	520	4,678
Increase (decrease) in allowance for bad debts	(67)	18	160
Increase (decrease) in accrued retirement benefits	(131)	53	472
Decrease in receivables	7,827	9,047	81,326
Increase in inventories	(4,547)	(1,736)	(15,602)
Decrease in payables	(1,620)	(3,718)	(33,417)
Increase in advances received on uncompleted construction contracts	1,569	1,605	14,428
Other, net	(567)	(22)	(194)
Subtotal	1,859	4,611	41,445
Interest and dividend income received	20	25	222
Interest expenses paid	(55)	(55)	(498)
Income taxes paid	(1,466)	(146)	(1,314)
Net cash provided by operating activities	359	4,434	39,855
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(446)	(371)	(3,332)
Decrease of loans receivable	85	89	797
Other, net	98	(3)	(27)
Net cash used in investing activities	(263)	(285)	(2,562)
Cash Flows from Financing Activities:			
Decrease in short-term bank loans	(128)	(88)	(787)
Repayment of long-term debt	(67)	(20)	(180)
Cash dividends paid	(212)	(211)	(1,899)
Other, net	(9)	(80)	(722)
Net cash used in financing activities	(416)	(399)	(3,588)
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase (decrease) in cash and cash equivalents	(320)	3,750	33,705
Cash and cash equivalents at beginning of year	6,520	5,514	49,567
Cash and cash equivalents of newly consolidated subsidiaries	18	—	—
Cash and cash equivalents at end of six-month period	¥ 6,218	¥ 9,264	\$ 83,272

Notes: (1) U.S. dollar amounts are translated at the rate of ¥111.25=US\$1, for convenience only.
(2) The accompanying notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED SEMIANNUAL FINANCIAL STATEMENTS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries

1. Basis of the Consolidated Semiannual Financial Statements

Accounting Principles

The accompanying consolidated semiannual financial statements of Nohmi Bosai Ltd. (the "Company") and its consolidated subsidiaries for the six-month periods ended September 30, 2002 and 2003, have been prepared in conformity with accounting and reporting standards with respect to such consolidated semiannual financial statements in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated semiannual 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 semiannual financial statements are not intended to present the consolidated semiannual position and results of operations 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 ¥111.25=US\$1, the rate of exchange on September 30, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

2. 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 ¥652 millions (\$5,860 thousands), and borrowings from bank in the aggregate amount of ¥12 millions (\$110 thousands) at September 30, 2003.

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