

NOHMI BOSAI LTD.

SEMIANNUAL REPORT 2002



For the Six-Month Period Ended
September 30, 2002

NOHMI

A MESSAGE FROM THE PRESIDENT

Business Environment and Results

During the first half of fiscal 2003, ended September 30, 2002, the Japanese government declared that the nation's economy had bottomed out and some companies predicted better earnings; however, there were no signs of a recovery in domestic demand, owing to the continuing severe employment situation and depressed consumer spending. Moreover, exports suffered as the global economic recovery lost momentum and IT-related industries—especially in the United States—restored inventories to appropriate levels.

The fire protection industry faced an increasingly severe situation, as private-sector capital investment failed to improve, public-sector investment declined further and intense competition within the construction market continued to prevail. In this environment, the Nohmi Bosai Group reformed its organization to improve sales capabilities and focused on cultivating renovation and overseas markets, while working to establish business tie-ups with other companies.

During the period under review, we concentrated our efforts on expanding sales of *Integlex*, a fire alarm system launched in January 2002 that meets U.S. National Fire Protection Association (NFPA) requirements and U.S. Underwriters Laboratories Inc. (UL) standards. For this product, we are targeting a broad overseas market, including Southeast Asia. In addition, we commenced sales of *Advanced P*, a conventional fire alarm system with an automatic testing function that constantly checks detectors to provide greater safety. This is a competitive and distinctive product aimed at the renovation market. We also began sales of the *LISA Integrated Home Security Panel*, a product intended to increase our share of the condominium market. This system combines an automatic fire alarm system with an interphone system, thereby saving space and requiring less wiring. Another product launched during the period under review was the *Sqall α*, a closed-type spray extinguishing system that replaces conventional foam extinguishing systems in parking lots. Unlike other systems, the *Sqall α* discharges foam only from the spray head above the fire source. As a result, less foam is used on a smaller area, reducing environmental impact.

We made strenuous efforts to improve our business performance, resulting in an improvement in the gross profit margin, and recorded the following results for the interim period under review. The value of outstanding orders as of September 30, 2002, decreased 11.8% compared with the corresponding period of the previous fiscal year, to ¥36,337 million. Net sales declined 15.6%, to ¥27,041 million. Net sales of fire alarm systems were down 10.6%, to ¥9,660 million, while net sales of fire extinguishing systems rose 5.1%, to ¥8,099 million. Net sales of maintenance services fell 0.5%, to ¥7,860 million. Net sales of others dropped 74.8%, to ¥1,419 million, owing to the slump in IT-related demand.

Reflecting the fact that our net sales are concentrated in the second half of the fiscal year, we recorded an operating loss of ¥1,144 million and a net loss of ¥918 million for the period under review. Despite the above, interim dividends were maintained at ¥5.00 per share.

Management Policies

In line with our mission as pioneers in the fire protection industry, we adhere to a basic policy 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. We are promoting reforms to our management structure to bring greater transparency to management and creating a corporate climate that can respond flexibly to sudden changes in the business environment. We are also prioritizing key management issues, such as reinforcing sales in existing fire protection markets; expanding our operating base by cultivating fire protection peripheral and overseas markets; fostering new sales channels; offering innovative products; and implementing well-organized operations. These measures will allow us to expand even in periods of low growth.

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

In line with our medium- to long-term “Business Plan for the New Century,” we are working to reinforce our marketing capabilities by restructuring sales setup, while developing new systems and products that respond to market needs. In addition, we are ensuring systematic and efficient operations to improve financial health, and are also making a concerted effort to develop human resources. Having already appointed several directors and corporate auditors from outside the Company, we are now striving to enhance the transparency of management and reinforce corporate governance.

Outlook

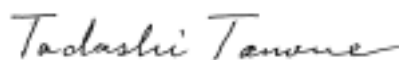
Despite expectations that overseas economies will bottom out and the business environment will recover gradually, it is extremely difficult to predict the direction of worldwide stock prices and IT-related demand. Public-sector investment is forecast to decrease and consumer spending remains lackluster, owing to harsh employment conditions and concerns over falling income levels. Consequently, it is virtually impossible to predict the immediate outlook for the economy.

Severe conditions are, therefore, expected to continue in the fire protection industry as demand falls in the construction industry and the average value of orders decreases.

We will respond to these challenges by taking a comprehensive long-term approach and increasing our share of existing markets. In addition, we will promote proposal-based sales to increase customer satisfaction in the renovation market and expand overseas sales promotion activities that capitalize on our distinctive products. Furthermore, we will work to improve all our operations by standardizing the most efficient practices throughout the Company and continue to develop new products and systems, while striving to reduce costs.

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

February 2003



Tadashi Tanoue
President

CONSOLIDATED BALANCE SHEETS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
As of September 30, 2001 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002		2001	2002	2002
Current Assets:				Current Liabilities:			
Cash on hand and in banks	¥ 2,955	¥ 6,296	\$ 51,356	Short-term bank loans	¥13,544	¥ 4,040	\$ 32,951
Short-term investments	4,899	10	82	Trade payables:			
Trade receivables:				Notes	5,324	4,536	36,994
Notes	6,671	6,210	50,654	Accounts	1,736	1,896	15,467
Accounts	11,708	10,780	87,931	Unconsolidated subsidiaries and affiliates	1,692	1,478	12,055
Unconsolidated subsidiaries and affiliates	196	191	1,558		8,752	7,910	64,516
Other	285	477	3,887	Non-trade accounts payable	3,120	3,109	25,358
	18,860	17,658	144,030	Advances received on uncompleted construction contracts	5,372	5,786	47,194
Less: allowance for bad debts	(243)	(331)	(2,704)	Accrued bonuses to employees	1,430	1,388	11,324
	18,617	17,327	141,326	Accrued warranty costs	18	30	242
Inventories	15,785	16,893	137,784	Income taxes payable	151	80	652
Deferred tax assets	744	1,812	14,780	Other current liabilities	911	617	5,036
Prepaid expenses and other current assets	466	374	3,053	Total current liabilities	33,298	22,960	187,273
Total current assets	43,466	42,712	348,381				
				Long-Term Liabilities:			
Investments and Advances:				Long-term debt	443	6,360	51,875
Investments in securities	1,569	1,389	11,328	Accrued retirement benefits	8,257	8,177	66,698
Investments in and advances to unconsolidated subsidiaries and affiliates	2,469	2,446	19,954	Other long-term liabilities	28	29	239
Loans to employees	324	285	2,324	Difference between investment costs and equity in net assets acquired	41	22	175
Deferred tax assets	4,298	3,755	30,624	Total long-term liabilities	8,769	14,588	118,987
Other investments and advances	8,024	6,148	50,147				
	15,115	12,634	103,049	Minority Interests in Consolidated Subsidiaries	89	92	754
Less: allowance for bad debts	(3,978)	(3,921)	(31,976)				
	11,137	8,713	71,073	Contingent Liabilities (Note 2)	—	—	—
Total investments and advances	12,706	10,102	82,401				
				Stockholders' Equity:			
Property, Plant and Equipment:				Common stock;			
Buildings and structures	8,279	8,320	67,864	Authorized: 160,000,000 shares at September 30, 2001 and 2002			
Machinery and equipment	2,463	2,511	20,479	Issued: 42,332,771 shares at September 30, 2001 and 2002	6,272	6,272	51,161
Tools and furniture	5,200	5,332	43,495	Additional paid-in capital	5,713	5,714	46,602
	15,942	16,163	131,838	Retained earnings	13,280	14,268	116,377
Less: accumulated depreciation	(8,672)	(9,270)	(75,617)	Revaluation of investments in marketable securities	3	(93)	(762)
	7,270	6,893	56,223	Foreign currency translation adjustments	168	114	934
Construction in progress	35	30	243		25,436	26,275	214,312
Land	3,365	3,484	28,415				
Total property, plant and equipment	10,670	10,407	84,881	Less: treasury stock, at cost— 0.4 and 23.2 thousand shares at September 30, 2001 and 2002	(0)	(12)	(97)
				Total liabilities and stockholders' equity	¥67,592	¥63,903	\$521,229
Deferred Charges and Intangibles	751	682	5,566				
Total assets	¥67,592	¥63,903	\$521,229				

Notes: (1) U.S. dollar amounts are translated at the rate of ¥122.60=US\$1, for convenience only.
(2) The accompanying notes are an integral part of the statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
For the Six-Month Periods Ended September 30, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
Net Sales	¥32,049	¥27,041	\$220,559
Cost of Sales	24,641	19,919	162,469
Gross profit	7,407	7,122	58,089
Selling, General and Administrative Expenses	8,367	8,266	67,420
Operating loss	(960)	(1,144)	(9,331)
Other Income (Expenses):			
Interest income	9	7	60
Interest expense	(124)	(57)	(461)
Dividend on insurance policies	24	1	7
Rental revenue	115	46	377
Loss on disposal and write-down of inventories	(22)	(6)	(52)
Loss on sale/disposal of property and equipment	(34)	(9)	(77)
Loss from revaluation of investments in securities	(3)	(102)	(835)
Amortization of difference between investment costs and equity in net assets acquired	12	7	59
Equity in earnings of affiliates	68	40	328
Provision for allowance for bad debts	(3,505)	—	—
Loss on write-off of membership rights	(3)	(0)	(2)
Other, net	63	69	564
	(3,399)	(4)	(33)
Loss before income taxes	(4,359)	(1,148)	(9,364)
Income Taxes:			
Current	53	74	605
Deferred	(1,679)	(305)	(2,484)
	(1,626)	(230)	(1,879)
Minority Interests in Consolidated Subsidiaries	0	0	3
Net loss	(2,733)	(918)	(7,488)
Retained Earnings:			
Balance at beginning of year	16,287	15,367	125,346
Increases:			
Increase due to additions of consolidated subsidiaries and affiliates	—	38	312
Decreases:			
Cash dividends	(212)	(212)	(1,726)
Directors' bonuses	(62)	(8)	(67)
Balance at end of year	¥13,280	¥14,268	\$116,377
	Yen		U.S. Dollars (Note 1)
Per Share:			
Net loss—primary fully diluted	¥(64.57)	¥(21.69)	\$(0.18)
Cash dividends	5.00	5.00	0.04
Weighted Average Number of Shares Issued (in thousands)	42,333	42,319	

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Nohmi Bosai Ltd. and Its Consolidated Subsidiaries
For the Six-Month Periods Ended September 30, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
Cash Flows from Operating Activities:			
Loss before income taxes	¥(4,359)	¥(1,148)	\$ (9,364)
Adjustments for:			
Depreciation and amortization	577	543	4,427
Increase (decrease) in allowance for bad debts	3,420	(67)	(545)
Increase (decrease) in accrued retirement benefits	65	(131)	(1,070)
Decrease in receivables	7,163	7,827	63,839
Increase in inventories	(3,088)	(4,547)	(37,090)
Decrease in payables	(5,664)	(1,620)	(13,210)
Increase in advances received on uncompleted construction contracts	2,026	1,569	12,801
Other, net	(629)	(567)	(4,624)
Subtotal	(490)	1,859	15,165
Interest and dividend income received	35	20	163
Interest expenses paid	(126)	(55)	(445)
Income taxes paid	(1,030)	(1,466)	(11,955)
Net cash (used in) provided by operating activities	(1,610)	359	2,928
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(452)	(446)	(3,640)
Decrease of loans receivable	115	85	692
Other, net	(34)	98	802
Net cash used in investing activities	(371)	(263)	(2,145)
Cash Flows from Financing Activities:			
Increase (decrease) in short-term bank loans	144	(128)	(1,047)
Repayment of long-term debt	(136)	(67)	(546)
Cash dividends paid	(212)	(212)	(1,726)
Other, net	(1)	(9)	(74)
Net cash used in financing activities	(205)	(416)	(3,393)
Effect of exchange rate changes on cash and cash equivalents	—	—	—
Net increase in cash and cash equivalents	(2,186)	(320)	(2,610)
Cash and cash equivalents at beginning of year	9,629	6,520	53,180
Cash and cash equivalents of newly consolidated subsidiaries	—	18	150
Cash and cash equivalents at end of six-month period	¥ 7,443	¥ 6,218	\$ 50,719

Notes: (1) U.S. dollar amounts are translated at the rate of ¥122.60=US\$1, for convenience only.
(2) The accompanying notes are an integral part of the statements.

NOTES TO THE CONSOLIDATED SEMI-ANNUAL 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, 2001 and 2002, 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 ¥122.60=US\$1, the rate of exchange on September 30, 2002, 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 ¥510 million (\$4,163 thousand), and trade discounted by bank in the aggregate amount of ¥55 million (\$450 thousand) at September 30, 2002.

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