

Annual Report 2002

Fukuda Denshi Co.,Ltd.

Annual Report 2002

For the year ended March 31, 2002



Profile

Fukuda Denshi's technology connects medical care to people's health

"Devotion to a social mission and contributions to the advancement of medicine through the development of electronic medical equipment" is Fukuda Denshi Co., Ltd.'s corporate philosophy. For more than 60 years, we have contributed to a healthier society through the manufacture and sales of medical equipment, especially products related to the cardiovascular and circulatory systems including the electrocardiograph.

Over the past few years, healthcare equipment has played an increasingly important role not only in diagnosing and treating disease but also in maintaining and improving health and the quality of life (QOL), keeping pace with rapidly changing lifestyles.

The Fukuda Denshi group focuses on cost reductions and upgrading and redesigning products to meet ever-changing healthcare needs. The group has an active social mission and strives to be a "Company trusted by society."

Corporate Philosophy

We will contribute to people's health by providing excellent products to medical professionals that incorporate advanced healthcare technologies.

We will diversify from our mainstay products for the treatment and diagnosis of circulatory and other diseases to services for disease prevention and health maintenance in view of the rapidly aging society and the growing need for healthcare/welfare.

We aim to develop and distribute highly dependable and high-performance healthcare equipment that is inexpensive and easy to use.

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Projections

Future-oriented information in this annual report is provided only as a reference for investors. Our projections are based on the company's plans and expectations, which may differ from the actual results owing to changes in the economic and business climate.

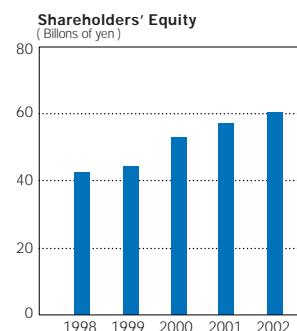
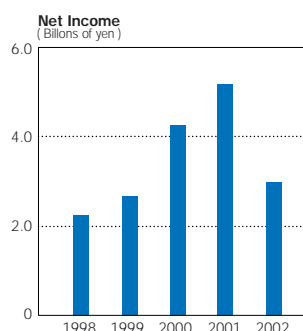
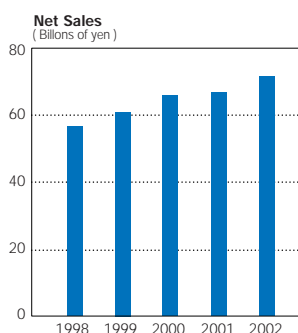
Consolidated Financial Highlights

Years ended March 31

FUKUDA DENSHI Co.,LTD.
ANNUAL REPORT 2002

	Millions of yen					Thousands of U.S. dollars
	1998	1999	2000	2001	2002	2002
For the year:						
Net sales	¥ 56,764	¥ 60,866	¥ 65,348	¥ 66,778	¥ 71,042	\$ 534,150
Operating income	7,698	7,229	9,170	10,079	7,751	58,278
Net income	2,378	2,740	4,326	5,232	3,053	22,955
At year-end:						
Total assets	¥ 67,361	¥ 71,288	¥ 81,417	¥ 88,599	¥ 94,930	\$ 713,759
Total current liabilities	21,558	22,189	24,816	25,907	29,490	221,729
Shareholders' equity	42,490	44,840	53,729	57,575	60,402	454,150
Per share of common stock:						
Net income	¥ 122.54	¥ 141.20	¥ 222.98	¥ 271.32	¥ 159.06	\$ 1.20
Shareholders' equity	2,189.78	2,311.01	2,768.98	2,999.97	3,146.97	23.66
Cash dividends	15.00	16.00	25.00	30.00	30.00	0.23
Dividend payout ratio (%)	13.0	13.5	17.6	18.0	32.4	32.4

Note: U.S. dollar amounts are rough equivalents and are translated, for convenience only, at the rate of ¥133 to US\$1.



Message from the President



President and Representative Director
Kotaro Fukuda

The year in review

Japan's prolonged recession continued during the term, and the effects of the widespread decrease in production owing to the information technology (IT) recession affected domestic employment and incomes. In addition, the global business outlook became increasingly uncertain following the terrorist attacks in the United States in September 2001.

As for trends in the healthcare industry, we face a number of challenges including escalating healthcare costs, problems with the current health insurance system, the promotion of IT usage in healthcare and the enhancement of medical safety measures with the continuing reform of the healthcare system. The medical care equipment industry is a tough market environment in which price competition has intensified under the influence of the government's overall healthcare cost-reduction policy.

Despite this difficult business environment, the Fukuda Denshi group steadily improved its operating performance in fiscal 2002 by strengthening its companywide sales system. As a result, consolidated net sales rose 6.4% to ¥71.0 billion.

Operating income dropped 23.1% to ¥7,751 million, mainly due to a rise in SG&A expenses resulting from increased research-and-development costs. Net income was down 41.6% to ¥3,053 million, due partly to the valuation losses accompanying the impairment account for investments in securities.

Progress in our medium-term management plan

The new three-year medium-term management plan, which began last year, has come under review due to the medical fee revision in fiscal 2002.

As positive outcomes from this revision, we can establish a new service item — a lifestyle-related medical advice fee — and introduce such new products as the VaSera VS-1000 and the Cardio-Mobi EV-100 to

correspond to changing lifestyles. On the other hand, negative factors include an increase in healthcare costs for senior citizens, a phased reduction in the technical service fee for cardiac pacemakers and catheters and a reduction in payments for in-home oxygen enrichers and CPAPs.

In the next term, we will develop business strategies tailored to the respective fields, keeping abreast of the changes in market trends. Specifically, we intend to closely monitor market trends in medical care through close communications with users, expand the business domain focusing on EM equipment, develop new products and provide solutions such as maintenance support and plans for hospital management, construction and expansion/innovation, aiming to be "the most trusted brand in the world."

Our challenge

To adequately correspond to the changing social environments and market trends, and to overcome the intercorporate competition predicted to become even more intense, we will continue to tackle the following items:

- 1) **Promote Groupwide information-sharing to improve customer satisfaction:** We will achieve greater information-sharing throughout our sales network, thereby accelerating our response to market changes and increasing our ability to satisfy customers.
- 2) **Enact a globalization strategy:** With the aim of increasing export sales, we will actively promote overseas development by strategically developing products on a global scale as well as bolstering our overseas sales network.
- 3) **Reduce costs through higher productivity:** We will strive to optimize our cost-management structure by shortening R&D and production lead times, thereby reducing inventory levels and boosting price competitiveness.

4) **Establish a performance evaluation system:** We will strive to reform employee awareness by using performance-based parameters that emphasize contributions to the company.

5) **Conduct proactive IR activities:** We will organize regular IR activities to disclose Company information in a timely and fair manner, thereby promoting a positive understanding of our company among individual and institutional shareholders.

Profit-sharing policy

The basic policy of our company is to return a continuous and stable return to our shareholders. We will continue to pay dividends taking into consideration future business development and the extent of our business achievements.

In terms of internal reserves, consideration is given to such matters as R&D expenses for new products and technology as well as future business development, and we intend to be prepared for future capital demands.

A stock option system has been made available to the directors of our company, and an incentive plan has been put in place for the directors of our subsidiaries. These programs are intended to increase motivation to improve business performance, which is directly connected to shareholders' profits via the stock price.

We look forward to the continuous support and understanding of all of our shareholders as we work toward a more profitable future.

June 27, 2002



Kotaro Fukuda

President and Representative Director

Business Environments

Trends in the healthcare field

With the onset of the aging society and lifestyle changes in the 21st century, social demands have increased for preventive and clinical medicine to treat senile and lifestyle-related diseases. Moreover, along with the introduction of a new medical administration system including the government's suppression of medical expenses, the healthcare environment is undergoing drastic changes, including the expansion of in-home healthcare, community healthcare, emergency medical care and progress in wellness medicine.

For the past several years, various government measures within the medical care field have been revised in line with the rise in healthcare costs, upgraded medical technologies, the prevention of medical mishaps, the dwindling birthrate and the aging of the society.

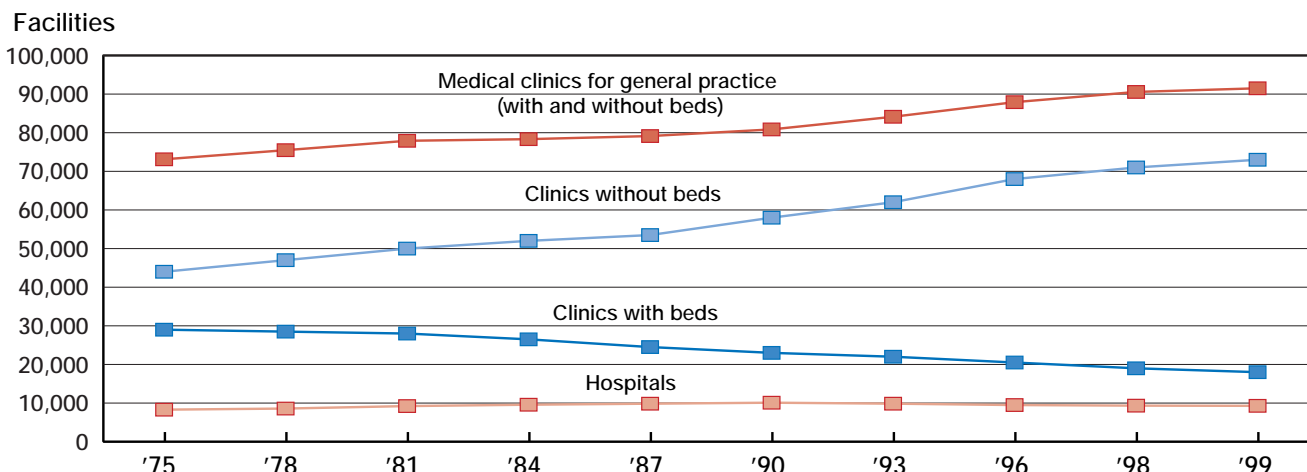
The "Three-Year Deregulation Program," the government's basic policy on healthcare enacted by the Cabinet in March 2001, puts forth such measures as 1) the promotion of competition among medical institutions, 2) quality improvement in healthcare service, 3) improved system efficiency, 4) evidence-based medicine, 5) system development to prevent medical

mishaps and 6) the effective use of IT. All of the concerned parties in the healthcare field are working on regulatory reforms based on these measures. In medical facilities, we anticipate a bipolarization into large-scale hospitals and general clinical facilities without beds and the systematization of treatment and services with IT technology. Moreover, medical care providers face pressing needs to further promote evidence-based medicine (EBM) aimed at providing high-quality healthcare services, sharing the latest medical technology information and establishing systems to prevent medical mishaps.

On the other hand, patients are now demanding higher quality and increasingly diversified healthcare services to fit their lifestyles and needs while collecting medical-related information and actively participating in their medical treatment.

The domestic market for medical equipment continues its stable growth, and our group's mainstay EM equipment business is expected to further expand in line with the increased use of preventive medicine and in-home healthcare as a way to combat lifestyle-related diseases.

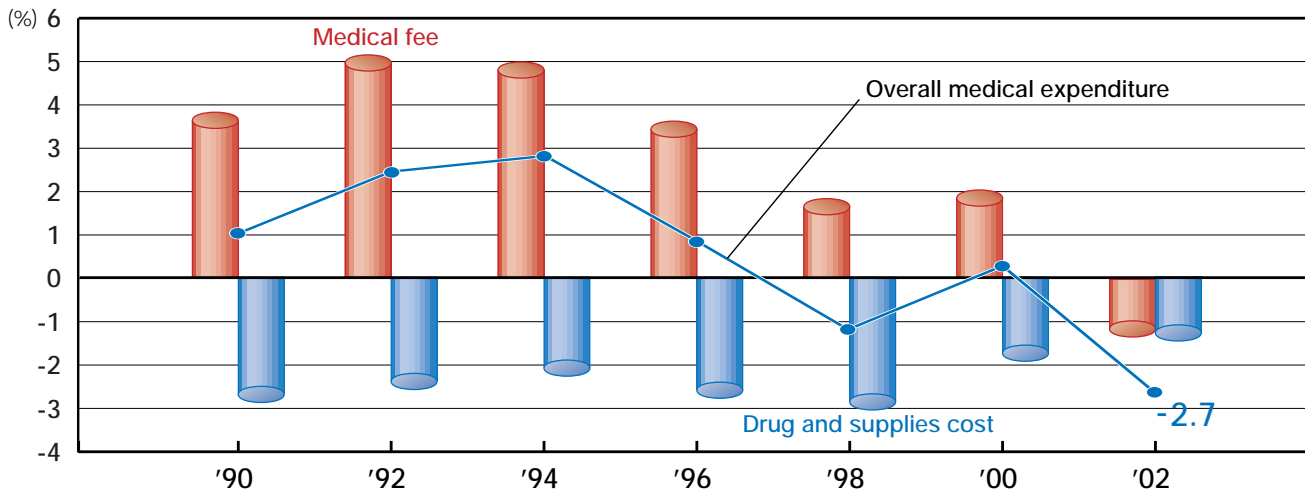
▶▶▶ Number of medical care facilities by type



Note: Hospitals are defined by the Medical Service Law as medical institutions equipped with hospitalization facilities including 20 or more beds, and clinics as those equipped with facilities including less than 19.

Source: Medical Institution Data, Ministry of Health, Labour and Welfare, November 1999.

▶▶▶ Change in the rate of Japan's medical service fee



Social trends for medical care

National medical expenditures currently exceed ¥30 trillion annually and rose almost 4% in the past year. This increase can be attributed to such factors as the expanding average life span caused largely by advances in medical technologies, the declining birthrate, the increasing elderly population and considerable changes in the proportions of diseases. To control soaring healthcare costs, the government is pushing measures such as reducing medical fees and separating dispensaries from medical practices.

The revised medical fees in fiscal 2002 reflect declining wages and prices. As a result, medical consultation and treatment fees were 1.3% lower than a year earlier, the first ever year-over-year decline. Furthermore, overall medical treatment fees including drug charges were down 2.7%, the largest drop in history.

Many social problems have arisen related to healthcare, including medical malpractice and accidents, lack of disclosure to patients, the revision of medical fees and the subsequent deteriorating management quality of hospitals and clinics. Consequently, the entire medical care field must change as a social system.

Future market trends in the medical care field

Though regulatory reform in medical care is being promoted in various areas, there is a need for a more stable medical system with strategies in the respective fields and market needs for medical care to control national medical expenditures.

In the hospital market, the provision of good quality medical care as well as upgrades and increased efficiency of medical care are sought, such as computerizing electronic medical charts and medical information to share among healthcare service providers and to prevent medical errors and mishaps, and installing medical equipment and highly functional treatment apparatus for emergency medical care.

On the other hand, the general clinic market must maintain smaller medical equipment and a 24-hour response system to address community-based healthcare needs.

The preventive medicine and health medicine markets are garnering increasing attention as countermeasures to diseases originating from lifestyles, and it is predicted that safe and easy-to-use in-home medical equipment and the provision of accurate information to patients among other services will be increasingly in demand.

Fukuda Denshi's Strengths and Business Domains

Building on our worldwide technological edge and network power established in the electrocardiograph field, we have endeavored to develop high-quality products including patient monitoring equipment, ultrasound diagnostic imaging equipment, multipurpose polygraphs, cardiac catheter test data processing systems, intravascular ultrasound diagnosis apparatuses, pacemakers, circulation assisting apparatuses, artificial respirators, respiratory function testing equipment, laboratory test apparatuses and funduscopy apparatuses.

In recent years, while trying to increase the market share of our in-home medical care equipment focusing on enriched oxygen supply, we have expanded the range of our business into such fields as emergency care related equipment, healthcare-related equipment as typified by the bicycle ergometer, and air sterilization and deodorization apparatuses.

Research and development

We developed the first Japanese-manufactured electrocardiograph and, as a pioneer, we adopted the slogan of "Fukuda, when it comes to technology" at our establishment.

To develop the latest modern medical electronic equipment, we must maintain a highly developed technological edge in medicine, electronic engineering, mechanical engineering and human engineering, as well as in such state-of-the-art technologies as sensors, circuit design and software.

At Fukuda Denshi, our basic policy is to provide self-developed world-class products, and our development concept is to provide user-oriented equipment. We are making every effort to offer products both in-house and imported that meet user needs.

Manufacturing

Large item small-scale production rather than complete automation is common in the electronic medical equipment industry. We have introduced state-of-the-art manufacturing technology that can quickly provide high-quality products that are globally competitive.

Seventy percent of in-house products are produced by our latest equipment and facility, where we are actively promoting "ZD initiatives" in quality control, meaning "zero defects" and "zero product returns."

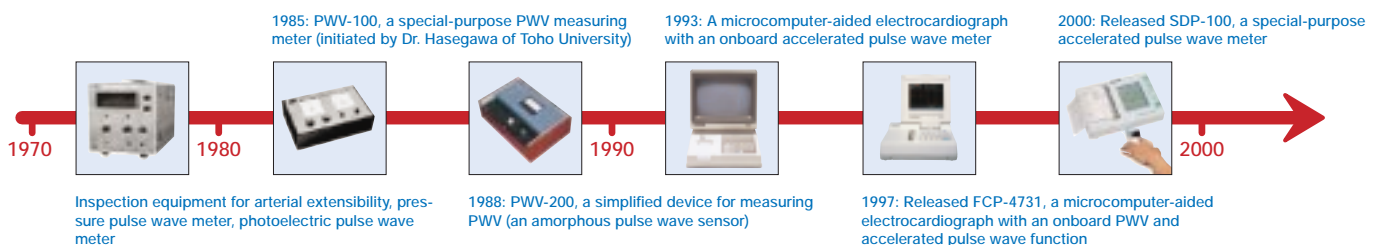
Moreover, we have established production bases in the United States (Seattle) and China (Beijing) that offer products with the same quality as those manufactured at home.

Sales

In Japan, all of our products are supplied through the sales subsidiaries that make up the dual sales system covering the entire country. Fukuda Denshi Sales (21 companies nationwide) carries a complete range of electronic medical equipment, whereas Fukuda Lifetech (17 companies nationwide) specializes in in-home healthcare-related products. Altogether, our products are supplied through 128 sales offices across the country.

Safety and reliability are especially valued in electronic medical equipment, and in marketing our products we provide consultation, demonstrations and after-sales service. We also make full use of IT technology, such as setting up medical equipment check record management systems in our sales subsidiaries nationwide to ensure users' safety and reassurance.

▶▶▶ Fukuda Denshi's history of developments in detecting arteriosclerosis



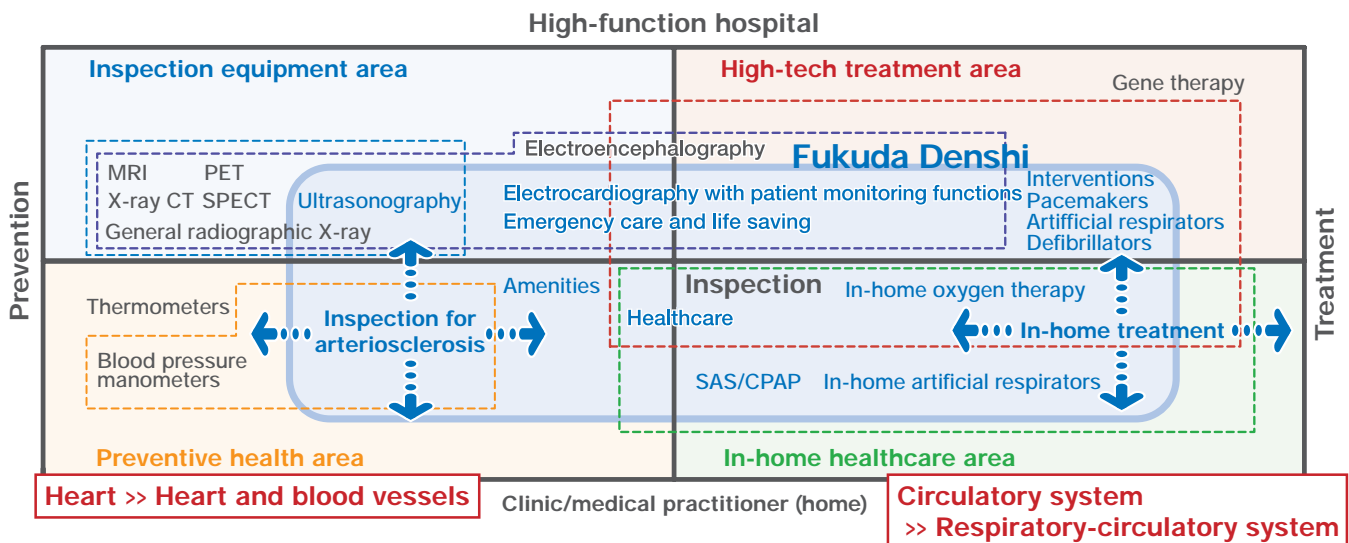
Fukuda Denshi's Business Domain

The following charts show Fukuda Denshi's business domains and its main products.

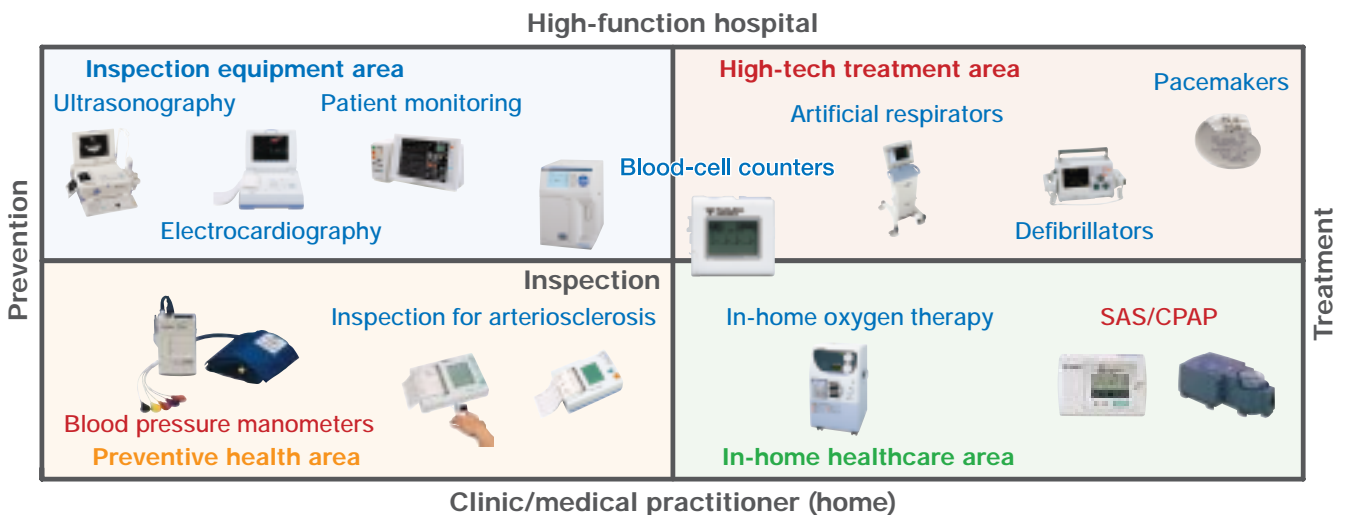
The vertical axis indicates service levels provided by medical institutions such as hospitals. The higher the vertical axis, the more advanced the facilities and medical equipment, and the higher the level of qualitative treatment and diagnosis that can be provided. The horizontal axis is classified in three categories: prevention, inspection (center) and treatment.

Fukuda Denshi manufactures and sells various products in four areas (divided by the vertical and horizontal axes): high-tech treatment, inspection equipment, in-home healthcare and preventive healthcare. These easy-to-handle and user-friendly products are offered to healthcare professionals as well as individuals. Fukuda Denshi will continue to make the most of its expertise in these areas to produce superior products that accommodate changing needs in the medical and healthcare industries.

▶▶▶ Fukuda Denshi's business domain



▶▶▶ Fukuda Denshi's main products



New Products

Diagnostic equipment for measuring blood pressure and pulse waves: VaSera VS-1000

For evaluating arterial stricture and obstruction and screening for arteriosclerosis



Medical device approval number: 21400BZZ00132000

Dimensions: 34.6 (W) × 24.0 (D) × 15.4 (H) cm Weight: About 7.2 kg

Arteriosclerosis is an increasingly serious problem among the Japanese as gastronomic tastes have become Westernized, resulting in increased fat consumption. Arteriosclerosis, as it progresses, can develop into more critical diseases, such as ischemic heart diseases (angina pectoris and cardiac infarction), brain infarction and arteriosclerosis obliterans (ASO).

Fukuda Denshi recognized the arteriosclerosis problem early, and in the 1980s it produced arterial pulse wave velocity measuring instruments, which measure PWV, etc. These were followed by electrocardiographs with analytical functions equipped with onboard acceleratory pulse wave functions in 1993, special-purpose machines in 1994, microcomputer electrocardiographs with onboard PWV and acceleratory pulse wave functions in 1997 and special-purpose machines to automatically calculate the estimated age of blood vessels in a mere 30 seconds in 2000.

As a manufacturer providing a broad range of screening and inspecting equipment for arteriosclerosis, we have built on our experience and R&D to develop VaSera VS-1000, which is a type of blood pressure pulse wave measuring equipment. This equipment, which has established a new standard for detecting arteriosclerosis, was introduced in April 2002.

The VaSera VS-1000 was developed with an emphasis on the diagnosis of arteriosclerosis. The easy-to-use product has a small, lightweight design and is suitable for desktop use. It can be used to measure the blood pressure of extremities, the ABI (ankle brachial index) and the PWV (pulse wave velocity) quickly and easily, without causing patients any pain. Three inspection modes are available: medical examination, basic and precision. The product also generates excellent color reports, which greatly assist physicians in communicating with patients.

We set our sales goal in 2002 at 1,500 units worth around ¥3 billion.

Monitoring equipment for electrocardiogram and heartbeat: Cardio-Mobi EV-100

Micro, mobile electrocardiograph

The Cardio-Mobi EV-100 can alleviate anxiety for possible attacks or recurrences and ease health management in various living situations for patients with heart infarction, angina pectoris, coronary artery bypass grafting (CABG) and implanted cardiac pacemakers.

The EV-100 is a mobile electrocardiograph that can memorize a two-minute electrocardiogram 120 times in a micro body of 45 g (including batteries). The recording time can be configured in three ways: 30 seconds, one minute and two minutes. A newly developed press-type electrode is stored in the main body, enabling measurement anywhere. Furthermore, by connecting to the transmission unit with a built-in PHS card, the EV-100 can link to a data center provided by a medical data company and forward batch data to doctors for quick medical advice.

In 2002, we aim to sell 500 units worth ¥120 million.

Monitoring system for nightlong polysomnogram: Somno-Star-System

Nightlong polysomnography

The Somno-Star- system is designed for sleep apnea syndrome (SAS), a new business area of Fukuda Denshi. Although little is known about SAS in Japan, the potential number of patients is estimated to be two million.

The Somno-Star- system accepts a two-bed system that can inspect two patients simultaneously. It also enhances the recognition of alpha rhythm from brain waves and automatically assesses sleep states with a high degree of accuracy. Moreover, because the system is designed for use with a personal computer, we have adopted database software that runs on the Microsoft Windows® platform, which enables the easy management of information.

Windows is a trademark or registered trademark of Microsoft Corporation.

▶▶▶ Cardio-Mobi EV-100



Medical device approval number: 21400BZZ00101000
Dimensions: 5.1 (W) × 1.6 (D) × 4.9 (H) cm
Weight: About 45 g (batteries included)

▶▶▶ Somno-Star- System



Medical device approval number: 21000BZY00725000
Dimensions: 90 (W) × 70 (D) × 177 (H) cm
Weight: About 135 kg

Review of Operations

Results of operations

During fiscal 2002, ended March 31, 2002, Fukuda Denshi's consolidated net sales increased ¥4,264 million to ¥71.0 billion, up 6.4% from the previous year mainly due to favorable domestic sales via a strong sales system. Operating income fell 23.1% to ¥7,751 million. This was mainly due to intensified price competition, a change in product mix and a ¥1,703 million, or 7.5%, rise in SG&A expenses resulting from increased R&D costs. Net income declined 41.6% to ¥3,053 million, due partly to the valuation losses resulting from impairment accounting for investments in securities.

In the physical examination equipment division, export sales of electrocardiograph and domestic sales of the diagnostic ultrasound imaging equipment were robust, with divisional sales rising 12.2% to ¥23.5 billion.

The patient monitoring equipment division saw a favorable increase in sales of in-house developed monitors, mainly system monitors, whereas domestic sales of imported goods decreased, bringing total divisional sales to ¥4,858 million, down 1.6% over the previous year.

In the medical treatment equipment division, respirator sales decreased due to a delay in releasing a new product. However, sales of in-home oxygen enrichers and equipment related to sleep apnea syndrome were healthy. Thus, divisional sales rose 5.7% to ¥26.0 billion.

The other products and accessories division deals mainly with accessories and consumables used for the equipment handled by the aforementioned divisions. Owing to an increase in sales of consumables intended for sleep apnea syndrome, divisional sales rose 2.4% to ¥16.7 billion.

▶▶▶ Physical examination equipment



ECG with ultrasound imaging function (FCU-2000)



Blood-cell counter

▶▶▶ Patient monitoring equipment



Bedside monitor (DS-5400)



Wireless central monitor (DS-4600)

▶▶▶ Medical treatment equipment



Pacemaker (Microny 2525T)



Enriched oxygen supply system

▶▶▶ Other products and accessories



Recording paper



Disposable electrode

Financial position

Consolidated total assets at March 31, 2002, stood at ¥94.9 billion. Total current assets, accounting for 66.5% of total assets, were ¥63.2 billion, up 4.8% from a year earlier. Prompting this rise was 8.2% growth in cash on hand and in the bank. Property, plant and equipment rose 11.4% to ¥16.6 billion, chiefly because of the purchase of land and construction in process accounts. Total investments and other assets increased 13.1%, as the result of an 8.8% rise in investment securities and a 27.2% jump in deferred tax assets. This brought total fixed assets, comprising property, plant and equipment and investments and other assets, to ¥31.8 billion, up 12.2%.

Total current liabilities stood at ¥29.5 billion at the end of this fiscal term, up 13.8% from a year earlier. Trade payables were up 12.3%, and short-term bank loans were up 23.4%. Long-term debt totaled ¥780 million, down 0.8%. Employees' severance and retirement benefits were ¥2,979 million.

Shareholders' equity rose 4.9% to ¥60.4 billion, reflecting a ¥2,322 million increase in consolidated retained earnings. At year-end, the equity ratio was 63.6%, down slightly from the 65.0% posted at the end of the preceding term.

Cash flows

In consolidated cash and cash equivalents for this term, income from sales activities was ¥8,355 million. Offsetting that against the acquisition of tangible fixed assets and investment securities, capital increased ¥2,160 million from the previous term to ¥25.6 billion.

Cash flow from operating activities totaled ¥8,355 million, including ¥6,030 million posted in income

before income taxes for the current year. Cash flow from investment activities was ¥6,506 million, which was used to purchase rental properties and acquire stock in financial institutions. Cash flow from financing activities totaled ¥288 million because of an increase in short-term loans, despite a long-term loan repayment and the payment of dividends.

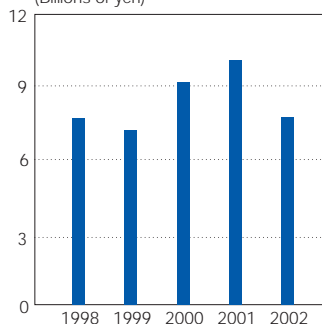
Prospects for the next term

The outlook for the Japanese economy remains unclear, particularly because of weak corporate profits due to prolonged deflation and the IT recession, and the depression of personal consumption because of job insecurity. The prospects also look uncertain for the world economy given the sluggish U.S. economy.

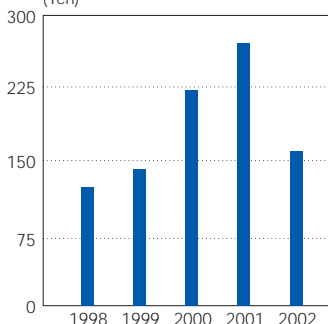
In the healthcare (or medical) equipment industry, a rugged market environment will likely continue, including the further intensification of price competition, the reform of medical administration to control healthcare costs by lowering medical fees and the correction of price differences between foreign and Japanese products for specific medical materials.

In such a difficult environment, our group will bring to market products with excellent performance and cost competitiveness and, in addition, aim to enlarge the hospital market and the in-home care market as well as expand exports, with the goals of improving our corporate performance and becoming an "enterprise trusted by society" as a medical equipment maker. We project consolidated fiscal 2003 sales of ¥73.5 billion, up 3.5% over the previous term; operating income of ¥9,000 million, up 16.1%; and net income of ¥4,750 million, up 55.6%.

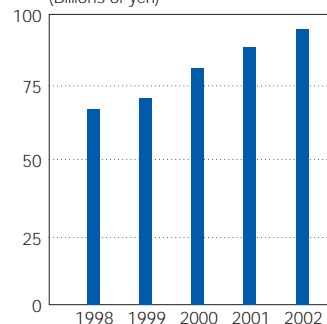
Operating Income
(Billions of yen)



Net Income per Share of Common Stock
(Yen)



Total Assets
(Billions of yen)



Consolidated Balance Sheets

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 bank (Note 3)	¥ 24,035	¥ 25,995	\$ 195,451
Marketable securities (Note 5)	246	100	752
Trade receivables:			
Accounts and notes (Note 16)	19,013	20,340	152,932
Allowance for doubtful accounts	(193)	(224)	(1,684)
Inventories (Note 4)	14,082	13,482	101,368
Deferred tax assets (Note 8)	1,591	2,113	15,887
Other current assets	1,506	1,349	10,143
Total current assets	60,280	63,155	474,849
Property, plant and equipment:			
Land	3,652	5,071	38,128
Buildings and structures	6,230	6,347	47,722
Machinery and equipment	17,647	18,814	141,458
Construction in progress	6	44	331
	27,535	30,276	227,639
Accumulated depreciation	(12,615)	(13,651)	(102,639)
	14,920	16,625	125,000
Investments and other assets:			
Investment securities (Note 5)	3,830	4,167	31,331
Investments in unconsolidated subsidiaries and an affiliated company	47	47	353
Deferred tax assets (Note 8)	5,439	6,921	52,038
Other	4,083	4,015	30,188
	13,399	15,150	113,910
	¥ 88,599	¥ 94,930	\$ 713,759

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Current liabilities:			
Short-term bank loans (Note 7)	¥ 6,931	¥ 8,555	\$ 64,323
Long-term debt due within one year (Note 7)	706	6	45
Trade payables—accounts and notes (Note 16)	12,368	13,884	104,391
Income taxes payable (Note 8)	2,093	3,394	25,519
Accrued expenses and other current liabilities	3,809	3,651	27,451
Total current liabilities	25,907	29,490	221,729
Long-term debt (Note 7)	786	780	5,865
Employees' severance and retirement benefits (Note 10)	3,090	2,979	22,398
Retirement benefits for directors and corporate auditors	1,212	1,254	9,429
Other long-term liabilities	20	13	98
Minority interest in consolidated subsidiaries	9	12	90
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized ---- 30,000,000 shares			
Issued ---- 19,404,000 shares	4,387	4,387	32,985
Additional paid-in capital	8,684	8,684	65,293
Retained earnings	45,282	47,604	357,925
Net unrealized holding gains (losses) on securities	(369)	41	308
Foreign currency translation adjustments	33	124	932
	58,017	60,840	457,443
Less treasury stock at cost	(442)	(438)	(3,293)
	57,575	60,402	454,150
	¥ 88,599	¥ 94,930	\$ 713,759

Consolidated Statements of Income

Years ended March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Net sales (Note 12)	¥ 66,778	¥ 71,042	\$ 534,150
Costs and expenses:			
Cost of sales	33,922	38,811	291,812
Selling, general and administrative	22,777	24,480	184,060
	56,699	63,291	475,872
Operating income (Note 12)	10,079	7,751	58,278
Other income (expense):			
Interest and dividend income	120	50	376
Interest expense	(100)	(96)	(722)
Loss on devaluation of investment securities	(9)	(1,803)	(13,556)
Gain on sale of investment securities	543	—	—
Gain on life insurance surrender value	115	60	451
Amortization of entire net transition obligation (Note 2(g))	(2,195)	—	—
Other, net	(100)	68	511
	(1,626)	(1,721)	(12,940)
Income before income taxes	8,453	6,030	45,338
Income taxes (Note 8):			
Current	4,263	5,270	39,624
Deferred	(1,049)	(2,295)	(17,256)
	5,239	3,055	22,970
Minority interest in net income of consolidated subsidiaries	(7)	(2)	(15)
Net income	¥ 5,232	¥ 3,053	\$ 22,955

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 271.32	¥ 159.06	\$ 1.20
Cash dividends applicable to the year	30.00	30.00	0.23

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2001 and 2002

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	Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	19,404	¥ 4,387	¥ 8,684	¥40,658	¥ —	¥ —	¥ (0)
Net income	—	—	—	5,232	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	33	—
Adopting of the new accounting standard for financial instruments	—	—	—	—	(369)	—	—
Treasury stock	—	—	—	—	—	—	(442)
Cash dividends paid (¥27.00 per share)	—	—	—	(522)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(85)	—	—	—
Employees' bonus and welfare fund	—	—	—	(1)	—	—	—
Balance at March 31, 2001	19,404	4,387	8,684	45,282	(369)	33	(442)
Net income	—	—	—	3,053	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	91	—
Net unrealized holding gains on securities	—	—	—	—	410	—	—
Treasury stock	—	—	—	—	—	—	4
Cash dividends paid (¥33.00 per share)	—	—	—	(633)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(96)	—	—	—
Employees' bonus and welfare fund	—	—	—	(2)	—	—	—
Balance at March 31, 2002	19,404	¥ 4,387	¥ 8,684	¥47,604	¥ 41	¥ 124	¥ (438)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	\$32,985	\$65,293	\$340,466	\$(2,775)	\$ 248	\$(3,323)
Net income	—	—	22,955	—	—	—
Translation of foreign currency financial statements	—	—	—	—	684	—
Net unrealized holding gains on securities	—	—	—	3,083	—	—
Treasury stock	—	—	—	—	—	30
Cash dividends paid (\$0.25 per share)	—	—	(4,759)	—	—	—
Bonuses to directors and statutory auditors	—	—	(722)	—	—	—
Employees' bonus and welfare fund	—	—	(15)	—	—	—
Balance at March 31, 2002	\$32,985	\$65,293	\$357,925	\$ 308	\$ 932	\$(3,293)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2001 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2002	2002
Cash flow from operating activities:			
Income before income taxes	¥ 8,453	¥ 6,030	\$ 45,338
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	2,893	3,972	29,865
Increase (Decrease) in employees' severance and retirement benefits	2,145	(111)	(834)
Increase in retirement benefits for directors and corporate auditors	59	43	323
Interest expenses	100	96	722
Loss on devaluation of investment securities	9	1,803	13,556
Gain on sale of investment securities	(543)	—	—
Gain on life insurance surrender value	(115)	(60)	(451)
Increase in trade receivables—accounts and notes	(844)	(1,307)	(9,827)
Decrease (Increase) in inventories	(1,590)	25	188
Increase in trade payables—accounts and notes	1,502	1,494	11,233
Other	296	385	2,895
Subtotal	12,365	12,370	93,008
Interest and dividends received	120	50	376
Interest paid	(100)	(96)	(722)
Income taxes paid	(5,384)	(3,969)	(29,842)
Net cash provided by operating activities	7,001	8,355	62,820
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(5,108)	(5,312)	(39,940)
Payment for purchase of marketable securities and investment securities	(1,456)	(1,831)	(13,767)
Proceeds from sale of marketable securities and investment securities	1,648	501	3,767
Payment to life insurance fund for directors	(364)	(103)	(774)
Proceeds from life insurance fund for directors	210	118	887
Other	485	121	910
Net cash used in investing activities	(4,585)	(6,506)	(48,917)
Cash flow from financing activities:			
Net increase (decrease) in short-term bank loans	(54)	1,624	12,210
Proceeds from long-term debt	841	—	—
Repayment of long-term debt	(3)	(706)	(5,308)
Dividend paid to shareholders	(523)	(633)	(4,759)
Decrease (Increase) in treasury stock	(442)	4	30
Other	(2)	(1)	(8)
Net cash provided by (used in) financing activities	(183)	288	2,165
Effect of exchange rate change on cash and cash equivalents	(15)	23	173
Net increase in cash and cash equivalents during year	2,218	2,160	16,241
Cash and cash equivalents at beginning of year	21,262	23,480	176,541
Cash and cash equivalents at end of year (Note 3)	¥ 23,480	¥ 25,640	\$ 192,782

See accompanying notes.

1. Basis of presenting consolidated financial statements

FUKUDA DENSHI CO., LTD. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some

expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The translation of yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing approximate exchange rate at March 31, 2002, which was ¥133 to US\$1.00. The convenience translations should not be construed as representations that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The Company had 55 and 54 subsidiaries as of March 31, 2001 and 2002, respectively. The consolidated financial statements include the accounts of the Company and 51 of such subsidiaries in the year ended March 31, 2001 and 50 of such subsidiaries in the year ended March 31, 2002. The consolidated subsidiaries are mainly sales agents of the Company.

The Company and its consolidated subsidiaries are together referred to as the "Group." For the purpose of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits and losses within the Group have been eliminated, and the effect of eliminating such unrealized profits and losses has been entirely charged to consolidated net income of the Group without regard to a portion attributable to minority interests.

All consolidated subsidiaries have the same balance sheet date, March 31, with that of the Company, except for BEIJING FUKUDA DENSHI MEDICAL INSTRUMENTS CO., LTD., and FUKUDA DENSHI USA, INC., whose fiscal year ends December 31. Significant transactions, if any, in the three months ended March 31, 2002 are adjusted in the respective consolidated financial statements.

Upon consolidating subsidiaries, the assets and liabilities of the subsidiaries, including the portion

attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is amortized over a period of 5 years on a straight-line basis.

(b) Investments in unconsolidated subsidiaries and an affiliated company

The Company had 4 unconsolidated subsidiaries and an affiliated company as of March 31, 2001 and 2002.

Investments in the unconsolidated subsidiaries and the affiliated company are stated at the moving-average cost since their net income and retained earnings would have had no material effect on the consolidated financial statements even if the Company had accounted for them using the equity method.

(c) Cash and cash equivalents and cash flow statements

For the purpose of the consolidated statements of cash flows, the Group classifies cash on hand, readily available bank deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase as cash and cash equivalents.

(d) Securities

Prior to April 1, 2000, listed securities of the Group were stated at the lower of cost or market, cost being determined by the moving-average method. Other securities were stated at cost, as determined by the moving-average method.

Effective April 1, 2000, the Group adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Under the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (1) securities held for trading purposes (hereafter, "trading securities"), (2) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies, and (4) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group had no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on the sale of such securities are computed using moving-average cost.

Debt securities with no available fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at the moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies which are stated at cost and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as a loss in the period of the decline. If their fair market values are not readily available, they should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will

be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new accounting standard for financial instruments, in the year ended March 31, 2001, income before income taxes increased by ¥824 million compared with what would have been reported under the previous accounting policies.

(e) Inventories

Inventories are stated at cost, cost being determined by the first-in, first-out method for merchandise and products; by the average method for raw materials; by the specific identified cost method for work-in-process; and by the last purchase price cost method for supplies.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method using standard useful lives prescribed by the Japanese tax regulations. Buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method. Depreciation of rental equipment (the home-use enriched oxygen supply system), however, is computed by the straight-line method over the estimated rental terms (3 years). Depreciation of assets whose acquisition costs are between ¥100 thousand and ¥200 thousand is provided by the straight-line method over 3 years.

(g) Employees' severance and retirement benefits

The Group provides two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The pension plans cover 100% of total severance and retirement benefits.

Prior to April 1, 2000, the Group recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Group adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998.

Under the new accounting standard, the liabilities and expenses for employees' severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Group provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥2,195 million. The entire net transition obligation was recognized in expenses in the year ended March 31, 2001. Prior service costs and actuarial gains and losses are recognized in expenses using the declining-balance method over 10 years, which is not longer than the estimated average remaining service lives, commencing with the following period.

(h) Retirement benefits for directors and corporate auditors

An allowance for accrued severance indemnities to directors and corporate auditors of the Company has been set up in accordance with the Company's regulations.

(i) Income taxes

The Company recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(j) Research and development costs

Research and development costs are charged to income as incurred.

(k) Foreign currency translations

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999. Under the revised accounting

standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

There were no effects on the consolidated income statement from adopting the revised accounting standard.

Due to the adoption of the revised accounting standard, the Company reports foreign currency translation adjustments in shareholders' equity.

(l) Amounts per share of common stock

Net income per share is computed based on the average number of common stock outstanding during each period, exclusive of treasury stock. Diluted net income per share is not presented, since the Company had no securities with dilutive effect such as bonds with warrants and convertible bonds which were exercisable or convertible in 2001 or 2002.

Cash dividends per share represent the actual amount declared as applicable to the respective year.

(m) Accounting for certain lease transactions

Finance leases which do not transfer ownership of the leased assets to the lessee are accounted for in the same manner as operating leases.

(n) Reclassifications

Certain reclassifications have been made in the 2001 financial statements to conform to the presentation for 2002.

3. Cash and cash equivalents

The relation between cash and cash equivalents and consolidated balance sheet items at March 31, 2001 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash on hand and in bank	¥ 24,035	¥ 25,995	\$ 195,451
Less: Deposit with maturity exceeding 3 months at the time of purchase	555	355	2,669
Cash and cash equivalents	¥ 23,480	¥ 25,640	\$ 192,782

4. Inventories

Inventories at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Merchandise and products	¥ 11,639	¥ 11,239	\$ 84,503
Work-in-process	1,009	655	4,925
Materials and supplies	1,434	1,588	11,940
	¥ 14,082	¥ 13,482	\$ 101,368

5. Securities

(a) The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2001 and 2002:

Available-for-sale securities:

Type	Millions of yen					
	2001			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 317	¥ 345	¥ 28	¥ 79	¥ 99	¥ 20
Other securities:						
Equity securities	¥ 1,890	¥ 1,175	¥ (715)	¥ 1,695	¥ 1,648	¥ (47)
Others	202	157	(45)	133	133	—
Total	¥ 2,092	¥ 1,332	¥ (760)	¥ 1,828	¥ 1,781	¥ (47)

Type	Thousands of U.S. dollars		
	2002		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 594	\$ 744	\$ 150
Other securities:			
Equity securities	\$ 12,744	\$ 12,391	\$ (353)
Others	1,000	1,000	—
Total	\$ 13,744	\$ 13,391	\$ (353)

(b) The following tables summarize the book values of securities with no available fair values as of March 31, 2001 and 2002:

(1) Held-to-maturity debt securities

Type	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Discounted bonds	¥ 200	¥ 500	\$ 3,759

(2) Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Non-listed equity securities	¥ 1,956	¥ 1,886	\$ 14,180
Medium-term government securities funds	201	—	—
Total	¥ 2,157	¥ 1,886	\$ 14,180

(c) Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
2001:					
Discounted bonds	¥ 200	—	—	—	¥ 200

Type	Millions of yen				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
2002:					
Discounted bonds	¥ 100	¥ 400	—	—	¥ 500

Type	Thousands of U.S. dollars				Total
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	
2002:					
Discounted bonds	\$ 752	\$ 3,007	—	—	\$ 3,759

(d) Total sales of available-for-sale securities sold in the years ended March 31, 2001 and 2002 amounted to ¥1,243 million and ¥301 million (\$2,263 thousand) and the related net gains amounted to ¥543 million in the year ended March 31, 2001. The related net losses recorded by the Group in the year ended March 31, 2002 were immaterial.

6. Derivative transactions

The Group did not utilize any derivative transactions for the years ended March 31, 2001 and 2002.

7. Bank loans and long-term debt

Bank loans at March 31, 2001 and 2002 were unsecured and bore interest ranging from 0.7% to 2.6% per annum and 0.5% to 2.6% per annum, respectively.

Long-term debt at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Unsecured loans from banks, with interest rates at 1.79% per annum	¥ 727	¥ 21	\$ 158
1.35% domestic unsecured bonds with warrants due in 2005	765	765	5,752
	1,492	786	5,910
Less: Portion due within one year	706	6	45
	¥ 786	¥ 780	\$ 5,865

The annual maturities of long-term debt outstanding at March 31, 2002 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
	2003	¥ 6
2004	6	45
2005	771	5,797
2006	3	23
	¥ 786	\$ 5,910

8. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42.1% for the years ended March 31, 2001 and 2002, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2001 and 2002:

	2001	2002
Statutory tax rate	42.1%	42.1%
Net operating loss carryforwards of subsidiaries	(4.8)	7.3
Non-deductible expenses	1.9	2.7
Special deduction for research and development costs	(1.0)	—
Other	(0.2)	(2.8)
Effective tax rate	38.0%	49.3%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Fixed assets	¥ 2,998	¥ 3,639	\$ 27,361
Inventories	1,082	1,390	10,451
Net operating loss carryforwards of subsidiaries	726	798	6,000
Employees' severance and retirement benefits	1,299	1,310	9,850
Other	2,660	3,106	23,353
Total deferred tax assets	8,765	10,243	77,015
Less: Valuation allowance	(938)	(1,074)	(8,075)
Net deferred tax assets	7,827	9,169	68,940
Deferred tax liabilities:			
Deferred gains on real properties for tax purposes	(35)	(35)	(263)
Other	(762)	(100)	(752)
Total deferred tax liabilities	(797)	(135)	(1,015)
Deferred tax assets, net of deferred tax liabilities	¥ 7,030	¥ 9,034	\$ 67,925

9. Information for certain leases

Assumed data of the Group as to acquisition cost, accumulated depreciation and net book value of the leased assets under the finance leases which are accounted for in the same manner as operating leases at March 31, 2001 and 2002, inclusive of interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Machinery and equipment	¥ 304	¥ 340	\$ 2,556
Others	4	28	211
Accumulated depreciation	(176)	(254)	(1,910)
	¥ 132	¥ 114	\$ 857

Future lease payments at March 31, 2001 and 2002 of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Due within one year	¥ 54	¥ 48	\$ 361
Over one year	78	66	496
	¥ 132	¥ 114	\$ 857

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2001 and 2002 of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Lease expenses	¥ 74	¥ 64	\$ 481
Assumed depreciation	74	64	481

Assumed depreciation is computed by the straight-line method, using lease terms as estimated useful lives and assuming the estimated residual value to be zero.

10. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2001 and 2002 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Projected benefit obligation	¥ 6,620	¥ 7,241	\$ 54,444
Unrecognized prior service costs	(21)	(17)	(128)
Unrecognized actuarial differences	(230)	(755)	(5,677)
Less fair value of pension assets	(3,279)	(3,490)	(26,241)
Liability for severance and retirement benefits	¥ 3,090	¥ 2,979	\$ 22,398

Included in the consolidated statements of income for the years ended March 31, 2001 and 2002 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service costs—benefits earned during the year	¥ 478	¥ 492	\$ 3,699
Interest cost on projected benefit obligation	192	199	1,496
Expected return on plan assets	(65)	(66)	(496)
Amortization of prior service costs	—	4	30
Amortization of actuarial differences	—	48	361
Amortization of entire net transition obligation	2,195	—	—
Severance and retirement benefit expenses	¥ 2,800	¥ 677	\$ 5,090

The discount rate and the rate of expected return on plan assets used by the Company were 3.0% and 2.0%, 2.5% and 2.0%, as of March 31, 2001 and 2002, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Past service costs and actuarial gains/losses are recognized as an income/expense in equal amounts over 10 years commencing from the succeeding period.

11. Shareholders' equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issued price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issued price of the new shares as additional paid-in capital.

Under the Code, effective October 1, 2001, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of the legal reserve and additional paid-in capital remains equal to or exceeding 25% of common stock, it is available for distribution by the resolution of the shareholders' meeting. The legal reserve is included in the retained earnings.

The maximum amount that the Company could distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

12. Segment information

None of the information (1) by business segment, (2) by geographic area and (3) for overseas net sales is shown due to (1) net sales, operating income and identifiable assets of medical electronic equipment business being in excess of 90% of the consolidated amounts, (2) domestic net sales and identifiable assets being in excess of 90% of consolidated amounts and (3) net sales outside Japan being less than 10% of consolidated net sales, respectively.

13. Contingent liabilities

Contingent liabilities at March 31, 2002 were export bills of exchange discounted in the amount of ¥138 million (\$1,039 thousand).

14. Related party transactions

The Group purchases recording papers used in medical equipment and accounting slips used in its offices from Atomic Sangyo Co., Ltd. ("Atomic"), and also pays the rent of offices and warehouses to Atomic. More than 50% of Atomic is owned by a director of the Company and his close relatives.

During the years ended March 31, 2001 and 2002, the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Purchase of recording papers	¥ 1,462	¥ 1,363	\$ 10,248
Purchase of accounting slips	53	21	158
Payment of rent	35	45	338

Dues to Atomic as of March 31, 2001 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Trade payables—accounts and notes	¥ 346	¥ 340	\$ 2,556
Other current liabilities	1	1	8
Other non-current assets	11	11	83

15. Subsequent event

At the June 27, 2002 annual general meeting, the Company's shareholders approved the appropriations of retained earnings at March 31, 2002 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥15.00 (\$0.11) per share	¥ 288	\$ 2,165
Bonuses to directors and corporate auditors	16	120

At the same meeting, the Company's shareholders also approved (i) the termination of the treasury stock purchase program introduced at the June 29, 1998 annual general meeting, and (ii) purchases of treasury stock up to 2,000,000 shares at the aggregate purchase cost of not more than ¥6,000 million (\$45,113 thousand) in the period from the closing of the annual general meeting on June 27, 2002 to the closing of the next annual general meeting of the shareholders.

16. Effect of bank holiday on March 31, 2001 and 2002

As financial institutions in Japan were closed on March 31, 2001 and 2002, amounts that would normally be settled on March 31, 2001 and 2002 were collected or paid on the following business day, April 2, 2001 and April 1, 2002, respectively. The effects of the settlements on April 2 or April 1 instead of March 31 included the following:

		Millions of yen		Thousands of U.S. dollars
		2001	2002	2002
Notes receivable—trade:	Increased by approximately	¥ 369	¥ 301	\$ 2,263
Notes payable—trade:	Increased by approximately	12	54	406

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of
FUKUDA DENSHI CO., LTD.

We have audited the accompanying consolidated balance sheets of FUKUDA DENSHI CO., LTD. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards 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 FUKUDA DENSHI CO., LTD. and 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 generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Notes 2 (d), 2 (g) and 2 (k), the Company adopted new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation in the year ended March 31, 2001.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 27, 2002

1939 Takashi Fukuda founded Fukuda Medical Electronics Co., Ltd.

First ECGs in Japan



1948 Production of electrocardiographs (ECGs) resumed following World War II

1962 Initiation of sales through sales companies established throughout Japan

1969 Company name officially changed to Fukuda Denshi Co., Ltd.; official names of sales companies also changed



The RS-102T, a fully transistorized hot-pen direct-recording ECG, went on sale in 1968.

Headquarters relocated to 39-4, Hongo 3-chome, Bunkyo-ku, Tokyo

1973 Shiroi Factory established in Chiba Prefecture

1974 Hongo Office established; R&D and manufacturing divisions transferred to this office

1981 Expansion of Shiroi Factory completed; manufacturing division transferred to this facility

1982 Fukuda Denshi registered as an over-the-counter stock with the Japan Securities Dealers Association

1983 Second-stage expansion of Shiroi Factory completed; procurement division transferred to this facility

Fukuda Denshi America Corporation established in Seattle, Washington, as a wholly owned subsidiary

1987 Maintenance service division established as independent company, Fukuda Denshi Technical Services Co., Ltd.



In 1979, Fukuda Denshi began sales of the FCP-30, Japan's first ECG with an onboard computer for automated analysis.

1988 Fukuda Denshi Chubu Tokki Co., Ltd., established to expand sales of products unrelated to the cardiovascular system

1992 Fukuda Vital Tech Co., Ltd., established to perform procurement for Fukuda Denshi

1993 Fukuda Intervention Systems Co., Ltd., established to perform procurement for Fukuda Denshi

1994 Beijing Fukuda Denshi Medical Instruments Co., Ltd., established as joint venture focusing primarily on the manufacture and sale of medical electronic equipment in China

Fukuda Life Tech Minami Tohoku Co., Ltd., and Fukuda Life Tech Hiroshima Co., Ltd., established to specialize in enriched-oxygen supply systems, with the aim of expanding Fukuda Denshi's presence in the in-home medical systems market

Companies specializing in the sale of enriched-oxygen supply systems established throughout Japan

1995 Fukuda Denshi awarded ISO 9001 international quality assurance certification by Japanese quality assurance association

1996 Fukuda Denshi USA, Inc., established in Seattle, Washington, as a wholly owned subsidiary

Internal Company division established to carry out R&D and manufacturing of ultrasound diagnostic equipment

1997 OEM agreement signed with Datascope Corp. for patient information monitors

2000 OEM and sales agreements signed with Hitachi Medical Corp. for digital ultrasound diagnostic imaging equipment

2001 Medical Data Co., Ltd., established jointly with Kyocera Communication Systems Co., Ltd., begins storage and delivery of healthcare data

Corporate Data

Fukuda Denshi Co., Ltd. as of March 31, 2002

Established July 6, 1948 (under the name of Fukuda Denki Seisakujo)

Capital ¥4,387,000,000

Number of Employees Consolidated: 2,351
Nonconsolidated: 518

Board of Directors
(As of June 27, 2002)

President	Kotaro Fukuda
Managing Directors	Takashi Takahashi Teruo Haraguchi
Directors	Ryoichi Ohomote Isamu Suzuki Susumu Segawa Masayuki Iwamoto Noboru Yamamoto Yoshiyuki Ariyoshi Osamu Shirakawa
Standing Corporate Auditor	Yoshimasa Ogawa
Corporate Auditors	Yoshinori Okamoto Tetsuya Tamura

Number of Shares Authorized: 30,000,000
Issued: 19,404,000

Transfer Agent and Registrar Sumitomo Trust & Banking Co., Ltd.
4-4, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8233, Japan

Independent Public Accountants Asahi & Co.

Major Shareholders

	Number of shares owned (thousands)	Percentage of total shares issued
Atomic Sangyo Co., Ltd.	2,438	12.57%
Tokyo Enterprise Co., Ltd.	1,447	7.46
Boston Safe Deposit BSDT Treaty Clients Omnibus	1,058	5.46
The Tokyo Tomin Bank, Ltd.	970	5.00
UFJ Bank Limited	969	5.00
The Bank of Tokyo-Mitsubishi, Ltd.	725	3.74
Japan Trustee Services Bank, Ltd.	683	3.52
Mizuho Bank, Ltd.	678	3.50
Nippon Life Insurance Company	672	3.47
The Chase Manhattan Bank, N.A. London	583	3.01

Fukuda Denshi Group

Hongo Office

35-8, Hongo 2-chome, Bunkyo-ku, Tokyo 113-8420, Japan
Phone: +81-3-3814-1211 Fax: +81-3-5684-1313

Shiroi Factory

305-1 Naka Shiroi-shi, Chiba 270-1495, Japan
Phone: +81-47-492-2011 Fax: +81-47-491-4411

Tagajo Laboratory

6-18, Sakae 2-chome, Tagajo-shi, Miyagi 985-0833, Japan
Phone: +81-22-367-0711 Fax: +81-22-367-0714

Other Domestic Facilities

38 sales subsidiaries
94 representative offices

Fukuda Denshi USA, Inc.

17725 NE 65th Street Bldg. C, Redmond, WA 98052, U.S.A.
Phone: +1-425-558-1661 Fax: +1-425-558-1662

Seattle Office

17725 NE 65th Street Bldg. C, Redmond, WA 98052, U.S.A.
Phone: +1-425-881-7737 Fax: +1-425-869-2018

UK Branch

13 Westminster Court, Hipley Street
Old Woking, Surrey GU22 9LG, U.K.
Phone: +44-1483-728-065 Fax: +44-1483-728-066

Beijing Fukuda Denshi Medical Instruments Co., Ltd.

No. 8 Hongda North Road
Beijing Economic-Technological Development Area
Beijing 100076, China
Phone: +86-10-6788-4155 Fax: +86-10-6788-1242

Business Associates

Japan

Sony Corp.
Horiba, Ltd.
Gunze Ltd.
TDK Corp.
Minolta Co., Ltd.
Fujitsu Ltd.

Germany

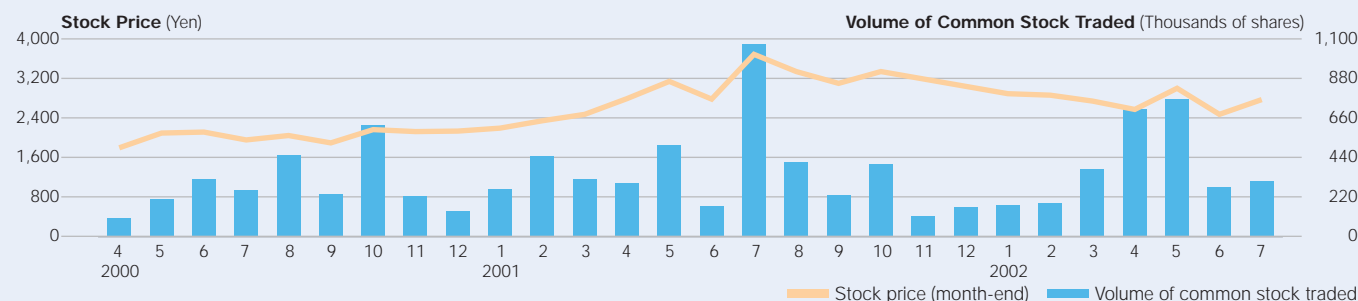
Siemens AG

Sweden

Siemens Elema AB

U.S.A.

St. Jude Medical, Inc.
Novamatrix Medical Systems, Inc.



Note: On August 1, 2001, the number of shares constituting a single trading unit for buying and selling Fukuda Denshi stock was reduced from 1,000 to 100.

Fukuda Denshi selected as a blue chip "J-Stock Index" company!

Fukuda Denshi Co., Ltd. is now one of the blue-chip "J-Stock Index" companies since it was selected as such on April 1, 2002 by the JASDAQ, the Japanese counterpart of the U.S. NASDAQ stock market. J-Stock Index companies, selected from among the JASDAQ-listed firms, must fulfill certain criteria including current aggregate market value and profit amount.

After this selection, our company's name and its daily stock price appearing in major Japanese newspapers such as *Nihon Keizai Shimbun*, *Yomiuri Shimbun* and *Asahi Shimbun* have been moved to the J-Stock section at the top of the over-the-counter stock price page. Formerly, they were listed in the electrical machinery manufacturers' section.

We appreciate our shareholders' continued support for Fukuda Denshi.

For more information and additional copies of this annual report, please contact:

Fukuda Denshi Co., Ltd., Accounting and Finance Department
39-4, Hongo 3-chome, Bunkyo-ku, Tokyo 113-8483, Japan Fax: +81-3-5684-1578



**FUKUDA
DENSHI**

Fukuda Denshi Co.,Ltd.

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