Annual Report 2003

For the year ended March 31, 2003

FUKUDA DENSHI

Profile

Fukuda Denshi Co., Ltd., heads a group of 50 subsidiaries and two affiliates. Harnessing the strengths of these companies, we manufacture, import, export and sell electronic medical equipment. We also distribute and provide services related to such equipment.

Given recent changes in social circumstances, evidenced by the rapidly aging society, the role of medical equipment has become increasingly important, not only in diagnosing and treating disease but also in maintaining health and improving the quality of life. In this context, medical equipment manufacturers are being asked to help enhance the efficiency of hospital operations while providing absolute safety.

To assure swift responses to changing healthcare needs, Fukuda Denshi is constantly refining its product strategies while emphasizing quality improvements and cost reductions. We are committed to actively fulfilling our mission as a medical equipment manufacturer that is trusted by society.

Contents

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.

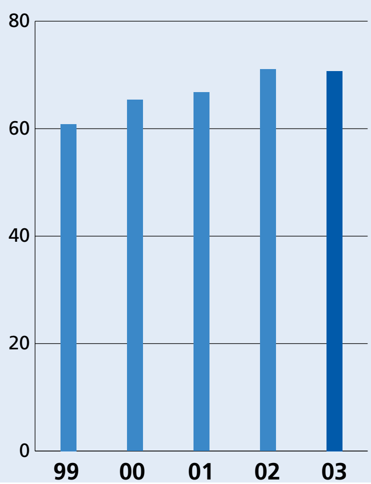
Consolidated Financial Highlights

Years ended March 31

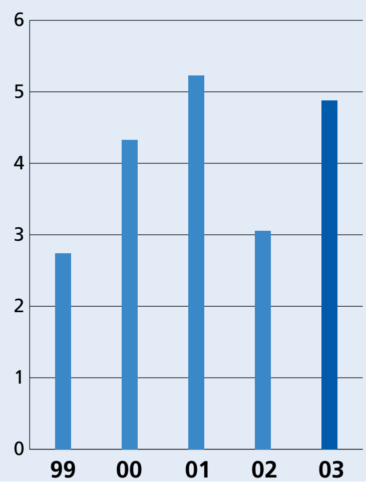
	Millions of yen					Thousands of U.S. dollars
	1999	2000	2001	2002	**2003**	**2003**
For the year:						
Net Sales	¥60,866	¥65,348	¥66,778	¥71,042	¥70,710	$589,253
Operating income	7,229	9,170	10,079	7,751	9,005	75,045
Net income	2,740	4,326	5,232	3,053	4,880	40,664
At year-end:						
Total assets	71,288	81,417	88,599	94,930	92,289	769,083
Shareholders' equity	44,840	53,729	57,575	60,402	62,994	524,951
Equity ratio (%)	62.9	65.4	65.0	63.6	68.26	
Free cash flow	—	3,133	2,416	1,849	832	6,929
	Yen					U.S. dollars
Per share of common stock:						
Net income	141.20	222.98	271.32	159.06	252.75	2.11
Shareholders' equity	2,311.01	2,768.98	2,999.97	3,146.99	3,406.34	28.39
Cash dividends	16.00	25.00	30.00	30.00	30.00	0.25
Dividend payout ratio (%)	13.5	17.6	18.0	32.4	21.5	
Return on equity (ROE) (%)	6.3	8.8	9.4	5.2	7.9	
Return on assets (ROA) (%)	4.0	5.7	6.1	3.3	5.2	
Interest coverage ratio (%)	—	67.4	70.1	87.2	48.3	

Note: U.S. dollar amounts are rough equivalents and are translated, for convenience only, at the rate of ¥120 to US$1.
Interest coverage ratio = net cash provided by operating activities / interest paid.

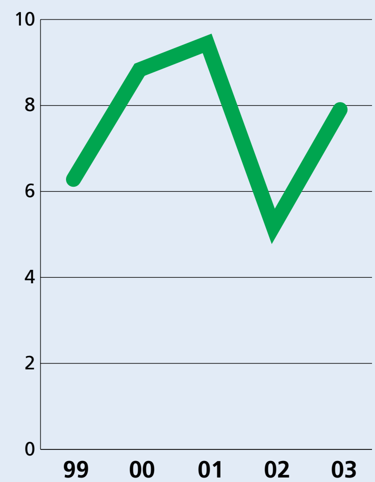
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



ROE
(%)



Message from the President

President and Representative Director
Kotaro Fukuda

Business Environment

Conditions surrounding the healthcare industry are changing dramatically. Factors include the rapidly aging society, economic recession, progress in medical technologies and shifting public perspectives. Seeking to address these changes, the Health, Welfare and Labor Ministry has undertaken an extensive reassessment of the nation's healthcare system, including payment for treatment and health insurance. As a result, in April 2003 the Ministry raised the share that people covered by the national social insurance scheme are required to pay for each hospital visit, from 20% to 30% of the total cost. The Ministry also decided to introduce a comprehensive healthcare system for the nation's advanced treatment hospitals. These measures are expected to lead to a decline in revenues of medical institutions, requiring swift actions to restore the soundness of hospital operations. The current fiscal year will see a trend among national universities to become independent and incorporated. In line with this trend, national university hospitals will face pressure to streamline and improve the efficiency of their operations. Under these circumstances, we expect hospitals to suppress purchases of medical equipment, preferring instead to lease or rent such equipment. This trend will also provide a boost to the equipment maintenance business.

A scheduled amendment to the Pharmaceutical Affairs Law in April 2005 will require that specified types of medical equipment—such as artificial respirators, defibrillators and patient monitoring equipment—are maintained on a regular basis. An equipment inspection system is also expected to be introduced at the same time, highlighting the need to develop IT-responsive equipment.

Performance

In fiscal 2003, ended March 31, 2003, the Fukuda Denshi Group significantly improved its earnings. Although consolidated net sales slipped 0.5% to ¥70,710 million, we achieved a solid gross profit figure thanks to the successful introduction of new products. We also reduced selling, general and administrative expenses. As a result, operating income grew 16.2% to ¥9,005 million, and net income jumped 59.8% to ¥4,880 million.

Medium and Long-Term Strategies

In April 2003, the Group embarked on a new three-year management plan. The plan covers six main strategies, which are outlined below.

1. Further raise customer satisfaction levels
   — *Pursue service-oriented businesses*
2. Refine product strategies
   — *Promote sales of low-cost and in-home artificial respirators*
3. Restructure Fukuda Denshi into a global corporate group
   — *Supply products, centering on electrocardiographs, to world markets (to facilitate proliferation of the Fukuda brand)*

4. Reinforce price-competitiveness
   — *Transform the Company into a more profit-oriented organization (by shortening product development times and lowering costs)*
5. Cultivate new businesses and enter new markets
   — *Respond to an increasing number of facilities with sleep apnea syndrome (SAS) monitoring systems*
   — *Expand sales of market-competitive oxygen enrichers*
   — *Promote business in arteriosclerosis diagnostic equipment*
6. Solidify corporate operating foundation
   — *Introduce performance-based employee remuneration system in fiscal 2004 (following the introduction of the executive officer system in fiscal 2003)*
   — *Establish performance targets and evaluation systems*

Issues to Address

In March 2003, the Health, Welfare and Labor Ministry announced its vision for the medical equipment industry, under which it challenged equipment manufacturers to provide "better, safer and more innovative products." In response, Fukuda Denshi will undertake the following initiatives.

1. Promote maintenance and management services
   — *Supply medical equipment maintenance and management services*
2. Keep abreast of IT-related innovations in medical equipment
   — *Provide "systems-based solutions" to enhance operating efficiency at medical institutions*
3. Actively target the home healthcare sector
   — *Promote the home oxygen therapy (HOT) and SAS monitoring businesses*
4. Develop health maintenance and preventative medicine businesses
   — *Provide products to prevent lifestyle-related diseases*
   — *Promote medical data management services*
5. Pursue strategic development of operations
   — *Use management resources (human, material and capital) more effectively through a "selection and concentration" strategy*

By implementing the above strategies swiftly and aggressively, we hope to foster improvements in medical standards for citizens by meeting people's growing demand for more advanced medical treatment. At the same time, we will build a system allowing flexible responses to globally intensifying competition and patients' growing demand for safety. In the process, we intend to further reinforce our business foundation and improve our financial results.

We look forward to your ongoing support and understanding as we tackle the challenges of the future.

July 27, 2003

Kotaro Fukuda

Kotaro Fukuda
President and Representative Director

Integrity:

The Fukuda Denshi Commitment

Throughout its history spanning more than half a century, Fukuda Denshi has adhered to an uncompromising corporate philosophy, which stresses "fulfilling our social mission by developing medical equipment that fosters progress in medicine." Guided by this philosophy, we have made and sold a comprehensive range of medical equipment, centering on electrocardiographs and other devices for cardiovascular and circulatory systems. In the process, we have greatly contributed to the health of many people. In addition, we have set up product-specific horizontally aligned project teams and worked in other ways to create an integrated production management system covering everything from initial development to after-sales services. Product quality receives top priority throughout all of the Company's operations. Reflecting this commitment, in 1994 we received ISO 9001 certification for our quality management systems from the British Standards Institute. In June 2003, we also earned ISO 14001 certification for our environmental management systems. These and other successes are products of the integrity that lies at the heart of Fukuda Denshi and is demonstrated in all of our business activities.

Products

Around 70% of medical equipment handled by the Company is manufactured at its own production facilities, which are equipped with state-of-the-art technologies. Overseas, we have set up manufacturing plants in the United States (Seattle) and China (Beijing), making high-quality products on a par with those made in Japan. Moreover, the quality of our products and the performance of our production operations have won strong acclaim internationally.

To develop the most innovative medical equipment, we must retain an advanced technological edge in various fields, such as medicine, electronic engineering, mechanical engineering and human engineering. We must also be able to gather information and demonstrate flexible responses to technical innovations in such areas as sensors, circuit design, software and information technology.

Fukuda Denshi developed the first Japanese-made electrocardiograph and has advocated technological excellence since its establishment. We have maintained a proactive stance toward research and development, making significant efforts and cost outlays to nurture our human resources. We have also formed business alliances with top overseas equipment manufacturers and worked relentlessly to expand our information network. In these ways, we have acquired a wealth of technological expertise that we continue to refine. Key to our success to date has been the sincerity we show to users of our products and people involved in healthcare. It is also important to make products that are comfortable and easy to use in all aspects, from switch arrangement and screen display method to recording specifications and operating formats. We have emphasized these themes in our product development activities since our foundation.

We demonstrate our sincerity not only in product development but also in our manufacturing activities. In the 1950s, for example, we set up our first quality control committee. Since the 1970s, we have actively promoted a "zero defect" campaign aimed at completely eliminating accidents and product returns. In these and other ways, we have established a highly effective quality control system. Today, quality-related initiatives are spearheaded by the Quality Assurance Department, which sets standards for handling products, produces manuals and ensures that the Company's activities are strictly monitored.

Services

To keep abreast of technological innovations in healthcare and electronics, we handle products made by prominent companies in Japan and overseas, in addition to our own offerings. Our aim here is to respond accurately to the diversifying needs of users.

In addition to the United States and China, we have established a sales operation in London. In Japan, meanwhile, we serve customers via a nationwide network of 123 operations, centering on major cities. Staffed by around 2,300 people, these operations not only supply products but also provide a comprehensive array of solutions and other services, including swift maintenance backup and advice related to hospital management and facility expansion plans. To ensure safety and peace of mind for customers, we also have a 24-hour direct service hotline.

In Japan, all of our products are supplied to users nationwide via two sales subsidiaries. Fukuda Denshi Sales, which has 21 affiliates and 57 outlets, carries a complete range of electronic medical equipment. Fukuda Lifetech, with 17 affiliates and 45 outlets, specializes in home healthcare-related products.

Fukuda Denshi was quick to set up decentralized operations by separating its manufacturing and sales functions, with the aim of more accurately grasping user needs and providing products and services that match those needs. Most important, we wanted to be as close as possible to customers and provide the services they require in a responsible manner. This is another demonstration of the integrity that has been inherent in the Company since its birth.

Corporate Citizenship

Fukuda Denshi is keenly aware of its social mission as a corporation. Based on this awareness, we will strive to offer high-value-added products as a pioneering medical equipment manufacturer, while nurturing top-quality human resources and actively exchanging technologies.

The role of healthcare is to make people happy. The same applies to medical equipment. Because our business is directly linked to human life, we are strongly cognizant of our social responsibilities. Therefore, in addition to maximizing profits for shareholders, we fully understand the crucial need to ensure smooth relations with all people associated with our company.

To meet the information needs of stakeholders, including shareholders and other investors, we pursue rigorous investor relations activities and a policy of proactive information disclosure. For the past two years, we have held regular information meetings for analysts and institutional investors. The many attendees of such meetings have praised the quality and content of information disclosed. We are also upgrading our Web site to meet the information requirements of stakeholders. Underscoring our disclosure initiatives is our commitment to society—another demonstration of Fukuda Denshi’s integrity.

Top-Quality Products—Built on Integrity

Fukuda Denshi's integrity is reflected in its products and has earned warm praise from patients and medical practitioners alike. In other words, our products are built on integrity. Some of them are shown below.

UF-750XT

UF-750XT: Digital Ultrasound Imaging Equipment

This highly acclaimed device delivers excellent cost performance, overturning the notion that color ultrasound diagnostic and imaging devices are expensive. Smartly styled and compact, the UF-750XT features Tissue Harmonic Imaging—which lowers noise and provides high-S/N images, as standard. This serves to speed up processing of images and other data and raise overall system flexibility. The result is performance paralleling that of high-end machines. In fiscal 2003, sales of the UF-750XT totaled ¥1,000 million compared with ¥433 million a year earlier.

VaSera VS-1000

VaSera VS-1000: Vascular Screening Equipment

This device is used to screen and evaluate arteriosclerosis, including stenosis and occlusion of arteries, in a noninvasive manner. Lifestyle-related diseases are becoming more common in Japan, making the VaSera VS-1000 increasingly useful, because it can measure such aspects as ankle-brachial index, pulse wave velocity and the blood pressure of four limbs. Based on the extent of blood vessel hardening, it can also display a patient's "equivalent age." All of these functions are incorporated into a compact, desktop unit weighing only 7.2 kilograms. Fiscal 2003 sales of the VaSera VS-1000 amounted to ¥2,200 million in 2003, up from ¥1,875 million in 2002.

FM-150

Digital Walk FM-150: Digital Holter Recorder

This device is perhaps the world's smallest electrocardiograph. It uses a smart card to record the graphic patterns of cardiac cycle variations over a 24-hour period. Fitted with the latest digital technologies, it features noiseless operation and highly accurate recording. And because it weighs only 40 grams, users can hardly feel it. Moreover, the Digital Walk FM-150 is maintenance-free, enabling operators to lower their running costs. Sales of ¥1,000 million in 2003 were up substantially from ¥517 million in 2002.

Review of Operations

Results of Operations

In fiscal 2003, ended March 31, 2003, the Japanese economy remained in a difficult state, due to the prolonged failure of financial institutions to address their bad-debt problems, depressed share prices and the onslaught of deflation. Other factors included uncertainty about the U.S. economy due to the situation in Iraq.

Conditions in the medical equipment industry deteriorated due to reductions in pharmaceutical prices at the beginning of the term and of specified medical materials reimbursement prices. Another factor was an increase in the percentage of medical costs borne by the elderly in October 2002.

Fukuda Denshi posted consolidated net sales of ¥70,710 million in the year under review, down 0.5% from fiscal 2002. We achieved a solid gross profit figure owing to the introduction of high-value-added new products. We also reduced selling, general and administrative expenses. As a result, operating income grew 16.2% to ¥9,005 million, and net income jumped 59.8% to ¥4,880 million.

The Physical Examination Equipment segment benefited from robust sales of newly launched diagnostic equipment for measuring blood pressure and pulse waves, as well as from export sales of ultrasound imaging equipment. However, domestic sales of electrocardiographs, ultrasound imaging equipment, urine examination equipment, respiratory function diagnostic equipment and other products languished. As a result, segment sales edged up 0.1% to ¥23,520 million.

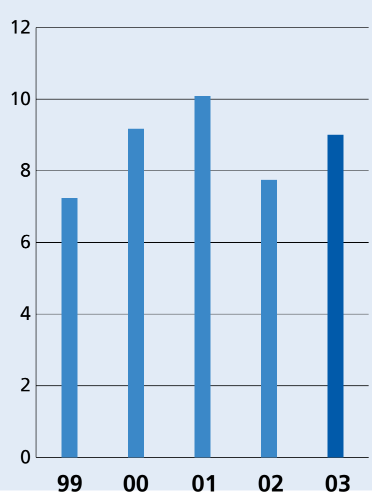
In the Patient Monitoring Equipment segment, sales declined 6.1% to ¥4,560 million, due largely to the effects of intensified price competition, especially in the hospital market.

Sales in the Medical Treatment Equipment segment slipped 2.8% to ¥25,293 million. Despite increased revenues from renting sleep apnea syndrome equipment and sales of catheters, the segment suffered from a reduction in medical treatment remuneration and an increase

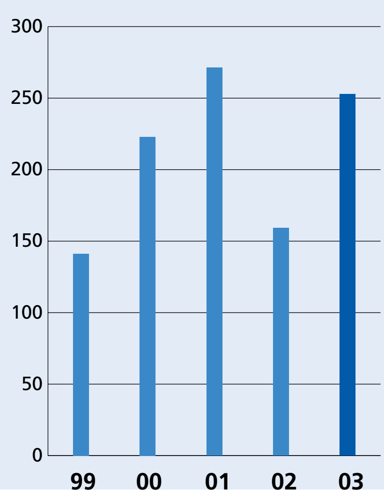
Pulsleep LS-100
portable slumber polygraph

MARIS (Maintenance Activity Record Information System), for checking the safety of medical equipment

Operating Income
(Billions of yen)



Net Income per Share of Common Stock (Yen)



Micro 2 Plus pulse oxymeter

Dyna Scope DS-7100 patient monitoring system

in medical costs borne by the elderly. Revenues from rental of home oxygen enrichers also declined.

The Other Products and Accessories segment mainly covers accessories and consumables used in equipment handled by the Company's three main segments. In fiscal 2003, segment sales grew 4.0% to ¥17,335 million, thanks to higher sales of consumables related to SAS monitoring equipment and diagnostic equipment for measuring blood pressure and pulse waves.

Financial Position

On March 31, 2003, Fukuda Denshi's consolidated total assets stood at ¥92,289 million, down ¥2,641 million, or 2.8%, from a year earlier. Total current assets fell 2.7% to ¥61,443 million, due mainly to a decline in notes and accounts receivable. Total fixed assets were down 2.9% to ¥30,846 million, stemming mainly from a decline in investments and other assets.

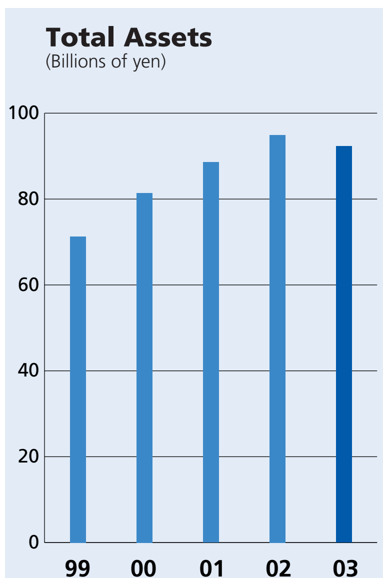
Total liabilities decreased ¥5,232 million, or 15.2%, to ¥29,284 million, due mainly to a 17.5% fall in current liabilities stemming from declines in notes and accounts payable.

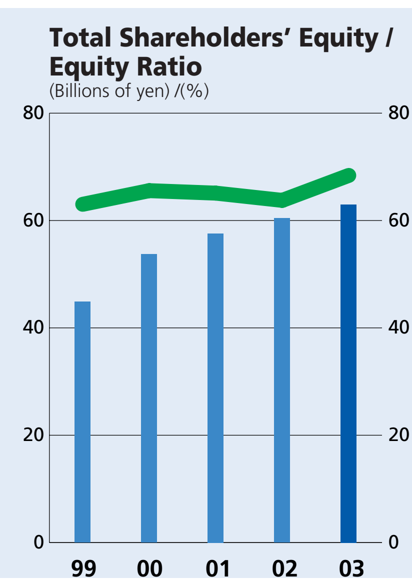
Total shareholders' equity rose ¥2,592 million, or 4.3%, to ¥62,994 million, partly due to an increase in earned surplus.

Consequently, the equity ratio moved up 4.7 points, to 68.3%. Return on equity (ROE) improved 2.7 percentage points, to 7.9%.

Cash Flows

Cash and cash equivalents at the end of the year amounted to ¥25,365 million, down ¥275 million from a year earlier. Despite ¥3,915 million in net cash provided by operating activities, the Company made significant outlays to purchase tangible fixed assets and treasury stock, hence the decline in cash and cash equivalents.





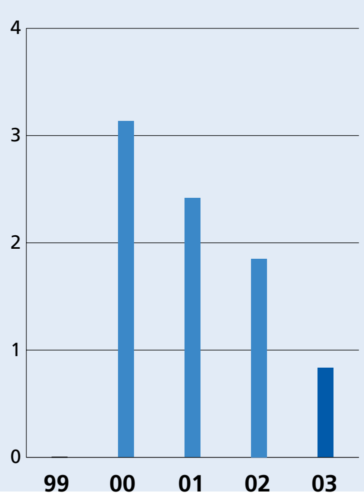
In fiscal 2003, net cash provided by operating activities totaled ¥3,915 million, down 53.1% from fiscal 2002. The decline stemmed largely from income taxes paid and a decrease in trade payables, which offset income before income taxes of ¥9,390 million.
Net cash used in investing activities was ¥3,083 million, down 52.6%. Despite outlays associated with the purchase of tangible fixed assets, the Company benefited from proceeds from the reversal of a life insurance fund for directors.
Net cash used in financing activities amounted to ¥1,084 million, compared with ¥288 million in net cash provided by such activities in fiscal 2002. This change was due mainly to purchases of treasury stock, which outweighed proceeds from an increase in short-term bank loans.

FCP-7431 electrocardiograph with analytical function

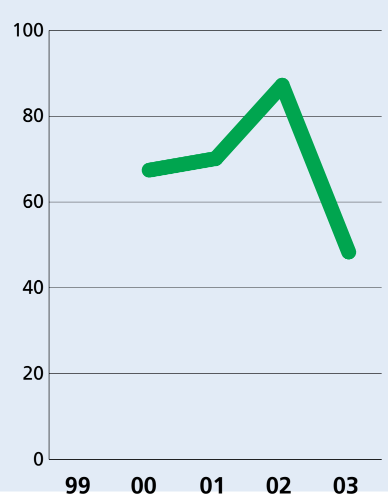
Outlook

The Japanese economy will continue to be plagued by the nonperforming loan problem of financial institutions and by worsening deflation. Overseas, the outlook for the U.S. economy is uncertain owing to the continuing conflict in Iraq, whereas the SARS virus situation continues to affect Asian economies.
In the medical equipment industry, the situation will remain difficult as institutions suppress equipment costs in line with administrative reforms.
The Fukuda Denshi Group will respond by introducing products offering superior performance and cost-competitiveness. We will also harness Group-wide resources to expand our presence in the hospital and home healthcare markets, while also increasing exports. These initiatives reflect our commitment to becoming a medical equipment manufacturer that is trusted by society.
For fiscal 2004, we forecast consolidated net sales of ¥73.5 billion, up 3.9%. We also project a 7.7% rise in operating income to ¥9.7 billion and a 4.3% gain in net income to ¥5,090 million.

Free Cash Flow
(Billions of yen)



Interest Coverage Ratio
(%)



Corporate Data

Fukuda Denshi Co., Ltd., as of March 31, 2003

Established	July 6, 1948 (under the name of Fukuda Denshi Seisakujo)	
Capital	¥4,387,000,000	
Number of Employees	Consolidated: 2,375 Nonconsolidated: 513	
Board of Directors (As of June 27, 2003)	President	Kotaro Fukuda
	Managing Directors	Takashi Takahashi Teruo Haraguchi
	Directors	Ryoichi Ohomote Isamu Suzuki Susumu Segawa Masayuki Iwamoto Noboru Yamamoto Yoshiyuki Ariyoshi Osamu Shirakawa Junzo Fujiwara
	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	1,233	6.36
The Tokyo Tomin Bank, Ltd.	947	4.88
The Chase Manhattan Bank, N.A., London	758	3.91
Mizuho Bank, Ltd.	737	3.80
The Bank of Tokyo-Mitsubishi, Ltd.	725	3.74
Nippon Life Insurance Company	672	3.47

Corporate History

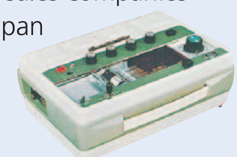
Fukuda Denshi Co., Ltd., as of March 31, 2003

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



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

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

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

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

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 an independent company, Fukuda Denshi Technical Services Co., Ltd.

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 the 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

2003 Fukuda Medical Solutions Co., Ltd., established to develop and provide support for medical treatment information systems

Shiroi Factory awarded ISO 14001 certification for its environmental management systems

Consolidated Financial Statements

Consolidated Balance Sheets

March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2002	2003	2003
Current assets:			
Cash on hand and in bank (Note 3)	¥25,995	¥25,689	$ 214,075
Marketable securities (Note 5)	100	500	4,167
Trade receivables:			
Accounts and notes (Note 16)	20,340	18,306	152,554
Allowance for doubtful accounts	(224)	(209)	(1,742)
Inventories (Note 4)	13,482	13,556	112,968
Deferred tax assets (Note 8)	2,113	1,649	13,740
Other current assets	1,349	1,952	16,267
Total current assets	63,155	61,443	512,029
Property, plant and equipment :			
Land	5,071	5,142	42,853
Buildings and structures	6,347	6,595	54,959
Machinery and equipment	18,814	18,862	157,183
Construction in progress	44	22	186
	30,276	30,621	255,181
Accumulated depreciation	(13,651)	(14,317)	(119,314)
	16,625	16,304	135,867
Investments and other assets:			
Investment securities (Note 5)	4,167	3,270	27,249
Investments in unconsolidated subsidiaries and affiliated companies	47	528	4,398
Deferred tax assets (Note 8)	6,921	6,729	56,082
Other	4,015	4,015	33,458
	15,150	14,542	121,187
	¥ 94,930	¥92,289	$ 769,083

See accompanying notes.

Consolidated Balance Sheets

March 31, 2002 and 2003

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2003
Current liabilities:			
Short-term bank loans (Note 7)	¥ 8,555	¥ 9,459	$ 78,823
Long-term debt due within one year (Note 7)	6	6	50
Trade payables-accounts and notes (Note 16)	13,884	10,030	83,582
Income taxes payable (Note 8)	3,394	1,430	11,918
Accrued expenses and other current liabilities	3,651	3,394	28,290
Total current liabilities	29,490	24,319	202,663
Long-term debt (Note 7)	780	774	6,450
Employees' severance and retirement benefits (Note 10)	2,979	2,985	24,883
Retirement benefits for directors and corporate auditors	1,254	1,193	9,939
Other long-term liabilities	13	12	100
Minority interest in consolidated subsidiaries	12	12	97
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized - 30,000,000 shares			
Issued - 19,404,000 shares	4,387	4,387	36,558
Capital surplus	8,684	8,684	72,369
Retained earnings	47,604	51,837	431,975
Net unrealized holding gains (losses) on securities	41	(129)	(1,077)
Foreign currency translation adjustments	124	62	514
	60,840	64,841	540,339
Less treasury stock at cost	(438)	(1,847)	(15,388)
	60,402	62,994	524,951
	¥ 94,930	¥ 92,289	$ 769,083

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Net sales (Note 12)	¥ 71,042	¥ 70,710	$ 589,253
Costs and expenses:			
Cost of sales	38,811	37,294	310,781
Selling, general and administrative	24,480	24,411	203,427
	63,291	61,705	514,208
Operating income (Note 12)	7,751	9,005	75,045
Other income (expense):			
Interest and dividend income	50	45	378
Interest expense	(96)	(79)	(657)
Loss on devaluation of investment securities	(1,803)	(396)	(3,300)
Gain on life insurance surrender value	60	717	5,976
Other, net	68	98	812
	(1,721)	385	3,209
Income before income taxes	6,030	9,390	78,254
Income taxes (Note 8):			
Current	5,270	3,736	31,138
Deferred	(2,295)	772	6,433
	3,055	4,882	40,683
Minority interest in net income of consolidated subsidiaries	(2)	(2)	(19)
Net income	¥3,053	¥4,880	$ 40,664

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 159.06	¥ 252.75	$ 2.11
Diluted net income	—	252.57	2.10
Cash dividends applicable to the year	30.00	30.00	0.25

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2002 and 2003

		Millions of yen					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
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)
Net income	—	—	—	4,880	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	(62)	—
Net unrealized holding gains on securities	—	—	—	—	(170)	—	—
Treasury stock	—	—	—	—	—	—	(1,409)
Cash dividends paid (¥30.00 per share)	—	—	—	(573)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(71)	—	—	—
Employees' bonus and welfare fund	—	—	—	(3)	—	—	—
Surplus from sale of treasury stock	—	—	0	—	—	—	—
Balance at March 31, 2003	19,404	¥4,387	¥8,684	¥51,837	¥(129)	¥62	¥(1,847)

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2002 and 2003

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$36,558	$72,365	$396,701	$342	$1,037	$(3,651)
Net income	—	—	40,664	—	—	—
Translation of foreign currency financial statements	—	—	—	—	(523)	—
Net unrealized holding gains on securities	—	—	—	(1,419)	—	—
Treasury stock	—	—	—	—	—	(11,737)
Cash dividends paid ($0.25 per share)	—	—	(4,771)	—	—	—
Bonuses to directors and statutory auditors	—	—	(591)	—	—	—
Staff and workers' bonus and welfare fund	—	—	(28)	—	—	—
Surplus from sale of treasury stock	—	4	—	—	—	—
Balance at March 31, 2003	$36,558	$72,369	$431,975	$(1,077)	$514	$(15,388)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
Cash flow from operating activities:			
Income before income taxes	¥ 6,030	¥ 9,390	$ 78,254
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	3,972	3,325	27,710
Increase（Decrease） in employees' severance and retirement benefits	(111)	6	53
Increase in retirement benefits for directors and corporate auditors	43	(61)	(516)
Interest expenses	96	79	657
Loss on devaluation of investment securities	1,803	396	3,300
Gain on life insurance surrender value	(60)	(717)	(5,976)
Increase in trade receivables- accounts and notes	(1,307)	2,023	16,854
Decrease (Increase) in inventories	25	(363)	(3,027)
Increase in trade payables-accounts and notes	1,494	(3,844)	(32,028)
Other	385	(574)	(4,777)
Subtotal	12,370	9,660	80,504
Interest and dividend received	50	36	296
Interest paid	(96)	(81)	(676)
Income taxes paid	(3,969)	(5,700)	(47,501)
Net cash provided by operating activities	8,355	3,915	32,623
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(5,312)	(2,998)	(24,987)
Payment for purchase of marketable securities and investment securities	(1,831)	(769)	(6,405)
Proceeds from sale of marketable securities and investment securities	501	100	833
Payment to life insurance fund for directors	(103)	(512)	(4,271)
Proceeds from life insurance fund for directors	118	1,498	12,486
Other	121	(402)	(3,350)
Net cash used in investing activities	(6,506)	(3,083)	(25,694)
Cash flow from financing activities:			
Net increase (decrease) in short-term bank loans	1,624	904	7,534
Repayment of long-term debt	(706)	(6)	(50)
Dividend paid to shareholders	(633)	(573)	(4,774)
Payment for purchase of treasury stock	(44)	(1,419)	(11,824)
Proceeds from sale of treasury stock	48	11	93
Other	(1)	(1)	(10)
Net cash provided by (used in) financing activities	288	(1,084)	(9,031)
Effect of exchange rate change on cash and cash equivalents	23	(23)	(191)
Net increase in cash and cash equivalents during year	2,160	(275)	(2,293)
Cash and cash equivalents at beginning of year	23,480	25,640	213,664
Cash and cash equivalents at end of year (Note 3)	¥ 25,640	¥ 25,365	$ 211,371

See accompanying notes.

Notes to Consolidated Financial Statements

March 31, 2002 and 2003

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 (the "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 consolidated 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, 2003, which was ¥120 to US$1.00. The convenience translations should not be construed as representations that the 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 54 and 50 subsidiaries as of March 31, 2002 and 2003, respectively. The consolidated financial statements include the accounts of the Company and 50 of such subsidiaries in the year ended March 31, 2002' and 46 of such subsidiaries in the year ended March 31, 2003. 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.,for which the fiscal year-end is December 31. Significant transactions, if any, in the three months ended March 31, 2003, 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 five years on a straight-line basis.

(b) Investments in unconsolidated subsidiaries and an affiliated company

The Company had four unconsolidated subsidiaries and one affiliated company as of March 31, 2002 and four unconsolidated subsidiaries and two affiliated companies as of March 31, 2003.

Investments in the unconsolidated subsidiaries and the affiliated companies are stated at the moving-average cost because 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

Under the Japanese accounting standard for financial instruments, the group is 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, or (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 that 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 the 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 moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies that 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.

(e) Inventories

Inventories are stated primarily 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 (e.g., the home-use enriched oxygen supply system), however, is computed by the straight-line method over the estimated rental-terms (3- 4 years).

Depreciation of assets for which the acquisition costs are ¥100,000 – ¥200,000 is provided by the straight-line method over three 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.

Under the Japanese 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 .

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

Receivables and payables denominated in foreign currencies are translated into yen at the year-end rates.

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 was not presented because the Company had no securities with dilutive effect such as bonds with warrants and convertible bonds that were exercisable or convertible in 2002.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share' and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share." issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the year ended March 31, 2003, would have been reported as follows, if the previous accounting policies were applied.

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Net income per share		
- Basic	¥256.32	$2.14
- Diluted	256.31	2.14

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

(m) Accounting for certain lease transactions

Finance leases that 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 2002 financial statements to conform to the presentation for 2003.

3. Cash and cash equivalents

The relations between cash and cash equivalents and consolidated balance sheet items at March 31, 2002 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash on hand and in bank	¥ 25,995	¥ 25,689	$ 214,075
Less: Deposit with maturity exceeding three months at the time of purchase	355	324	2,704
Cash and cash equivalents	¥ 25,640	¥ 25,365	$ 211,371

4. Inventories

Inventories at March 31, 2002 and 2003, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Merchandise and products	¥ 11,239	¥ 11,189	$ 93,241
Work-in-process	655	714	5,948
Materials and supplies	1,588	1,653	13,779
	¥ 13,482	¥ 13,556	$ 112,968

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, 2002 and 2003:

Available-for-sale securities:

Type	Millions of yen					
	2002			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 79	¥ 99	¥20	¥ 15	¥ 30	¥15
Other securities:						
Equity securities	¥ 1,695	¥1,648	¥ (47)	¥1,666	¥1,478	¥ (188)
Others	133	133	-	144	110	(34)
Total	¥ 1,828	¥1,781	¥ (47)	¥1,810	¥1,588	¥ (222)

Type	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$ 126	$ 248	$ 122
Other securities:			
Equity securities	$ 13,885	$ 12,322	$ (1,563)
Others	1,197	915	(282)
Total	$ 15,082	$ 13,237	$ (1,845)

(b) The following tables summarize the book values of securities with no available fair values as of March 31, 2002 and 2003:

(1) Held-to-maturity debt securities

Type	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Discounted bonds	¥ 500	¥ 500	$ 4,167

(2) Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Non-listed equity securities	¥ 1,886	¥ 1,652	$ 13,764

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

Type	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within 10 years	Over 10 years	Total
2002:					
Discounted bonds	¥ 100	¥ 400	—	—	¥ 500

Type	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within 10 years	Over 10 years	Total
2003:					
Discounted bonds	¥ 500	—	—	—	¥ 500

Type	Thousands of U.S. dollars				
	Within one year	Over one year but within five years	Over five years but within 10 years	Over 10 years	Total
2003:					
Discounted bonds	$ 4,167	—	—	—	$ 4,167

6. Derivative transactions

The Group did not use any derivative transactions for the years ended March 31, 2002 and 2003.

7. Bank loans and long-term debt

Bank loans at March 31, 2002 and 2003, were unsecured and bore interest ranging from 0.5% to 2.6% per annum and 0.6% to 2.0% per annum, respectively.

Long-term debt at March 31, 2002 and 2003, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Unsecured loans from banks, with interest rates at 1.79% per annum	¥ 21	¥ 15	$125
1.35% domestic unsecured bonds with warrants due in 2005	765	765	6,375
	786	780	6,500
Less: Portion due within one year	6	6	50
	¥ 780	¥ 774	$ 6,450

The annual maturities of long-term debt outstanding at March 31, 2003, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 6	$ 50
2005	771	6,425
2006	3	25
	¥ 780	$ 6,500

8. Income taxes

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.1% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004′ or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 42.1% and 40.5% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the aggregate statutory income tax rates, deferred income tax assets decreased by ¥257 million ($2,146 thousand) and provision for deferred income taxes increased by ¥254 million ($2,118 thousand) compared with what would have been recorded under the previous local tax law.

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, 2002 and 2003:

	2002	2003
Statutory tax rate	42.1 %	42.1 %
Net operating loss carryforwards of subsidiaries	7.3	1.7
Non-deductible expenses	2.7	1.6
Reduction by change of tax rate	-	2.7
Other	(2.8)	(0.1)
Effective tax rate	49.3 %	48.0 %

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2002 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Fixed assets	¥ 3,639	¥ 3,204	$26,704
Inventories	1,390	1,068	8,902
Net operating loss carryforwards of subsidiaries	798	814	6,786
Employees' severance and retirement benefits	1,310	1,209	10,077
Other	3,106	3,520	29,325
Total deferred tax assets	10,243	9,815	81,794
Less: Valuation allowance	(1,074)	(1,166)	(9,717)
Net deferred tax assets	9,169	8,649	72,077
Deferred tax liabilities:			
Allowance for doubtful accounts	(41)	(210)	(1,749)
Deferred gains on real properties for tax purposes	(35)	(34)	(281)
Other	(59)	(27)	(225)
Total deferred tax liabilities	(135)	(271)	(2,255)
Deferred tax assets, net of deferred tax liabilities	¥ 9,034	¥ 8,378	$ 69,822

9. Information for certain leases

(1) Finance leases as a lessee

Assumed data of the Group as to acquisition cost, accumulated depreciation and net book value of the leased assets under the finance leases that are accounted for in the same manner as operating leases at March 31, 2002 and 2003, inclusive of interest, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Machinery and equipment	¥ 340	¥ 232	$ 1,933
Others	28	25	207
Accumulated depreciation	(254)	(120)	(1,002)
	¥ 114	¥ 137	$1,138

Future lease payments at March 31, 2002 and 2003, of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥ 48	¥ 49	$ 405
Over one year	66	88	733
	¥ 114	¥ 137	$1,138

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2002 and 2003, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Lease expenses	¥ 64	¥ 52	$ 432
Assumed depreciation	64	52	432

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.

(2) Operating leases as a lessee

Future minimum lease payments at March 31, 2002 and 2003, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	-	¥ 11	$ 86
Over one year	-	11	93
	-	22	$ 179

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, 2002 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Projected benefit obligation	¥ 7,241	¥ 7,886	$65,718
Unrecognized prior service costs	(17)	(13)	(109)
Unrecognized actuarial differences	(755)	(1,411)	(11,752)
Less fair value of pension assets	(3,490)	(3,477)	(28,974)
Liability for severance and retirement benefits	¥ 2,979	¥ 2,985	$24,883

Included in the consolidated statements of income for the years ended March 31, 2002 and 2003, are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service costs – benefits earned during the year	¥492	¥543	$4,523
Interest cost on projected benefit obligation	199	181	1,509
Expected return on plan assets	(66)	(70)	(582)
Amortization of prior service costs	4	3	28
Amortization of actuarial differences	48	156	1,296
Severance and retirement benefit expenses	¥677	¥813	$6,774

The discount rate and the rate of expected return on plan assets used by the Company were 2.5% and 2.0%, 2.0% and 2.0%, as of March 31, 2002 and 2003, 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 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.

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 being equal to or exceeding 25% of common stock, it is available for distribution by a 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 non-consolidated financial statements of the Company in accordance with the Code.

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves." issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

By special resolution at the 53rd general shareholders' meeting held on June 29, 2000, the Company introduced a stock option plan in accordance with the Code. A total of 210,000 shares was granted to the directors at the closing of the meeting.

The stock purchase rights can be exercised at a price of ¥2,220 ($18.5) per share in the period from July 1 ,2002, to June 30, 2005. The exercise price of stock purchase rights would be adjusted if the Company issues new shares at a price below the market price.

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, 2003, were export bills of exchange discounted in the amount of ¥199 million ($1,656 thousand).

14. Related party transactions

(1) 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, 2002 and 2003,were the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Purchase of recording papers	¥ 1,363	¥ 1,393	$11,608
Purchase of accounting slips	21	25	205
Payment of rent	45	45	373

Dues to Atomic as of March 31, 2002 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Trade payables: accounts and notes	¥ 340	¥ 314	$2,618
Other current liabilities	1	3	22
Other non-current assets	11	13	106

(2) The Group purchased land from Tokyo Enterprise Co., Ltd. ("Tokyo Enterprise") during the year ended March 31, 2003. More than 50% of Tokyo Enterprise is owned by a director of the Company and his close relatives.

During the years ended March 31, 2002 and 2003, the Group had the following transactions with Tokyo Enterprise:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Purchase of land	-	¥ 13	$108

The Group has no dues to Tokyo Enterprise as of March 31, 2003.

15. Subsequent event

At the June 27, 2003, annual general meeting, the Company's shareholders approved the appropriations of retained earnings at March 31, 2003, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥15.00 ($0.13) per share	¥ 277	$ 2,309
Bonuses to directors and corporate auditors	28	237

At the same meeting, the Company's shareholders also approved purchases of treasury stock up to 2,000,000 shares at the aggregate purchase cost of not more than ¥6,000 million ($50,000 thousand) in the period from the closing of the annual general meeting on June 27, 2003, to the closing of the next annual general meeting of the shareholders.

16. Effect of bank holiday on March 31, 2002

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

		Millions of yen		Thousands of U.S. dollars
		2002	2003	2003
Notes receivable-trade:	Increased by approximately	¥ 301	-	-
Notes payable-trade:	Increased by approximately	54	-	-

Independent Auditors' Report

To the Shareholders and 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, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FUKUDA DENSHI CO., LTD., and subsidiaries as of March 31, 2002 and 2003, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

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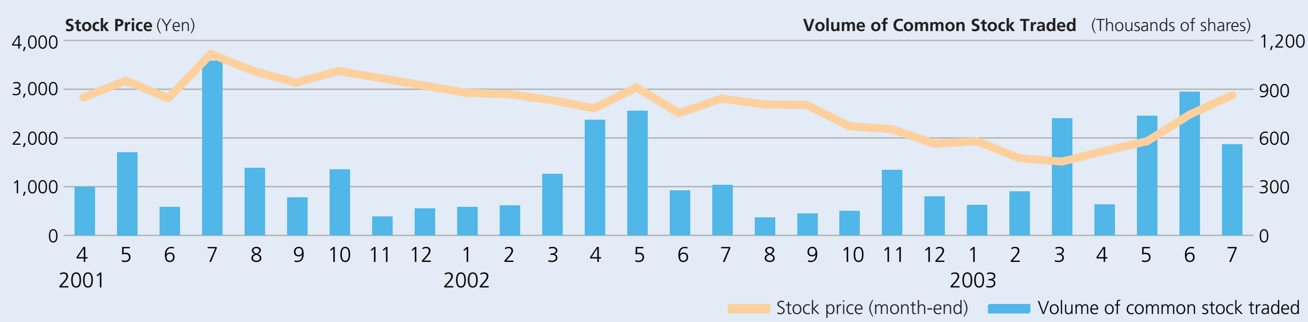
Sony Corp.
Horiba, Ltd.
Gunze Ltd.
TDK Corp.
Minolta Co., Ltd.
Fujitsu Ltd.

Germany
Siemens AG

Sweden
Siemens Elema AB

U.S.A.
St. Jude Medical, Inc.
Respironics, 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.

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

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