FUKUDA DENSHI

Annual Report 2004

For the year ended March 31, 2004

65th Anniversary

83 From sales to technology: New product development system established

All-transistorized ECG
FCC-1
Produced from 1968, Heat pen writing, All-transistorized, one-channel ECG

96 The era of integrated technology: Entering new fields and expanding overseas

1980~

1990~

Computerized Automatic ECG Analysis System
ECP-100
Produced from 1977, ECG and Mini-computer combined Automatic ECG analysis system

Isolation Amp adopted ECG
FK-11
Since 1982, the Isolation amp has assured a high level of safety for patients

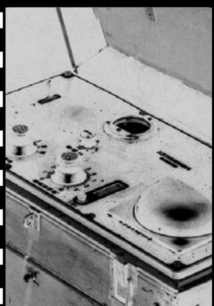
Holter ECG Recorder FM-100
Produced from 1995, a lightweight and super-compact body

02 Ongoing leadership of the medical equipment industry

Patient Monitoring System
DS-7100 System
This multiparameter configured bedside monitor has great flexibility.

03 Ongoing leadership of the medical equipment industry

1939~ 1959



A new start: Placing customers ahead of technology

Takashi Fukuda, the founder of Fukuda Denshi, broke away from his older brother, Tadashi, and established Fukuda Medical Electronics Co., Ltd., in 1939. The elder brother, the first domestic manufacturer of the electrocardiograph (ECG), was a natural engineer whose approach was heavily oriented toward technology. The younger Takashi, by contrast, was a businessperson who believed that the ECGs they made should reflect the needs of actual users. This belief has endured since Takashi founded the Company as a private enterprise, and is embodied in the Company's present-day marketing concept.

No marketing, no business: Strengthening our sales structure

Takashi Fukuda believed that "marketing is more important than technology for success in business." After the resumption of business following World War II, he continued adhering to this management policy by providing meticulous service that included prompt and assiduous after-sales care. Gradually, the Company came to be known as "Fukuda, the ECG company," resulting in a deluge of large orders. In the early 1950s, a mass production system was put in place, and the establishment of sales offices around the country spearheaded a campaign to strengthen the Company's marketing capabilities.

1939 Takashi Fukuda establishes Fukuda Medical Electronics Co., Ltd., and starts the manufacture and marketing of an amplifier-type portable ECG with a DC power supply.

1942 Business suspended due to World War II.

1948 Production and marketing of ECGs resumes following the end of World War II.

1950 Forty-one A-1 photographic one-channel ECGs supplied to national hospitals in the first order received from the Ministry of Health and Welfare.

1951 Forty UD-2 two-channel simultaneous-recording ECGs supplied to government-funded care facilities.
Development and production commences of the RS-1, Japan's first heat-pen direct-writing ECG.

1953 First sales offices established in Osaka, Fukuoka and Sapporo as part of a strategy to establish a nationwide network.

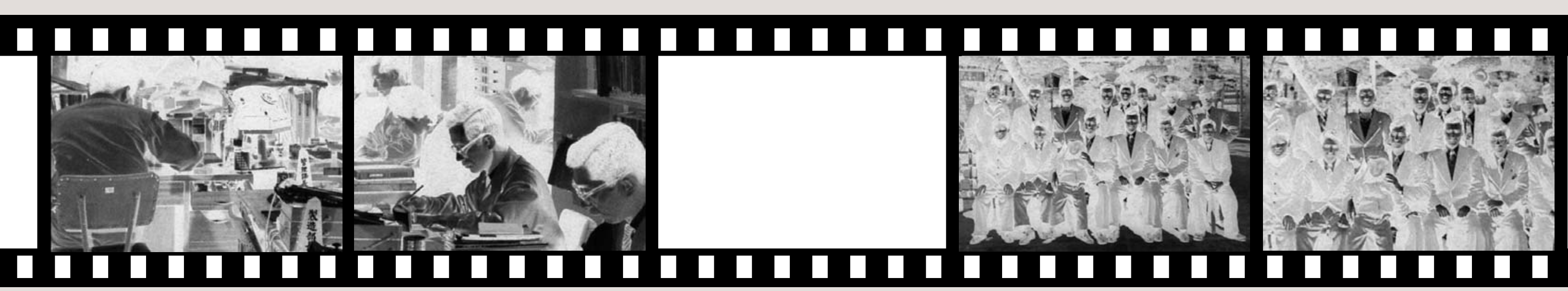
1958 Representative office in Taiwan established, marking the Company's first foray overseas.

1959 Office established in the United States.

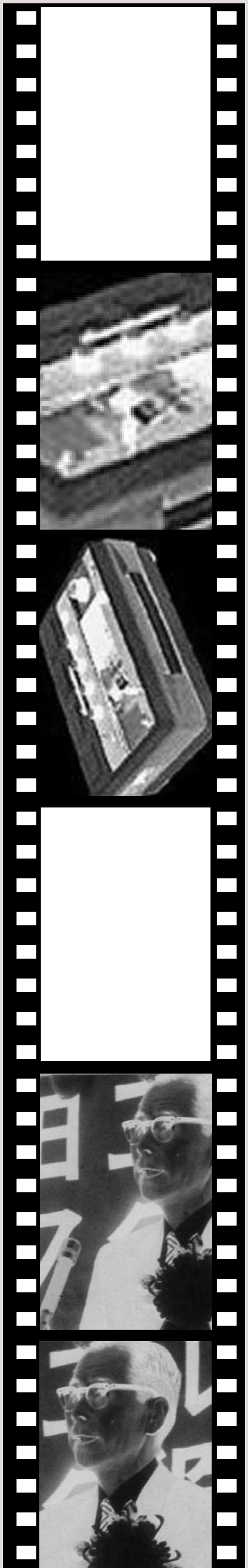

The Company's office (1950s)


Fukuda Denshi's headquarters (1950s)


Second company trip (1951)



History of Fukuda Denshi



1962~ 1977

***Corporate philosophy established*: Contribute to medical advances and the health of society**

Having experienced a management crisis, Takashi Fukuda was keenly aware of the need for employees to embrace a management-oriented mind-set. He advocated that his company foster medical advances in Japan and around the world through the manufacture and marketing of medical equipment. In this way, we sought to establish a position and reputation of trust enabling a broad contribution to the health and welfare of society, and establish a profound philosophy based on unflagging efforts, cooperation and skills. As such, the Company evolved from a "one-man" entity and established a corporate philosophy aimed at fulfilling its role as a member of society.

***No products, no company*: Expanding our product lineup**

In the 1950s, we stepped up the expansion of our sales network. The Company broadened its product lineup through technical and marketing alliances to prevent large companies from entering its specialized markets. This also embodied the concept of meeting user needs through an optimal mix of products made by both Fukuda Denshi and its strategic partners.

1962 Sales offices become independent companies.
Special division established to coordinate the Company's sales agencies.

1964 Management philosophy of "keeping all employees informed" announced.

1965 Marketing alliance formed with a West German company, Schwarzer.

1966 Technical alliance formed with Schwarzer.
RS-200S, a portable direct-recording ECG/PCG, developed.

1968 VA-3C5 vector ECG developed.
Marketing alliances formed with AGA Sweden and Electrodyn U.S.A.

1969 Company name changed to Fukuda Denshi Co., Ltd., through a merger.

1973 Shiroi Factory established in Chiba Prefecture.
Marketing alliances formed with Siemens AG and Siemens Elema AB.
Marketing alliance formed with Aloka Co., Ltd., for marketing ultrasound diagnostic imaging equipment.

1974 R&D and manufacturing divisions transferred to the Hongo office.

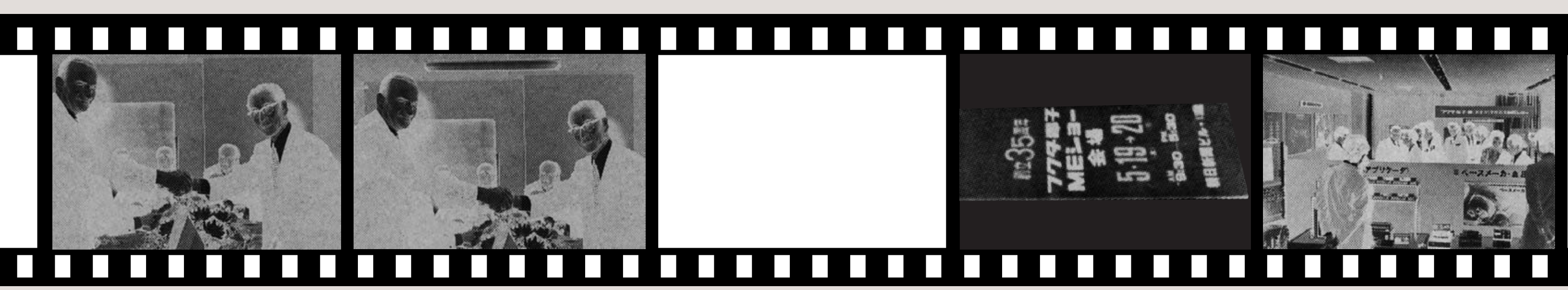
1975 Franchise obtained covering sales of all Siemens medical equipment in Japan.

1977 Development and production of a long-term playback system of analyzing electrocardiograms commences.

Merger (1969)

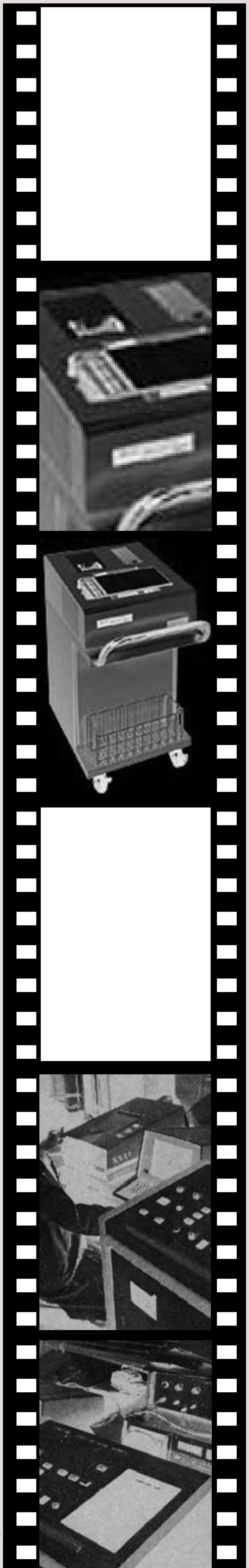
Sales alliance with Siemens

The Fukuda Denshi ME Show, celebrating the Company's 35th anniversary



History of Fukuda Denshi

1978~ 1996



From sales to technology: New product development system established

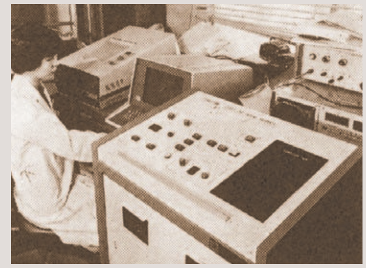
At a time when medical technology was becoming increasingly advanced and complex, the Company implemented its Total Innovation Program (TIP). The aim of the program was to establish core technology and to promote the development of new products. This signified a shift away from the existing business model of emphasizing sales to a new model of focusing on core technologies.

The era of integrated technology: Entering new fields and expanding overseas

In addition to developing new products, the Company made full use of its long-accumulated experience and know-how to break into the new areas of wellness medicine and in-home medical care, and to expand its business overseas.

1978 Total Innovation Program (TIP) implemented.
Body-surface electrocardiographic distribution mapping device developed, and production commences.

1979 ECG with an onboard computer for automated analysis developed.



Body-surface electrocardiographic distribution mapping device

1982 OEM exports of ECGs for Siemens begun.
Fukuda Denshi registers its shares on Tokyo's over-the-counter market (now JASDAQ).
The Company issues European Depository Receipts (EDRs).
Heart/pulse rate meter with a CRT display function developed.

1983 Fukuda Denshi America Corporation established.
Computer-aided-design (CAD) system introduced.

Signing agreement with EDR depository bank

1987 Fukuda develops the world's first multifunctional ECG.
Fukuda develops and starts making the world's first intravascular monitoring video system.

1988 Company contracted by Japan's Agency of Industrial Science and Technology to conduct R&D on an intra-arterial laser surgical device.
Fukuda develops and starts producing a patient monitoring system using LAN.

1990 Fukuda Foundation for Medical Technology established.

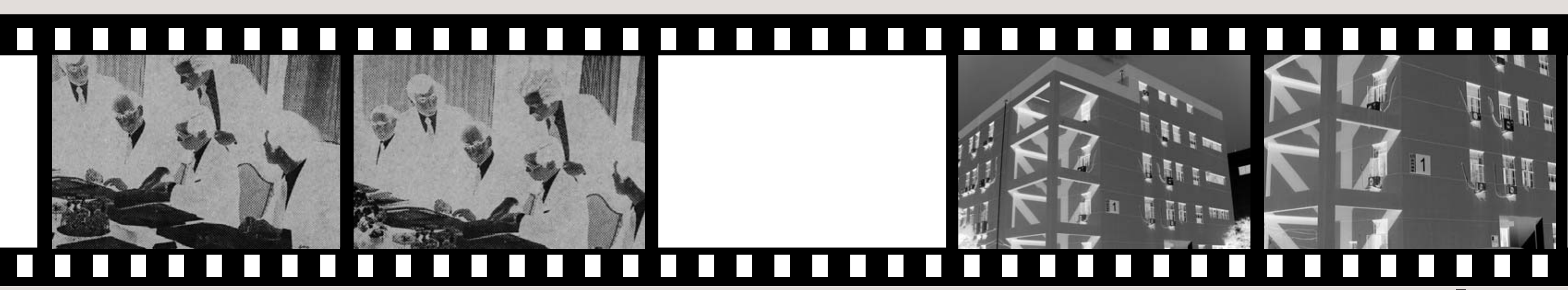
1994 Fukuda Life Tech Co., Ltd., specializing in the rental, sale and maintenance of enriched-oxygen supply systems for in-home use, established with offices nationwide.
Joint venture company established in China.

Beijing Fukuda Denshi Medical Instruments Co., Ltd.

1995 Fukuda Denshi obtains ISO9001 international quality assurance certification.

1996 Fukuda Denshi USA, Inc., established to develop and manufacture products.

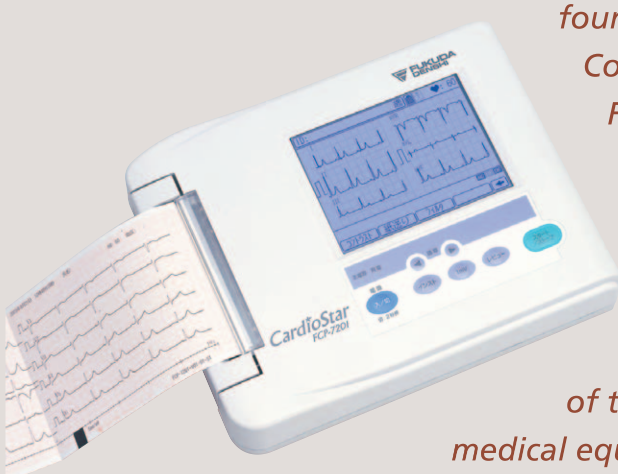
1997 U.K. branch office opened. Tripolar global network, covering Europe, North America and Asia, established.
Division established to develop and manufacture ultrasound diagnostic imaging equipment.



2000~

Maintaining leadership in the medical equipment industry

Throughout its 65-year history, Fukuda Denshi has continued to grow and evolve along with developments in medical science. As an industry leader today, the Company is proud of its breadth of business areas not found in other companies. One core competence we have built up over the years is our strength in gene research. In 1990, the late Takashi Fukuda established the Fukuda Commemorative Medical Technology Promotion Foundation using private funds to mark the 50th anniversary of the Company's founding. Adhering to the Company's philosophy, the Foundation has since provided grants to overseas researchers, with the aim of promoting the international exchange of technologies using medical equipment.



Amid ongoing reforms of Japan's medical system, Fukuda Denshi expects fresh opportunities for further business expansion to arise thanks to its unrivaled expertise in gene research. Our future development is inextricably linked with developments in medical science.

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

2001 Medical Data Co., Ltd., established for the storage of healthcare data.

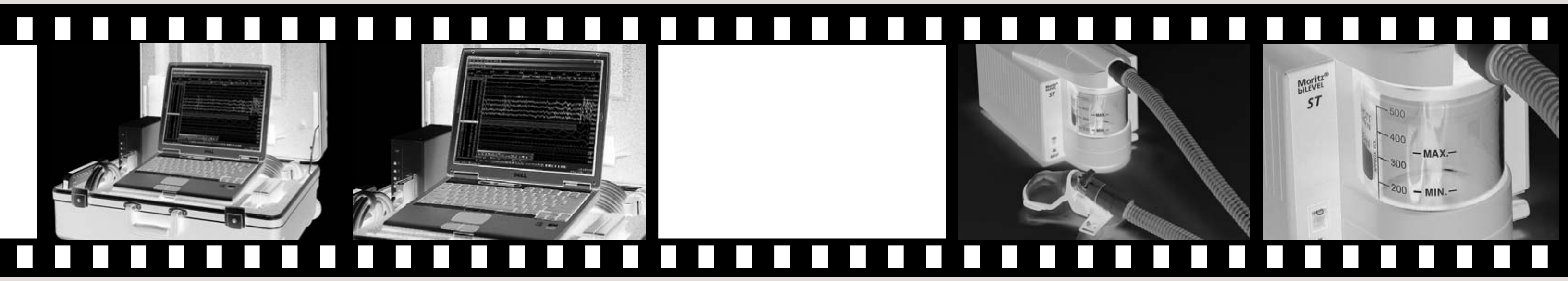
2003 April
Fukuda Medical Solutions Co., Ltd., established to develop and provide support for medical treatment information systems.
June
Shiroi Factory awarded ISO14001 certification.
CardioStar FCP-7201, a multifunctional ECG with a system that evaluates criteria related to sudden death by heart attack, unveiled.
December
Non-invasive artificial respirator for adults to support an in-home NPPV released.

2004 February
Fukuda Denshi inaugurates its EMC Center, in compliance with Electro-Magnetic Compatibility regulations.
March
The VaSera VS-1000 features CAVI, a new index for measuring arteriosclerosis.
Holter Electrocardiogram analysis software SCM-510J developed.
April
Developed the Somno-track-pro System, which provides nightlong polysomnography.

Clean-air EZ
Non-invasive artificial respirator

SCM-510J
Holter Electrocardiogram analysis software

Somno-track-pro System



Consolidated Financial Highlights

Years ended March 31

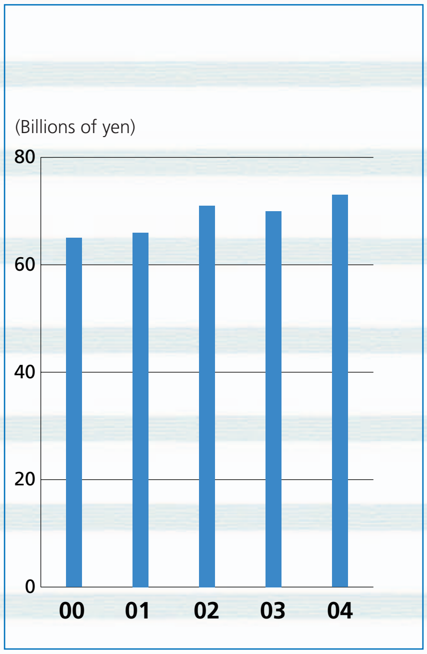
	Millions of yen					Thousands of U.S. dollars
	2000	2001	2002	2003	**2004**	**2004**
For the year:						
Net sales	¥65,348	¥66,778	¥71,042	¥70,710	**¥73,008**	**$688,754**
Operating income	9,170	10,079	7,751	9,005	**7,049**	**66,498**
Net income	4,326	5,232	3,053	4,880	**3,402**	**32,096**
At year-end:						
Total assets	81,417	88,599	94,930	92,289	**96,066**	**906,283**
Shareholders' equity	53,729	57,575	60,402	62,994	**66,592**	**628,226**
Equity ratio (%)	66.0	65.0	63.6	68.3	**69.3**	

	Yen					U.S. dollars
Per share of common stock:						
Net income	¥ 222.98	¥ 271.32	¥ 159.06	¥ 252.75	**¥ 179.47**	**$ 1.69**
Shareholders' equity	2,768.98	2,999.97	3,146.99	3,406.34	**3,600.13**	**33.96**
Cash dividends	25.00	30.00	30.00	30.00	**40.00**	**0.38**
Dividend payout ratio (%)	17.6	18.0	32.4	21.5	**25.0**	

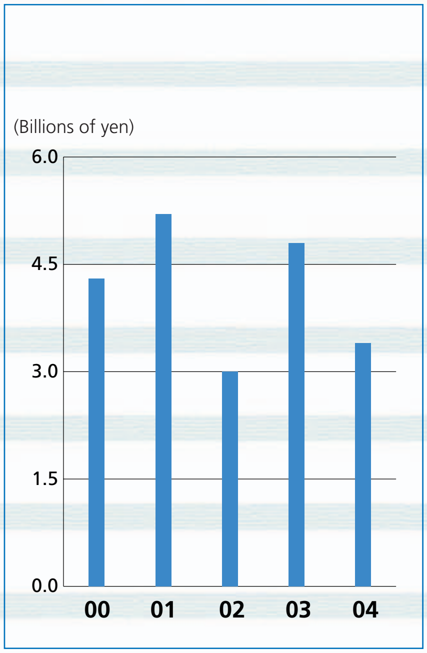
Return on assets (ROA) (%)	5.7	6.2	3.3	5.2	**3.6**
Return on equity (ROE) (%)	8.8	9.4	5.2	7.9	**5.3**

Note: U.S. dollar amounts are rough equivalents and are translated, for convenience only, at the rate of ¥106 to US$1.
Return on assets = Net income (loss) / Total assets (Yearly average) X 100
Dividend payout ratio is calculated by nonconsolidated figures.

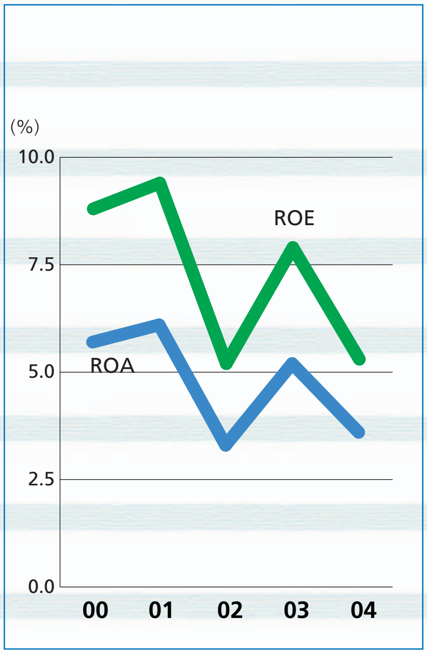
Net Sales



Net Income



ROA/ROE



Message from the President

President and Representative Director
Kotaro Fukuda

Facing another crossroads

Fukuda Denshi traces its roots back 65 years, to 1939. The intervening years have brought unparalleled changes to Japan's socioeconomy and its medical equipment industry. These include World War II, the turbulent postwar years followed by a period of high economic growth, improved health administration and the popularization of medical treatment, and advances in the development of medical technologies and equipment. It is only natural that Fukuda Denshi has also undergone various transformations while growing in tandem with these changes.

The current wave of reforms to the healthcare industry has created a climate in which no company is experienced. The result is a shakeout of the nation's hospitals, clinics and other medical institutions. This is accompanied by intense competition among companies supplying medical equipment to hospitals, and in the pharmaceutical manufacturing and other medical-related industries, on which their very survival depends.

Pinpointing the direction of reforms

Changes to the environment and social needs necessitate that companies also change.

Failure is the only possible outcome for companies unable to adapt.

How should the Fukuda Denshi Group change if it is to survive and lead the industry over the long term?

To determine which reforms to undertake, I turned to Fukuda Denshi's history and took on the task of reaffirming just where our strengths lie. I also asked a number of questions: What should we discard? What innovative skills and strengths should we keep? What should we develop as our corporate strengths? What unique values does Fukuda Denshi possess that have prompted customers to choose us over other companies?

In the end, it came down to adopting a firm "user-oriented" approach, embodying the spirit on which the Company was founded. The reason why Fukuda earned the trust of its users while still in its infancy—when it had yet to create a name for itself—lay in its sales approach. This was based on the belief that salespeople should visit the user and deliver each product only after explaining its use and testing it onsite. The salesperson must also take full responsibility for the product, including the provision of prompt and meticulous after-sales services. This belief is the bedrock of the strong sales system that Fukuda is so proud of today.

Sharing workplace skills at the corporate level

Throughout our 65-year history, we have instilled our user-oriented approach in each and every employee working on the sales frontline. Today, we must ensure even more forcefully than ever that this approach is inherent in the Company's systems, which transcend the skill levels of the individual. In other words, we must create a companywide system that promotes a prompt response to user needs. We also must learn from people in the workplace. Indeed, we must build a feedback system that ensures we incorporate customers' opinions into the development process. In addition, we need to deliver solutions that provide users with a new level of satisfaction.

Solutions business

The key to our future business progress lies in the solutions business. We must grasp the ever-changing position and needs of customers promptly and accurately.
We need to ask ourselves "What kind of products and systems will magnify productivity for our users?" We must then fulfill a medical consulting role by putting forward proposals based on expert knowledge of medical treatment and products.
Fukuda Denshi plans to actively develop its solutions business, armed with the extensive know-how accumulated as a manufacturer. This will involve, for example, assuring the safety and maintenance of medical equipment, linking up with medical information systems accompanying the widespread adoption of electronic medical records, and the early detection of lifestyle-related diseases. We have already developed a system for checking the safety of medical equipment called MARIS (Maintenance Activity Record Information System), which we have begun marketing. Our goal is to go beyond the marketing of such mainstream products and to provide peripheral services. We envisage that services will account for around 30% of net sales in the future.

Medium-term business plan

The Fukuda Denshi Group has set the following strategies for the three-year period from April 2004 to March 2007.

Further raise customer satisfaction level

Raise the level of customer satisfaction even further by providing user-oriented products and services.

Reinforce sales strategies

Develop strategic products by adding a fifth segment—in-home medical care—to the current four main product areas of ECGs, ultrasound imaging diagnostic equipment, patient information monitors, and blood pressure and pulse wave monitoring equipment.

Integrate IT into our operations

Investigate alliances and M&A in the area of network technology, in addition to strengthening our own IT development.

Solidify corporate operating foundation
Clarify lines of responsibility by introducing a performance-based remuneration system and an executive officer system, reduce costs through systematization and strengthen the Company's foundation by improving risk management and other systems.
By implementing the above measures, we project that net sales will reach ¥84.0 billion in the year to March 2007, up 15% from the period under review, and that operating income will grow 23% to ¥8.7 billion. In the Patient Monitoring Equipment segment, we expect sales to advance from ¥4.7 billion in fiscal 2004 to ¥7.6 billion in fiscal 2007—an increase of nearly 60%—owing to the introduction of revolutionary new products.

Contributing to society

The Fukuda Foundation for Medical Technology was established in 1990. Every year, the Foundation provides assistance to research projects related to medical technology, holds research seminars and conferences, and provides financial support for international exchanges. The Foundation's total endowment is ¥1 billion, which was used to assist 21 researchers in the year to March 2004. We will continue with these activities in order to benefit the society in which our stakeholders live.

2004

Calendar 2004 marks a milestone for Fukuda Denshi: the 65th anniversary of its founding. A succession of reforms to Japan's medical system has been implemented since April 2004, including revised treatment payments and pharmaceutical prices, a reduction of official reimbursement prices for Special Insurance Medical Materials (SIMM) and the privatization of the country's national hospitals. Consequently, the emphasis on efficient hospital management is expected to result in the careful selection of providers and the intensification of price competition. On the other hand, it is also expected to create new business opportunities, such as the increased adoption of IT as a tool for improving hospital management efficiency.
In its quest to strengthen competitiveness and win the battle for survival, Fukuda Denshi will extend its long-held "user-oriented" spirit from the workplace up to the corporate management level.
In the year ending March 2005, we plan to release the following strategic products: patient information monitoring, ultrasound diagnostic equipment, sleep apnea syndrome (SAS) monitoring equipment, SAS treatment equipment and in-home artificial respirators. Consequently, we forecast a 4.1% increase in consolidated net sales to ¥76.0 billion and a 28.5% rise in net income to ¥4.4 billion.

June 29, 2004

Kotaro Fukuda

Kotaro Fukuda
President and Representative Director

Management's Discussion and Analysis

Performance Overview

In the fiscal year ended March 31, 2004, the Japanese economy showed promising signs of recovery, including a steady increase in personal consumption and a rise in capital investments as a result of improved corporate earnings. Nevertheless, the threat of global terrorism and other uncertainties continued.

The Japanese government implemented a number of administrative reforms that have affected the medical equipment industry. In April 2003, for example, it introduced a universal system for the payment of treatment at advanced treatment hospitals and, in August 2003, classified hospitals according to function.

The number of hospital visits has declined since October 2002 due to an increase in the percentage of medical costs borne by the elderly, and the April 2003 hike, from 20% to 30%, in the percentage of medical treatment costs borne by people covered by the national insurance scheme. This has placed enormous pressure on hospital management.

The above factors have prompted the management of many hospitals to readdress their capital investment plans and dampened demand for equipment upgrades.

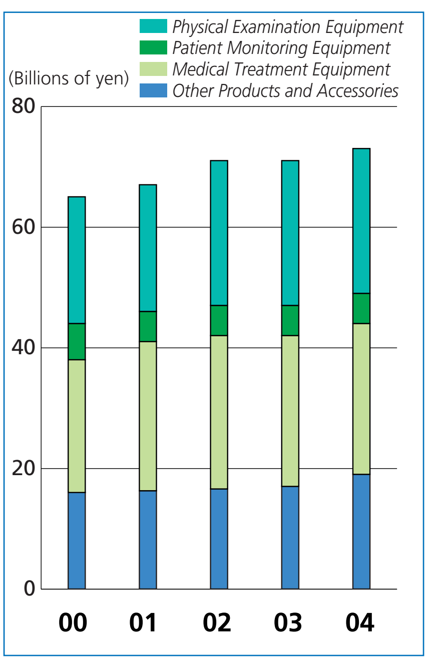
On the sales front, they have resulted in fierce price competition.

Under these conditions, Fukuda Denshi used its solid marketing system to pursue proactive sales initiatives. Consolidated net sales for the year amounted to ¥73.0 billion, a 3.2% increase from the preceding term. However, operating income fell 21.7% to ¥7.0 billion, due to declines in sales prices stemming from intensified competition, higher costs for purchasing other companies' products amid growing orders for complete systems and an increase in sales costs. Net income dropped 30.3% to ¥3.4 billion, due in part to the provision of a reserve for an out-of-court settlement of Nihon Colin's lawsuit against the Company.

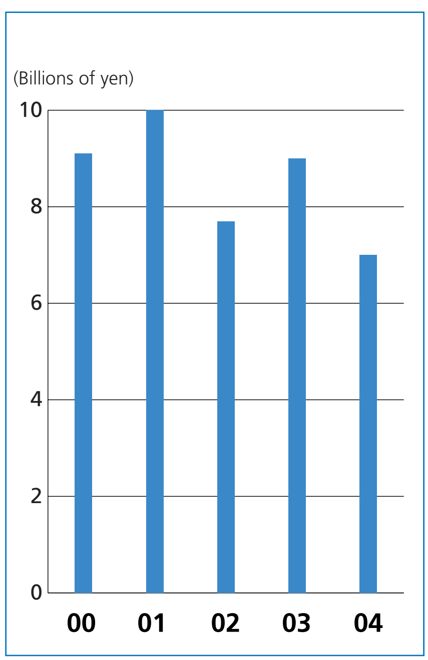
The Company declared a year-end dividend of ¥25.0 per share. Adding the interim dividend, this brought the total annual dividend to ¥40.0 per share.

Note: Nihon Colin Corporation has alleged that Fukuda Denshi's VaSera VS-1000 infringes Nihon Colin's patent, and has asked Fukuda Denshi to cease sales of this product and sought compensation. The Tokyo District Court reached a settlement in May 2004, whereupon Fukuda Denshi set aside a ¥1.0 billion reserve to cover settlement costs. Consequently, the dispute concerning this lawsuit has been resolved.

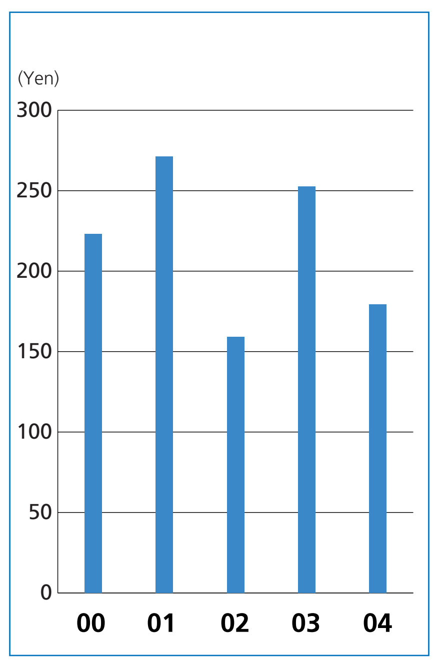
Net Sales by Segment



Operating Income



Net Income per Share of Common Stock



Performance by Business Segment

Physical Examination Equipment

This segment benefited from healthy sales of the world's first electrocardiograph (ECG) with a system that evaluates criteria related to sudden death by heart attack. Other solid performers in our product line included the world's smallest Holter ECG, portable equipment for examining SAS, automatic blood cell count measurement devices and examination equipment with a respiratory and analysis function used for chronic obstructive pulmonary disease. However, a decline in overall sales of ECGs, including those with interpretative features, and pulse oximeters, resulted in only a 1.2% increase in segment sales to ¥23.8 billion.

Patient Monitoring Equipment

Domestic unit sales in this segment increased, thanks to solid replacement demand stemming from an amendment to the 1995 Radio Law, as well as to the growing adoption of IT among hospitals. However, price competition grew fierce, especially in the hospital market. Meanwhile, the introduction of new products helped boost exports.

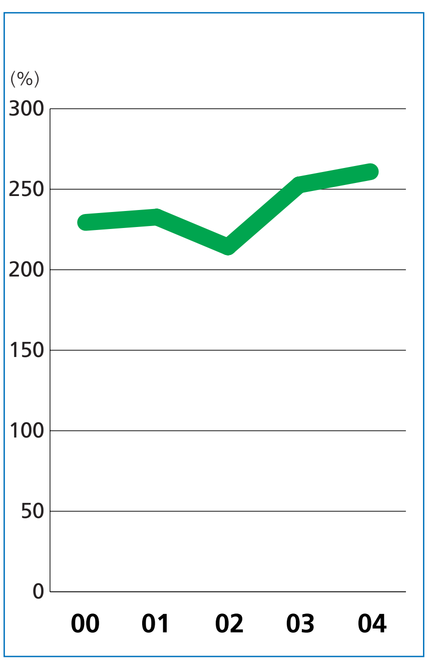
As a result, this segment recorded a 3.9% increase in sales to ¥4.7 billion.

Medical Treatment Equipment

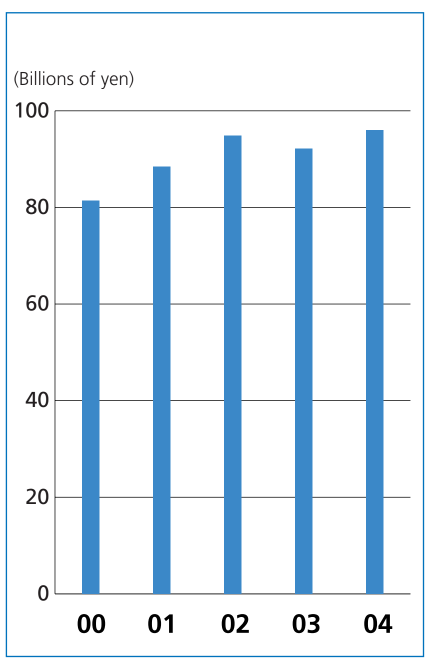
During the year, we reported increases in sales of artificial respirators and equipment used to treat sleep apnea syndrome. We also began supplying a nose-mask-type in-home artificial respirator for patients requiring treatment for serious oxygen-related illnesses.

Nonetheless, the effect of the October 2002 increase in the proportion of medical costs borne by the elderly caused the number of patients using in-home oxygen enrichment devices to stagnate, resulting in lower rental-based revenue. Consequently, sales in this segment edged down 0.7% to ¥25.1 billion.

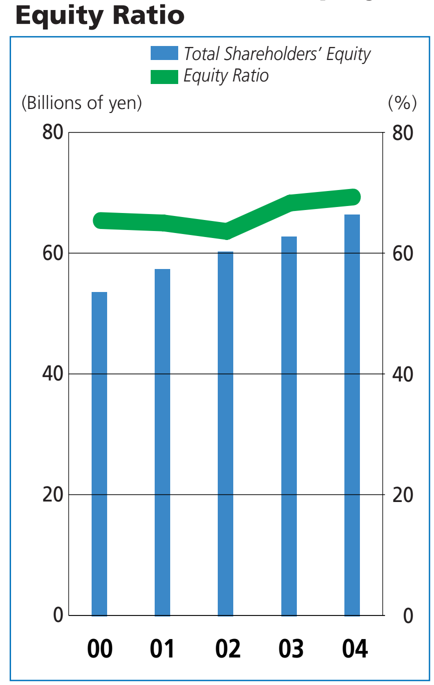
Current Ratio



Total Assets



Total Shareholders' Equity/ Equity Ratio



Other Products and Accessories

This segment mainly covers recording paper, accessories and consumables used with electronic medical equipment. In the year under review, sales of consumables related to SAS equipment increased. As a result, segment sales grew 11.7% to ¥19.4 billion.

Financial Position

Net cash provided by operating activities amounted to ¥9.4 billion, up 140.7% from the previous year. Major factors boosting cash flows included a ¥2.6 billion decline in income taxes paid and an ¥0.8 billion increase in depreciation expense, which outweighed a 34.3% fall in income before income taxes, to ¥6.2 billion.

Net cash used in investing activities totaled ¥3.5 billion, up 15.0%. This was mainly due to a 24.5% rise in payments for purchase of property, plant and equipment to ¥3.7 billion, related to construction of the EMC Center, which was built with the objective of meeting EMC regulations.

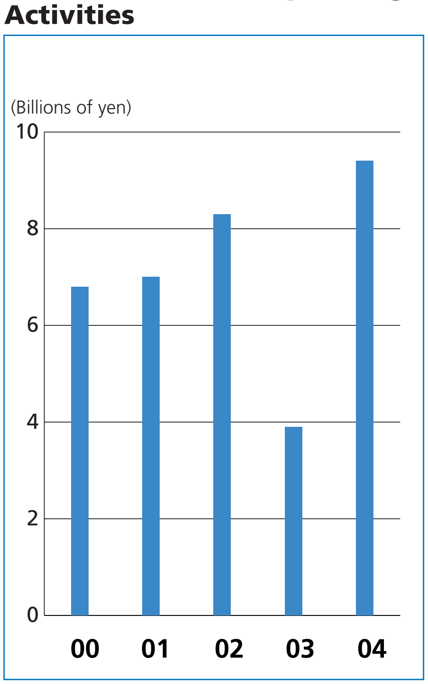
Net cash used in financing activities was ¥3.1 billion, a 186.0% increase. This was mainly due to the repayment of short-term bank loans.

As a consequence, cash and cash equivalents at fiscal year-end stood at ¥28.1 billion, up ¥2.7 billion, or 10.8%, from a year earlier.

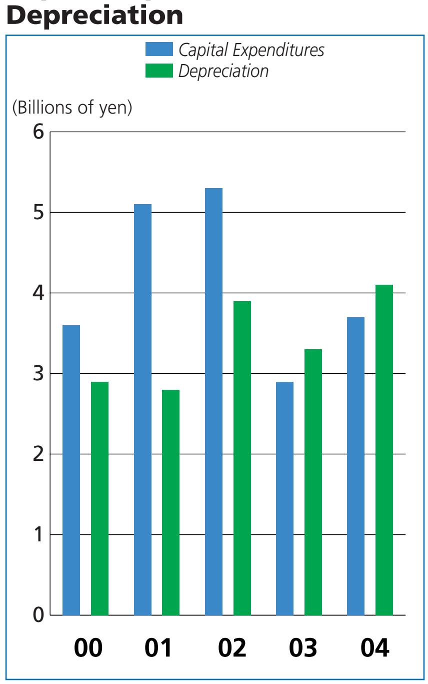
On March 31, 2004, Fukuda Denshi's consolidated total assets amounted to ¥96.1 billion, up ¥3.8 billion from a year earlier. Current assets rose ¥3.8 billion, largely due to a ¥2.8 billion increase in cash on hand and in bank.

Shareholders' equity rose ¥3.6 billion to ¥66.6 billion. Consequently, the equity ratio grew from 68.3% to 69.3%. Return on equity (ROE) fell 2.6 percentage points, due to the decline in net income. However, equity per share (based on the number of shares issued as of March 31, 2004) rose from ¥3,406 to ¥3,600.

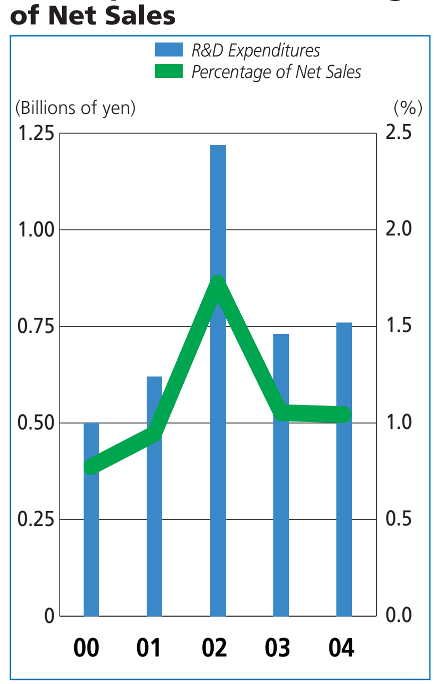
Net Cash Provided Operating Activities



Capital Expenditures/ Depreciation



R&D Expenditures/Percentage of Net Sales



Corporate Governance

Fukuda Denshi aims to be a company that is trusted by society, to which all of its stakeholders—including customers, patients, shareholders and employees—belong. It is undertaking the following measures to reinforce corporate governance.

Corporate governance system

- At Board of Directors' meetings, held at least once a month, the current status of business execution is discussed, and decisions are made regarding major management-related items.
- An Executive Council meeting, attended by top management, is held at least once a month, at which major policies affecting operations are discussed.
- The Audit Office performs an internal "checks and balances" role to strengthen internal auditing, including that of consolidated subsidiaries.
- To enhance management transparency, timely disclosure and the proactive release of information to the public is emphasized. IR activities are also conducted to facilitate smooth communication between the Company and its shareholders and other investors.
- Advice is obtained in a timely manner from legal advisers for matters requiring legal judgments.
- Through audits performed by KPMG AZSA & Co., our independent auditors, proposals that help us improve our operations are received.

Measures taken in fiscal 2004 to reinforce corporate governance

- The Company's Board met 17 times during fiscal 2004, at which decisions were taken on legal items and important matters relating to management. The progress of business enforcement was also covered.
- On October 1, 2003, we introduced an executive officer system and appointed five executive officers, with the following objectives in mind.

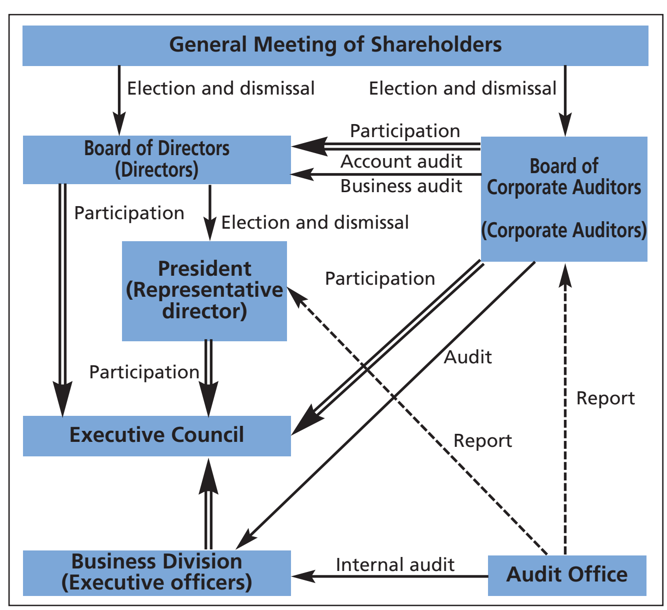
(1) Transfer responsibility and authority to improve management's mind-set and nurture the next generation of managers.

(2) Strengthen corporate governance through a clear distinction between management and enforcement roles.

Board of Directors (As of June 29, 2004)

President	Kotaro Fukuda
Managing Directors	Takashi Takahashi
	Teruo Haraguchi
Directors	Isamu Suzuki
	Susumu Segawa
	Masayuki Iwamoto
	Yoshiyuki Ariyoshi
	Osamu Shirakawa
	Junzo Fujiwara
Standing Corporate Auditor	Yoshimasa Ogawa
Corporate Auditors	Yoshinori Okamoto
	Tetsuya Tamura
	Tatsuo Izawa

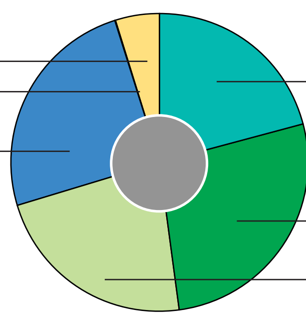
Organization



Corporate Data Fukuda Denshi Co., Ltd., as of March 31, 2004

Established	July 6, 1948 (under the name of Fukuda Denshi Seisakujo)
Capital	¥4,387,000,000
Number of Employees	Consolidated: 2,403 Nonconsolidated: 542
Number of Shares	Authorized: 30,000,000 Issued: 19,404,000
Fiscal Year-End	March 31
Annual Meeting	The annual meeting of shareholders is normally held in June in Tokyo
Stock Listing	JASDAQ (code: 6960)
Transfer Agent and Registrar	Sumitomo Trust & Banking Co., Ltd. 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Independent Public Accountants	KPMG AZSA & Co.

Composition of Shareholders



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
The Melon Bank Treaty Clients Omnibus	1,242	6.40
The Tokyo Tomin Bank, Ltd.	922	4.75
The Bank of Tokyo-Mitsubishi, Ltd.	725	3.74
Mizuho Bank, Ltd.	678	3.50
Nippon Life Insurance Company	672	3.47
Japan Trustee Services Bank, Ltd.	553	2.85

Consolidated Financial Statements

Consolidated Balance Sheets

March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2003	2004	2004
Current assets:			
Cash on hand and in bank (Note 3)	¥25,689	¥28,452	$ 268,411
Marketable securities (Note 5)	500	500	4,717
Trade receivables:			
Accounts and notes	18,306	19,501	183,975
Allowance for doubtful accounts	(209)	(200)	(1,888)
Inventories (Note 4)	13,556	12,969	122,353
Deferred tax assets (Note 8)	1,649	2,024	19,098
Other current assets	1,952	1,965	18,535
Total current assets	61,443	65,211	615,201
Property, plant and equipment:			
Land	5,142	5,237	49,410
Buildings and structures	6,595	6,806	64,207
Machinery and equipment	18,862	15,951	150,477
Construction in progress	22	345	3,253
	30,621	28,339	267,347
Accumulated depreciation	(14,317)	(13,411)	(126,521)
	16,304	14,928	140,826
Investments and other assets:			
Investment securities (Note 5)	3,270	4,997	47,144
Investments in unconsolidated subsidiaries and affiliated companies	528	560	5,284
Deferred tax assets (Note 8)	6,729	6,511	61,425
Other	4,015	3,859	36,403
	14,542	15,927	150,256
	¥ 92,289	¥ 96,066	$ 906,283

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 7)	¥ 9,459	¥ 6,832	$ 64,457
Long-term debt due within one year (Note 7)	6	771	7,274
Trade payables —accounts and notes	10,030	11,189	105,552
Reserve for litigation settlement	—	1,000	9,434
Income taxes payable (Note 8)	1,430	1,837	17,334
Accrued expenses and other current liabilities	3,394	3,361	31,705
Total current liabilities	24,319	24,990	235,756
Long-term debt (Note 7)	774	89	841
Employees' severance and retirement benefits (Note 10)	2,985	3,130	29,527
Retirement benefits for directors and corporate auditors	1,193	1,242	11,715
Other long-term liabilities	12	11	107
Minority interest in consolidated subsidiaries	12	12	111
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized — 30,000,000 shares			
Issued — 19,404,000 shares	4,387	4,387	41,387
Capital surplus	8,684	8,684	81,927
Retained earnings	51,837	54,611	515,194
Net unrealized holding gains (losses) on securities	(129)	761	7,181
Foreign currency translation adjustments	62	(4)	(36)
	64,841	68,439	645,653
Less treasury stock at cost	(1,847)	(1,847)	(17,427)
	62,994	66,592	628,226
	¥ 92,289	¥ 96,066	$ 906,283

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

Years ended March 31, 2003 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Net sales (Note 12)	¥ 70,710	¥ 73,008	$ 688,754
Costs and expenses:			
Cost of sales	37,294	40,091	378,216
Selling, general and administrative	24,411	25,868	244,040
	61,705	65,959	622,256
Operating income (Note 12)	9,005	7,049	66,498
Other income (expense):			
Interest and dividend income	45	318	3,001
Interest expense	(79)	(72)	(679)
Loss on devaluation of investment securities	(396)	(15)	(142)
Gain on life insurance surrender value	717	25	233
Provision for litigation settlement	—	(1,000)	(9,434)
Gain on sales of investment securities	—	119	1,122
Loss on sales of property	(32)	(179)	(1,693)
Extra payment of retirement benefits for early-retirement employees	—	(144)	(1,356)
Other, net	130	69	654
	385	(879)	(8,294)
Income before income taxes	9,390	6,169	58,204
Income taxes (Note 8):			
Current	3,736	3,528	33,287
Deferred	772	(764)	(7,207)
	4,882	3,405	32,124
Minority interest in net income of consolidated subsidiaries	(2)	(3)	(28)
Net income	¥4,880	¥3,402	$ 32,096

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	¥ 252.75	¥ 179.47	$ 1.69
Diluted net income	252.57	179.34	1.69
Cash dividends applicable to the year	30.00	40.00	0.38

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2003 and 2004

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
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)
Net income	—	—	—	3,402	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	(66)	—
Net unrealized holding gains on securities	—	—	—	—	890	—	—
Treasury stock	—	—	—	—	—	—	(0)
Cash dividends paid (¥30.00 per share)	—	—	—	(554)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(70)	—	—	—
Employees' bonus and welfare fund	—	—	—	(4)	—	—	—
Surplus from sale of treasury stock	—	—	0	—	—	—	—
Balance at March 31, 2004	19,404	¥4,387	¥8,684	¥54,611	¥761	¥(4)	¥(1,847)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2003 and 2004

	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, 2003	$41,387	$81,927	$489,029	$(1,219)	$582	$(17,421)
Net income	—	—	32,096	—	—	—
Translation of foreign currency financial statements	—	—	—	—	(618)	—
Net unrealized holding gains on securities	—	—	—	8,400	—	—
Treasury stock	—	—	—	—	—	(6)
Cash dividends paid ($0.25 per share)	—	—	(5,228)	—	—	—
Bonuses to directors and statutory auditors	—	—	(662)	—	—	—
Staff and workers' bonus and welfare fund	—	—	(41)	—	—	—
Surplus from sale of treasury stock	—	0	—	—	—	—
Balance at March 31, 2004	$41,387	$81,927	$515,194	$7,181	$(36)	$(17,427)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2003 and 2004

	Millions of yen 2003	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2004
Cash flow from operating activities:			
Income before income taxes	¥ 9,390	¥ 6,169	$ 58,204
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	3,325	4,130	38,962
Increase in employees' severance and retirement benefits	6	144	1,359
(Decrease) Increase in retirement benefits for directors and corporate auditors	(61)	49	463
Increase in reserve for litigation settlement	—	1,000	9,433
Interest expense	79	72	679
Loss on devaluation of investment securities	396	15	142
Gain on sales of investment securities	—	(119)	(1,122)
Loss on property sold	32	179	1,693
Gain on life insurance surrender value	(717)	(25)	(233)
Decrease (Increase) in trade receivables —accounts and notes	2,023	(1,212)	(11,437)
(Increase) Decrease in inventories	(363)	461	4,346
(Decrease) Increase in trade payables —accounts and notes	(3,844)	1,178	11,110
Other	(606)	272	2,560
Subtotal	9,660	12,313	116,159
Interest and dividend received	36	309	2,915
Interest paid	(81)	(70)	(660)
Income taxes paid	(5,700)	(3,131)	(29,537)
Net cash provided by operating activities	3,915	9,421	88,877
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(2,998)	(3,733)	(35,218)
Proceeds from sale of property, plant and equipment	—	816	7,700
Payment for purchase of marketable securities and investment securities	(769)	(799)	(7,543)
Proceeds from sale of marketable securities and investment securities	100	646	6,098
Payment to life insurance fund for directors	(512)	(390)	(3,679)
Proceeds from life insurance fund for directors	1,498	124	1,174
Other	(402)	(210)	(1,982)
Net cash used in investing activities	(3,083)	(3,546)	(33,450)
Cash flow from financing activities:			
Net increase (decrease) in short-term bank loans	904	(2,623)	(24,743)
Proceeds from long-term debt	—	100	943
Repayment of long-term debt	(6)	(20)	(187)
Dividend paid to shareholders	(573)	(554)	(5,230)
Payment for purchase of treasury stock	(1,419)	(1)	(12)
Proceeds from sale of treasury stock	11	0	6
Other	(1)	(2)	(15)
Net cash used in financing activities	(1,084)	(3,100)	(29,238)
Effect of exchange rate change on cash and cash equivalents	(23)	(33)	(312)
Net (decrease) increase in cash and cash equivalents during year	(275)	2,742	25,877
Cash and cash equivalents at beginning of year	25,640	25,365	239,288
Cash and cash equivalents at end of year (Note 3)	¥ 25,365	¥ 28,107	$ 265,165

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

March 31, 2003 and 2004

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which differ in certain respects as to application and disclosure from the requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated 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 consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to US$1.00. The convenience translations should not be construed as a representation that the Japanese 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

FUKUDA DENSHI CO., LTD. (the "Company") had 50 and 52 subsidiaries as of March 31, 2003 and 2004, respectively. The consolidated financial statements include the accounts of the Company and 46 of such subsidiaries in the year ended March 31, 2003, and 47 of such subsidiaries in the year ended March 31, 2004. 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, 2004, 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 two affiliated companies as of March 31, 2003, and five unconsolidated subsidiaries and three affiliated companies as of March 31, 2004.

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 the moving-average cost. Available-for-sale securities with available fair market values are stated at the 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 the 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 the fair market value and the difference between the 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 the 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 the 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—4years). Depreciation of assets for which the acquisition costs are ¥100,000 — ¥200,000 is provided by the straight-line method over three years.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standards are required to be adopted in periods beginning on or after April 1, 2005, but the standards do not prohibit earlier adoption.

(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 is calculated based on the assumption that all dilutive convertible debentures are converted at the beginning of the year.

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).

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 2003 financial statements to conform to the presentation for 2004.

3. Cash and cash equivalents

The relations between cash and cash equivalents and consolidated balance sheet items at March 31, 2003 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash on hand and in bank	¥ 25,689	¥ 28,452	$ 268,411
Less: Deposit with maturity exceeding three months at the time of purchase	324	345	3,246
Cash and cash equivalents	¥ 25,365	¥ 28,107	$ 265,165

4. Inventories

Inventories at March 31, 2003 and 2004, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Merchandise and products	¥ 11,189	¥ 10,711	$ 101,053
Work-in-process	714	641	6,045
Materials and supplies	1,653	1,617	15,255
	¥ 13,556	¥ 12,969	$ 122,353

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, 2003 and 2004:

Available-for-sale securities:

	Millions of yen					
	2003			2004		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 15	¥ 30	¥15	¥ 1,417	¥2,790	¥ 1,373
Others	—	—	—	143	158	15
Total	¥ 15	¥ 30	¥15	¥1,560	¥2,948	¥ 1,388
Other securities:						
Equity securities	¥ 1,666	¥1,478	¥ (188)	¥ 438	¥ 417	¥ (21)
Others	144	110	(34)	—	—	—
Total	¥ 1,810	¥1,588	¥ (222)	¥ 438	¥417	¥ (21)

	Thousands of U.S. dollars		
	2004		
Type	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$ 13,370	$ 26,321	$ 12,951
Other	1,355	1,493	138
Total	14,725	27,814	13,089
Other securities:			
Equity securities	$4,136	$ 3,934	$ (202)
Others	—	—	—
Total	$4,136	$ 3,934	$ (202)

(b) Total sales of available-for-sale securities sold in the year ended March 31, 2004, and the related gains amounted to ¥146 million ($1,380 thousand) and ¥118 million ($1,122 thousand), respectively.

(c) The following tables summarize the book values of securities with no available fair values as of March 31, 2003 and 2004:

(1) Held-to-maturity debt securities

Type	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Discounted bonds	¥ 500	¥ 500	$ 4,717

(2) Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Non-listed equity securities	¥ 1,652	¥ 1,632	$ 15,396

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

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

	Millions of yen				
Type	Within one year	More than one year but within five years	More than five years but within 10 years	More than 10 years	Total
2004:					
Discounted bonds	¥ 500	—	—	—	¥ 500

	Thousands of U.S. dollars				
Type	Within one year	More than one year but within five years	More than five years but within 10 years	More than 10 years	Total
2004:					
Discounted bonds	$ 4,717	—	—	—	$ 4,717

6. Derivative transactions

The Group did not use any derivative transactions for the years ended March 31, 2003 and 2004.

7. Bank loans and long-term debt

Bank loans at March 31, 2003 and 2004, were unsecured and bore interest ranging from 0.6% to 2.0% per annum and 0.6% to 2.1% per annum, respectively.

Long-term debt at March 31, 2003 and 2004, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Unsecured loans from banks, with interest ranging from 1.60% to 1.79% per annum	¥ 15	¥ 95	$ 898
1.35% domestic unsecured bonds with warrants due in 2005	765	765	7,217
	780	860	8,115
Less: Portion due within one year	6	771	7,274
	¥ 774	¥ 89	$ 841

The annual maturities of long-term debt outstanding at March 31, 2004, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 771	$ 7,274
2006	70	657
2007	19	184
	¥ 860	$ 8,115

8. Income taxes

The company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate statutory tax rate of approximately 42%.

Based on an enacted change in the Japanese tax laws in March 2003, the statutory tax rate was reduced to approximately 41% effective April 1, 2004, and such rate has been used in calculating the future expected tax effects of temporary differences and carryforwards expected to be settled or realized on or after April 1, 2004.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for financial statement purposes for the years ended March 31, 2003 and 2004:

	2003	2004
Statutory tax rate	42.1 %	42.1 %
Net operating loss carryforwards of subsidiaries	1.7	4.4
Non-deductible expenses	1.6	1.6
Special deduction for research and development costs	—	(4.7)
Reduction by change of tax rate	2.7	—
Other	(0.1)	1.4
Effective tax rate	48.0 %	44.8 %

Significant components of the deferred tax assets and liabilities as of March 31, 2003 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Fixed assets	¥ 3,204	¥ 3,325	$ 31,367
Inventories	1,068	960	9,055
Net operating loss carryforwards of subsidiaries	814	947	8,939
Employees' severance and retirement benefits	1,209	1,274	12,017
Reserve for litigation settlement	—	407	3,839
Other	3,520	3,718	35,072
Total deferred tax assets	9,815	10,631	100,289
Less: Valuation allowance	(1,166)	(1,353)	(12,763)
Net deferred tax assets	8,649	9,278	87,526
Deferred tax liabilities:			
Allowance for doubtful accounts	(210)	(149)	(1,402)
Deferred gains on real properties for tax purposes	(34)	(34)	(319)
Other	(27)	(560)	(5,282)
Total deferred tax liabilities	(271)	(743)	(7,003)
Deferred tax assets, net of deferred tax liabilities	¥ 8,378	¥ 8,535	$ 80,523

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, 2003 and 2004, inclusive of interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Machinery and equipment	¥ 232	¥ 304	$2,877
Others	25	25	234
Accumulated depreciation	(120)	(150)	(1,417)
	¥ 137	¥ 179	$1,694

Future lease payments at March 31, 2003 and 2004, of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Due within one year	¥ 49	¥ 55	$ 521
Over one year	88	124	1,173
	¥ 137	¥ 179	$ 1,694

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2003 and 2004, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Lease expenses	¥ 52	¥ 61	$ 576
Assumed depreciation	52	61	576

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, 2003 and 2004, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Due within one year	¥ 11	¥ 10	$ 95
Over one year	11	—	—
	¥ 22	¥ 10	$ 95

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, 2003 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	¥ 7,886	¥ 8,092	$76,340
Unrecognized prior service costs	(13)	(10)	(98)
Unrecognized actuarial differences	(1,411)	(845)	(7,970)
Less fair value of pension assets	(3,477)	(4,107)	(38,745)
Liability for severance and retirement benefits	¥ 2,985	¥3,130	$29,527

Included in the consolidated statements of income for the years ended March 31, 2003 and 2004, are employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service costs —benefits earned during the year	¥543	¥598	$5,637
Interest cost on projected benefit obligation	181	158	1,488
Expected return on plan assets	(70)	(70)	(656)
Amortization of prior service costs	3	3	25
Amortization of actuarial differences	156	290	2,741
Severance and retirement benefit expenses	¥813	¥979	$9,235

The discount rate and the rate of expected return on plan assets used by the Company were 2.0% and 2.0%, 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 by the declining-balance method 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 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).

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 ($20.9) 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, 2004, were export bills of exchange discounted in the amount of ¥154 million ($1,455 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, 2003 and 2004, the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Purchase of recording papers	¥ 1,393	¥ 1,393	$13,150
Purchase of accounting slips	25	25	234
Payment of rent	45	41	396

Dues to Atomic as of March 31, 2003 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Trade payables —accounts and notes	¥ 314	¥ 309	$ 2,915
Other current assets	—	57	536
Other current liabilities	3	2	22
Other non-current assets	13	12	112

(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, 2003 and 2004, the Group had the following transactions with Tokyo Enterprise:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Purchase of land	¥ 13	¥—	$—

The Group had no dues to Tokyo Enterprise as of March 31, 2003 and 2004.

15. Subsequent event

At the June 29, 2004, annual general meeting, the Company's shareholders approved the appropriation of retained earnings at March 31, 2004, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥25.00 ($0.24) per share	¥462	$ 4,357
Bonuses to directors and corporate auditors	28	268

Independent Auditors' Report

To 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 consolidated subsidiaries as of March 31, 2003 and 2004, 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 independently 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, 2003 and 2004, 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.

The U.S. dollars amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004

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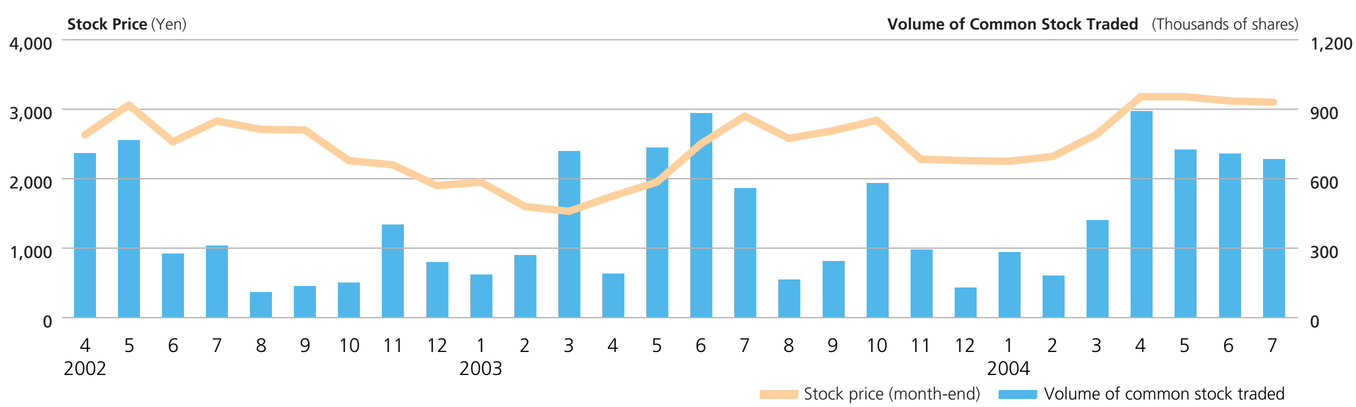
Horiba, Ltd.
Gunze Ltd.
TDK Corp.
Konica Minolta Group
Fujitsu Ltd.

Germany
Siemens AG
MAQUET GmbH & Co. KG

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

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.



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1939~

Vacuum-tube, Battery-operated, Photographic one-channel ECG
First ECG in Japan

1950~

Heat Pen • Direct Writing ECG
RS-1
Produced from 1951, Differential Amp adopted, First direct-writing ECG.

1960~

66 Corporate philosophy established: Contribute to medical advances and the health of society

1970~

73 No products, no company: Expanding our product lineup

2000~

Portable Color Doppler Ultrasound System
UF-750XT
Fully software-controlled Image Processing (F-XT technology)

Vascular Screening
VS-1000 CAVI
Diagnostic equipment for measuring blood pressure and pulse waves

Digital Holter Recorder
FM-150
A lightweight and super-compact body with a newly developed single-use electrode system

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