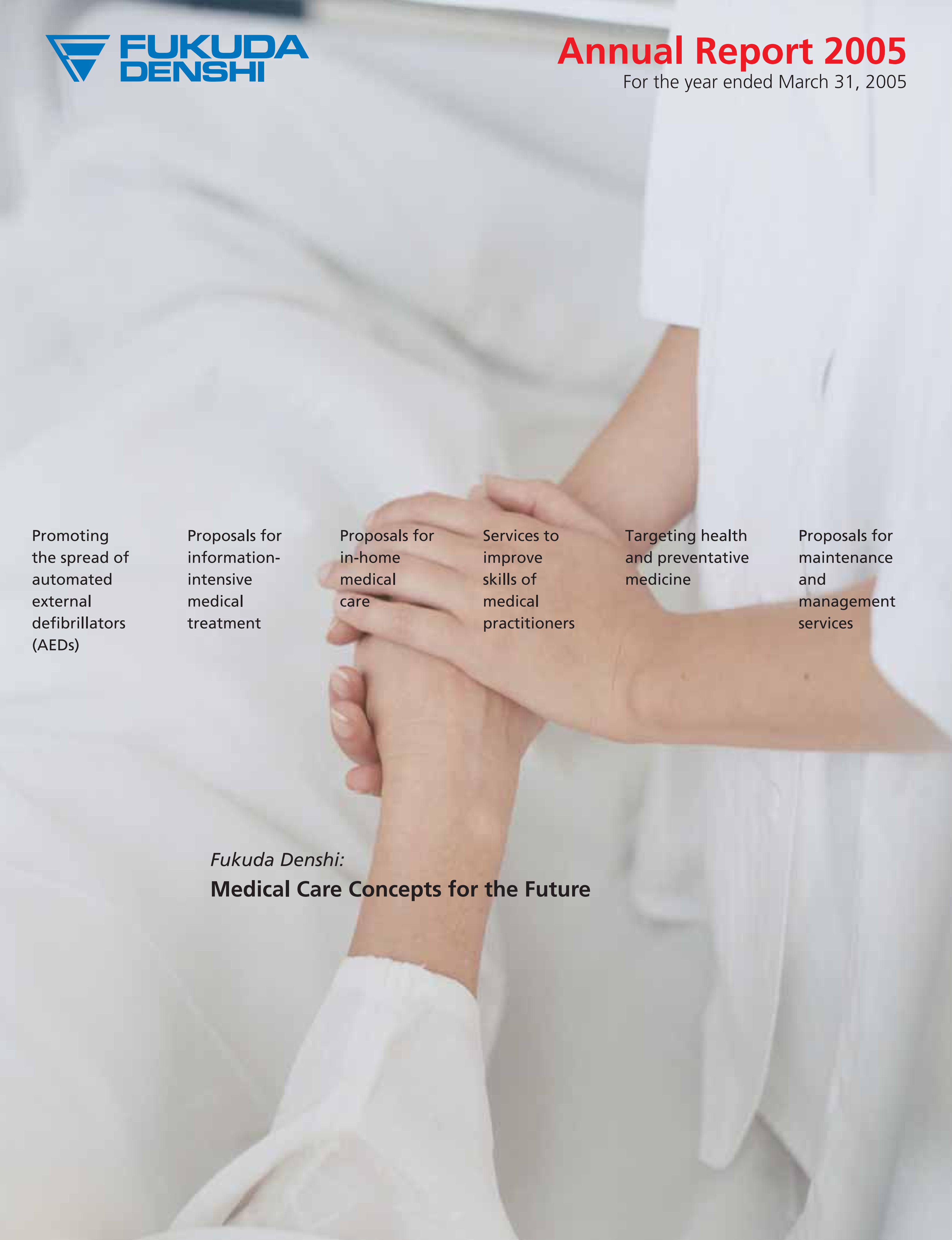


FUKUDA DENSHI

Annual Report 2005

For the year ended March 31, 2005

Promoting the spread of automated external defibrillators (AEDs)

Proposals for information-intensive medical treatment

Proposals for in-home medical care

Services to improve skills of medical practitioners

Targeting health and preventative medicine

Proposals for maintenance and management services

Fukuda Denshi:

Medical Care Concepts for the Future

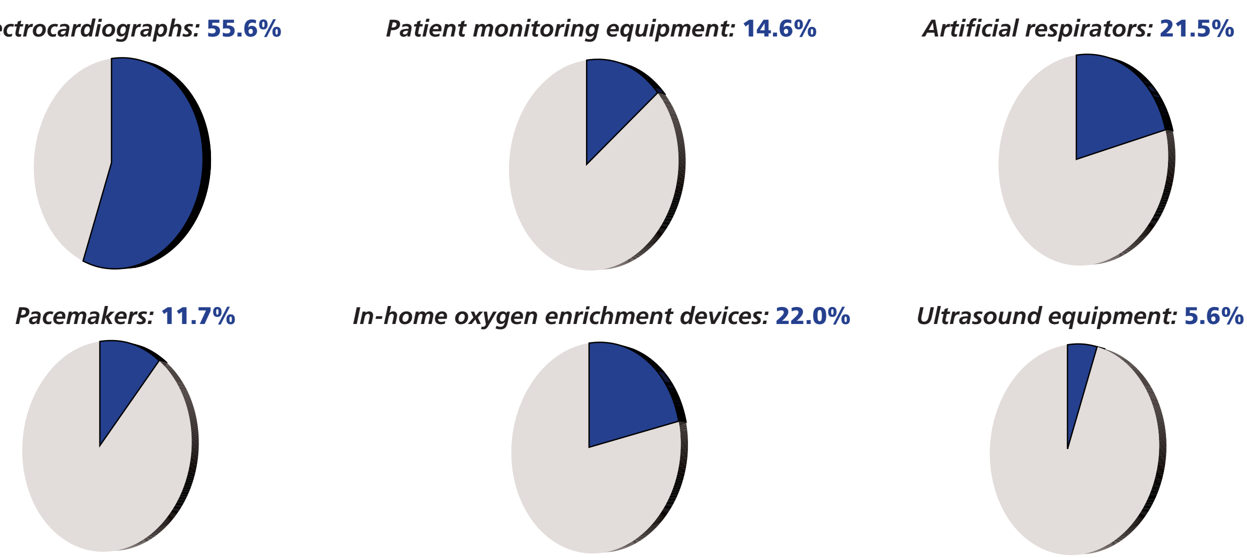
Profile

For the over 65 years since its inception, Fukuda Denshi Co., Ltd. has contributed significantly to the advancement of people's health through the production and sale of a wide range of medical equipment centering on respiratory and circulatory functions. We have conducted this under our corporate philosophy to "Foster medical advances in Japan and around the world through the manufacture and marketing of medical equipment."

Today, we boast more than half of the domestic market share in the sale of electrocardiographs (ECGs), and have many products that enjoy top or second biggest share built on our sales networks that are closely connected to local communities. The stable revenue base we have established enables these achievements.

The major business line of Fukuda Denshi has been one that helps the diagnosis and treatment of diseases. While responding to the significant changes in the social environment over the years, we are playing a larger role in enhancing preventive medicine and quality of life (QOL). We are unwavering in our resolve to continue our product strategies that meet the ever-changing medical needs and to focus on improving quality and reducing overall costs. By doing so, we aim to proactively implement our social mission as a medical equipment manufacturer and become a "company that is trusted by society."

Domestic Market Share of Major Equipment Handled by Fukuda Denshi (based on fiscal 2003 figures unless otherwise noted)



Performance in fiscal 2001

Source: Yano Research Institute Ltd., Market Share for Fiscal 2003

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

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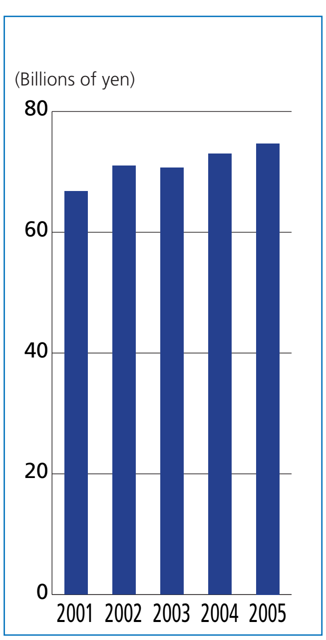
Consolidated Financial Highlights

Year ended March 31

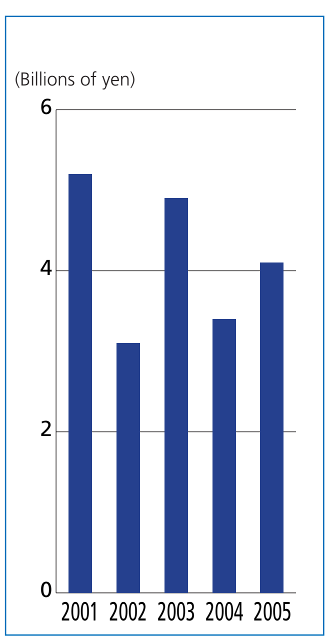
	Millions of yen					Thousands of U.S. dollars
	2001	2002	2003	2004	**2005**	**2005**
For the year:						
Net sales	¥66,778	¥71,042	¥70,710	¥73,008	**¥74,659**	**$697,752**
Operating income	10,079	7,751	9,005	7,049	**7,220**	**67,481**
Net income	5,232	3,053	4,880	3,402	**4,075**	**38,085**
At year-end:						
Total assets	88,599	94,930	92,289	96,066	**99,428**	**929,231**
Shareholders' equity	57,575	60,402	62,994	66,592	**72,320**	**675,889**
Equity ratio (%)	65.0	63.6	68.3	69.3	**72.7**	
	Yen					U.S. dollars
Per share of common stock:						
Net income	¥ 271.32	¥ 159.06	¥ 252.75	¥ 179.47	**¥ 213.78**	**$ 2.00**
Shareholders' equity	2,999.97	3,146.99	3,406.34	3,600.13	**3,766.12**	**35.20**
Cash dividends	30.00	30.00	30.00	40.00	**80.00**	**0.75**
Dividend payout ratio (%)	18.0	32.4	21.5	25.0	**92.3**	
Return on assets (ROA) (%)	6.2	3.3	5.2	3.6	**4.2**	
Return on equity (ROE) (%)	9.4	5.2	7.9	5.3	**5.9**	

Note: U.S. dollar amounts are rough equivalents and translated, for convenience only, at the rate of ¥107 to US$1.
Return on assets = Net income (loss) ÷ Total assets (yearly average) x 100
Dividend payout ratio is calculated by nonconsolidated figures.

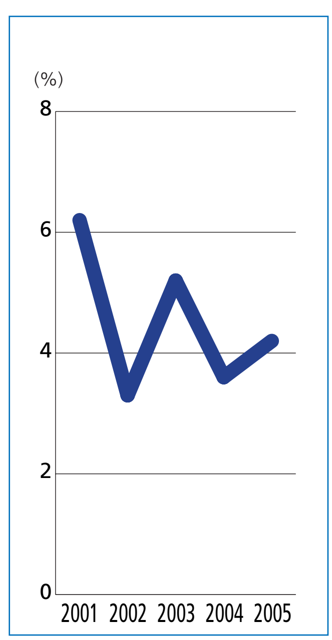
Net Sales



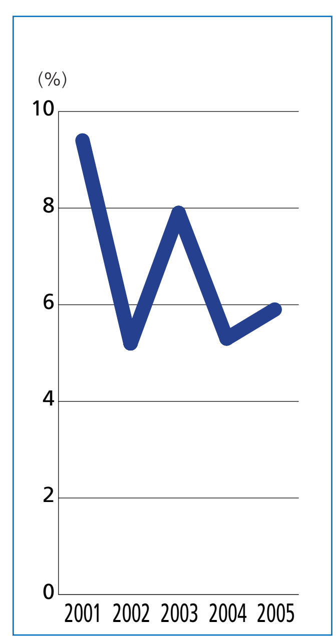
Net Income



ROA



ROE



Message from the President

Kotaro Fukuda
President and Representative Director

Performance in the Fiscal Year Ended March 2005

The consolidated performance of the Fukuda Denshi Group for the fiscal year ended March 2005 was ¥74,659 million in net sales, a 2.3% increase compared to the preceding year (all comparisons hereafter the same unless otherwise indicated), ¥7,220 million in operating income, a 2.4% increase, and net income of ¥4,075 million, a 19.8% increase.

The environment of the medical equipment industry continues to be severe due to the impact of medical system reforms seeking to contain medical costs. Within these conditions, our group has conducted sales and marketing activities using our powerful national sales network as a weapon and successfully posted results that exceeded our forecasts.

Among our products, our patient monitoring equipment and defibrillators both performed admirably. The patient monitoring equipment experienced growth in domestic sales due to special replacement demand stemming from amendment of the Radio Law in 1996 and defibrillators have been successful due to rapid market expansion as a result of the July 2004 decision permitting the general use of automated external defibrillators (AED).

Forecasts for the Fiscal Year Ending March 2006

Medical system reforms will continue to be pursued and the environment of the medical equipment industry will continue to be severe in the year ending in March 2006 including negative revisions to treatment payments and the management of medical institutions that place a stronger emphasis on profitability.

Within this environment, Fukuda Denshi will proactively introduce new products that are competitive and unique, expand sales by reinforcing our product lineup and reduce costs including manufacturing costs and expenses. Accordingly, we forecast net sales of ¥82.6 billion (10.6% increase) and net income of ¥2.9 billion (28.8% decrease).

Medical Care Concepts for the Future

Japanese healthcare is at a major turning point. In addition to rapid aging, advancement of healthcare, increasing sophistication of technology and such, healthcare is being asked to not only save and treat individuals but to also be involved in prevention, health management and the improvement of QOL. Simultaneously, aging and the increased sophistication of healthcare technology are leading to soaring medical costs, making rebuilding of the health insurance system an urgent task.

In healthcare there is also a great demand for the efficient provision of services that have realized cost reductions.

Naturally the medical equipment industry is also in the midst of major changes. Up until now, medical equipment has played a role in diagnosing illnesses and treatment but from now on their role will need to undergo tremendous change.

The Fukuda Denshi Group is pursuing the following six measures as a "Medical Care Concepts for the Future" and the implementation and proposal of businesses that have captured new medical needs in advance.

*Promoting the spread of automated external defibrillators (AEDs)

Selling equipment with high "life-saving" rates, providing 24-hour emergency support through our maintenance service contracts, etc.

*Proposals for information-intensive medical treatment

Proposing general diagnostic support network systems and general patient information systems using the latest IT technology, etc.

*Proposals for in-home medical care

In addition to introducing new products, providing total services, from inspections to treatment, proposing the improvement of the quality of life through elaborate 24-hour support via our national network, etc.

*Services to improve skills of medical practitioners

Holding local seminars and practical user training sessions aiming to raise customer satisfaction, maintaining a full-time training center, etc.

*Targeting health and preventative medicine

Introduction of new products that focus on preventing illness and maintaining health including medical fitness equipment and heart rehabilitation equipment, providing examination equipment for lifestyle-related diseases, etc.

*Proposals for maintenance and management services

Strengthening our safety management system further to meet the reinforcement of measures to secure safety of medical equipment generated by revisions to the Pharmaceutical Affairs Law in April 2005, promoting the sale of the Maintenance Activity Record Information System (MARIS), which is our safety inspection system with proprietary functions, etc.

Future Growth Strategy

In addition to implementing our corporate duty of meeting societal demands, Fukuda Denshi needs to attain continual growth as we strive to raise our corporate value.

Fukuda Denshi has established the corporate goals of continual growth and securing profitability, and stipulated the specific targets of ¥100 billion in consolidated sales in the year ending March 2011 along with overseas sales of ¥13 billion. The following four measures are our basic strategy as we strive for this.

*Transformation into a global corporation
*Reinforcement of our corporate constitution
*Promotion of strategic M&As
*Promotion of an R&D strategy

As the guideline for achieving these corporate targets, we are establishing a three-year medium-term business plan from the beginning of the fiscal year and are continually tackling group-wide issues by organizing project teams and other measures. The new three-year medium-term business plan commencing in the fiscal year ending March 2006 aims to realize consolidated sales of ¥87 billion in its concluding fiscal year ending March 2008. Fukuda Denshi is specifically pursuing the following measures.

<u>Expanding the hospital market</u>
- Expanding and reinforcing the consumables business
- Expanding the maintenance and service business
- Expanding and reinforcing the IT business

<u>Reinforcing the constitution for securing profits</u>
- Expanding profits by reinforcing sales policies including project-based sales promotion of system products
- Reinforcing competitiveness by introducing new products with high added-value
- Total cost reductions by shortening time-to-market, reducing logistics costs, etc.

<u>Reinforcing marketing channels in overseas markets</u>
- Expanding and reinforcing sales bases through alliances
- Reinforcing competitiveness of strategic overseas products

<u>Reinforcing the R&D system and intellectual property rights</u>

<u>Reinforcing alliances including M&As</u>

To Our Shareholders and Investors

Recently there are increasing situations that make us think about the societal significance of companies including calls for ecological procurement and investment into corporate social responsibility (CSR). Fukuda Denshi established the Fukuda Foundation for Medical Technology in 1990 as a part of its 50th year anniversary commemoration. Each year we provide assistance to medical technology research. Furthermore, Fukuda Denshi has also proactively supported activities in disaster areas including donating infection prevention kits to people in the Sumatra Earthquake.

In the summer of 2005, Fukuda also acquired the naming right to the Soga Sports Park in Chiba City, which had been constructed as the first dedicated soccer field in Japan and named it Fukuda Denshi Arena. This was also a part of our CSR activities and has had a great multiplier effect bringing improved name recognition, image and employee motivation. Fukuda Denshi will continue to act with the belief that corporations are a part of society and will create new value and exercise our social responsibility by effectively utilizing the assets deposited with us by stakeholders.

As for dividends, we are aiming for a dividend payout of 30% on a consolidated basis. We intend to proactively invest in securing competitiveness despite the severe competitive climate. We ask our shareholders for their understanding and long-term support.

Kotaro Fukuda

President and Representative Director

A Further Leap Forward ~Overseas Business Strategy~

Endeavoring to Be the Global Leader

The world is currently witnessing a rapid globalization of the economy and the increased mobilization and homogenization of every business field. Within such an environment, competition among companies is crossing borders and becoming more international. The medical equipment industry is no exception.

Fukuda Denshi is poised to meet the challenges of this era of globalization, and aims to solidify its position as it further reinforces its presence in the medical equipment industry where competition is expected to intensify even further. With this aim, we have been constructing a three-hub organization outside Japan to take a further leap forward in our overseas operations. In 1994, Fukuda Denshi established a joint venture in China; a new wholly-owned firm was set up in the U.S. in 1996; and the UK branch office was built in 1996. Now that the three-hub organization has been finalized, our overseas operations are already shifting to the next phase: a full-fledged expansion of our global business by promoting a strategy that is in tune with the market and centered on local hubs.

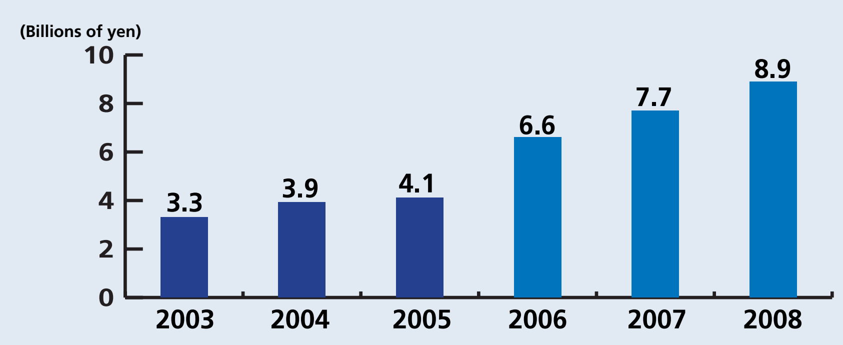
As we continue to reinforce our efforts in the overseas market, our business units will strengthen their mutual ties from a global perspective. In this way, we will enhance our lineup of strategic products and optimize our manufacturing and marketing operations. We anticipate that the intense competition will further hone our competitive edge.

Overseas net sales of the Fukuda Denshi Group in fiscal 2005 reached ¥4,115 million, or 5.5% of overall net sales.

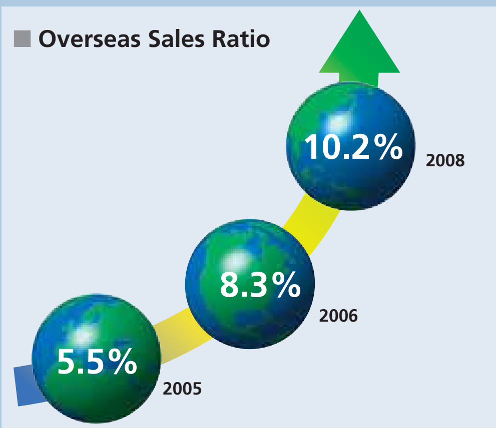
In our medium-term business plan, we will promote the following measures:
- Enhance and expand product lineups
- Strengthen regional strategies
- Reinforce marketing channels

We will further expand our overseas sales by conducting these and other measures. In this segment, we are targeting overseas sales of ¥8,900 million, or 10% of overall net sales, in three years (fiscal 2008) and ¥13,000 million, or 13% of overall net sales, in six years (fiscal 2011).

■ Overseas Sales Targets



■ Overseas Sales Ratio

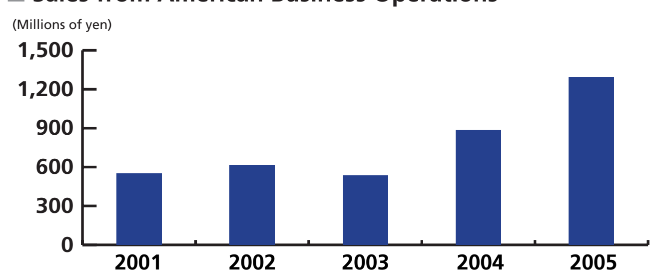


American Operations

(Canada, the U.S. and Latin America)

FUKUDA DENSHI USA, INC.
Address: **17725 N.E. 65th Street Bldg. C, Redmond, WA 98052, U.S.A.**
Tel: **+1-425-558-1661** *Fax:* **+1-425-558-1662**
URL: **http://www.fukuda.com/index_usa.html**

■ Sales from American Business Operations



■Establishment of Fukuda Denshi USA

Fukuda Denshi initiated activities in the U.S. market in 1959 with the export of ECGs through distributors. Sales grew steadily and the Company established a wholly-owned local subsidiary in 1983 to handle marketing of products, centering on monitors. This marketing arm was later closed, but we established a new subsidiary, Fukuda Denshi USA, Inc., in Seattle in 1996, to handle maintenance service team (SVC), user support for obtaining certificates from the Food and Drug Administration (FDA) and other bodies.

This new subsidiary has accelerated introduction of new products into the U.S. market and is contributing to a steady increase in sales. Our sales in North America increased from ¥400 million in fiscal 2001 to ¥1,147 million in the fiscal year under review, representing nearly 30% of total overseas sales.

At present, sales in the U.S. market are directly conducted from our headquarters in Tokyo. However, a locally based, dedicated marketing team is cooperating closely with staff at headquarters in product planning and implementation of marketing strategies.

■ Realizing our targets

For over 20 years, Fukuda Denshi has been garnering success in the highly competitive U.S. market through continuous marketing activities, both directly and via distributors, in the primary care and hospital markets. As in the Japanese market, a reputation for speedy service and a high level of customer satisfaction has been gained. User confidence is one of our major strengths.

Fukuda Denshi is working to achieve overseas sales targets set for fiscal 2008 and fiscal 2011 by focusing on the following three measures.

- Launch new products with a strong competitive edge
- Intensify and expand marketing network throughout the U.S. by establishing a "hybrid" marketing channel
- Accelerate responses to demands from Latin America and Canada

■Launching new products with a strong competitive edge

While the U.S. market for ECGs is virtually saturated, significant growth is expected in new Holter-type products, diagnostic ultrasound imaging equipment and patient monitoring equipment.

More specifically, we will expand our lineup of UF-800 series diagnostic ultrasound imaging equipment, DS-7300 and DS-7600 patient monitoring equipment, and provide superior versions of these products to reinforce our competitiveness in the hospital market and advance our expansion strategy.

■ Expanding and enhancing marketing channels

We will work to establish a hybrid-type marketing channel so that direct sales by our subsidiary and through dealers are conducted in parallel. We have two options for direct marketing that we are currently studying: 1) Establishing a new sales company, or 2) Expanding the functions of Fukuda Denshi USA.

■ Expanding into Canada and Latin America

In our future overseas hub structure, Fukuda Denshi USA will extend its roles to cover not only the U.S. but also the entire Americas by conducting strategies that are in tune with the market. We plan to have our U.S. subsidiary directly supervise marketing in Latin America and Canada and quickly adapt to different product standards, and thus strengthening our marketing capabilities in the Americas.

Strategic Products for Overseas Markets

Higher-Resolution and More Compact

Full Digital Diagnostic Ultrasound Imaging Equipment

UF-850XTD

The UF-850XTD presents images clearly on a large display by utilizing proprietary F-XTD technology and the advantages of full digitization. Also equipped with a full software system, the UF-850XTD also copes flexibly with equipment upgrades. Its compact body and easy operability are also attractive elements of this device.

– High performance, high image quality and saves space
The new digital beam former embedded on a single chip and ultra high-speed F-XTD processors have enabled this machine to provide high performance, high image quality and a compact size.
– High-speed start-up relieves the stress of waiting time
As start-up time takes less than thirty seconds, waiting time is cut and examinations can be promptly commenced.
– High accuracy even in peripheral sections
All superficial areas from superficial organs such as carotid arteries, peripheral blood vessels, mammary glands and thyroid glands, orthopedic areas including muscles and tendons to subcutaneous tumors are supported with high-resolution images.
– FDM filing system for easy storage and management of vast amounts of data
Saves ultrasound images in digital data format as is. Supports flexible diagnoses such as searches and comparative studies of past data.
– Copes flexibly to upgrades
Adopts a full software system that enables upgrades to be conducted in a short period of time by installing software from the MO drive.

European Operations

(Western and Eastern Europe, Africa and the Middle East)

FUKUDA DENSHI UK
Address: **13 Westminster Court, Hipley Street, Old Woking, Surrey UK**
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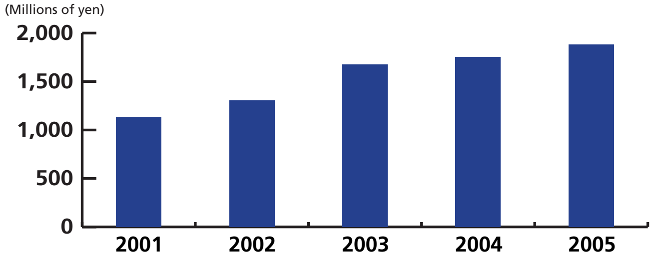
URL: **http://www.fukuda.co.uk/**

Sales from European Business Operations



Establishment of UK branch office

After starting export operations of ECGs to what was then West Germany in 1960, Fukuda Denshi conducted sales in Europe through distributors. Since setting up the UK branch in London in 1996 to expand into the hospital market, we have conducted direct marketing and expanded SVC, to steadily increase sales in the region.

We achieved sales of ¥1,337 million in Europe in fiscal 2005, or almost 30% of total overseas sales.

Acquisition of Kontron

In May 2005, we acquired both the French firm, Kontron Medical SAS, and Swiss firm, Kontron Medical AG. Kontron is an established manufacturer highly regarded for its diagnostic ultrasound imaging equipment that currently conducts product development, manufacturing and marketing mainly in Europe.

These acquisitions have secured new marketing bases in Europe for Fukuda Denshi. Moreover, there are great expectations concerning product synergy. We have already started joint development and marketing of superior models of ultrasound equipment, as well as launched Fukuda Denshi's patient monitoring equipment to the replacement market.

Realizing our targets

In the European market there is severe competition with major players for ECGs, diagnostic ultrasound imaging equipment and patient monitoring equipment. Under such conditions, Fukuda Denshi is actively conducting operations in the major European markets of the UK, Italy, France and Germany through branch offices, subsidiaries and distributors. We also have several distributors in other countries so the entire European market can be covered. This vast network is one of our strengths in the region.

In order to achieve our overseas sales targets for fiscal 2008 and fiscal 2011, Fukuda Denshi is currently conducting the following three measures with the belief that it is essential that we realize them as soon as possible:

- Launch new products with a strong competitive edge
- Reinforce sales capabilities by upgrading the UK branch office to a local subsidiary and other measures
- Accelerate responses to different languages and standards for products to various European Union members and countries in Africa and the Middle East

Launching products with a strong competitive edge

We will strengthen our product lineup, including such strategic products as the UF-800 series diagnostic ultrasound imaging equipment, DS-7300 and DS-7600 patient monitoring equipment, and FM-180 and other Holter ECGs. We will also work to shorten product delivery time by establishing logistics bases.

Reinforcing sales organizations in the UK, France and Germany

In order to achieve future growth in Europe, we believe it is essential to have our UK branch office and Kontron Medical conduct strategies that are in tune with the European market. In this regard, we will convert the UK branch office into a local subsidiary in the near future.

Presently, we plan to position the UK branch office as the core institution for sales, maintenance and service of patient monitoring equipment throughout Europe, while strengthening our sales system in France and Germany, centered on Kontron Medical.

Expanding to Eastern Europe, the Middle East and Africa

With Kontron Medical at the core, we plan to reinforce our marketing in the Eastern European market, where future growth is anticipated, and also in the Middle East and Africa. We expect to achieve sales growth of 8% in the Middle East and 65% in Africa in three years.

Strategic Products for Overseas Markets

New Dimensions of High-Spec Monitors

Bedside Monitor

DS-7300

The DS-7300 is a high-performance bedside monitor, featuring the flexibility demanded by intensive-care environments such as ICU and CCU. One-touch operations of complicated processes have been enabled through a touch panel on a large 15-inch color LCD screen. This device exhibits sophisticated performance yet realizes easy operability for staff.

– Flexible configuration of measurement parameters
Adoption of a highly flexible system of multi-role amplifiers enables the invasive blood pressure, cardiac output and temperature to be freely configured simply by switching interface cables.

– Flexible system layout
Designed so that the main unit, monitor and input module can be separated and placed apart to ensure a layout optimal for the location where the device is to be placed.

– Abundant graphic displays
In addition to real-time waveforms, the DS-7300 simultaneously displays various data such as trend graphs, respiration information and OCRG. Such abundant screen configurations for different use environments means any changes in the conditions of the patient can be immediately grasped.

– Compatible with network communications
The DS-7300 supports the development of a network centralized at a central monitor and can be used with a mix of interactive wireless communication, telemetry and LAN.

Strategic Products for Overseas Markets

For an Effective and Efficient Monitoring Environment
Central Monitor
DS-7600

The DS-7600 is a new type of central monitoring system that combines hard-wired and telemetry systems. The use of interactive wireless communication (TCON) in addition to conventional telemeters has optimized the past inconveniences of setting and measurement processes and thereby supports reductions in labor and improvements in daily work of staff.

– Displays up to 16 people
Employment of the three communication system types of hardwired (DS-LAN), wireless (telemeter) and interactive wireless communication (TCON) enables waveforms, measurement information, etc. to be displayed for up to 16 people, realizing various screen displays that are suited for different situations.

– Simplified alarm and patient attribute settings
Operations on one of either the central monitor or bedside monitor will enable interlocked registration of patient attribute inputting and alarm settings.

– Start measurement of non-invasive blood pressure (NIBP) from the nurse center
As one interactive wireless communication function, the measurement of NIBP can be instructed via remote operation from the central monitor.

– Night mode can be set via remote operation
Night mode that involves lowering the brightness of the bedside monitor screen can also be set via remote operation from the central monitor.

Asian Operations
(Asia, China and the Pacific)

BEIJING FUKUDA DENSHI MEDICAL INSTRUMENTS CO., LTD.
Address: **No. 8 Hongda North Road, Beijing Economic - Technological Development Area, Beijing 100176, People's Republic of China**
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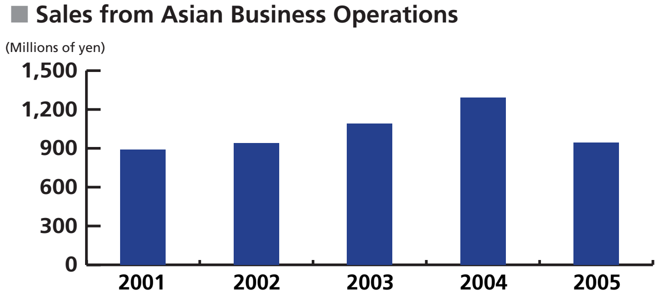
■ **Sales from Asian Business Operations**



■ Forays in Asia
In 1958, Fukuda Denshi set up a representative office in Taiwan to offer after-sales service for products. This was our first overseas base. Since then, sales have been growing in Asia through our distributors in South Korea, Thailand, Indonesia and other countries in the area. In 1994, we established a joint venture, Beijing Fukuda Denshi Medical Instruments Co., Ltd., in Beijing, China using local capital and initiated local production and sales.

We achieved sales of ¥930 million in Asia in fiscal 2005, or almost 20% of total overseas sales.

■ Promoting sales through local subsidiary in China and distributors in other areas
In general, Asia is continuing to enjoy market expansion. Particularly in China and India, competition is becoming increasingly severe in the medical equipment segment as a result of the rapid expansion of these markets.

In Asia, we have accumulated friendly and long-term relationships and performance with distributors in each country. This is our strength in the region.

In China, where the market is showing remarkable growth, our existing local subsidiary is conducting manufacturing and sales activities. Moreover, this subsidiary obtained a license for the import and sale of finished products in 2004, and started importing finished products. Currently, we are responding to the needs of the growing market by conducting both complete/semi-complete knockdown operations and the import business.

In the future, we plan to expand our business based on a strategy that is in tune with the market, centered on Beijing Fukuda Denshi Medical Instruments in China. In other areas of the Asia-Pacific, we will focus on expanding sales through major distributors and set up maintenance and technical support bases as needed.

Realizing our targets

Fukuda Denshi believes that the key to realizing the overseas sales targets set for fiscal 2008 and fiscal 2011 is to launch highly competitive products in a timely manner into the Asian and other markets.

We believe the key is to defeat the competition by launching highly competitive new products in a well-timed manner in the Asian markets, as is done in other markets. We have positioned the UF-800 series diagnostic ultrasound imaging equipment, FM-180 Holter recorders and VaSera VS-1000 blood pressure and pulse wave monitoring equipment as our strategic products. Moreover, particularly in China, we have prepared an organization in which we conduct not only manufacturing and marketing but also development of some products locally.

Other than in China, we believe that it is increasingly necessary to respond in a way in which we are in tune with the market. We assume that we may have to set up a new base in Southeast Asia in the near future.

As mentioned above, we have an established manufacturing base in China and have secured a framework of cooperative relationships with leading distributors in other Asian countries.
We will build upon these strong foundations and work to further expand sales by reinforcing our product ranges.

Strategic Products for Overseas Markets

Realizes Greater Accuracy and Patient-Friendly Examination

World's First Waterproof Digital Holter Recorder

FM-180

The FM-180 has emerged in pursuit of true 24-hour measurement. Equipped with a waterproof function, this device enables measurement while taking a bath as well as the recording of the volume of physical activity while awake and even in various body positions during sleep. This palm-size device is concentrated with advanced performance yet does not neglect considerations towards minimizing the burden on patients.

– Waterproof structure enables use also while taking a bath
The waterproof structure has enabled use while taking a bath and thus eliminated the past restrictions on taking baths to realize 24-hour electrocardiogram recording while leading one's normal daily life.

– No restrictions
With the elimination of such restrictions as taking baths during examination, this device enables examination in various situations of daily life without decreasing the QOL.

– Records body position information
Simultaneous recording of body position information is possible in addition to the volume of physical activity. This information can be used as another index.

– Displays real-time electrocardiogram
The display screen can display not only the current time but also electrocardiograms and heart rates in real time and the display can be switched with the push of a button.

Management's Discussion and Analysis

Performance Overview

During the fiscal year ended March 2005, Fukuda Denshi achieved consolidated net sales of ¥74,659 million (2.3% increase compared to the preceding year; all comparisons hereafter the same unless otherwise indicated), consolidated operating income of ¥7,220 million (2.4% increase) and consolidated net income of ¥4,075 million (19.8% increase).

In April 2004, the medical equipment industry experienced price revisions for treatment, pharmaceuticals and Special Insurance Medical Materials (SIMM). This was part of the medical system reforms conducted by the Japanese government. In addition, the country's national hospitals and other public medical institutions were converted into independent administrative institutions. These shifts heightened the cost consciousness of medical institutions and were followed by an ongoing trend of reviewing and constraining capital investments leading to an environment of even more severe sales price competition. Moreover, there were proactive activities toward the reorganization of the industry, including corporate tie-ups, joint ventures and business disposals.

Under these difficult conditions, Fukuda Denshi capitalized on its strong marketing framework to undertake company-wide sales activities and was able to achieve increases both in revenues and profits over the previous year.

Performance by Business Segment

Physical Examination Equipment: Segment sales of ¥23,217 million (2.4% decrease)

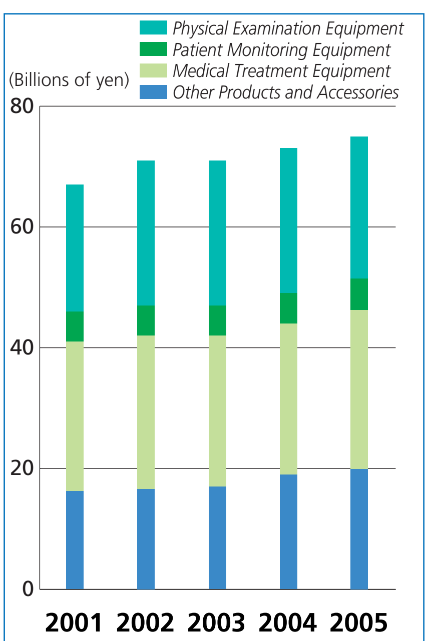
In this segment, we manufacture, purchase and sell ECGs, phonocardiographs, polygraphs, diagnostic ultrasound imaging equipment and other products that translate physical signals — indicating organic functions such as electrocardiograms, phonocardiograms, pulse waves, blood pressure, aspiration and organ movements — into electrical signals so that they can be measured and recorded as data.

During the fiscal year, sales increased for stress test systems that measure the stress placed on the heart during physical exercise, polygraphs and automatic blood cell count measurement devices. However, sales decreased for ECGs, diagnostic ultrasound imaging equipment and vascular screening systems. User recognition of our Cardio Ankle Vascular Index (CAVI) method has been increasing, though it is yet to be fully dispersed. CAVI has solved problems utilizing conventional methods that were pointed out by the academic society.

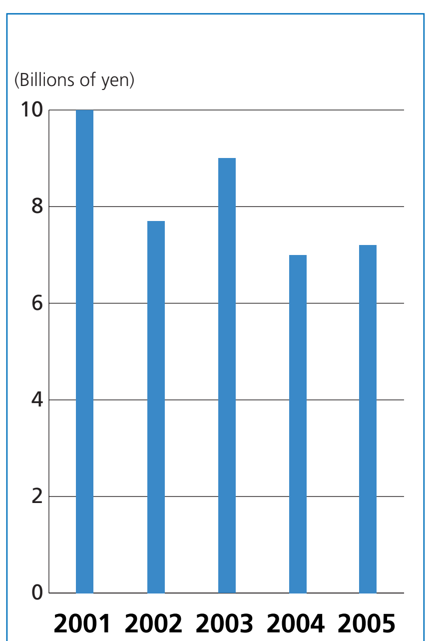
Patient Monitoring Equipment: Segment sales of ¥5,227 million (10.3% increase)

In this segment we manufacture, purchase and sell electrocardiogram monitors, which are used for the long-term management of various organic functions of post-surgery patients in critical states, patients suf-

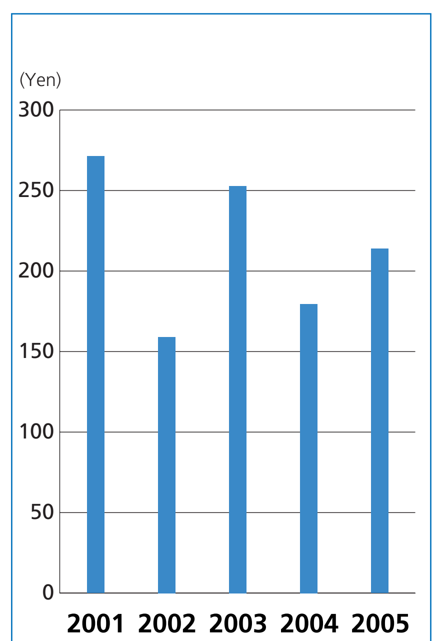
Net Sales by Segment



Operating Income



Net Income per Share of Common Stock



fering from acute cardiovascular diseases and other patients, as well as various combinations of monitoring devices and other monitoring equipment.

During the fiscal year, we launched new products that were differentiated from the competition. Special replacement demand was also seen during this period due to the revisions to the 1996 Radio Law. These factors contributed to a steady increase in sales, both for the domestic market and for exports.

Medical Treatment Equipment: Segment sales of ¥26,134 million (4.1% increase)

In this segment we manufacture, purchase, sell and lease defibrillators that revive arrested hearts or treat heart rhythm abnormalities through electrical stimulus; pacemakers; artificial respirators to support breathing of patients suffering from respiratory failure and such; in-home oxygen enrichment devices; and equipment related to sleep apnea syndrome.

During the fiscal year, our defibrillators showed a significant sales growth thanks to an enhanced consciousness of diseases related to sudden deaths caused by heart attacks. The medical rental business enjoyed significant growth in equipment used to treat sleep apnea syndrome and nose-mask-type in-home artificial respirators for patients requiring treatment for serious oxygen-related illness, as we launched new products to respond to increases in patients. However, sales of oxygen enrichment devices decreased due to revised treatment payments and reduced rental fees. Our pacemakers were impacted by the revised SIMM prices and other factors, though the number of units sold increased.

Other Products and Accessories: Segment sales of ¥20,080 million (3.7%increase)

In this segment we manufacturer, purchase and sell recording papers used for medical electronics equipment, disposable electrodes and accessories and consumables used for devices handled by other segments.

Sales of accessories and consumables grew during the fiscal year in concert to the sales increases in other segments.

Financial Position

Consolidated total assets at the end of the fiscal year increased by ¥3,362 million from a year earlier to ¥99,428 million.

Current assets increased ¥1,831 million, mainly due to increases in trade receivables and inventories caused by sales growth.

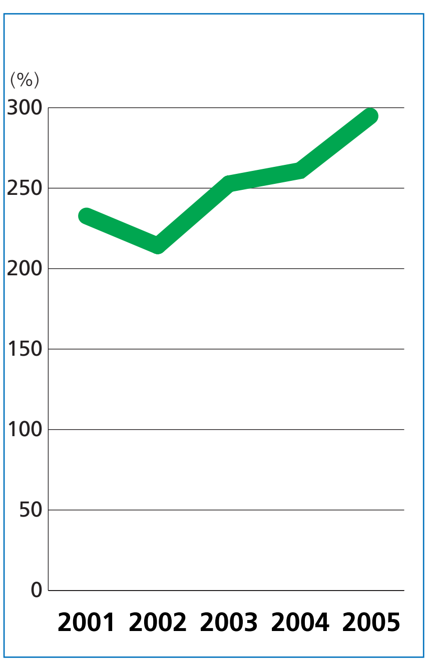
Current liabilities decreased ¥2,547 million. Repayment of short-term bank loans and other factors offset increases in trade payables - accounts and notes.

As a result of these, the current ratio increased from 260.9% at the end of the previous fiscal year to 298.7%.

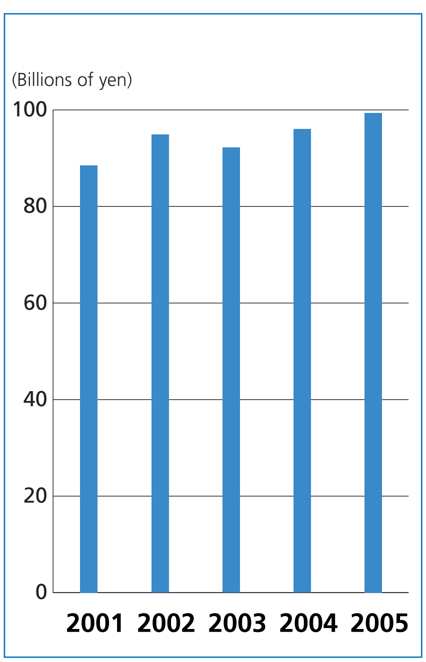
Property, plant and equipment increased ¥234 million. Investments and other assets increased ¥1,297 million due to an increase in investment securities and other factors.

The balance of interest-bearing liabilities decreased ¥3,849 million from the end of last fiscal year to

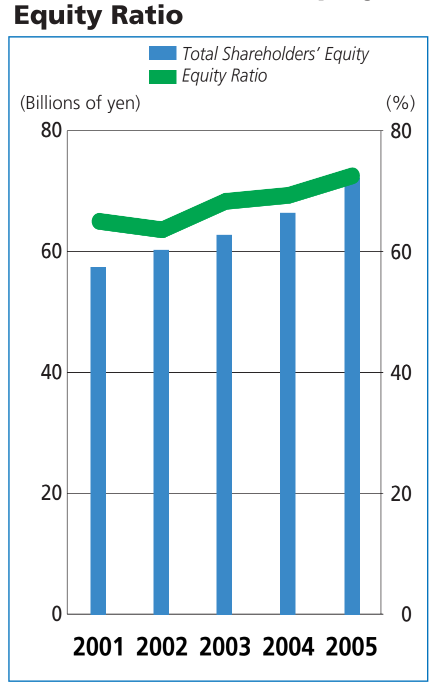
Current Ratio



Total Assets



Total Shareholders' Equity/ Equity Ratio



¥3,843 million, backed by repayment of borrowings, repayment of bonds payable and other factors.

Shareholders' equity increased ¥5,728 million from the end of last fiscal year to ¥72,320 million. This was achieved by the stable increase in net income, exercise of stock purchase warrants, sale of treasury stock and other factors.

Consequently, equity per share increased ¥165.99 from the previous year to ¥3,766.12. The equity ratio rose to 72.7% from 69.3% at the end of last fiscal year.

Cash Flow

Cash and cash equivalents at fiscal year-end decreased ¥1,531 million from the end of the previous year to ¥26,576 million. Increases and decreases in cash flows according to activity are indicated below.

Cash Flow from Operating Activities

Net cash provided by operating activities during the fiscal year totaled ¥6,869 million (a decrease of ¥2,552 million from the previous year).

This was mainly due to inventories turning to increases during the fiscal year.

Cash Flow from Investing Activities

Net cash used in investing activities during the fiscal year amounted to ¥5,915 million (an increase of ¥2,369 million from the previous year).

This was mainly due to the purchase of business partners' stocks and of business-use personal computers that applied to the IT investment promotion tax system.

Cash Flow from Financing Activities

During the fiscal year, net cash used in financing activities was ¥2,488 million (a decrease of ¥612 million yen from the previous year).

More repayment of short-term bank loans was made compared with last fiscal year, but ¥2,586 million was accrued as gains from sale of treasury stock during the fiscal year under review.

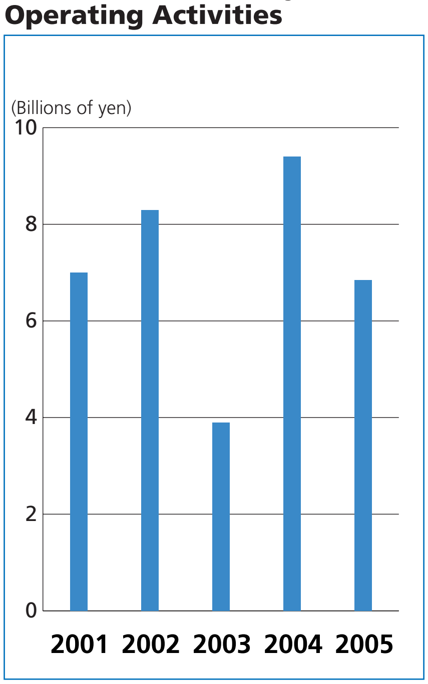
Capital Investment, Accumulated Depreciation and R&D Expenditures

Capital investment during the year increased 16.9% to ¥4,365 million, due to the purchase of business-use personal computers that applied to the IT investment promotion tax system and introduction of group management systems.

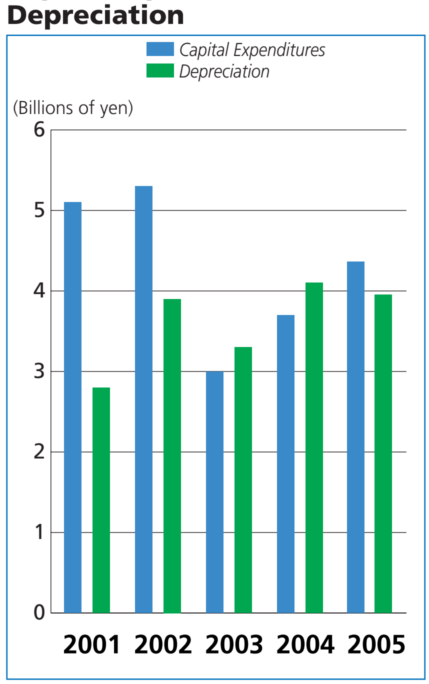
Depreciation expense decreased 4.2% to ¥3,956 million, caused by increases in lease contracts for vehicles and office appliances.

R&D expenditures, which is included in general and administrative expenses and manufacturing costs for the fiscal year increased 46.7% to ¥1,124 million, mainly because of the increases in outsourced R&D expenditures.

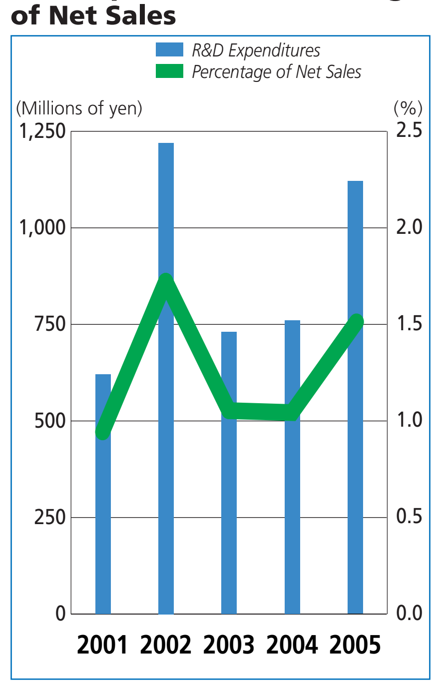
Net Cash Provided by Operating Activities



Capital Expenditures/ Depreciation



R&D Expenditures/Percentage of Net Sales



Corporate Social Responsibility

In recent years, companies have been facing a variety of management risks that are materializing in line with drastic changes in social and economic environments against the backdrop of globalization. In order to respond to such drastic changes, Fukuda Denshi is implementing measures to solidify and enhance its business administration framework, recognizing the indispensability of fair and transparent management in view of its various stakeholders.

Furthermore, we are realizing efforts as a corporate citizen in various support activities to contribute to society and culture.

Fukuda Foundation for Medical Technology

The Fukuda Foundation for Medical Technology was established in 1990. Every year, the Foundation provides financial assistance to research projects related to medical technology, holds research seminars and conferences, and international exchange. The Foundation's total endowment is ¥1 billion, which was used to assist 23 researchers. We will continue with these activities as part of our CSR.

Financial assistance presenting ceremony

Aid to Recovery from Disaster

Fukuda Denshi has contributed 10,000 anti-infection tool sets and five ultrasonic ECGS units to the government of Indonesia, as aid for recovery from the Sumatra Earthquake that occurred in December 2004.

Indonesian Minister of Health and Social Welfare and Senior Managing Director Takahashi

Corporate Governance

•The Board of Directors' meetings, held at least once a month, supervise the current status of business and makes decisions on major management-related items. During the fiscal year, 19 meetings were held to decide on issues required by law and important issues regarding management, as well as to supervise the business implementation status. As of the end of June 2005, there are eight directors.

•In 2003, Fukuda Denshi introduced an executive officer system in order to accelerate decision-making in management and enhance the transparency of management by dividing the management and enforcement roles. As of the end of June 2005, seven executive officers have been appointed. An Executive Council meeting, comprised of directors and executive officers, is held at least once a month to discuss important executive policies.

•During fiscal 2005, our Legal Affairs Department took the initiative to respond to the Personal Information Protection Law that was enforced in April 2005.

•The Company has adopted an auditor system, and all of the four auditors that constitute the Board of Corporate Auditors are from outside the company. Furthermore, the Audit Office, which has been established to directly report to the President, implements internal auditing on daily operations including those of our consolidated subsidiaries. The result is also reported to the Board of Corporate Auditors.

•IR activities are also conducted to emphasize timely disclosure and proactive release of information to facilitate smooth communication between the Company and its shareholders and other investors.

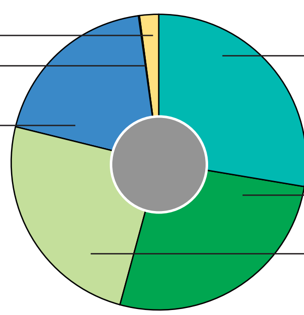
Board of Directors and Auditors (As of June 29, 2005)

President	Kotaro Fukuda
Senior Managing Director	Takashi Takahashi
Managing Director	Junzo Fujiwara
Directors	Susumu Segawa
	Masayuki Iwamoto
	Yoshiyuki Ariyoshi
	Osamu Shirakawa
	Kenji Ozaki
Standing Corporate Auditor	Yoshimasa Ogawa
Corporate Auditors	Yoshinori Okamoto
	Tatsuo Izawa
	Masatugu Iishiba

Corporate Data Fukuda Denshi Co., Ltd., as of March 31, 2005

Established	July 6, 1948 (under the name of Fukuda Denki Seisakujo)	
Capital	¥4,621,600,000	
Number of Employees	Consolidated:	2,449
	Nonconsolidated:	559
Number of Shares	Authorized:	30,000,000
	Issued:	19,588,000
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)	Ratio to the total voting rights (%)
Atomic Sangyo Co., Ltd.	2,438	12.73
MLI EFG Non-Treaty Custody Account	1,845	9.63
Tokyo Enterprise Co., Ltd.	1,447	7.56
Mizuho Trust & Banking Co., Ltd.*	922	4.81
Mizuho Bank, Ltd.	778	4.06
The Bank of Tokyo-Mitsubishi, Ltd.	725	3.79
The Melon Bank Treaty Clients Omnibus	718	3.75
Nippon Life Insurance Company	702	3.67
The Bank of New York Treaty JASDAQ Account	603	3.15
Junko Fukuda	550	2.87

*The Tokyo Tomin Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.

History

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

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

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

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 (now MAQUET GmbH & Co. KG).

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

1982
Company shares registered on Tokyo's over-the-counter market (now JASDAQ).
European Depository Receipts (EDRs) issued.

1987
Developed and started producing the world's first intravascular monitoring video system.

1988
Developed and started producing a patient monitoring system using LAN.

1990
Established the Fukuda Foundation for Medical Technology.

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.

1995
Obtained ISO 9001 international quality assurance certification.

1996
Fukuda Denshi USA, Inc. established to develop and manufacture products.
UK branch office opened.
Tripolar global network established covering Europe, North America and Asia.

1997
Division established to develop and manufacture diagnostic ultrasound imaging equipment.

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

2002
Developed and started marketing proprietary oxygen enrichment devices and vascular screening system.

2003
Fukuda Medical Solutions Co., Ltd., established to develop and provide support for medical treatment information systems.
Shiroi Factory awarded ISO 14001 certification.

2004
EMC Center inaugurated in compliance with Electro-Magnetic Compatibility regulations.
Marketing tie-up established with Philips Medical Systems Japan concerning patient monitoring equipment and defibrillators.

2005
Decision made to acquire Kontron Medical SAS in France and Kontron Medical AG in Switzerland to establish as European sales and manufacturing bases.

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Consolidated Balance Sheets

March 31, 2004 and 2005

ASSETS	Millions of yen 2004	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2005
Current assets:			
Cash on hand and in bank (Note 3)	¥28,452	¥26,721	$249,732
Marketable securities (Note 5)	500	600	5,607
Trade receivables:			
Accounts and notes	19,501	23,071	215,616
Allowance for doubtful accounts	(200)	(212)	(1,985)
Inventories (Note 4)	12,969	13,333	124,605
Deferred tax assets (Note 8)	2,024	1,701	15,902
Other current assets	1,965	1,828	17,080
Total current assets	65,211	67,042	626,557
Property, plant and equipment:			
Land	5,237	5,236	48,937
Buildings and structures	6,806	7,187	67,173
Machinery and equipment	15,951	17,582	164,317
Construction in progress	345	105	983
	28,339	30,110	281,410
Accumulated depreciation	(13,411)	(14,948)	(139,706)
	14,928	15,162	141,704
Investments and other assets:			
Investment securities (Note 5)	4,997	7,998	74,752
Investments in unconsolidated subsidiaries and affiliated companies	560	261	2,441
Deferred tax assets (Note 8)	6,511	4,797	44,828
Other	3,859	4,168	38,949
	15,927	17,224	160,970
	¥ 96,066	¥99,428	$929,231

The accompanying notes are integral to these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	2005	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 7)	¥ 6,832	¥3,634	$33,963
Long-term debt due within one year (Note 7)	771	3	28
Trade payables-accounts and notes	11,189	14,527	135,767
Reserve for litigation settlement	1,000	—	—
Income taxes payable (Note 8)	1,837	702	6,565
Accrued expenses and other current liabilities	3,361	3,577	33,425
Total current liabilities	24,990	22,443	209,748
Long-term liabilities:			
Long-term debt (Note 7)	89	206	1,921
Employees' severance and retirement benefits (Note 10)	3,130	3,155	29,486
Retirement benefits for directors and corporate auditors	1,242	1,272	11,888
Other long-term liabilities	11	23	214
Total long-term liabilities	4,472	4,656	43,509
Minority interest in consolidated subsidiaries	12	9	85
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized - 30,000,000 shares			
Issued - 19,588,000 shares in 2005 and - 19,404,000 shares in 2004	4,387	4,622	43,193
Capital surplus	8,684	9,851	92,067
Retained earnings	54,611	57,409	536,529
Net unrealized holding gains on securities	761	1,389	12,987
Foreign currency translation adjustments	(4)	(21)	(197)
	68,439	73,250	684,579
Less treasury stock at cost	(1,847)	(930)	(8,690)
	66,592	72,320	675,889
	¥ 96,066	¥99,428	$929,231

The accompanying notes are integral to these financial statements.

Consolidated Statements of Income

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Net sales (Note 12)	¥ 73,008	¥74,659	$697,752
Costs and expenses:			
Cost of sales	40,091	40,892	382,170
Selling, general and administrative	25,868	26,547	248,101
	65,959	67,439	630,271
Operating income (Note 12)	7,049	7,220	67,481
Other income (expense):			
Interest and dividend income	318	84	785
Interest expense	(72)	(56)	(521)
Equity in loss of affiliated companies	—	(207)	(1,936)
Loss on devaluation of investment securities	(15)	(12)	(112)
Gain on life insurance surrender value	25	361	3,373
Provision for litigation settlement	(1,000)	—	—
Gain on sales of investment securities	119	77	719
Loss on sales of property	(179)	(3)	(25)
Extra payment of retirement benefits for early-retirement employees	(144)	—	—
Penalty for cancellation of contract	—	(469)	(4,383)
Other, net	69	21	191
	(879)	(204)	(1,909)
Income before income taxes	6,169	7,016	65,572
Income taxes (Note 8):			
Current	3,528	1,343	12,555
Deferred	(764)	1,595	14,904
	3,405	4,078	38,113
Minority interest in net income of consolidated subsidiaries	(3)	(3)	(28)
Net income	¥3,402	¥4,075	$ 38,085

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
	2004	2005	2005
Net income	¥ 179.47	¥213.78	$2.00
Diluted net income	179.34	212.57	1.99
Cash dividends applicable to the year	40.00	80.00	0.75

The accompanying notes are integral to these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2005

		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, 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)
Net income	—	—	—	4,075	—	—	—
Exercise of stock purchase warrants	184	235	263	—	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	(17)	—
Net unrealized holding gains on securities	—	—	—	—	628	—	—
Treasury stock	—	—	—	—	—	—	917
Cash dividends paid (￥50.00 per share)	—	—	—	(927)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(86)	—	—	—
Decrease resulting from inclusion of equity method affiliates	—	—	—	(258)	—	—	—
Employees' bonus and welfare fund	—	—	—	(6)	—	—	—
Surplus from sale of treasury stock	—	—	904	—	—	—	—
Balance at March 31, 2005	19,588	¥4,622	¥9,851	¥57,409	¥1,389	¥(21)	¥(930)

The accompanying notes are integral to these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2005

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	$41,000	$81,162	$510,379	$7,114	$(36)	$(17,264)
Net income	—	—	38,085	—	—	—
Exercise of stock purchase warrants	2,193	2,455	—	—	—	—
Translation of foreign currency financial statements	—	—	—	—	(161)	—
Net unrealized holding gains on securities	—	—	—	5,873	—	—
Treasury stock	—	—	—	—	—	8,574
Cash dividends paid ($0.47 per share)	—	—	(8,666)	—	—	—
Bonuses to directors and statutory auditors	—	—	(807)	—	—	—
Decrease resulting from inclusion of equity method affiliates	—	—	(2,408)	—	—	—
Staff and workers' bonus and welfare fund	—	—	(54)	—	—	—
Surplus from sale of treasury stock	—	8,450	—	—	—	—
Balance at March 31, 2005	$43,193	$92,067	$536,529	$12,987	$(197)	$(8,690)

The accompanying notes are integral to these financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Cash flow from operating activities:			
Income before income taxes	¥ 6,169	¥7,016	$65,572
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	4,130	3,956	36,968
Equity in loss of affiliated companies	—	207	1,936
Increase in employees' severance and retirement benefits	144	25	235
Increase in retirement benefits for directors and corporate auditors	49	30	282
Increase in reserve for litigation settlement	1,000	—	—
Interest expense	72	56	521
Loss on devaluation of investment securities	15	12	112
Penalty for cancellation of contract	—	469	4,383
Gain on sales of investment securities	(119)	(77)	(719)
Loss on sales of property	179	3	25
Gain on life insurance surrender value	(25)	(361)	(3,373)
Increase in trade receivables- accounts and notes	(1,212)	(3,572)	(33,384)
Decrease (Increase) in inventories	461	(705)	(6,590)
Increase in trade payables-accounts and notes	1,178	3,371	31,501
Other	272	(87)	(810)
Subtotal	12,313	10,343	96,659
Interest and dividend received	309	84	782
Interest paid	(70)	(59)	(546)
Payment for litigation settlement	—	(1,000)	(9,346)
Income taxes paid	(3,131)	(2,499)	(23,353)
Net cash provided by operating activities	9,421	6,869	64,196
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(3,733)	(4,365)	(40,792)
Proceeds from sale of property, plant and equipment	816	158	1,477
Payment for purchase of marketable securities and investment securities	(799)	(2,843)	(26,575)
Proceeds from sale of marketable securities and investment securities	646	701	6,549
Payment to life insurance fund for directors	(390)	(277)	(2,589)
Proceeds from life insurance fund for directors	124	726	6,786
Other	(210)	(15)	(141)
Net cash used in investing activities	(3,546)	(5,915)	(55,285)
Cash flow from financing activities:			
Net decrease in short-term bank loans	(2,623)	(3,198)	(29,891)
Proceeds from long-term debt	100	200	1,869
Repayment of long-term debt	(20)	(87)	(809)
Repayment of bonds payable	—	(765)	(7,150)
Dividend paid to shareholders	(554)	(926)	(8,657)
Payment for purchase of treasury stock	(1)	(765)	(7,149)
Proceeds from sale of treasury stock	0	2,586	24,172
Proceeds from issuance of stock	—	469	4,385
Other	(2)	(2)	(18)
Net cash used in financing activities	(3,100)	(2,488)	(23,248)
Effect of exchange rate change on cash and cash equivalents	(33)	3	27
Net increase (decrease) in cash and cash equivalents during year	2,742	(1,531)	(14,310)
Cash and cash equivalents at beginning of year	25,365	28,107	262,686
Cash and cash equivalents at end of year (Note 3)	¥ 28,107	¥26,576	$248,376

The accompanying notes are integral parts of these financial statements.

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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure 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.

In the year ended March 31, 2005, 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 is required to be adopted effective April 1, 2005.

The translation of the yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107 to US$1.00. The convenience translations should not be construed as a representation 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

FUKUDA DENSHI CO., LTD. (the "Company") had 52 subsidiaries as of March 31, 2004 and 2005. The consolidated financial statements include the accounts of the Company and 47 of such subsidiaries in the years ended March 31, 2004 and 2005. 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 within the Group have been eliminated, and the effect of eliminating such unrealized profits 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, 2005, 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

Affiliated company accounted for using the equity method at March 31, 2005 were as follows:
eVent Medical Ltd.

eVent Medical Ltd. has been accounted for using the equity method from the current year due to the increase of materiality of its impact on the consolidated financial statement of the Company.
The Company had five unconsolidated subsidiaries and three affiliated companies as of March 31, 2004 and five unconsolidated subsidiaries and two affiliated companies as of March 31, 2005.

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. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 2 to 20 years for machinery and equipment. 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 rentalterms (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 are recognized in expenses using the declining-balance method over 10 years, which is not longer than the estimated average remaining services lives.

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 services 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.

Financial Statements of consolidated overseas subsidiaries are translated into yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates. Any resulting differences are reflected as 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.

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 2004 financial statements to conform to the presentation for 2005.

3. Cash and cash equivalents

The relations between cash and cash equivalents and consolidated balance sheet items at March 31, 2004 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash on hand and in bank	¥ 28,452	¥26,721	$249,732
Less: Deposit with maturity exceeding three months at the time of purchase	345	145	1,356
Cash and cash equivalents	¥ 28,107	¥26,576	$248,376

4. Inventories

Inventories at March 31, 2004 and 2005, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Merchandise and products	¥ 10,711	¥10,728	$100,258
Work-in-process	641	709	6,623
Materials and supplies	1,617	1,896	17,724
	¥ 12,969	¥13,333	$124,605

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, 2004 and 2005:

Available-for-sale securities:

	Millions of yen					
	2004			2005		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 1,417	¥2,790	¥1,373	¥2,758	¥5,167	¥2,409
Others	143	158	15	144	154	10
Total	¥ 1,560	¥2,948	¥1,388	¥2,902	¥5,321	¥2,419
Other securities:						
Equity securities	¥ 438	¥417	¥ (21)	¥999	¥982	¥(17)
Others	—	—	—	100	100	(0)
Total	¥ 438	¥417	¥ (21)	¥ 1,099	¥1,082	¥(17)

	Thousands of U.S. dollars		
	2005		
Type	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$25,779	$ 48,293	$ 22,514
Other	1,343	1,438	95
Total	27,122	49,731	22,609
Other securities:			
Equity securities	$9,341	$9,178	$(163)
Others	934	932	(2)
Total	$10,275	$10,110	$(165)

(b)Total sales of available-for-sale securities sold in the year ended March 31, 2005, and the related gains amounted to ¥201 million ($1,876 thousand) and ¥77 million ($719 thousand), respectively.

(c) The following tables summarize the book values of securities with no available fair values as of March 31, 2004 and 2005:

(1) Held-to-maturity debt securities

Type	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Discounted bonds	¥ 500	¥600	$5,607

(2) Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Non-listed equity securities	¥ 1,632	¥1,520	$14,209

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

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

Type	Millions of yen				
	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2005:					
Discounted bonds	¥600	—	—	—	¥600

Type	Thousands of U.S. dollars				
	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2005:					
Discounted bonds	$5,607	—	—	—	$5,607

6. Derivative transactions

The Group did not use any derivative transactions for the years ended March 31, 2004 and 2005.

7. Bank loans and long-term debt

Bank loans at March 31, 2004 and 2005, were unsecured and bore interest ranging from 0.6% to 2.1% per annum and 0.6% to 2.6% per annum, respectively.

Long-term debt at March 31, 2004 and 2005, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Unsecured loans from banks, with interest ranging from 1.20% to 1.79% per annum	¥ 95	¥209	$1,949
1.35% domestic unsecured bonds with warrants due in 2005	765	—	—
	860	209	1,949
Less: Portion due within one year	771	3	28
	¥ 89	¥206	$1,921

The annual maturities of long-term debt outstanding at March 31, 2005, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥3	$28
2007	186	1,739
2008	20	182
	¥209	$1,949

8. Income taxes

The company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate statutory tax rate of approximately 42% for the year ended March 31, 2004, and approximately 41% for the year ended March 31, 2005.

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, 2004 and 2005:

	2004	
Statutory tax rate	42.1	%
Net operating loss carryforwards of subsidiaries	4.4	
Non-deductible expenses	1.6	
Tax credits for research and development costs	(4.7)	
Reduction by change of tax rate	—	
Other	1.4	
Effective tax rate	44.8	%

Data for the year ended March 31, 2005, have been omitted because the difference between statutory tax rate and effective tax rate was not material.

Significant components of the deferred tax assets and liabilities as of March 31, 2004 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Fixed assets	¥ 3,325	¥2,091	$19,549
Inventories	960	895	8,363
Net operating loss carryforwards of subsidiaries	947	723	6,758
Employees' severance and retirement benefits	1,274	1,285	12,010
Reserve for litigation settlement	407	81	761
Other	3,718	3,947	36,881
Total deferred tax assets	10,631	9,022	84,322
Less: Valuation allowance	(1,353)	(1,318)	(12,323)
Net deferred tax assets	9,278	7,704	71,999
Deferred tax liabilities:			
Allowance for doubtful accounts	(149)	(205)	(1,917)
Deferred gains on real properties for tax purposes	(34)	(34)	(316)
Other	(560)	(967)	(9,036)
Total deferred tax liabilities	(743)	(1,206)	(11,269)
Deferred tax assets, net of deferred tax liabilities	¥ 8,535	¥ 6,498	$60,730

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, 2004 and 2005, inclusive of interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Machinery and equipment	¥ 304	¥1,253	$11,712
Others	25	209	1,956
Accumulated depreciation	(150)	(798)	(7,458)
	¥ 179	¥664	$6,210

Future lease payments at March 31, 2004 and 2005, of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥ 55	¥272	$2,546
Over one year	124	392	3,664
	¥ 179	¥664	$6,210

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2004 and 2005, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Lease expenses	¥ 61	¥ 353	$3,295
Assumed depreciation	61	353	3,295

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, 2004 and 2005, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥ 10	¥−	$−
Over one year	−	−	−
	¥ 10	¥−	$−

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, 2004 and 2005, consisting the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligation	¥ 8,092	¥8,382	$78,333
Unrecognized prior service costs	(10)	(8)	(77)
Unrecognized actuarial differences	(845)	(604)	(5,639)
Less fair value of pension assets	(4,107)	(4,615)	(43,131)
Liability for severance and retirement benefits	¥ 3,130	¥3,155	$29,486

Included in the consolidated statements of income for the years ended March 31, 2004 and 2005, are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service costs – benefits earned during the year	¥598	¥608	$5,680
Interest cost on projected benefit obligation	158	162	1,513
Expected return on plan assets	(70)	(82)	(768)
Amortization of prior service costs	3	2	20
Amortization of actuarial differences	290	174	1,626
Severance and retirement benefit expenses	¥979	¥864	$8,071

The discount rate and the rate of expected return on plan assets used by the Company were 2.0 % and 2.0%, respectively.

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).

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 ($20.7) 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, 2005, were export bills of exchange discounted in the amount of ¥239 million ($2,231 thousand).

14. Related party transactions

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

During the years ended March 31, 2004 and 2005, the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Purchase of recording papers	¥ 1,393	¥1,346	$12,584
Purchase of accounting slips	25	27	255
Payment of rent	41	41	384

Dues to Atomic as of March 31, 2004 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Trade payables: accounts and notes	¥ 309	¥ 299	$2,797
Other current assets	57	26	244
Other current liabilities	2	3	29
Other non-current assets	12	13	119

15. Subsequent event

At the June 29, 2005, annual general meeting, the Company's shareholders approved the appropriation of retained earnings at March 31, 2005, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥55.00 ($0.51) per share	¥1,055	$ 9,857
Bonuses to directors and corporate auditors	46	427

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. and consolidated subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in 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, 2004 and 2005, 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. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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, 2005

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Horiba, Ltd.
Gunze Ltd.
TDK Corp.
Konica Minolta Group
Fujitsu Ltd.
Philips Electronics Japan, Ltd.

Germany
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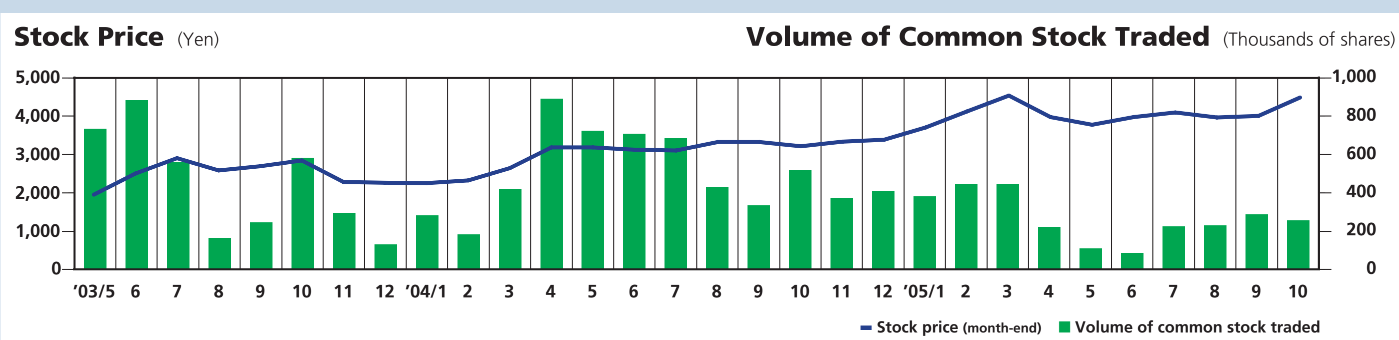
MAQUET GmbH & Co. KG

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



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