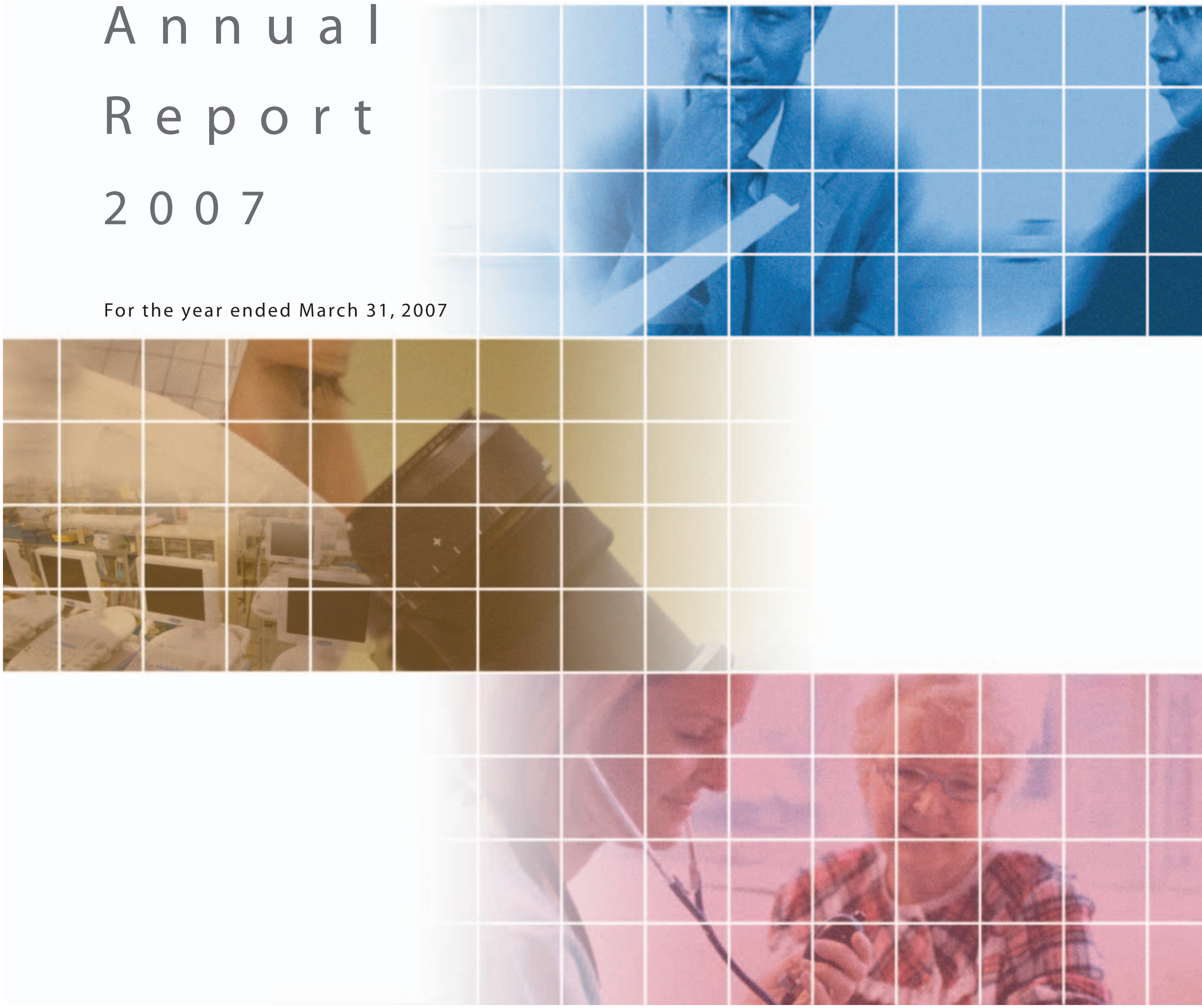
Annual Report 2007

For the year ended March 31, 2007



Contents

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. We therefore do not give any warranty for such statements and estimates.

Profile

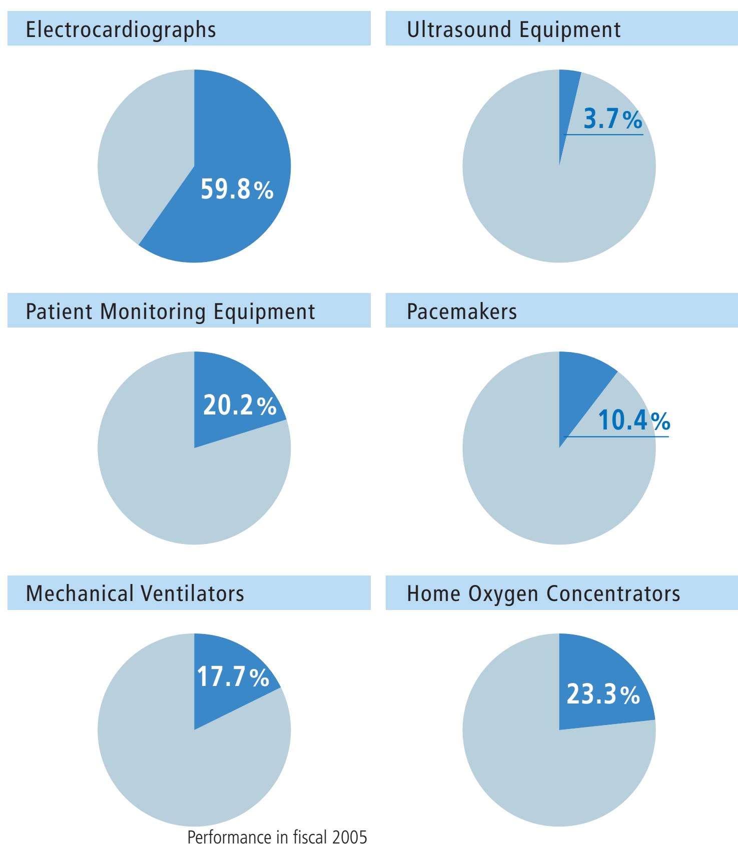
For the over 65 years since its inception, Fukuda Denshi Co., Ltd. has contributed significantly to the advancement of people's health through the production and sale of a wide range of medical equipment centering on cardiovascular and respiratory systems. We have conducted this under our corporate philosophy to "Foster medical advances by fulfilling our social mission and developing 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 first or second largest 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 2006 figures unless otherwise noted)



Source: Yano Research Institute Ltd., Market Share for Fiscal 2006
R&D Market Share for Fiscal 2006

Consolidated Financial Highlights

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2003	2004	2005	2006	**2007**	**2007**
For the year:						
Net sales	¥ 70,710	¥ 73,008	¥ 74,659	¥ 86,613	**¥ 88,270**	**$ 748,052**
Operating income	9,005	7,049	7,220	5,397	**5,943**	**50,365**
Net income	4,880	3,402	4,075	606	**3,354**	**28,423**
At year-end:						
Total assets	92,289	96,066	99,428	105,041	**103,682**	**878,665**
Shareholders' equity	62,994	66,592	72,320	73,642	**74,571**	**631,954**
Equity ratio (%)	68.3	69.3	72.7	70.1	**71.9**	
	Yen					U.S. dollars
Per share of common stock:						
Net income	¥ 252.75	¥ 179.47	¥ 213.78	¥ 28.70	**¥ 174.90**	**$ 1.48**
Shareholders' equity	3,406.34	3,600.13	3,766.12	3,837.24	**3,888.67**	**32.95**
Cash dividends	30.00	40.00	80.00	80.00	**80.00**	**0.68**
Dividend payout ratio (%)	21.5	25.0	92.3	-	**140.7**	
ROA (%)	5.2	3.6	4.2	0.6	**3.2**	
ROE (%)	7.9	5.3	5.9	0.8	**4.5**	

Notes related to financial figures:

·U.S. dollar amounts are rough equivalents and translated, for convenience only, at the rate of ¥118 to US$1.

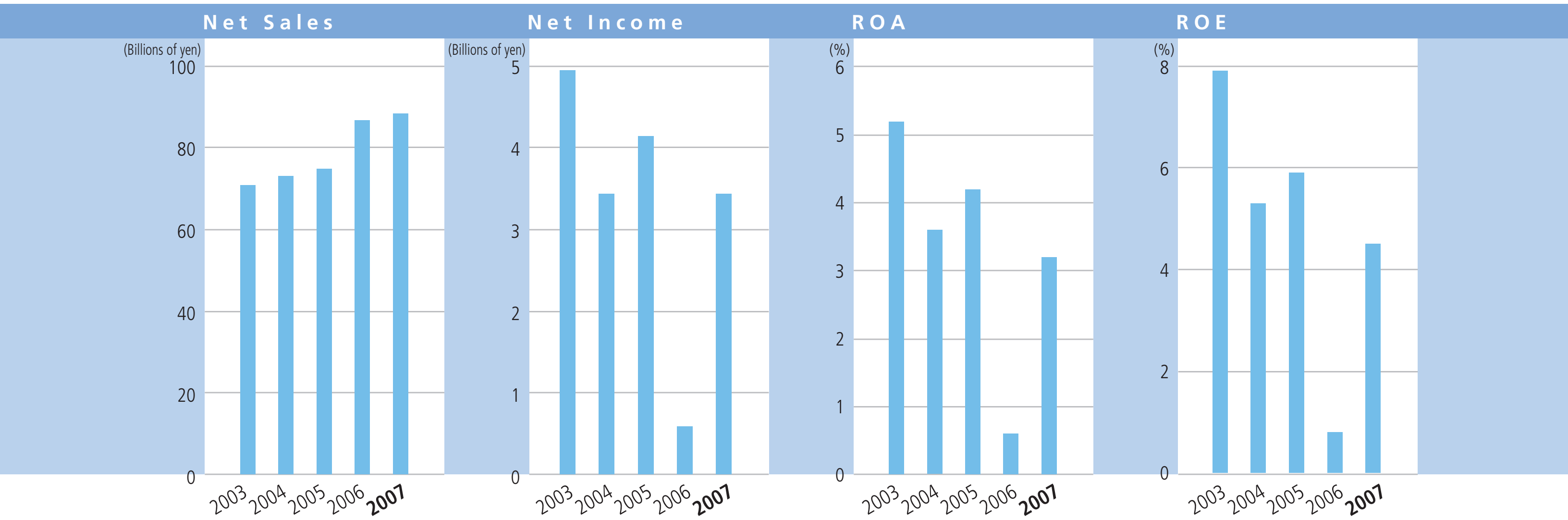
·In this annual report, figures are generally rounded up or down.

·Shareholders' equity = Total net assets - Minority interests (as recorded on balance sheet)

·ROE = Net income ÷ Shareholders' equity (yearly average) × 100

·ROA = Net income ÷ Total assets (yearly average) × 100

·Dividend payout ratio is calculated by nonconsolidated figures.

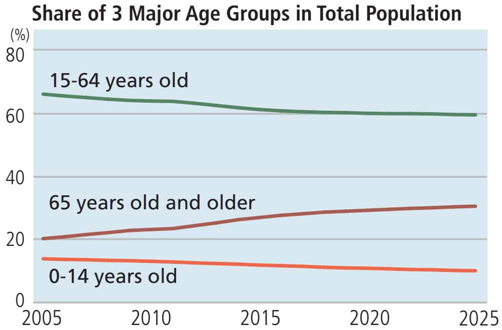


Message from the President

In the fiscal year ended March 31, 2007, the medical equipment industry continued to face difficult conditions amid reductions in medical fees and other reforms to the medical system aimed at enhancing the efficiency of treatment. In response, Fukuda Denshi sought to further strengthen its business foundation and, following the close of the fiscal year, embarked on a new three-year business plan.

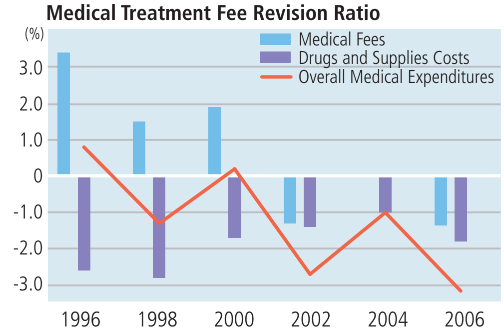
President and CEO Kotaro Fukuda

Share of 3 Major Age Groups in Total Population



Source: National Institute of Population and Social Security Research (population by 3 age groups; population age structure coefficient)

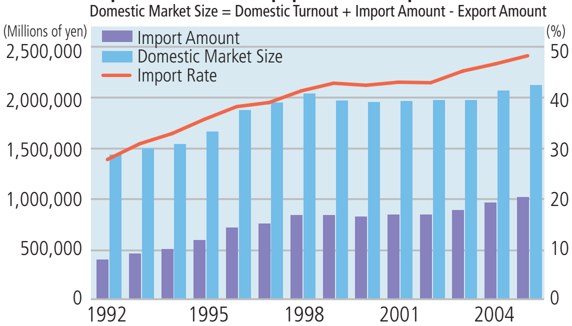
Medical Treatment Fee Revision Ratio



Source: Ministry of Health, Labour and Welfare (revision ratios)

Imports of Medical Equipment into Japanese Market

Domestic Market Size = Domestic Turnout + Import Amount - Export Amount



Source: Ministry of Health, Labour and Welfare (compiled from drug production statistics)

Medical Sector: Current Status and Challenges

Japan is fast becoming a rapidly aging, low-birthrate society as a result of the declining births and a large number of baby-boomers reaching retirement age. It is estimated that by around 2025 one in every three Japanese will be elderly. Moreover, changes in diet are contributing to an increase and diversification in patient numbers and types. Revisions to the Pharmaceuticals Affairs Law implemented in response to these changes have prompted authorities to implement stronger measures, including a review of safety procedures applied to medical equipment. Meanwhile, medical institutions have adopted new surgical methods due to advances in medical technologies, thus creating new sources of demand for medical equipment.

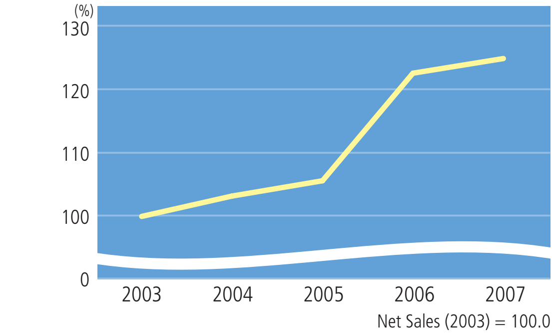
In 2004, the Japanese government implemented measures aimed at curtailing medical costs, including price revisions for treatment, pharmaceuticals, and specific insurance-covered medical materials. This, together with heightened cost awareness among medical institutions, has prompted such institutions to reassess their capital expenditures and increase the time between equipment upgrades. Consequently, the domestic medical sector has faced ongoing difficulties in recent years. Inroads made by foreign companies and the full rollout of revisions to the Pharmaceutical Affairs Law have meant that medical equipment is now subject to clinical trials similar to those required for pharmaceuticals. The effect is an increase in administrative costs. We expect that such radical changes will lead to further intensification in competition as companies struggle to survive.

The Japanese market is facing a major increase in competition in the areas of product development and sales due to huge growth in the size of European and U.S. companies brought about by large-scale mergers. As a result, many items of medical equipment with sizeable markets are continuing to lose market share to overseas companies. In Japan, with its rapidly aging society, we can expect further pressure on earnings, highlighting the urgency among Japanese companies to strengthen their competitiveness.

Fiscal Year in Review

We can expect increased activity in the areas of preventative medicine and home care as a result of the pursuit of medical efficiencies accompanying reforms to the medical system, as well as greater attention placed on the incidence of "metabolic syndrome." In this environment, all companies in the Fukuda Denshi Group adopted a proactive approach to their operating activities. Accordingly, consolidated net sales for the year reached ¥88,270 million, up 1.9% from the previous period.

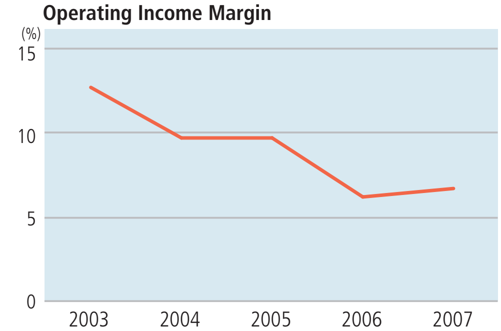
Growth Rate for Sales



Performance Overview

In the year under review, the Japanese economy showed signs of recovery on the back of improved corporate earnings and increased capital expenditures. Nonetheless, a number of uncertainties remain due to such negative factors as rising crude oil prices and fluctuations in interest rates and foreign exchange rates. The medical equipment industry, to which the Fukuda Denshi Group belongs, has felt the impact of huge changes caused by systemic reforms to the medical sector and revisions to the Pharmaceuticals Affairs Law. As a result, operating income for the year increased 10.1%, to ¥5,943 million and net income soared 453.6%, to ¥3,354 million.

Operating Income Margin

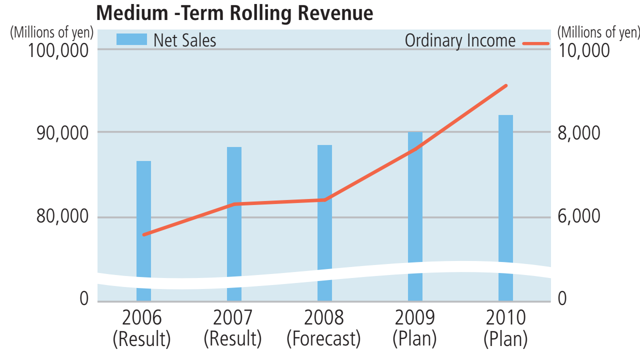


Outlook for Year Ahead

The medical equipment sector will continue to face challenges in the current fiscal year. Attributing factors include more intensified market competition and falling sales prices stemming from improvements in the quality of medical treatment, further measures aimed at curtailing medical costs, and official revisions to treatment reimbursements around once every two years. We at Fukuda Denshi will focus on developing products that differentiate us from our competitors. We will also improve our sales competitiveness vis-à-vis other Japanese and overseas manufacturers, and continue to make cost reductions to ensure stable business growth.

For the year ending March 2008, we forecast consolidated net sales of ¥88.5 billion and net income of ¥3.39 billion.

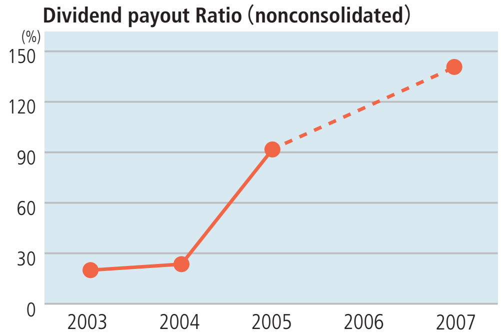
Medium -Term Rolling Revenue



Takeover Prevention Measures; Returning Profits to Shareholders

Management views the return of profits to all shareholders as a priority issue. This reflects our fundamental policy of continuing to strengthen the Company, developing competitive businesses, and providing consistent returns from our profits while retaining necessary levels of internal reserves. We are working hard to raise shareholder value by maintaining our target dividend payout ratio of 30%. At the annual meeting of shareholders for the year under review, the Company´s policies were endorsed by numerous shareholders. With regard to takeover prevention measures, we ensure ample opportunity to provide full information disclosure to shareholders. Fukuda Denshi has a policy that sets in motion appropriate measures to prevent actions that it deems detrimental to the interests of shareholders and the Group's businesses.

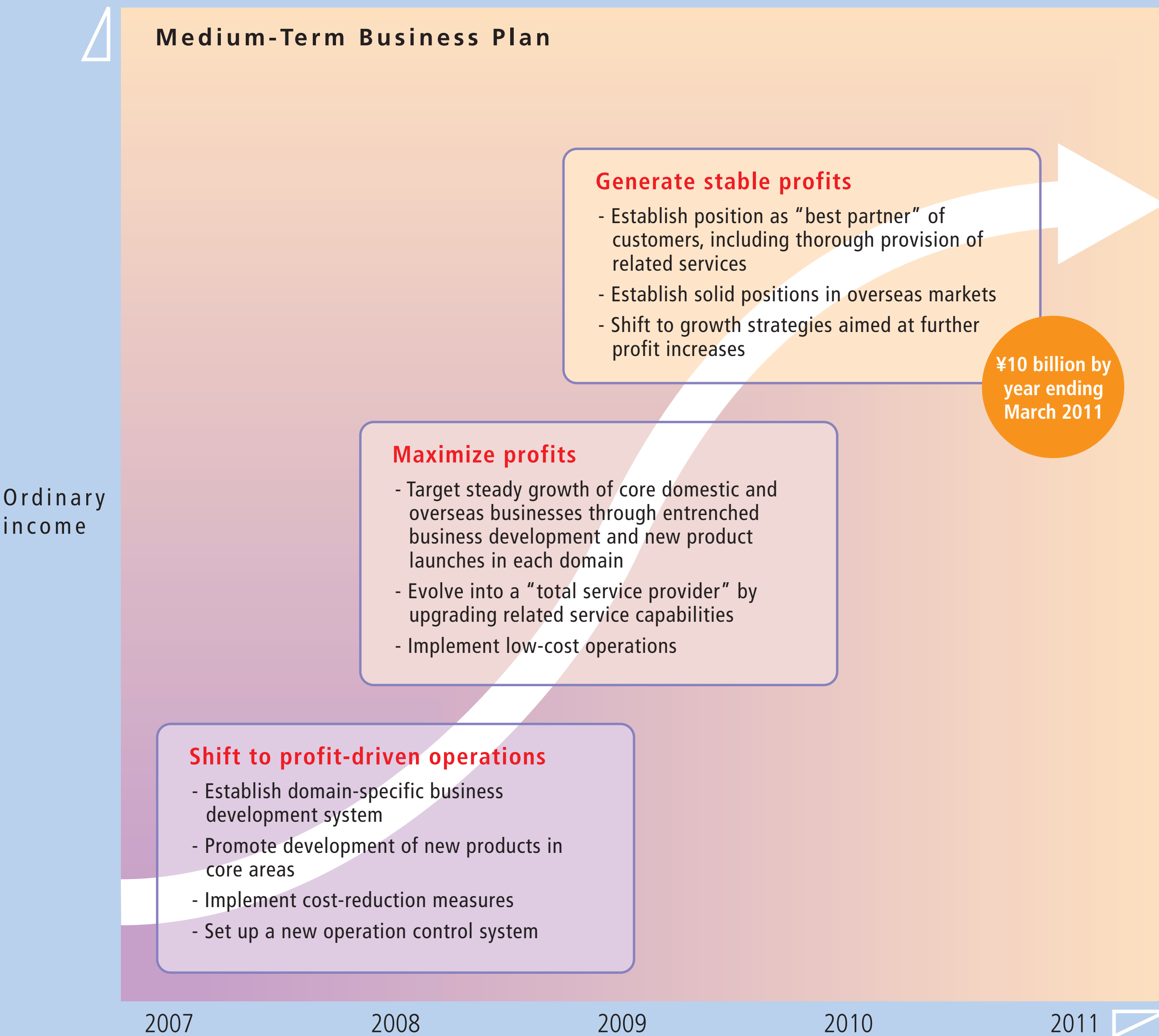
Dividend payout Ratio (nonconsolidated)



Medium-Term Business Plan

In April 2007, we launched our new medium-term business plan, covering the three-year period to March 2011. Under the plan, we have formulated a business strategy based on a "customer first" premise. Our aim is to embrace a profit-oriented approach by establishing a business foundation conducive to more effective organizational operations.

Fukuda Denshi will implement the plan with the aim of attaining the following three targets by the period ending March 2011: ordinary income of ¥10 billion, an ordinary income ratio of 10% or higher and overseas sales of ¥10 billion.



Portable oxygen concentrator
AIRWALK AW-1

Automatic blood cell counters
LC-660

Electrocardiograph FX-7542

Improve the Gross Profit Margin: Develop Original Products and Strengthen Sales

Fukuda Denshi will raise its gross profit margin and improve overall profitability by increasing the ratio of profitable Fukuda-brand products in net sales from the current level of 40% to 45% by the term ending March 2010. We will also pursue active product development by shifting to a R&D Head Office system and reducing selling, general, and administrative expenses. At the same time, we will curtail manufacturing costs by making more products in-house. In addition, by establishing sales bases in every prefecture we will build community-based networks and raise our share of the domestic market. We will also build a stable earnings base by strengthening and expanding our maintenance services. We will achieve this by making full use of our operational and sales systems for medical equipment and home care services — which are among the largest such systems in the medical equipment industry.

Vascular screening equipment VaSera
VS-1500E

Strengthen Home Care Medical Equipment and Services

The emergence of Japan's aging society is leading to greater demands for improved home care. Revisions to medical treatment reimbursement fees in 2006 have led to a decline in remuneration for hospital treatment, while other changes are under way aimed at lowering the number of hospital beds. The result will be a further shift in medical care from the hospital to the home. Fukuda Life Tech Co., Ltd., a member of the Fukuda Denshi Group, provides a home-use medical equipment rental service, and also offers home care oxygen therapy support services. With the ongoing shift from the hospital to the home, we will continue strengthening our 24-hour support services for in-home patients.

Fukuda Life Tech Minami-Tohoku Co.,Ltd.

Reinforce Overseas Sales

The Fukuda Denshi Group will strengthen overseas sales based on a three-pronged regional strategy focusing on North America, Europe, and Asia. In the period under review, we signed a business contract with one of group purchasing organizations (GPOs) with bases throughout the United States. This will enable the Company to actively expand its market in the North American region. In order to strengthen our overseas sales networks, we will establish sales channels and reinforce our presence in the Chinese market through the strategic introduction of products. We aim to boost revenues and earnings by upgrading our lineup of products for export through the development of Fukuda-brand patient monitors and diagnostic ultrasound imaging equipment.

Central Station Monitor DS-7680W

Medium-Term Business Plan

Develop and Strengthen Sales of Original Products to Boost Gross Profit Margin

Part 1

To improve the Group's gross profit margin, we plan to increase the ratio of Fukuda-brand products and develop items for promising markets. At the same time, we will concentrate on strengthening our sales networks and increase our market share by better understanding the needs of communities. We will also strive to improve business profits through ongoing reviews of our cost structure.


Electrocardiograph FX-7432


Diagnostic ultrasound equipment UF-550XTD


Vascular screening equipment VaSera VS-1500E


Intravascular diagnostic ultrasound equipment s5


Oxygen concentrator FH-22/5L

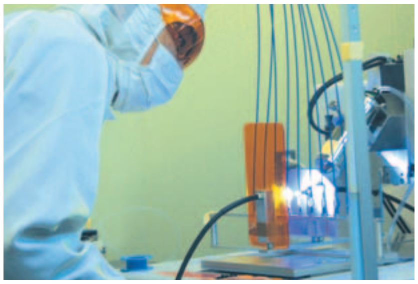
ICD ATLAS +VR V-193


Electrocardiogram analytical device SCM-6600 system


Mechanical ventilator Clean-air VS INTEGRA

Product Development Initiatives

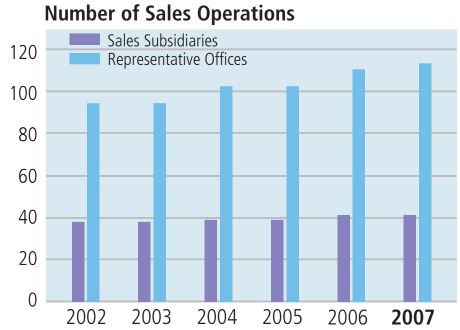
In the area of product development, we plan to increase profitability by promoting the growth of distinctive business domains. We will engage in selective investment targeting promising markets, such as those for vascular (arteriosclerosis) screening equipment and automated external defibrillators (AEDs). In addition, we will work to raise the ratio of Fukuda-brand products and strengthen our lineup of items for export. The shift to an R&D Head Office system in April 2007 has consolidated and created a forward-looking environment for our product development activities.



Sales Reinforcement Initiative: Boost Market Share through Close Regional Ties

Fukuda Denshi has at least one sales office in each of Japan's prefectures, making a total of 77 offices engaged in selling, servicing and marketing medical equipment. These sales operations have built community-based networks and share various kinds of know-how and information while maintaining a close relationship with the Group's headquarters. We will work hard to increase our share of the domestic market through an approach that focuses on community needs and provides superior services to customers.

Number of Sales Operations



Sale Reinforcement Initiative: Leverage Domestic Sales Network to Expand Maintenance Service Business

Today, the Fukuda Denshi Group boasts more than 150 bases nationwide providing medical equipment and home care services supported by the largest sales and marketing system in the industry. We concentrate on reinforcing and expanding maintenance services for medical equipment by leveraging this extensive business network. At the same time, we hold regular seminars to enhance the knowledge of those responsible for maintenance in medical institutions. We will also build a stable profit base with the aim of increasing revenue from the maintenance and service business to ¥5.0 billion by the year ending March 2010 (from ¥3.5 billion in the year under review).

Column

Waterproof Digital Holter Recorder FM-180: Overcoming technological hurdles to meet market needs

Having developed the FM-150, the world's smallest digital holter recorder, Fukuda Denshi's most pressing challenge was to enhance the product by making it waterproof. Such a function improves patients' quality of life by enabling recording while bathing or showering, which in turn helps physicians with their diagnoses. To develop the world's first waterproof holter recorder, we needed innovative ideas and technologies for all aspects of the product, including materials, components and design. Our successful development is a fine example of how market needs can lead to technological breakthroughs. The Fukuda Denshi Group plans to apply this new core technology to other products.

Digital holter recorder FM-180

Medium-Term Business Plan

Strengthen Home Care Medical Equipment and Services in Response to Changing Business Conditions

Part 2

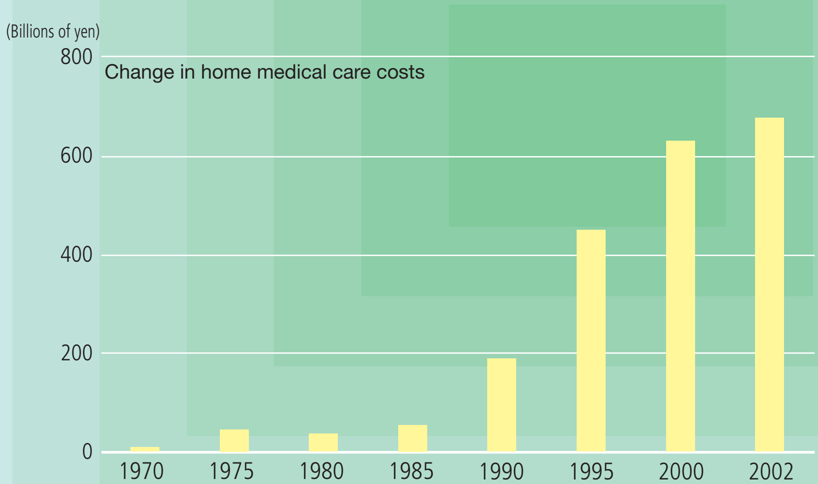
Home medical care is expanding in Japan due to the full-scale onset of an aging society. Fukuda Life Tech Co., Ltd., a member of the Fukuda Denshi Group, provides rental services for home care medical equipment centering on home oxygen therapy support services.

Oxygen concentrator FH-17/7L

Sleep tester LS-300

Automatic continuous positive airway pressure (CPAP) unit S8 Respond

Home Healthcare Market



Source: Statistics and Information Department, Ministry of Health, Labour and Welfare (compiled from surveys of national healthcare expenditures and social medical treatment behavior)

Shift of Medical Treatment from the Hospital to the Home Prompted by 2006 Revisions to Reimbursement Fees

The 2006 revisions to government payments covering medical costs saw a substantial reduction in the amount of hospital treatment costs for long-term care beds covered by insurance reimbursement. The government also announced plans to reduce the number of long-term care beds from 380,000 to 150,000 by 2012. This move is expected to cause a decline in the number of small and medium-sized hospitals and prompt a shift from hospital to home care treatment for elderly and chronic-phase patients. Fukuda Denshi will continue to develop and supply products for home medical care to meet such changes occurring in the medical sector.

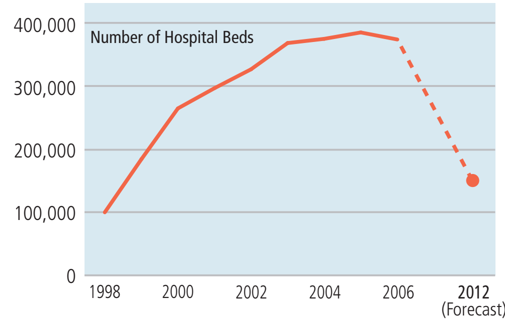
Home Care Equipment Rental Business

Fukuda Life Tech Co., Ltd., is engaged in the rental of home care medical equipment. It also provides home oxygen therapy support for patients suffering from chronic respiratory insufficiency who use oxygen concentrators. In addition, Fukuda Life Tech is reinforcing its 24-hour emergency support systems for in-home patients. Viewing it as a market with potential for higher demand, we will focus on this area as a new business pillar.

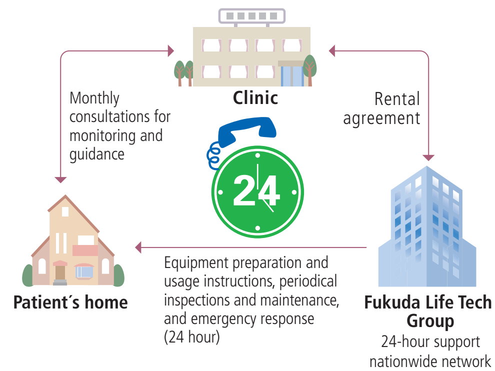
Expand Product Lineup

Fukuda Denshi has more than 10 years of experience dealing with oxygen concentrators, earning widespread trust in the process. We are also expanding the range of products available for rent. These include mechanical ventilators, respiratory-related testing equipment, polysomnography equipment and automatic continuous positive airway pressure (CPAP) units. We will work to expand operations with the objective of increasing sales from our rental business to ¥16.5 billion in the year ending March 2010, from ¥15.0 billion in the year under review.

Hospital Beds: Trends and Forecasts



Source: Ministry of Health, Labour and Welfare (compiled from surveys of medical facilities and reports from hospitals)



Mechanical ventilator Clean-air VS ULTRA

Column

Develop Home Care Medical Equipment

In line with our corporate motto of “delivering safety, peace of mind, and comfort,” we have an abundant range of products available for home care support centers. Our series of 2-liter, 5-liter and 7-liter home oxygen concentrators ensures that patients can select the model most suited to their symptoms. We also sell mechanical ventilators for use alongside concentrators where needed. As a manufacturer of medical equipment, we at Fukuda Denshi will continue providing high-quality services and products that are the most advanced. In the process, we hope to make a contribution to this new age of home medical care.

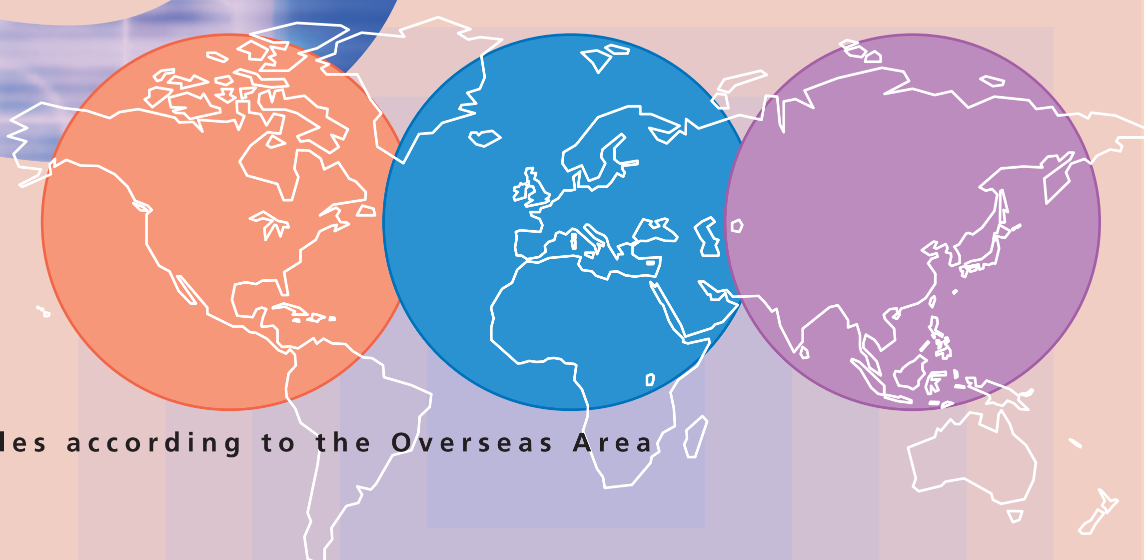
Oxygen concentrator FH-22/5L

Medium-Term Business Plan

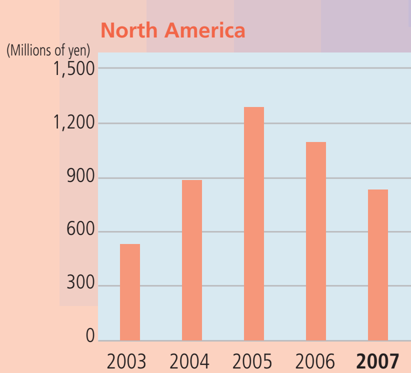
Reinforce Overseas Sales

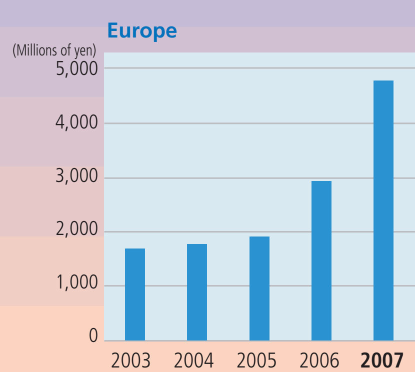
Part

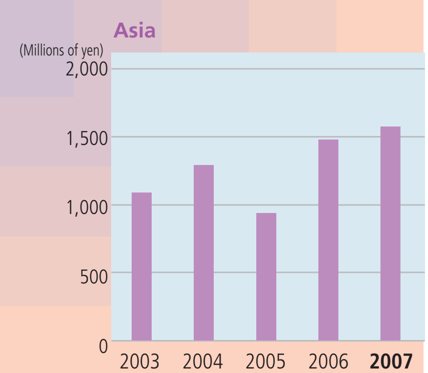
The Fukuda Denshi Group has been strengthening overseas sales through its three-pronged regional strategy, focusing on North America, Europe and Asia. As a result, total overseas sales in the period under review reached ¥7,133 million, up 30.4% from the previous year.



Sales according to the Overseas Area







Fukuda Denshi USA, Inc.

Fukuda Denshi USA, established in 1996, develops, produces, markets, and provides services for medical electronics equipment. The main products it handles include ECGs, patient monitors and diagnostic ultrasound equipment. It also provides solutions to hospitals and other medical facilities using the Group's products. Expecting solid business growth in the region, Fukuda Denshi USA signed a contract with one of group purchasing organizations (GPOs) in the year under review.

Fukuda Denshi USA, Inc.

Fukuda Denshi UK

Fukuda Denshi UK was established in 1996 to serve as the Group's base in the European region. It deals mainly in ECGs, patient monitors and diagnostic ultrasound equipment. In recent years, it has faced severe competition with large-scale manufacturers in the European medical equipment market. In response to these circumstances, we plan to establish further bases in Europe during the current fiscal year, with the aim of strengthening sales, not only in Europe but also in surrounding regions.

Fukuda Denshi UK

Beijing Fukuda Denshi Medical Instruments Co., Ltd.

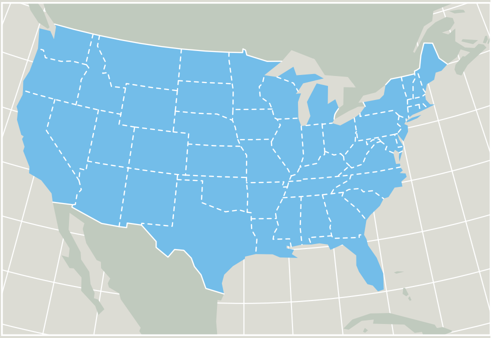
Established as a joint-venture company in 1994, Beijing Fukuda Denshi Medical Instruments is engaged in the development, manufacture, and sale of medical equipment. Serving as an important base in the rapidly growing Chinese market, it introduces products developed based on market-driven strategies. Seeking to expand sales even further, that company is currently building a system that will enable it to serve as a global production base.

Beijing Fukuda Denshi Medical Instruments Co., Ltd.

Column

Contract with GPO

There are many GPOs throughout the United States. A typical small GPO covers approximately 300 hospitals, and a large one may have more than 1,000 hospitals under its umbrella. Having successfully formed a GPO agreement, we are now able to undertake full-scale sales of medical equipment in the United States. Going forward, we will focus on developing new products for overseas markets, in an effort to expand our presence in the North American region.



Performance Overview

In the fiscal year ended March 2007, the medical equipment industry faced difficult conditions due to reforms of Japan's healthcare system and other factors. Nevertheless, Fukuda Denshi reported healthy sales of patient monitoring equipment, as it did in the previous fiscal year. During the period, we sold 20,700 automated external defibrillator (AED) units, greatly exceeding our target and our achievement in the previous year. Our performance here benefited from our release of the industry's first defibrillator pads for children. These pads feature a function that reduces output energy, making them more suited to children's defibrillation.

As a result, we reported consolidated net sales of ¥88,270 million, up 1.9% from the previous year. Selling, general, and administrative expenses edged up 0.8%, due mainly to increased costs associated with future-oriented research and development and the introduction of an enterprise resource planning package. Accordingly, operating income rose 10.1% to ¥5,943 million. Net income surged 453.6% to ¥3,354 million, due mainly to a gain on reversal of provision for business losses related to the sale of Kontron Medical SAS in France.

Physiological Diagnostic Equipment: Segment sales of ¥26,789 million (up 0.1%)

Sales of electrocardiograms — both automatic analysis types and Holter ECG recorders — increased 6.0% from the previous year. The segment also benefited from higher sales of ultrasound imaging systems and a new carbon monoxide gas analyzer for use in anti-smoking clinics. However, sales of items purchased from other companies declined following major negotiations.

Patient Monitoring Equipment: Segment sales of ¥7,644 million (up 12.0%)

Sales in this segment increased in terms of volume and value, both in Japan and overseas, owing to steady sales of a new series of two-way communication monitors and an enhanced sales cost structure.

Medical Treatment Equipment: Segment sales of ¥31,122 million (up 0.3%)

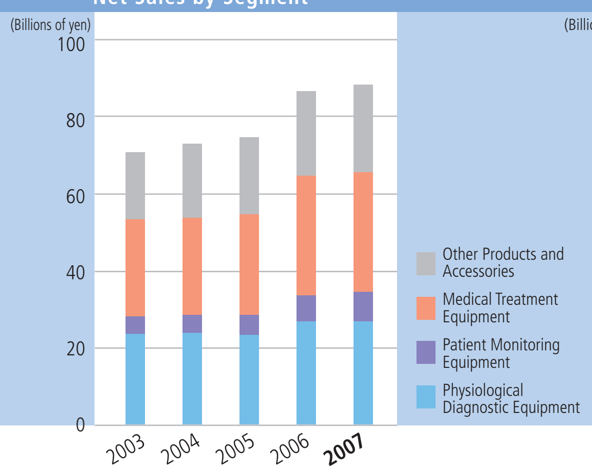
Sales of pacemakers and catheters made of insurance-covered medical materials declined due to reductions in official reimbursement prices, which caused competition to intensify. Moreover, sales of ventilators fell 14.4% year-on-year, due to curtailment of capital expenditures by medical institutions, which affected unit sales of general-purpose models. By contrast, we reported growth in our medical equipment rental business, which covers oxygen concentrator devices, equipment used to treat sleep apnea syndrome, and home care ventilators. Segment income also benefited from higher sales of AEDs, both in terms of volume and value, following proactive sales promotional efforts.

Other Products and Accessories: Segment sales of ¥22,713 million (up 3.2%)

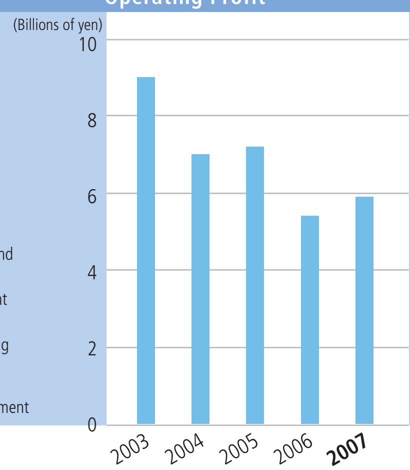
In this segment, we handle recording paper, disposable electrodes and accessories, as well as consumables used for devices handled by other segments.

Sales of accessories and consumables increased during the year, driven by sales growth in the other three segments.

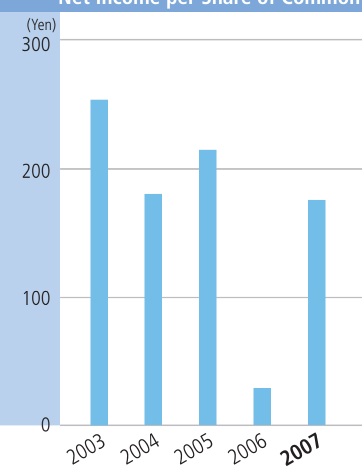
Net Sales by Segment



Operating Profit



Net Income per Share of Common Stock



Financial Position

Assets and Liabilities

As of March 31, 2007, total assets stood at ¥103,682 million, down ¥1,359 million from a year earlier. Within this amount, total current assets fell ¥1,251 million, due to declines in accounts and notes receivable and inventories. Despite a decrease in deferred tax assets, total fixed assets increased, due largely to a rise in intangible fixed assets stemming from the introduction of an enterprise resource planning package.

Total liabilities were down ¥2,288 million to ¥29,100 million. This was mainly due to a ¥2,127 million decline in provision for business losses related to the sale of an overseas consolidated subsidiary.

Net assets at fiscal year-end totaled ¥74,582 million, up ¥940 million from a year earlier. Net assets per share rose ¥51.43, to ¥3,888.67, and the equity ratio grew from 70.1% to 71.9%.

Cash Flows

Cash and cash equivalents at fiscal year-end stood at ¥24,298 million, down ¥31 million from a year earlier.

Net cash provided by operating activities amounted to ¥8,299 million, up ¥1,836 million from the previous year. This was due mainly to an increase in income before income taxes.

Net cash used in investing activities during the fiscal year totaled ¥7,123 million, up ¥803 million. This stemmed largely from a decline in income due to reversal of the life insurance fund for directors.

Net cash used in financing activities was ¥1,328 million, down ¥1,124 million from the previous year, due mainly to a net increase in short-term bank loans.

Capital Investment

For the year, the Company's capital investment totaled ¥6,383 million, the depreciation expense was ¥4,016 million, and R&D expenditures, which are included in general and administrative expenses and manufacturing costs, amounted to ¥1,755 million, up 15.6% from the previous fiscal year.

Business Risks

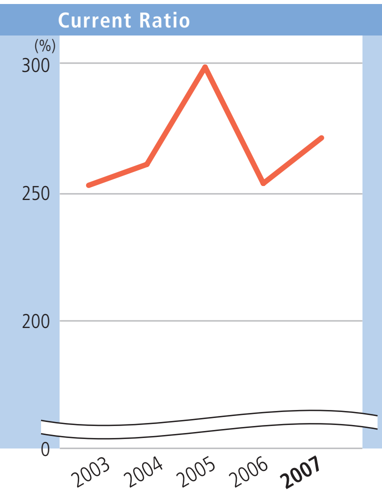
High Dependence on Continued Transactions with Certain Business Partners

The Fukuda Denshi Group imports and sells ventilators, pacemakers, defibrillators, heart catheters, and other devices and equipment. We work hard to ensure the stable continuation of transactions while taking sufficient care to avoid excessive reliance on such transactions.

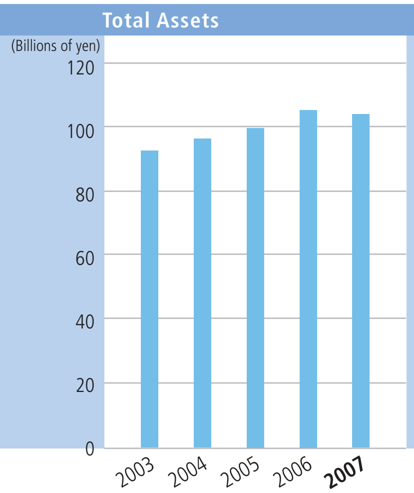
Legal Regulations

In Japan, the Company is subject to regulations under the Pharmaceutical Affairs Law. Regulations pertaining to the sale of medical equipment were tightened when revisions to the Pharmaceutical Affairs Law were implemented on April 1, 2005. Companies are required to have safety departments and appoint safety managers, as well as compile manuals outlining procedures for equipment investigations. The Group is working to strengthen its safety management systems. For example, it has established a department specializing in the consolidation and management of safety-related information.

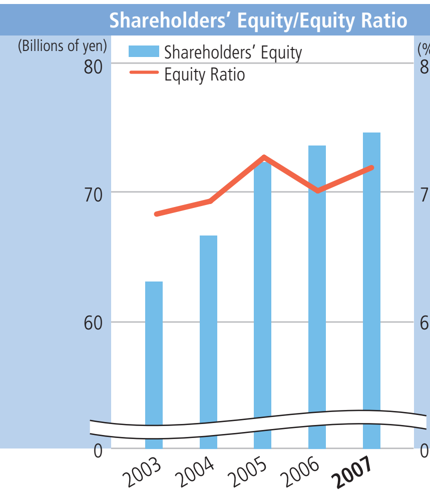
Current Ratio



Total Assets



Shareholders' Equity/Equity Ratio



·Shareholders' equity = Total net assets - Minority interests (as recorded on balance sheet)
·Equity ratio = Shareholders' equity ÷ Total assets × 100

The Company's domestic sales activities are also governed by fair competition rules according to the Act against Unjustifiable Premiums and Misleading Representations. In addition, in the course of conducting its business the Company acquires information about its customers, confidential sales-related data and other information. The Company takes proper measures to ensure that such information is not compromised. These include stepping up surveillance of in-house networks and limiting access to information.

Time Required to Launch New Products and Technologies

The manufacture and sale of medical equipment are subject to regulations prescribed in the Pharmaceutical Affairs Law. Consequently, there are cases where a certain period of time is required before approval is granted by the relevant independent administrative authority. In addition, some medical equipment requires clinical trials to be undertaken. In many cases, therefore, significant time is needed to bring a product to market.

Impact of Health Authority Actions

The medical equipment sector must adapt to changes in the operating environment brought about by government policies aimed at raising the quality of medical care and curtailing medical treatment expenses, as well as major policy shifts by health authorities.

Moreover, once every two years, the government implements official revisions affecting treatment payments, pharmaceutical prices, and the official prices of specific medical materials covered by insurance. Such revisions may lead to intensified price competition, causing a reduction in sales prices.

Risks Accompanying Overseas Businesses

The Fukuda Denshi Group not only supplies products to distributors overseas, but also has its own overseas sales, development, and production operations. It is possible that unforeseen changes to local laws, as well as terrorist acts, natural disasters, or other incidents, could adversely affect the Company's business performance and financial position.

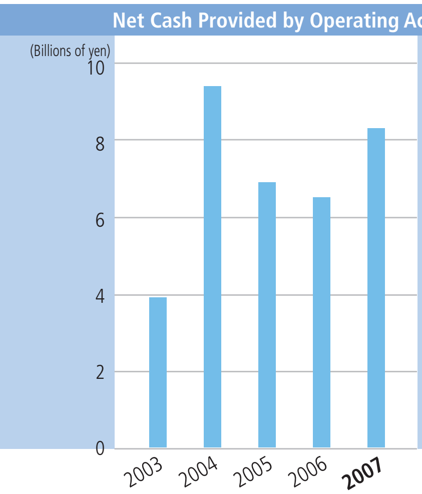
Important Business Relationships between The Company, Its Executives, and Shareholders with Voting Rights

(Basic policy on relationships with related parties; relationship with Atomic Sangyo Co., Ltd.)

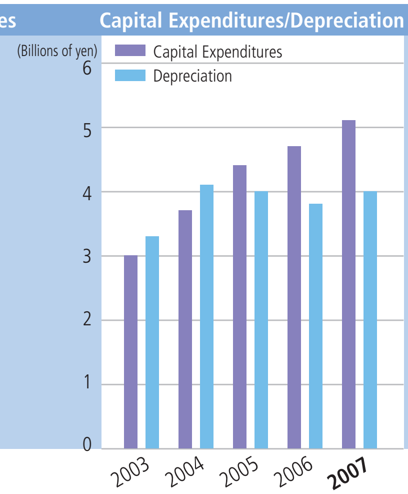
One of Fukuda Denshi's shareholders is Atomic Sangyo Co., Ltd., which holds 12.98% of the Company's voting rights (as of March 31, 2007). Kotaro Fukuda, President and CEO of Fukuda Denshi, and his close relatives own 100% of the shares in Atomic Sangyo.

Atomic Sangyo makes and sells electrocardiogram recording paper, and also engages in the real estate rental business. The Company purchases recording paper and accounting slips and rents offices from Atomic Sangyo. Decisions on the purchase prices of recording paper and accounting slips are based on due negotiation and consideration of market prices, and payment terms are the same as those generally adopted in the marketplace. Office rental contracts are based on transactions in nearby locations.

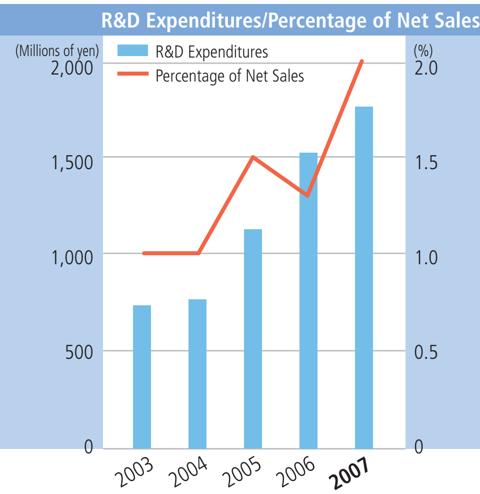
Net Cash Provided by Operating Activities



Capital Expenditures/Depreciation



R&D Expenditures/Percentage of Net Sales



CSR Corporate Social Responsibility

Fukuda Denshi is committed to "contributing to medical advances and people's health through the development of medical equipment." Through the work of the Fukuda Foundation for Medical Technology, as well as sports promotions and other activities, we wish to "give something back to the wider community" while becoming a company that is trusted by society. Furthermore, recognizing the crucial importance of fair and transparent management, we are strengthening our corporate governance functions.

Fukuda Denshi Arena (Heart Day Campaign)

In the summer of 2005, Fukuda Denshi acquired naming rights for Soga Soccer Stadium in Chiba City. Consequently, the stadium was named the Fukuda Denshi Arena.

On September 23, 2006, we held a "World Heart Day" campaign at the arena aimed at drawing attention to maintaining good health, and preventing heart disease and strokes. World Heart Day is an educational event held annually on the last Sunday in September by the World Heart Federation, an organization consisting of 186 medical societies and groups around the world. On that day, a J-League soccer match was held at the arena between JEF Ichihara Chiba and Kyoto Purple Sanga. To raise awareness concerning the prevention of "metabolic syndrome" and myocardial infarction, we distributed 8,000 measuring tapes and numerous pamphlets to spectators. We will continue promoting sports and contributing to the advancement of people's health.


Fukuda Denshi Arena

Fukuda Foundation for Medical Technology

The Fukuda Foundation for Medical Technology was established in 1990 as part of events held to commemorate the 50th anniversary of the Company's founding. The Foundation contributes to the improvement of medical technologies that employ electronic engineering and to advances in medical welfare. Every year, the Foundation provides financial assistance for research projects related to medical technology, holds research seminars and conferences, and sponsors international exchanges. In the year under review, we provided assistance to 25 researchers.

Corporate Governance

Board of Directors' Meetings are held at least once a month to monitor the execution of business and make decisions on major management-related items. In the fiscal year under review, the Board of Directors held meetings on 20 occasions. Meetings of the Executive Council, comprising senior executives, are also held at least once a month to discuss important executive policies. Fukuda Denshi adopts an executive officer system in order to clearly distinguish between management and enforcement roles and to also reinforce corporate governance. At the end of March 2007, nine operating officers were performing their duties in accordance with their respective positions.

Internal Control System

The corporate environment is currently undergoing a variety of changes, as illustrated by the implementation of a New Company Law in Japan and the establishment of internal control systems in response to the Japanese version of the Sarbanes-Oxley Act (J-SOX). In response to such changes, Fukuda Denshi restructured its organization on April 1, 2007, to further enhance the combined strengths of the Group. Under the change, we have shifted from a business division structure to a head office structure. We also established the Internal Control Head Office, Safety Test Center Preparatory Office, Life Tech Head Office, Sales Head Office, R&D Head Office, and Production Head Office with the aim of facilitating increased alliances between departments across the Group. To strengthen compliance-oriented management, we set up the Internal Control Head Office under the direct control of the president. Within the Internal Control Head Office, we established the Internal Audit Department (formerly the Audit Office) and an internal reporting hotline.

Corporate Data

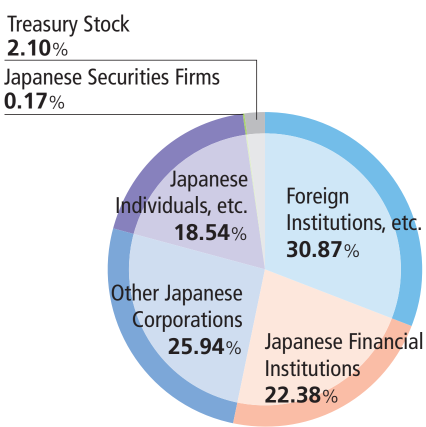
Fukuda Denshi Group
(As of March 31, 2007)

Established	July 6, 1948 (under the name of Fukuda Denki Seisakujo)	
Capital	¥4,621,600,000	
Number of Employees	Consolidated:	2,656
	Non-consolidated:	559
Number of Shares	Authorized:	78,000,000
	Issued:	19,588,000
Fiscal Year-End	March 31	
Annual Meeting	The annual meeting of shareholders is normally held in Tokyo in June	
Stock Listing	JASDAQ (Code:6960)	
Shareholder Registry Administrator	Sumitomo Trust & Banking Co., Ltd.	
	4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan	
Independent Public Accountants	KPMG AZSA & Co.	

History

1939	Takashi Fukuda established Fukuda Medical Electronics Co., Ltd.
1948	Production and marketing of ECGs resumed following the end of World War II
1969	Changed company name to Fukuda Denshi Co., Ltd., through a merger
1982	Registered company shares on Tokyo's over-the-counter market (now JASDAQ)
1987	Developed and started producing the world's first intravascular monitoring video system
1990	Established the Fukuda Foundation for Medical Technology
1994	Established joint venture, Beijing Fukuda Denshi Medical Instruments Co., Ltd., in China
1996	Established Fukuda Denshi USA, Inc. to develop and manufacture products
	Opened UK branch office
	Established tripolar global network covering Europe, North America and Asia
2003	Established Fukuda Medical Solutions Co., Ltd. to develop and provide support for clinical information systems
2004	Established marketing tie-up with Philips Medical Systems Japan concerning patient monitoring equipment and defibrillators
2006	Established Fukuda Cardiac Laboratory Co., Ltd., to specialize in the sale of medical treatment devices
2007	Reached an agreement with Esaote France SARL (France) regarding the sale of our shares in Kontron Medical SAS (France)

Composition of Shareholders
(As of March 31, 2007)



Major Shareholders

	Number of shares owned (thousands)	Ratio of the total voting rights (%)
Steel Partners Japan Strategic Fund (Offshore) L.P.	2,760	14.40
Atomic Sangyo Co., Ltd.	2,486	12.98
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 UFJ, Ltd.	725	3.79
Nippon Life Insurance Company	702	3.67
The Melon Bank Treaty Clients Omnibus	617	3.22
The Bank of New York Treaty JASDAQ Account	595	3.11
Junko Fukuda	550	2.87

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

Board of Directors and Auditors
(As of June 28, 2007)

President	Kotaro Fukuda
Senior Managing Director	Junzo Fujiwara
Managing Directors	Masayuki Iwamoto
	Kenji Ozaki
Directors	Susumu Segawa
	Osamu Shirakawa
	Daijiro Shirai
	Yukio Nakagawa
	Yuichiro Tani
	Izumi Tsubone
Standing Corporate Auditor	Yoshimasa Ogawa
Corporate Auditors	Yoshinori Okamoto
	Tatsuo Izawa
	Keiji Goto

Consolidated Financial Statements

Consolidated Balance Sheets

March 31, 2006 and 2007

ASSETS	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash on hand and in bank (Note 3)	¥24,480	¥24,456	$207,253
Marketable securities (Note 5)	600	999	8,469
Trade receivables:			
Accounts and notes	24,740	24,171	204,841
Allowance for doubtful accounts	(330)	(369)	(3,130)
Inventories (Note 4)	13,990	13,127	111,242
Deferred tax assets (Note 8)	2,868	2,745	23,267
Other current assets	1,688	1,656	14,031
Total current assets	68,036	66,785	565,973
Property, plant and equipment:			
Land	5,383	5,461	46,282
Buildings and structures	8,288	8,441	71,535
Machinery and equipment	18,673	20,196	171,150
Construction in progress	7	16	135
	32,351	34,114	289,102
Accumulated depreciation and accumulated impairment losses	(15,788)	(16,134)	(136,727)
	16,563	17,980	152,375
Investments and other assets:			
Investment securities (Note 5)	12,560	10,776	91,326
Investments in unconsolidated subsidiaries and affiliated companies	52	49	414
Deferred tax assets (Note 8)	3,254	2,126	18,021
Other	4,576	5,966	50,556
	20,442	18,917	160,317
	¥105,041	¥103,682	$878,665

The accompanying notes are integral to these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY (LIABILITIES AND NET ASSETS)	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term bank loans (Note 7)	¥3,053	¥3,500	$29,661
Long-term debt due within one year (Note 7)	119	53	447
Trade payables-accounts and notes	14,980	14,918	126,424
Income taxes payable (Note 8)	1,180	927	7,853
Business loss reserve	2,781	654	5,541
Accrued expenses and other current liabilities	4,731	4,574	38,769
Total current liabilities	26,844	24,626	208,695
Long-term liabilities:			
Long-term debt (Note 7)	104	40	342
Employees' severance and retirement benefits (Note 10)	3,197	3,161	26,792
Retirement benefits for directors and corporate auditors	1,220	1,214	10,284
Other long-term liabilities	23	59	504
Total long-term liabilities	4,544	4,474	37,922
Minority interests in consolidated subsidiaries	11	—	—
Contingent liabilities (Note 17)			
Shareholders' equity			
Common stock			
Authorized - 30,000,000 shares			
Issued - 19,588,000 shares in 2006	4,622	—	—
Capital surplus	9,851	—	—
Retained earnings	56,088	—	—
Net unrealized holding gains on securities	3,926	—	—
Foreign currency translation adjustments	86	—	—
	74,573	—	—
Less treasury stock at cost	(931)	—	—
	73,642	—	—
	¥ 105,041	—	—

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Net assets(Note 2 (m) and 11)			
Owner's equity			
Common stock			
Authorized - 78,000,000 shares			
Issued - 19,588,000 shares in 2007	—	¥4,622	$39,166
Capital surplus	—	9,851	83,485
Retained earnings	—	57,844	490,203
Less treasury stock at cost			
– 411,595 shares in 2007	—	(933)	(7,905)
Total owner's equity	—	71,384	604,949
Valuation and translation adjustments			
Net unrealized holding gains on securities	—	3,198	27,101
Foreign currency translation adjustments		(11)	(96)
Total valuation and translation adjustments	—	3,187	27,005
Minority interests in consolidated subsidiaries	—	11	94
Total net assets	—	74,582	632,048
Total liabilities and net assets	—	¥103,682	$878,665

The accompanying notes are integral to these financial statements.

Consolidated Statements of Income

Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Net sales (Note 16)	¥86,613	¥88,270	$748,052
Costs and expenses:			
Cost of sales	51,384	52,242	442,732
Selling, general and administrative	29,832	30,085	254,955
	81,216	82,327	697,687
Operating income (Note 16)	5,397	5,943	50,365
Other income (expense):			
Interest and dividend income	150	161	1,366
Interest expense	(39)	(67)	(566)
Equity in loss of affiliated companies	(175)	—	—
Loss on devaluation of investment securities	(39)	(473)	(4,010)
Gain on life insurance surrender value	560	56	472
Litigation settlement	200	—	—
Gain on sales of investment securities	101	112	945
Loss on sales of property	(15)	(7)	(62)
Gain on sales of property	—	3	25
Loss on disposal of property	(51)	(41)	(349)
Loss on sales of golf club membership	—	(20)	(170)
Impairment loss of fixed assets (Note 13)	(133)	(23)	(192)
Write-down of inventories (Note14)	(824)	—	—
Provision for business losses (Note15)	(4,105)	(470)	(3,982)
Extra payment of retirement benefits for early-retirement employees	(82)	—	—
Received indemnification for damage	—	35	300
Reversal of business loss reserve (Note12)	—	1,113	9,436
Other, net	248	265	2,246
	(4,204)	644	5,459
Income before income taxes	1,193	6,587	55,824
Income taxes (Note 8):			
Current	1,951	1,476	12,510
Deferred	(1,365)	1,756	14,879
	607	3,355	28,435
Minority interests in net income of consolidated subsidiaries	(1)	(1)	(12)
Net income	¥606	¥3,354	$28,423

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
	2006	2007	2007
Net income	¥28.70	¥174.90	$1.48
Diluted net income	28.68	—	—
Cash dividends applicable to the year	80.00	80.00	0.68

The accompanying notes are integral to these financial statements.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2006 and 2007

		Millions of yen							
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Less treasury stock at cost	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total
Balance at March 31, 2005	19,588	¥4,622	¥9,851	¥57,409	¥(930)	¥1,389	¥(21)	¥9	¥72,329
Net income	—	—	—	606	—	—	—	—	606
Translation of foreign currency financial statements	—	—	—	—	—	—	107	(1)	106
Net unrealized holding gains on securities	—	—	—	—	—	2,537	—	—	2,537
Purchase of treasury stock	—	—	—	—	(1)	—	—	—	(1)
Cash dividends paid (¥95.00 per share)	—	—	—	(1,822)	—	—	—	—	(1,822)
Bonuses to directors and corporate auditors	—	—	—	(99)	—	—	—	—	(99)
Employees' bonus and welfare fund	—	—	—	(6)	—	—	—	1	(5)
Others	—	—	—	—	—	—	—	2	2
Balance at March 31, 2006	19,588	4,622	9,851	56,088	(931)	3,926	86	11	73,653
Net income	—	—	—	3,354	—	—	—	—	3,354
Translation of foreign currency financial statements	—	—	—	—	—	—	(97)	0	(97)
Net unrealized holding gains on securities	—	—	—	—	—	(728)	—	—	(728)
Purchase of treasury stock	—	—	—	—	(2)	—	—	—	(2)
Sales of treasury stock	—	—	—	—	0	—	—	—	0
Cash dividends paid (¥80.00 per share)	—	—	—	(1,534)	—	—	—	—	(1,534)
Bonuses to directors and corporate auditors	—	—	—	(56)	—	—	—	—	(56)
Employees' bonus and welfare fund	—	—	—	(8)	—	—	—	0	(8)
Others	—	—	—	—	—	—	—	0	0
Balance at March 31, 2007	19,588	¥4,622	¥9,851	¥57,844	¥(933)	¥3,198	¥(11)	¥11	¥74,582

The accompanying notes are integral to these financial statements.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2006 and 2007

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Less treasury stock at cost	unrealized holding gains on securities	Foreign currency translation adjustments	Minority interests in consolidated subsidaries	Total
Balance at March 31, 2006	$39,166	$83,485	$475,321	$(7,892)	$33,275	$725	$93	$624,173
Net income	—	—	28,423	—	—	—	—	28,423
Translation of foreign currency financial statements	—	—	—	—	—	(821)	(1)	(822)
Net unrealized holding gains on securities	—	—	—	—	(6,174)	—	—	(6,174)
Purchase of treasury stock	—	—	—	(16)	—	—	—	(16)
Sales of treasury stock	—	—	—	3	—	—	—	3
Cash dividends paid ($0.68 per share)	—	—	(13,002)	—	—	—	—	(13,002)
Bonuses to directors and corporate auditors	—	—	(470)	—	—	—	—	(470)
Employees' bonus and welfare fund	—	—	(69)	—	—	—	1	(68)
Others	—	—	—	—	—	—	1	1
Balance at March 31, 2007	$39,166	$83,485	$490,203	$(7,905)	$27,101	$(96)	$94	$632,048

The accompanying notes are integral to these financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Cash flow from operating activities:			
Income before income taxes	¥ 1,193	¥6,587	$55,824
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	3,774	4,016	34,036
Impairment loss of fixed assets	133	23	192
Equity in loss of affiliated companies	175	—	—
Increase (Decrease) in employees' severance and retirement benefits	42	(42)	(357)
Decrease in retirement benefits for directors and corporate auditors	(52)	(7)	(57)
Interest expense	39	67	566
Loss on devaluation of investment securities	39	473	4,010
Provision (Reversal) associated with reorganization (Note 3 (c))	4,105	(1,657)	(14,042)
Gain on sales of investment securities	(101)	(112)	(945)
Litigation settlement	(200)	—	—
Loss on sales of property	15	7	62
Gain on life insurance surrender value	(560)	(56)	(472)
(Increase) Decrease in trade receivables- accounts and notes	(1,092)	625	5,295
Decrease in inventories	79	947	8,024
Decrease in trade payables-accounts and notes	(312)	(141)	(1,193)
Other	348	(449)	(3,818)
Subtotal	7,625	10,281	87,125
Interest and dividend received	150	155	1,313
Interest paid	(37)	(67)	(566)
Receipt of indemnification for damage	—	35	300
Receipt of litigation settlement	200	—	—
Income taxes paid	(1,475)	(2,105)	(17,842)
Net cash provided by operating activities	6,463	8,299	70,330
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(4,658)	(5,082)	(43,068)
Payment for purchase of intangible assets	(1,485)	(1,301)	(11,023)
Payment for purchase of marketable securities and investment securities	(1,534)	(1,617)	(13,700)
Proceeds from sale of marketable securities and investment securities	1,344	1,312	11,114
Payment of short-term loans receivable	(306)	—	—
Payment to life insurance fund for directors	(394)	(480)	(4,069)
Proceeds from life insurance fund for directors	1,748	129	1,093
Payment for acquisition of shares of newly consolidated subsidiaries (Note 3 (b))	(1,075)	—	—
Other	40	(84)	(711)
Net cash used in investing activities	(6,320)	(7,123)	(60,364)
Cash flow from financing activities:			
Net decrease (Increase) in short-term bank loans	(588)	344	2,916
Proceeds from long-term debt	100	—	—
Repayment of long-term debt	(145)	(135)	(1,145)
Dividend paid to shareholders	(1,817)	(1,534)	(13,002)
Payment for purchase of treasury stock	(1)	(2)	(16)
Proceeds from sales of treasury stock	—	0	3
Other	(1)	(1)	(8)
Net cash used in financing activities	(2,452)	(1,328)	(11,252)
Effect of exchange rate change on cash and cash equivalents	62	31	263
Net decrease in cash and cash equivalents during year	(2,247)	(121)	(1,023)
Cash and cash equivalents at beginning of year	26,576	24,329	206,174
Increase in cash and deposits by the change of the consolidation scope	—	90	763
Cash and cash equivalents at end of year (Note 3 (a))	¥24,329	¥24,298	$205,914

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 certain expanded disclosure and the inclusion of the consolidated statements of changes in net assets for 2006) 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 yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 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 57 and 61 subsidiaries as of March 31, 2006 and 2007, respectively. The consolidated financial statements include the accounts of the Company and 49 of such subsidiaries in the year ended March 31, 2006 and 53 of such subsidiaries in the years ended March 31, 2007. The consolidated subsidiaries are mainly sales agents of the Company. FUKUDA DENSHI TOKYOCHUOU CO., LTD., FUKUDA DENSHI SANGI CO., LTD., FUKUDA CARDIAC LABORATORY KANTO CO., LTD., FUKUDA CARDIAC LABORATORY KANSAI CO., LTD., were established during the year ended March 31,2007. They were included in the scope of consolidation during this fiscal year.

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., FUKUDA DENSHI USA, INC., KONTRON MEDICAL SAS and KONTRON MEDICAL AG for which the fiscal year-end is December 31. Significant transactions, if any, in the three months ended March 31, 2007, 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.

Goodwill is amortized over a period of five years on a straight-line basis.

(b) Investments in unconsolidated subsidiaries and an affiliated company

eVent Medical Ltd. was affiliated company accounted for using the equity-method at March 31,2006.

Due to the sale of all outstanding shares of the affiliated company which the Company owned, it was excluded from the scope of the equity-method during the year ended March 31,2007.

Except for the above-mentioned company, the Company had eight unconsolidated subsidiaries and two affiliated companies as of March 31, 2006 and eight unconsolidated subsidiaries and one affiliated companies as of March 31, 2007.

Investments in these unconsolidated subsidiaries and 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 and net assets. 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.

Investments in investment limited partnership and other similar partnership are valued at the net amount of the percentage of interests held based on the latest financial statements on a reporting date stipulated by partnership contract.

(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 assets for which the acquisition costs are ¥100,000 – ¥200,000 is provided by the straight-line method over three years. 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 (4 years).

(g) Impairment of fixed assets

(Fiscal year 2006)

Effective April 1, 2005, the Group adopted 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 Standard Board of Japan on October 31, 2003). As a result of the adoption of these standards, income before taxes and minority interests decreased by ¥1,457 million.

(h) Business loss reserve

To prepare losses that will occur in the future due to the business withdrawal, the expected loss amount is computed.

(i) Directors' bonuses

Effective April 1, 2006, the Group adopted the new accounting standard for directors' bonus (Accounting Standards Board of Japan Statement No.4 issued on November 29,2005). Due to the adoption of this new accounting standard, the directors' bonuses are expensed when incurred, although it had been accounted for an appropriation of retained earnings upon resolution of shareholders' meeting. As a result of the adoption of this standard, operating income and income before income taxes decreased by ¥60 million ($504 thousand).

(j) 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.

(k) Retirement benefits for directors and corporate auditors

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

Effective the shareholders' meeting of the Company, held on June 29, 2005, the Company abolished the retirement benefits plan for directors and corporate auditors. Accordingly, the Company recognizes liabilities for retirement benefits for directors and corporate auditors till the completion of shareholders' meeting on June 29, 2005, which will be paid upon their retirement.

(l) Income taxes

The Group 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.

(m) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31,2007,The Group has applied "Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement NO.5)", and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Guidance NO.8)" both issued by the Accounting Standards Board of Japan on December 9,2005.

The adoption of the new accounting standard had no impact on the financial statement for the year ended March 31,2007. The amount corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥74,570 million ($631,955 thousand).

(n) Research and development costs

Research and development costs are charged to income as incurred.

(o) 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 net assets accounts are translated at historical rates. Any resulting differences are reflected as foreign currency translation adjustments and minority interest in net assets.

(p) 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 stock options as methods of acquisition of treasury stock which have a dilutive effect are execised.

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

(q) 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.

(r) Reclassifications

Certain reclassifications have been made in the 2006 financial statements to conform to the presentation for 2007.

3. Cash and cash equivalents

(a) The relations between cash and cash equivalents and consolidated balance sheet items at March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash on hand and in bank	¥24,480	¥24,456	$207,253
Less: Deposit with maturity exceeding three months at the time of purchase	151	158	1,339
Cash and cash equivalents	¥24,329	¥24,298	$205,914

(b) Assets and liabilities of the newly consolidated subsidiaries of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of share were as follows:

Kontron Medical SAS (As of June 30, 2005)

	Millions of yen
	2006
Current assets	¥1,110
Fixed assets	108
Consolidated adjustment account	1,141
Current liabilities	(1,206)
Long-term liabilities	(341)
Acquisition cost of shares	812
Cash and cash equivalents of acquired companies	—
Payment for acquisition of shares of newly consolidated subsidiaries	¥812

Kontron Medical AG (As of June 30, 2005)

	Millions of yen
	2006
Current assets	¥164
Fixed assets	5
Consolidated adjustment account	220
Current liabilities	(122)
Acquisition cost of shares	267
Cash and cash equivalents of acquired companies	4
Payment for acquisition of shares of newly consolidated subsidiaries	¥263

(c) Provision (Reversal) associated with reorganization
Components of Provision (Reversal) associated with reorganization was as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Provision for business losses	¥470	$3,981
Reversal for Business loss reserve	(2,127)	(18,023)
Total	¥(1,657)	$(14,042)

4. Inventories

Inventories at March 31, 2006 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Merchandise and products	¥11,671	¥10,874	$92,148
Work-in-process	384	194	1,648
Materials and supplies	1,935	2,059	17,446
	¥13,990	¥13,127	$111,242

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, 2006 and 2007:

Available-for-sale securities:

	Millions of yen					
	2006			2007		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥4,413	¥11,057	¥6,644	¥4,726	¥10,117	¥5,391
Others	—	—	—	—	—	—
Total	¥4,413	¥11,057	¥6,644	¥4,726	¥10,117	¥5,391

	Thousands of U.S. dollars		
	2007		
Type	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$40,048	$85,734	$45,686
Other	—	—	—
Total	$40,048	$85,734	$45,686

	Millions of yen					
	2006			2007		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values not exceeding acquisition costs:						
Equity securities	—	—	—	¥39	¥39	¥(0)
Other	—	—	—	—	—	—
Total	—	—	—	¥39	¥39	¥(0)

	Thousands of U.S. dollars		
	2007		
Type	Acquisition cost	Book value	Difference
Securities with book values not exceeding acquisition costs:			
Equity securities	$335	$332	$(3)
Other	—	—	—
Total	$335	$332	$(3)

(b) Total sales of available-for-sale securities sold in the years ended March 31, 2006 and 2007, and the related gains were as follows.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Proceeds from sales	¥344	—	—
Gross realized gains	101	—	—

(c) The following tables summarize the book values of securities with no available fair values as of March 31, 2006 and 2007:

(1) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
Type	2006	2007	2007
Discounted bonds	¥600	¥999	$8,469

(2) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
Type	2006	2007	2007
Non-listed equity securities	¥1,244	¥112	$951
Investments in investment limited partnership	256	508	4,309
	¥1,500	¥620	$5,260

(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	Over 10 years	Total
2006:					
Discounted bonds	¥ 600	—	—	—	¥ 600

	Millions of yen				
Type	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2007:					
Discounted bonds	¥999	—	—	—	¥999

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
2007:					
Discounted bonds	$8,469	—	—	—	$8,469

6. Derivative transactions

The Group did not use any derivative transactions for the years ended March 31, 2006 and 2007.

7. Bank loans and long-term debt

Bank loans at March 31, 2006 and 2007, were unsecured and bore interest ranging from 0.6% to 2.4% per annum and 0.7% to 1.2% per annum, respectively.

Long-term debt at March 31, 2006 and 2007, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Unsecured loans from banks, with interest ranging			
From 0.7% to 1.2% per annum	¥223	¥93	$789
Less: Portion due within one year	119	53	447
	¥104	¥40	$342

The annual maturities of long-term debt outstanding at March 31, 2007, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥53	$447
2009	40	342
	¥93	$789

8. Income taxes

The company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate statutory tax rate of approximately 41% for the years ended March 31, 2006 and 2007, respectively.

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, 2006 and 2007:

	2006		2007	
Statutory tax rate	40.7		40.7	%
Adjustments:				
Exclusion of dividends received from taxable income	(1.6)		(0.9)	
Non-deductible expenses	7.6		1.2	
Per capita levy residents tax	2.2		0.4	
Change in valuation allowance	8.2		7.4	
Tax credits for research and development costs	(9.2)		—	
Other	1.2		0.2	
Effective tax rate	49.1	%	49.0	%

Significant components of the deferred tax assets and liabilities as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Fixed assets	¥1,203	¥639	$5,412
Inventories	1,106	1,128	9,561
Net operating loss carry forwards of subsidiaries	520	827	7,009
Employees' severance and retirement benefits	1,301	1,286	10,902
Research and development cost	1,702	1,810	15,337
Business loss reserve	—	266	2,255
Provision of business losses	1,912	—	—
Impairment losses of fixed assets	54	63	536
Other	2,637	3,048	25,831
Total deferred tax assets	10,435	9,067	76,843
Less: Valuation allowance	(1,369)	(1,748)	(14,816)
Net deferred tax assets	9,066	7,319	62,027
Deferred tax liabilities:			
Allowance for doubtful accounts	(194)	(194)	(1,646)
Deferred gains on real properties for tax purposes	(34)	(34)	(287)
Other	(2,716)	(2,220)	(18,806)
Total deferred tax liabilities	(2,944)	(2,448)	(20,739)
Deferred tax assets, net of deferred tax liabilities	¥ 6,122	¥ 4,871	$41,288

9. Information for certain leases

(1) Finance leases as a lessee

Assumed data of the Group as to acquisition cost, accumulated depreciation, accumulated impairment losses 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, 2006 and 2007, inclusive of interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Machinery and equipment	¥1,284	¥1,136	$9,623
Others	187	194	1,645
Accumulated depreciation	(771)	(652)	(5,529)
Accumulated impairment losses	(14)	(16)	(131)
	¥686	¥662	$5,608

Future lease payments at March 31, 2006 and 2007, of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥255	¥235	$1,988
Over one year	439	437	3,703
	¥694	¥672	$5,691
Accumulated impairment loss on leaseholds	¥8	¥10	$83

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2006 and 2007, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Lease expenses	¥300	¥284	$2,403
Adjustment of impaired leased assets	6	5	44
Assumed depreciation	300	284	2,403
Loss of impaired assets	14	7	56

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

10. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2007, consisting the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligation	¥8,748	¥8,936	$75,732
Unrecognized prior service costs	(7)	(5)	(44)
Unrecognized actuarial differences	338	428	3,623
Less fair value of pension assets	(5,882)	(6,198)	(52,519)
Liability for severance and retirement benefits	¥3,197	¥3,161	$26,792

Included in the consolidated statements of income for the years ended March 31, 2006 and 2007, are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service costs – benefits earned during the year	¥633	¥660	$5,593
Interest cost on projected benefit obligation	168	175	1,482
Expected return on plan assets	(92)	(118)	(997)
Amortization of prior service costs	2	1	11
Amortization of actuarial differences	124	(69)	(590)
Severance and retirement benefit expenses	¥835	¥649	$5,499

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

11. Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve could have been transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Under the Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, and (5) the opinion of independent auditors is unqualified, the Board of Directors may declare dividends if the company has prescribed so in its articles of incorporation. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

12. Reversal of business loss reserve

Reversal of business loss reserve was caused by recognition as the appropriate amount with offsetting reversal of Business loss reserve depend on decrease in obligation fees of employees' severance involving business withdrawal of Kontron Medical SAS against provision of added expense relating to this withdrawal, which was mainly based on an agreement on the share sales of Kontron Medical SAS on April 30, 2007.

13. Impairment loss of fixed assets

(Fiscal year 2006)

			Millions of yen
Use	Location	Asset kind	2006
Idle assets	Nasu-gun, Tochigi and 2 others	Land, Investment real estate	¥27
Assets used for business	Chiba-shi, Chiba and 3 others	Buildings and structures, Machinery and equipment, Leased assets	¥106

The Company classified fixed assets into groups by the type of respective operating division. The consolidated subsidiaries classified fixed assets into groups by the type of respective companies or business establishments. With respect to idle assets and rental estates, each asset is treated as an individual unit to apply the accounting for the impairment.

Caring amounts of idle assets were devalued to their recoverable amounts, owing to declining land prices. Carring amounts of certain assets used for business were not recovered by estimated future cash flows due to a decrease in operating income, and their carring amounts were devalued to their recoverable amounts.

As a result, the Company recognized loss on impairment in the amount of ¥133 million, which consisted of building and structures ¥24 million, machinery and equipment ¥41 million and other ¥68 million, as other expenses.

Recoverable amount of each group of assets is net selling price, market value of each group of assets is price adjusted rationally road rate and assessed value of fixed assets.

(Fiscal year 2007)

Use	Location	Asset kind	Millions of yen 2007	Thousands of U.S. dollars 2007
Assets used for business	Chiba-shi, Chiba and 2 others	Buildings and structures, Machinery and equipment, Leased assets	¥23	$192

The Company classified fixed assets into groups by the type of respective operating division. The consolidated subsidiaries classified fixed assets into groups by the type of respective companies or business establishments. With respect to idle assets and rental estates, each asset is treated as an individual unit to apply the accounting for the impairment.

Carring amounts of certain assets used for business were not recovered by estimated future cash flows due to a decrease in operating income, and their carring amounts were devalued to their recoverable amounts.

As a result, the company recognized loss on impairment in the amount of ¥23 million ($192 thousand), which consisted of building and structures ¥2 million ($12 thousand), machinery and equipment ¥11 million ($94 thousand) and other ¥10 million ($86 thousand), as other expense.

Recoverable amount of each group of assets is net selling price, market value of each group of assets is price adjusted rationally road rate and assessed value of fixed assets.

14. Write-down of inventories

(Fiscal year 2006)

This loss occurred by remarkable fall of software stocks' market value.

15. Provision for business losses

(Fiscal year 2006)

Provision for business losses which was caused by business withdrawal of two companies of Kontron Medical SAS and Kontron Medical AG. Components was as follows;

Provision for business losses reserve	¥2,781 million
Impairment loss of fixed assets	1,324 million
Total	4,105 million

Use	Location	Asset kind	Millions of yen 2006
Assets used for business	Plaisir, France and 1 other	Buildings and structures, Machinery and equipment, Consolidated adjustment account, and other	¥1,324

The Company classified fixed assets into groups by the type of respective operating division. The consolidated subsidiaries classified fixed assets into groups by the type of respective companies or business establishments. With respect to idle assets and rental estates, each asset is treated as an individual unit to apply the accounting for the impairment.

Carring amounts of assets of consolidated subsidiaries were devalued to their recoverable amounts, owing to decision of withdrawal.

As a result, the company recognized loss on impairment in the amount of ¥1,324 million, which consisted of building and structures ¥17 million, machinery and equipment ¥81 million, consolidated adjustment account ¥1,225 million and other ¥2 million, as other expense.
Recoverable amount is net selling price, zero.

(Fiscal year 2007)
Provision for business losses is the loss that occurred with reorganization after the year-end date of the Kontron Medical SAS, December 31, 2006.

16. 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.

17. Contingent liabilities

Contingent liabilities at March 31, 2006 and 2007, were export bills of exchange discounted in the amount of ¥238 million and ¥380 million ($3,221 thousand), respectively.

18. 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, 2006 and 2007, the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Purchase of recording papers	¥1,349	¥1,249	$10,586
Purchase of accounting slips	27	21	177
Payment of rent	41	39	331

Dues to and from Atomic as of March 31, 2006 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Trade payables: accounts and notes	¥ 297	¥280	$2,376
Other current assets	23	0	0
Other current liabilities	3	7	55
Other non-current assets	12	12	101

19. Subsequent event

At the June 28, 2007, annual general meeting, the Company's shareholders approved the appropriation of retained earnings at March 31, 2007, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥40.00 ($0.34) per share	¥767	$ 6,500

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of FUKUDA DENSHI CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets 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, 2006 and 2007, 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.

Without qualifying our opinion, we draw attention to the following:
(1) As discussed in Note 2(i) to the consolidated financial statements, effective April 1, 2006, FUKUDA DENSHI CO., LTD. and consolidated subsidiaries adopted the new accounting standard for directors' bonus.
(2) As discussed in Note 2(g) to the consolidated financial statements, effective April 1, 2005, FUKUDA DENSHI CO., LTD. and consolidated subsidiaries adopted the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

Fukuda Denshi Group

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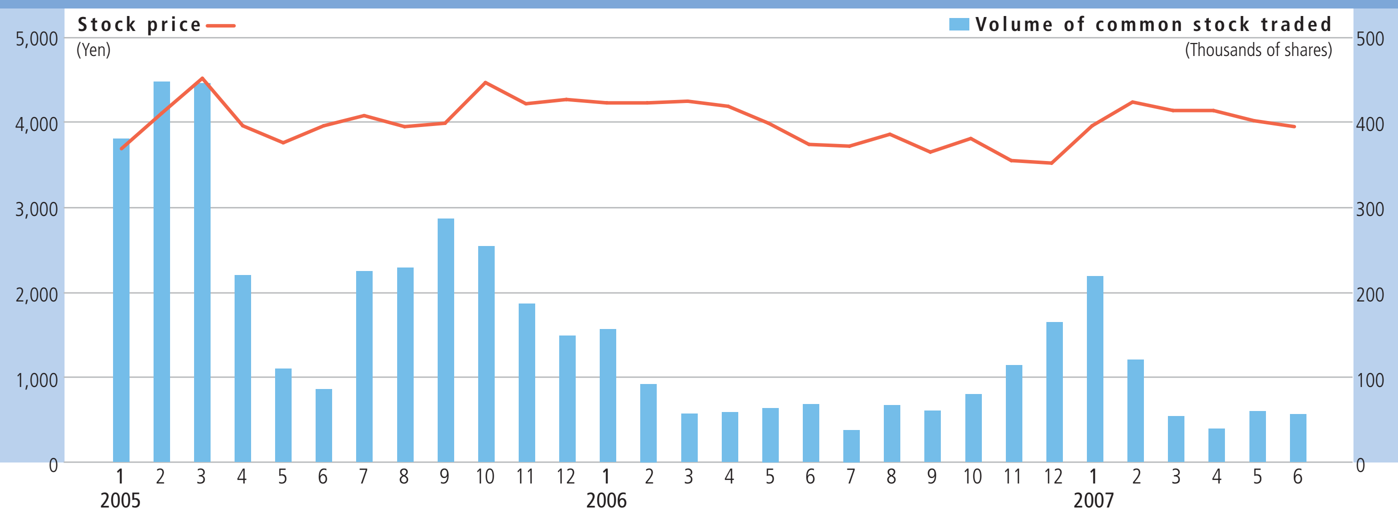
Business Associates

Japan	Philips Electronics Japan, Ltd. Horiba, Ltd. Hitachi Medical Corp. Konica Minolta Group Fujitsu Ltd. TDK Corp. Gunze Ltd.
Germany	MAQUET Gmbh & Co. KG
Sweden	MAQUET Critical Care AB
U.S.A.	St. Jude Medical, Inc. Airsep Corp.
France	SAIME

Stock Price/Volume of Common Stock Traded



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