



ANNUAL REPORT **2004** | PARAMOUNT BED CO., LTD.

Statement:

As Human, for Human

Paramount Bed Co., Ltd. founded in 1947, is a pioneer in the field of medical beds. Using its own unique integrated production system, it has been providing products designed not only to improve conditions for convalescing patients, but also to facilitate the work of caregivers for more than half a century. With the ageing of the Japanese population, it has expanded its scope of business to cover facilities for the elderly and home nursing care in recent years, developing home-care beds and various other types of welfare equipment. These initiatives are in line with Paramount Bed's goal of creating a patient-friendly healthcare environment.

The Paramount Bed group consists of Paramount Bed and 3 consolidated subsidiaries (as of March 31, 2004). In the fiscal year to March 2004, it had net sales of ¥47,895 million, operating income of ¥7,103 million and net income of ¥4,182 million. Paramount Bed is Japan's leading maker of medical beds and has acquired a strong reputation, as reflected in its domestic market share of 70% (PB estimate).

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Disclaimer Regarding Forward-Looking Statements

The information contained in this annual report is given for the sole purpose of providing information regarding the business performance of Paramount Bed Co., Ltd. during the fiscal year ended March 31, 2004, and is not intended to solicit investment in any securities issued by the Company. Any statements with respect to Paramount Bed's current plans, strategies and forecasts are forward-looking statements based upon information available as of March 31, 2004, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

Financial Highlights

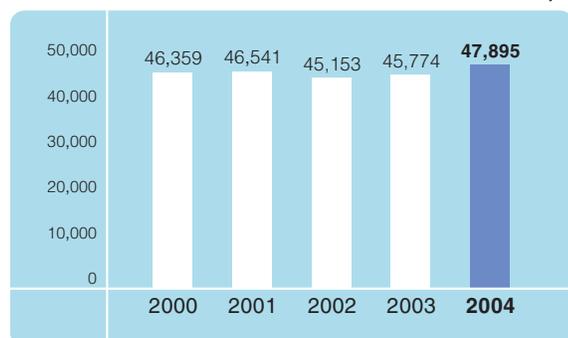
Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S.dollars
	2004	2003	2004
For the year:			
Net sales	¥ 47,895	¥ 45,774	\$ 453,165
Operating income	7,103	5,891	67,206
Income before income taxes	7,707	5,521	72,921
Net income	4,182	3,127	39,569
Per share data (yen):			
Net income	131.87	98.29	1.25
Total shareholders' equity	2,105.03	1,945.48	19.92
At year-end:			
Total assets	81,170	74,331	768,001
Total shareholders' equity	66,160	61,148	625,982

Note: The U.S dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.69 to U.S.\$1, the approximate exchange rate at March 31, 2004.

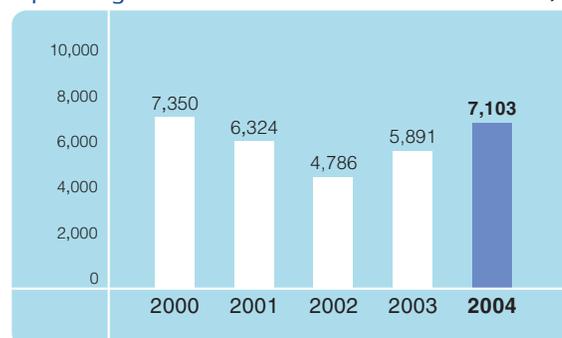
Net sales

Millions of yen



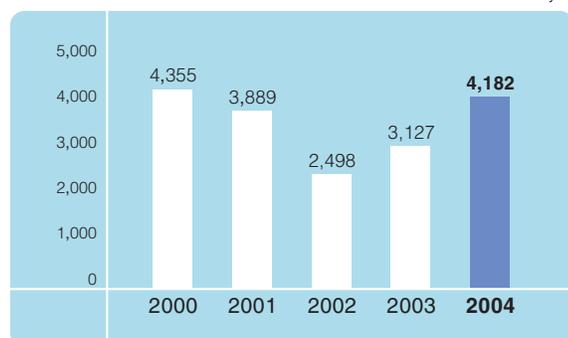
Operating income

Millions of yen



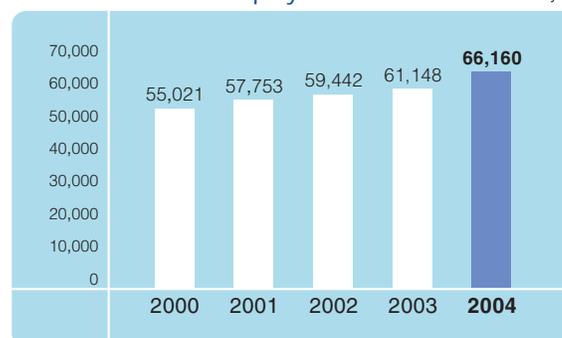
Net income

Millions of yen



Total shareholders' equity

Millions of yen



Striving for stable and sustainable growth through proactive marketing promotion and new business development



Kenji Kimura
President and Representative Director

Both sales and profits rise for second straight year

In the fiscal term under review, Paramount Bed Co., Ltd. posted increases in both sales and profits on a consolidated basis for the second consecutive year. Net sales rose 4.6% from the previous year, to ¥47,895 million, while operating income climbed 20.6%, to ¥7,103 million, and net income jumped 33.7%, to ¥4,182 million.

The Company has decided to disburse a year-end dividend of ¥18 per share, up ¥6 from a year earlier, following our basic policy of returning profits to shareholders based on earnings results. As a result, the annual payout will total ¥30 per share, including an interim dividend of ¥12.

For the current fiscal term, Paramount Bed plans to disburse an interim dividend of ¥18, up ¥6, resulting in increasing the annual dividend to ¥36. The Company will continue to make it a priority to return profits to shareholders.

Capitalizing on changes in the business environment

In the healthcare industry, the medical treatment fee system was revised in April 2004, with medical treatment fees left unchanged while government-set prices of prescription drugs were reduced, resulting in an overall decline of 1.0%. With this revision, new treatment

management fees were set up for two categories of hospital treatment in which the Company is committed. One is the fee for “high care unit” stage patients, whose illness is more serious than that of patients in the general ward, and the other is the fee for “subacute stage” patients, whose illness level is between the acute and chronic stages.

In the sector of welfare for seniors, the number of users of home medical services in the nursing care insurance

program is continuing to rise. Meanwhile, with the sharp climb in the number of elderly people wishing to enter facilities catering to senior citizens, a number of housing facilities for elderly people are being established, including fee-charging homes, resulting in the overall increase of facilities for the elderly. Amid concern that the budget for the nursing care insurance program will tighten, work is now fully underway in preparation for the review of the system planned for fiscal 2005.

Topics

Rakusho, a New Home-Care Bed

In November 2003, Paramount Bed introduced “Rakusho,” a home-care bed. Based on a universal design concept, Rakusho provides everyone involved in nursing care with comfort, safety and ease of operation. Rakusho is the first new home-care model introduced by the Company in four years, and is set to become its next mainstay product.

<Major features>

- KIND Motion

Rakusho adopts the KIND Motion mechanism to properly balance the motions of raising the backrest and knees simply by pushing a single button. While raising the backrest, the KIND Motion mechanism positions the body appropriately, maintains correct posture and alleviates any feeling of pressure. With these features, Rakusho not only reduces the risk of bedsores but also eases the workload for caregivers.

- Low-height design

The height of Rakusho is 5cm lower than that of conventional models, with a minimum height of 25cm without a mattress. This low-height design allows most users to sit on the bed with their heels pressed against the floor (considered to be the first step in rehabilitation).

- Improved design

Rakusho has been designed based on the concept of “natural interior” so that it looks natural in any room. Users can choose from 126 models, featuring different combinations of color tones, functions, width, length and other aspects.

- History of operations recorded

Rakusho can record the history of operations, including the date and time when it was operated and which parts were operated at what angles, enabling caregivers to know by use of a personal computer how the bed has been operated. (The kit for this purpose is sold separately.)

As of the end of March 2004, sales of Rakusho beds totaled slightly less than 40,000 units, representing a substantial contribution to the increase in overall sales of home-care products.



Bolstering earnings with increased sales of new products and new brand-name products

In this environment, the Company will strive to expand sales of new products in the healthcare field, including Metis Series and Callisto Series products. It will also endeavor to improve earnings by bolstering marketing activities for the two newly established categories of hospital treatment, which are described above. In overseas markets, we will focus on developing the hospital bed market in China, where growth is expected to be substantial.

In the home-care field, the Company will continue to increase sales of the Rakusho home-care bed, which was a key engine behind corporate performance for the fiscal year under review. In marketing the product, we will take the market characteristics of each region into full account.

In response to the rapid growth in the number of housing facilities of the elderly, the Company developed and began marketing specially devised beds.

As for the new brand INTIME, the Company will seek to enhance sales activities for products with this brand name, gain recognition for the brand and expand the lineup of items carrying its name.

Stepping up activities in the Chinese market

Paramount Bed began ramping up its sales activities in China in January 2002, when it opened a representative office in Shanghai. Since then, we have become firmer in our belief that China is very promising both as a production base and as a market. Surveying plant locations throughout 2003, we chose from more than ten candidate sites a high-tech industrial park in Wuxi, a city 130km west of Shanghai, as the place for our new plant.

Topics

Manufacturing Based on Universal Design

For several years now, Paramount Bed has been developing products based on a universal design (UD), which is designed to provide comfort, ease of operation and safety for all people, irrespective of age, physical ability and the environment in which the products are used. Specifically, products are developed following proprietary UD checklists made with the cooperation of UD consultant firms and corporations that study UD.

In May 2003, the Company prepared the Paramount Universal Design Guidebook, which describes its basic concept for product development.

The Company also introduced Paramount Bed's Basic Principles of UD, which consists of the

seven basic principles advocated by North Carolina State University in the United States and three supplementary principles suited for the firm's product development. The Company has established a UD research system focusing on these basic principles.

Through these initiatives, the Company is aiming to facilitate the interactive manufacture of products, in which understanding of the users has constant priority. The firm will continue to view UD as one of its core technologies.

The Company is developing Multi-Purpose Medical Chairs, Walkers and Nursing Wagons based on the UD development process.

With an excellent industrial infrastructure, the city is also blessed with a mild climate and the geographical advantage of being close to Shanghai. In March 2004, Paramount Bed established in the park its affiliate Paramount Bed (China) Co., Ltd. capitalized at \$8 million, and commenced the construction of the new plant. Slated to begin operations in March 2005, the new factory is expected to manufacture 8,000 hospital beds and peripheral products in the initial year, which will be marketed in China. The new affiliate expects sales of ¥1.7 billion and after-tax income of ¥40 million by its third year of operation.

A commitment to improving product safety

Since August 2003, Paramount Bed has been replacing free of charge faulty hand-held switches for electric beds, with 65,291 units subject to such replacement. This cost the Company ¥119 million in the fiscal year under review.

As we continue our commitment to improving the safety of our products, we hope for the understanding and cooperation of our stakeholders.

July 2004



Kenji Kimura
President and Representative Director



KK-823
(Multi-Purpose Medical Chair)



KQ-172
(Walker)



KY-600 Series
(Nursing Wagons)

Hospital beds

Beds must provide safety, comfort and ease of operation. Our hospital bed line offers a full range, from sophisticated to standard models. The SO-5000 is a high quality nursing care bed that features sophisticated functionality and design. Its robust and high quality manufacture supports modern medical care.

● Advanced, emergency use



KA-8530 ICU Bed



Multi-Purpose Medical Chair

● Acute care (for special rooms)



SO-5000



Metis Series

Beds for elderly-care facilities

It is important to prevent residents of elderly-care facilities from falling out of bed. Our ultra-low Callisto beds (Callisto Series) reduce the risk of accident in the event of a fall. (Photo shows bed fitted with Thestor shock-absorbing mattress)



Callisto Series



Woody Series

New products

The new model KC-251 motorized medical examination table went on sale in December 2003.

The height of the KC-251 platform can be smoothly adjusted to anywhere between 400 and 950 mm. In order to meet the requirements of varied operating environments, the stroke was increased by 180 mm over the previous model. It also has a one-touch raise/lower function for use with a height preset by the operator. In addition to such functional improvement, the design of the KC-251 has also been enhanced to include a selection of five different body colors, including gray, blue, pink, yellow and green.

The KK-390 was launched in November 2003.



KC-251



KK-390

Home-care beds

Demand for rental home-care beds has grown rapidly since the start of the nursing care insurance program. The Rakusho Series is designed to cater to varied needs of different users.



Rakusho Series



Wide Aura Bed

Beds for the home (INTIME)

Everyone spends time in bed, and these models are designed to facilitate deep, refreshing sleep.



5121 Bed



Style Port

Bed peripherals

● Mattresses

The Comfort Care Mattress includes two different types of polyurethane foam that when combined provide both excellent body pressure dispersion and a high level of comfort at the same time. The mattress can be clean wiped for disinfection.

And the versatile Preglar Mattress, for use in hospitals, elderly-care facilities and home care.



Comfort Care Mattress



Preglar Mattress

● Other Products

Scot-klean is a urine collector that automatically activates to collect urine when it detects the presence of urine. The Patient Lifter assists in moving patients between bed and wheelchair.

This unit is based on an original concept developed by Paramount Bed. We also offer a wide range of bed peripherals, such as drip stands, designed to maximize usability.



Scot-klean



KK-330S Wheelchair



Patient Lifter



I.V Stand

A New Affiliate in China: Paramount Bed (China) Co., Ltd. Established

Construction of new plant

In March 2004, Paramount Bed established its affiliate Paramount Bed (China) Co., Ltd., capitalized at \$8 million, in Wuxi, Jiangsu Province. In the same month, the Company began construction of a new plant, which will manufacture hospital beds and related products. The new facility is slated to be completed by the end of this year, with mass production expected to start in March 2005. Products will initially be marketed to hospitals in China.

Hospital bed market expands in China

In 2001, the number of beds at Chinese hospitals totaled approximately 3.15 million. Of that total, the market targeted by Paramount Bed was estimated at 255,000 beds, including demand for replacement of existing and new beds, according to a survey conducted by the Company. The survey also predicted that this figure would rise to 290,000 units in 2005 and to 360,000 units in 2010.

The Company is enjoying rising sales in this segment, from ¥68 million in the fiscal year ended March 2002, to ¥144 million in the year through March 2003 and ¥439 million for the year ended March 2004.

Profile of the new company and plant

The new company plans to build a plant with a floor space of approximately 11,770 square meters on a 56,800 square meter site (in the first phase construction), and establish a showroom with a floor space of around 1,000 square meters adjacent to the plant. The new company is employing some 70 workers at the initial stage, with that number set to gradually increase.

The profile of the new company is as follows:

Company name: Paramount Bed (China) Co., Ltd.
Address: A-105, Wuxi National Hi-Tech Industrial Development Zone, Wuxi, Jiangsu, China
Capital: \$8 million
Total land area: 56,800 square meters
Plant area: 11,770 square meters
Number of employees: 70 (estimated for 2005)



Wuxi

Wuxi, where Paramount Bed's plant is being built, is one of China's economic epicenters. Located about 130km west of Shanghai, the city covers an area of 4,650 square kilometers and has a population of about 4.4 million. Many Japanese tourists visit Wuxi, a city familiar to Japanese through the love song *Mushaku Ryojo* (memory of Wuxi), attracted by its closeness to Shanghai and the outstanding view of the large nearby lake Tai Hu.

In recent years, the city of Wuxi has been enthusiastic about attracting factories. Thanks to this initiative, Sony Corporation, Matsushita Electric Industrial Co., Ltd., Toshiba Corporation, General Electric Company and Bridgestone Corporation have established facilities in the same industrial park in Wuxi New District at which Paramount Bed is constructing its plant.

Six-year Summary

Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31

	2004	2003	2002	2001	2000	1999
For the year:						
	Millions of yen					
Net sales	¥ 47,895	¥ 45,774	¥ 45,153	¥ 46,541	¥ 46,359	¥ 43,072
Cost of sales	28,251	27,574	27,304	26,836	26,074	25,751
Gross profit	19,644	18,200	17,849	19,705	20,285	17,321
Selling, general and administrative expenses	12,541	12,309	13,063	13,381	12,935	11,370
Operating income	7,103	5,891	4,786	6,324	7,350	5,951
Net income	4,182	3,127	2,498	3,889	4,355	2,881
Net cash provided by operating activities (*1)	7,138	6,194	4,076	4,042	4,761	—
Net cash used in investing activities (*1)	(423)	(1,615)	(3,948)	(3,715)	(5,373)	—
Net cash (used in) provided by financing activities (*1)	(758)	(1,198)	(1,040)	(917)	822	—
Cash and cash equivalents, end of year (*1)	20,622	14,661	11,267	12,158	12,641	—
Research and development costs	950	1,075	983	890	881	733
At year-end:						
Total assets	81,170	74,331	72,822	72,078	73,524	64,449
Total shareholders' equity	66,160	61,148	59,442	57,753	55,021	39,281
Per share data:						
	Yen					
Net income	131.87	98.29	77.69	122.75	140.45	95.65
Total shareholders' equity	2,105.03	1,945.48	1,882.47	1,822.88	1,736.65	1,304.00
Value indicators:						
	%					
Return on equity (*2)	6.57	5.19	4.26	6.90	9.24	7.53
Return on assets (*3)	5.38	4.25	3.45	5.34	6.31	4.48
Shareholders' equity ratio	81.51	82.26	81.63	80.13	74.83	60.95

*1) Consolidated statements of cash flows were first prepared for the year ended March 2000.

*2) Return on equity (ROE): Net income / Average total shareholders' equity

*3) Return on assets (ROA): Net income / Average total assets

Overview of Financial Results

The Japanese economy began to recover at a steady pace in the year ended March 2004, most notably in the second half of the term and towards the term-end. Key factors in the recovery included increasingly solid consumer spending, combined with improving corporate earnings and rising corporate investment.

In the healthcare industry, the rate of growth of medical expenses was once again positive, after the contraction in the previous term impacted by the reduction in medical treatment fees and amendments to the Health Insurance Law. In the wake of the review of the classification of hospital beds, the ratio of general beds to long-term care beds became roughly 7 to 3. This is expected to lead to further classification of the functions of sickbeds.

In the area of welfare for the elderly, as a result of the initial revision of fees for nursing-care services in the nursing-care insurance program, fees for services offered at nursing-care facilities were substantially reduced and the growth of such fees consequently declined sharply. Moreover, councils in the central government began deliberating on an amendment to the nursing-care insurance system. The Ministry of Health, Labor and Welfare meanwhile set up headquarters for nursing-care system reform.

In this environment, the Company increased capital spending and focused on research and development activities, with the aim of bolstering earnings.

As a first step, the Company introduced blow-molding equipment to enable in-house production of certain resin products, as a means of developing new products to expand the lineup of articles. To diversify its products, the Company also installed multi-color painting machines and welding equipment for sheet metal. In addition, it replaced equipment for producing bedside rails, following the integration of bed models.

With respect to the development and sale of products, the Company increased the lineup of Callisto Series beds used in nursing-care facilities for the elderly, and launched the home-care-use bed Rakusho, positioned as a mainstay product for the next generation. The Company also integrated models for medical and nursing-care facilities to make production more efficient and standardize designs. Among new products other

than beds, it introduced the Mortorized Examination Table and the Patient Lifter.

Establishing a new brand called INTIME, we entered the bedroom/interior market for the health-conscious consumer, a new business for us, based on the slogan "sound sleep and excellent health."

In overseas markets, the Company moved to expand the medical bed market in China by commencing construction of a new plant in Wuxi, Jiangsu Province. The plant, which will serve as a production base in China, is expected to commence operation in March 2005.

In the fiscal year under review, consolidated sales to medical and nursing-care facilities remained unchanged from the previous year, while sales for home-care use jumped 13.4%, driven by demand for Rakusho, the new home-care-use bed.

Sales by major product category for the fiscal year are as follows.

	Millions of yen		%
	2004	2003	Year-on-year Change
Beds	¥ 28,520	¥ 26,560	7.4
Mattresses	4,244	4,408	(3.7)
Hospital-use furniture	4,238	4,128	2.7
Medical-use products	2,925	2,884	1.4
Other	7,968	7,794	2.2
Total	¥ 47,895	¥ 45,774	4.6

As a result, net sales for the fiscal year rose 4.6%, or ¥2,121 million, year on year, to ¥47,895 million.

Operating income jumped 20.6% from a year earlier to ¥7,103 million, mainly due to an increase in sales volume of beds and an improvement in the gross margin following a shift of management priorities to high-value-added products. Net income soared 33.7% to ¥4,182 million, with gain on sales of investment securities booked as an extraordinary profit.

Cash Flows

(Cash flows from operating activities)

Net cash provided by operating activities was ¥7,138 million in the fiscal year under review. A breakdown of the inflow shows income before income taxes of ¥7,707 million, depreciation and amortization of ¥1,857 million and a decrease in notes and accounts receivable of ¥786 million. Meanwhile, the contributors to cash outflow were gain on sales of investment securities worth ¥568 million and the payment of income taxes amounting to ¥2,982 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥423 million. This was chiefly attributable to purchases of investment securities and property, plant and equipment, which totaled ¥2,864 million and ¥1,092 million, respectively, as well as proceeds from sales of marketable and investment securities, which amounted to ¥4,271 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥758 million, owing primarily to the payment of cash dividends.

As a result, cash and cash equivalents at end of year totaled ¥20,622 million, up ¥5,961 million from the previous year-end.

Issues to Be Addressed and Outlook for the Next Term

The Japanese economy looks set to fully recover in the next term, thanks to continued improvement in corporate earnings, centering on the manufacturing industry, amid gradually decreasing financial instability and deflationary pressure.

In the healthcare industry, the medical treatment fee system was revised in April 2004, which left medical treatment fees unchanged while government-set prices of prescription drugs were reduced, resulting in an overall decline of 1.0%. With this revision, two new hospital treatment stages, "high care unit" and "subacute," were set up.

In the sector of welfare for seniors, the number of users of home medical services in the nursing care insurance program is continuing to rise. Meanwhile, with the sharp climb in the number of people wishing to enter facilities

catering to senior citizens, a number of housing facilities for elderly people are being established, including fee-charging homes, resulting in an overall increase of facilities for the elderly. Amid concern that the budget for the nursing care insurance program will tighten, work is now fully underway in preparation for the review of the system planned for fiscal 2005.

Given this operating environment, the Company will endeavor to expand sales of new products in the healthcare field, including the Metis Series and Callisto Series products. It will also aim to improve earnings, by stepping up marketing activities for the two newly established categories of hospital treatment, as described above, with the latest revisions to the medical treatment fee system. In overseas markets, we will focus on developing the hospital bed market in China, where growth is expected to be substantial.

In the home-care field, the Company will continue to bolster sales of the Rakusho home-care bed, taking the market characteristics of each region into full account. To respond to the rapid growth in the number of housing facilities for the elderly, the Company will further develop and introduce specially devised beds.

As for the new INTIME brand, the Company will strive to bolster sales activities for products with the brand name. It will also seek to gain recognition for the brand and expand the lineup of items carrying its name.

Consolidated Balance Sheets

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 20,622	¥ 14,661	\$ 195,118
Marketable securities (Note 3)	2,106	1,335	19,926
Notes and accounts receivable:			
Trade notes	5,686	5,413	53,799
Trade accounts	11,305	12,328	106,964
Other	14	3	132
Allowance for doubtful accounts	(18)	(42)	(170)
Inventories (Note 4)	4,475	4,476	42,341
Deferred tax assets (Note 6)	555	435	5,251
Prepaid expenses and other current assets	73	97	691
Total current assets	44,818	38,706	424,052
PROPERTY, PLANT AND EQUIPMENT:			
Land	8,371	8,371	79,203
Buildings and structures	21,192	21,059	200,511
Machinery and equipment	12,654	11,839	119,728
Construction in progress	3	12	28
Total	42,220	41,281	399,470
Accumulated depreciation	(21,132)	(19,905)	(199,943)
Net property, plant and equipment	21,088	21,376	199,527
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	11,957	10,483	113,133
Life insurance premium	787	777	7,446
Deferred tax assets (Note 6)		597	
Other assets	2,520	2,392	23,843
Total investments and other assets	15,264	14,249	144,422
TOTAL	¥ 81,170	¥ 74,331	\$ 768,001

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
CURRENT LIABILITIES:			
Notes and accounts payable:			
Trade notes	¥ 948	¥ 1,386	\$ 8,970
Trade accounts	6,243	5,670	59,069
Other	1,530	1,141	14,476
Income taxes payable (Note 6)	2,479	1,577	23,455
Accrued expenses	1,228	1,187	11,619
Other current liabilities	442	463	4,182
Total current liabilities	12,870	11,424	121,771
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 5)	1,405	1,419	13,294
Liability for directors' and corporate auditors' retirement benefits	381	336	3,605
Deferred tax liabilities	349		3,302
Other long-term liabilities	5	4	47
Total long-term liabilities	2,140	1,759	20,248
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 9 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 12):			
Common stock — authorized, 100,000,000 shares; issued, 31,682,526 shares	6,591	6,591	62,362
Capital surplus	7,277	7,277	68,852
Retained earnings	51,456	48,065	486,858
Unrealized gain (loss) on available-for-sale securities	1,582	(153)	14,968
Foreign currency translation adjustments	(19)	92	(180)
Treasury stock — at cost, 272,199 shares in 2004 and 270,568 shares in 2003	(727)	(724)	(6,878)
Total shareholders' equity	66,160	61,148	625,982
TOTAL	¥ 81,170	¥ 74,331	\$ 768,001

Consolidated Statements of Income

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
NET SALES	¥ 47,895	¥ 45,774	\$ 453,165
COST OF SALES	28,251	27,574	267,301
Gross profit	19,644	18,200	185,864
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	12,541	12,309	118,658
Operating income	7,103	5,891	67,206
OTHER INCOME (EXPENSES):			
Interest and dividend income	189	217	1,788
Foreign exchange loss	(148)	(132)	(1,400)
Gain on sales of investment securities	568	1	5,374
Loss on devaluation of investment securities	(1)	(326)	(9)
Other — net	(4)	(130)	(38)
Other income (expenses) — net	604	(370)	5,715
INCOME BEFORE INCOME TAXES	7,707	5,521	72,921
INCOME TAXES (Note 6):			
Current	3,885	2,533	36,758
Deferred	(360)	(139)	(3,406)
Total income taxes	3,525	2,394	33,352
NET INCOME	¥ 4,182	¥ 3,127	\$ 39,569

	Yen	U.S. dollars
PER SHARE OF COMMON STOCK (Note 2.m):		
Net income	¥ 131.87	\$ 1.25
Cash dividends applicable to the year	30.00	0.28

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2004 and 2003

	Thousands	Millions of yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2002	31,576	¥ 6,591	¥ 7,277	¥ 45,731	¥ (52)	¥ 175	¥ (280)
Net income				3,127			
Cash dividends, ¥24 per share				(756)			
Bonuses to directors				(37)			
Purchase of treasury stock	(164)						(444)
Net increase in unrealized loss on available-for-sale securities					(101)		
Net decrease in foreign currency translation adjustments						(83)	
BALANCE, MARCH 31, 2003	31,412	6,591	7,277	48,065	(153)	92	(724)
Net income				4,182			
Cash dividends, ¥24 per share				(754)			
Bonuses to directors				(37)			
Purchase of treasury stock	(2)						(3)
Net increase in unrealized gain on available-for-sale securities					1,735		
Net decrease in foreign currency translation adjustments						(111)	
BALANCE, MARCH 31, 2004	31,410	¥ 6,591	¥ 7,277	¥ 51,456	¥ 1,582	¥ (19)	¥ (727)

	Thousands of U.S. dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	\$ 62,362	\$ 68,852	\$ 454,773	\$ (1,448)	\$ 870	\$ (6,850)
Net income			39,569			
Cash dividends, \$0.23 per share			(7,134)			
Bonuses to directors			(350)			
Purchase of treasury stock						(28)
Net increase in unrealized gain on available-for-sale securities				16,416		
Net decrease in foreign currency translation adjustments					(1,050)	
BALANCE, MARCH 31, 2004	\$ 62,362	\$ 68,852	\$ 486,858	\$ 14,968	\$ (180)	\$ (6,878)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,707	¥ 5,521	\$ 72,921
Adjustments for:			
Income taxes — paid	(2,982)	(2,222)	(28,215)
Depreciation and amortization	1,857	1,796	17,570
Gain on sales of investment securities	(568)	(1)	(5,374)
Loss on devaluation of investment securities	1	326	9
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	786	241	7,437
Decrease in inventories	1	885	9
Decrease (increase) in prepaid expenses and other current assets	24	(11)	227
Increase (decrease) in notes and accounts payable	524	(547)	4,958
Increase in accrued expenses and other current liabilities	20	34	189
Other — net	(232)	172	(2,194)
Net cash provided by operating activities	7,138	6,194	67,537
INVESTING ACTIVITIES:			
Purchases of marketable securities	(200)	(1,100)	(1,892)
Proceeds from sales of marketable securities	2,009	4,063	19,008
Purchases of property, plant and equipment	(1,092)	(411)	(10,332)
Purchases of investment securities	(2,864)	(5,242)	(27,098)
Proceeds from sales of investment securities	2,262	541	21,402
Decrease (increase) in other assets	(538)	534	(5,090)
Net cash used in investing activities	(423)	(1,615)	(4,002)
FINANCING ACTIVITIES:			
Purchases of treasury stock	(4)	(443)	(38)
Cash dividends paid	(754)	(755)	(7,134)
Net cash used in financing activities	(758)	(1,198)	(7,172)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	4	13	38
NET INCREASE IN CASH AND CASH EQUIVALENTS			
	5,961	3,394	56,401
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR			
	14,661	11,267	138,717
CASH AND CASH EQUIVALENTS, END OF YEAR			
	¥ 20,622	¥ 14,661	\$ 195,118

See notes to consolidated 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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 consolidated financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Paramount Bed Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to \$1, the rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — The consolidated financial statements as of March 31, 2004 include the accounts of the Company and its three (two in 2003) subsidiaries (together, the "Group"). All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and mutual funds investing in bonds, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are stated at cost determined by the average cost method and the most recent purchase price method.

d. Marketable and Investment Securities — Marketable and

investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. The cost of securities sold is determined based on the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the declining-balance method, while the straight-line method is applied to the buildings of the Company acquired after April 1, 1998. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment.

f. Retirement and Pension Plans — The Company has an unfunded severance indemnity plan partially supplemented by a qualified pension plan and a welfare annuity plan. One of the consolidated foreign subsidiaries adopts a national welfare pension system of the country where the subsidiary is located.

The Group accounts for liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors of the Company are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

g. Research and Development Costs — Research and development costs are charged to income as incurred.

h. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to

the lessee's financial statements.

i. Income Taxes — 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 between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. Appropriations of Retained Earnings — Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

k. Foreign Currency Transactions and Financial Statements —

All short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that derivatives for foreign currency transactions do not qualify for hedge accounting.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

l. Derivatives and Hedging Activities — The Group uses derivative financial instruments ("derivatives") to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income. If derivatives used for hedging purposes qualify for hedge accounting because of high correlation and effectiveness

between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts, which qualify for hedge accounting employed to hedge foreign exchange exposures for import purchases, are translated at the foreign exchange rate stipulated in the contract.

m. Per Share Information — Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

n. New Accounting Pronouncements — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current:			
Government and corporate bonds	¥ 2,106	¥ 1,335	\$ 19,926
Non-current:			
Marketable equity securities	¥ 3,173	¥ 255	\$ 30,022
Government and corporate bonds	3,635	6,246	34,393
Trust fund investments and other	4,453	3,159	42,133
Non-marketable equity securities	696	823	6,585
Total	¥ 11,957	¥ 10,483	\$ 113,133

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

March 31, 2004	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 379	¥ 2,803	¥ 9	¥ 3,173
Debt securities	4,467	84	110	4,441
Others	4,555	138	240	4,453
Held-to-maturity	1,300		18	1,282

March 31, 2003	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 278	¥ 1	¥ 24	¥ 255
Debt securities	6,648	62	129	6,581
Others	3,381	5	227	3,159
Held-to-maturity	1,000		70	930

March 31, 2004	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 3,586	\$ 26,521	\$ 85	\$ 30,022
Debt securities	42,265	795	1,041	42,019
Others	43,098	1,306	2,271	42,133
Held-to-maturity	12,300		170	12,130

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of yen	2003	Thousands of U.S. dollars
Available-for-sale—Equity securities	¥ 696	¥ 823	\$ 6,585

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥3,468 million (\$32,813 thousand) and ¥938 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥568 million (\$5,374 thousand) gains and ¥64 million (\$606 thousand) losses for the year ended March 31, 2004 and ¥1 million gains for the year ended March 31, 2003.

The carrying values of debt securities and others by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 were as follows:

March 31, 2004	Millions of yen		Thousands of U.S. dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 2,315		\$ 21,904	
Due after one year through five years	1,295		12,253	
Due after five years through ten years	2,630		24,884	
Due after ten years	796	¥ 1,300	7,531	\$ 12,300
Total	¥ 7,036	¥ 1,300	\$ 66,572	\$ 12,300

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise	¥ 172	¥ 247	\$ 1,627
Finished products	3,483	3,364	32,955
Work in process	151	145	1,429
Raw materials and supplies	669	720	6,330
Total	¥ 4,475	¥ 4,476	\$ 42,341

5. LIABILITY FOR RETIREMENT BENEFITS

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

Such severance payments are made in the form of a lump-sum payment from the Company, in case employees retire before the normal retirement age.

The Company has a non-contributory funded pension plan. The non-contributory funded pension plan covers employees only in case they retire at the normal retirement age.

Under the pension plan, employees terminating their employment at the normal retirement age are entitled to receive an annuity or a lump-sum payment at the selection of the terminating employee.

Liabilities for employees' retirement benefits as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Projected benefit obligation	¥ 5,028	¥ 4,541	\$ 47,573
Fair value of plan assets	(3,003)	(2,689)	(28,413)
Unrecognized actuarial net loss	(620)	(433)	(5,866)
Liabilities presented on the consolidated balance sheets	¥ 1,405	¥ 1,419	\$ 13,294

In addition to the aforementioned pension plan, the Company has joined the Tokyo Pharmaceutical Welfare Annuity Foundation, which is established as a mutual pension plan for employees in the same industrial parties. The projected benefit obligation above does not include that of the Foundation. The Company's portion of the plan assets amounted to ¥4,543 million (\$42,984 thousand) as of March 31, 2004.

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Service cost	¥ 309	¥ 312	\$ 2,924
Interest cost	113	111	1,069
Expected return on plan assets	(40)	(64)	(378)
Recognized actuarial loss	52	48	492
Installment on the welfare annuity	194	166	1,835
Others	102	130	965
Net periodic benefit costs	¥ 730	¥ 703	\$ 6,907

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	1.5%	2.5%
Recognition period of actuarial gain/loss	10 years	10 years

The amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

6. INCOME TAXES

The Company and its domestic subsidiary are subject to a number of different taxes based on income, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.6% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Deferred tax assets:			
Accrued bonuses	¥ 345	¥ 275	\$ 3,264
Enterprise taxes	218	140	2,063
Liability for directors' and corporate auditors' retirement benefits	155	133	1,467
Liability for employees' retirement benefits	424	234	4,012
Other	200	265	1,892
Less valuation allowance	(47)	(12)	(445)
Deferred tax assets	1,295	1,035	12,253
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(1,085)		(10,266)
Reserve for advanced depreciation	(4)	(4)	(38)
Deferred tax liabilities	(1,089)	(4)	(10,304)
Net deferred tax assets	¥ 206	¥ 1,031	\$ 1,949

7. CONTINGENT LIABILITIES

At March 31, 2004, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of employees' housing loans	¥ 732	\$ 6,926
Recourse obligation for the balance on the transfers of payables in factoring transactions	1,606	15,195

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the purchase and use of treasury stock allowing Japanese companies to purchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The purchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥49,811 million (\$471,293 thousand) as of March

31, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

The Company has following stock option plan. The plan provides for granting options to directors and employees to 221 thousand shares of the Company's common stock in the period from July 1, 2004 to June 29, 2007. The options will be granted at an exercise price of ¥2,687 (\$25.42). The Company plans to issue acquired treasury stock upon exercise of the stock options.

9. LEASES

The Group, as a lessee, leases certain machinery, computer equipment and other assets, and as a lessor, leases certain bed.

Total lease payments included in cost of sales and selling, general and administrative expenses under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥112 million (\$1,060 thousand) and ¥112 million for the years ended March 31, 2004 and 2003, respectively. Total lease revenues were ¥3 million (\$28 thousand) and ¥0 million for the years ended March 31, 2004 and 2003.

(1) The Group as Lessee

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost	¥ 458	¥ 425	\$ 4,333
Accumulated depreciation	295	264	2,791
Net leased property	¥ 163	¥ 161	\$ 1,542

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 69	¥ 91	\$ 653
Due after one year	97	74	918
Total	¥ 166	¥ 165	\$ 1,571

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Depreciation expense	¥ 105	¥ 104	\$ 994
Interest expense	5	6	47
Total	¥ 110	¥ 110	\$ 1,041

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

(2)The Group as Lessor

Pro forma information of leasing property such as acquisition cost, accumulated depreciation, credits under finance lease, depreciation expense and interest income of finance leases that do not transfer ownership of the leasing property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition cost	¥ 20	¥ 15	\$ 189
Accumulated depreciation	4	1	38
Net leased property	¥ 16	¥ 14	\$ 151

Credits under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 4	¥ 2	\$ 38
Due after one year	13	12	123
Total	¥ 17	¥ 14	\$ 161

Depreciation expense and interest income under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2004	
Depreciation expense	¥ 3	\$ 28	
Interest income	1	10	
Total	¥ 4	\$ 38	

Depreciation expense and interest income, which are reflected in the accompanying consolidated statements of income, were computed by the straight-line method and the interest method, respectively.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥950 million (\$8,989 thousand) and ¥1,075 million for the years ended March 31, 2004 and 2003, respectively.

11. DERIVATIVES

The Group enters into foreign exchange forward contracts in order to hedge market risk. Foreign exchange forward contracts were used to hedge foreign exchange risk associated with certain liabilities denominated in the foreign currency.

The Group does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk and credit risk from potential fluctuations in foreign exchange rates. The Group does not anticipate any losses arising from credit risk because the counterparties to those derivatives are limited to highly rated major financial institutions.

Derivative transactions are controlled by the finance department in accordance with the Group's internal regulations and are periodically reported by the finance manager in regular meetings of the Board of Directors.

All derivatives were excluded from the disclosure of market value information because all of them were qualified for hedge accounting and recorded on the consolidated balance sheets as of March 31, 2004 and 2003.

12. SUBSEQUENT EVENT

On June 29, 2004, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Ordinary year-end cash dividends, ¥18 (\$0.17) per share	¥ 565	\$ 5,346
Bonuses to directors	40	378
Total	¥ 605	\$ 5,724



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Paramount Bed Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Paramount Bed Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paramount Bed Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

Member of
Deloitte Touche Tohmatsu

Corporate History

In 1947 the Company's founder, Ryusuke Kimura, bought scrapped hospital beds that were delivered to the government during World War II, refurbished them, and sold them. More than half a century has passed since then, and the Company's brief history up to now is described below.

- May 1947:** Ryusuke Kimura founds Kimura Shindai Seisakujo Ltd. as a private enterprise, and starts manufacturing hospital beds.
- May 1950:** Kimura Shindai Industry Co., Ltd. is established with capital of 200 thousand yen. Paramount Bed is adopted as the brand name.
- May 1953:** Edogawa plant is built.
- July 1955:** Gatch (hospital) bed is developed.
- May 1961:** Head office is moved to current location.
- April 1962:** KA-45, the first electric bed in Japan, is developed and sold.
- March 1966:** Kyushu sales office (now Fukuoka branch) is set up.
- May 1966:** Chiba plant is built.
- February 1970:** Matsuo plant is built and absorbs Edogawa plant operation.
- February 1971:** Osaka branch is set up.
- January 1972:** KA-500 and KA-600 Series hospital beds are developed and sold.
- September 1977:** Hiroshima and Nagoya sales offices (now Hiroshima branch and Nagoya branch) are set up.
- June 1980:** Scot-klean (automatic urine receptacle) is developed and sold.
- December 1983:** KQ-100 (Aura electric bed) home-care bed is developed and sold.
- July 1986:** The Company absorbs Paramount Sendai Co., Ltd. (now Sendai branch) and Paramount Sapporo Co., Ltd. (now Sapporo branch).
- March 1987:** Corporate name is changed to Paramount Bed Co., Ltd.
- December 1987:** The Company shares are listed on the JASDAQ market.
- November 1988:** Paracare Mattress, a mattress made from new material, is developed and sold.
- October 1990:** Hestia Series (beds for elderly-care facilities) is developed and sold.
- April 1991:** Ryusuke Kimura and Kenji Kimura become Chairman and President, respectively.
- January 1992:** KA-900 Series (microcomputer controlled electric beds) is developed and sold.
- May 1992:** Yokohama branch is set up.
- October 1993:** Rakusho Series (home-care beds) is developed and sold.
- December 1993:** The Company shares are listed on the Second Section of the Tokyo Stock Exchange.
- September 1995:** PT. Paramount Bed Indonesia is set up as an overseas subsidiary.
- May 1996:** Takamatsu branch is set up.
- September 1996:** The Company shares are listed on the First Section of the Tokyo Stock Exchange.
- April 1997:** Kyma Aura Bed Series (home-care beds) is developed and sold.
- October 1997:** Customer Service Center is set up.
- October 1998:** KA-6000 Series (hospital beds) is developed and sold.
- April 1999:** New Scot-klean (automatic urine receptacle) is developed and sold.
- May 1999:** Obtain ISO9001 certification.
- October 1999:** Aura 21 Series (home-care beds) is developed and sold.
- February 2000:** Club Paramount Series (highly functional family beds) is developed and sold.
- October 2000:** Saitama branch is set up.
- February 2001:** Callisto Series (beds for elderly-care facilities) is developed and sold.
- October 2001:** Nagoya branch relocates to newly-built office.
- January 2002:** Shanghai representative office is set up.
- July 2002:** PARA TECHNO Co., Ltd. is set up as a consolidated subsidiary.
- May 2003:** A new brand INTIME, which provides sound sleep for better health, is established.
- July 2003:** Paramount Universal Design Station (PUDS) is set up.
- November 2003:** Rakusho Series (home-care beds) is developed and sold.
- March 2004:** Paramount Bed (China) Co., Ltd. is set up as a consolidated subsidiary.



Gatch (hospital) bed



KA-500 Series hospital bed



Aura electric bed



Hestia Series



Callisto Series



INTIME



Rakusho Series

Corporate Data

Corporate Name:	Paramount Bed Co., Ltd.
Head Office:	14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670, Japan
Founded:	May 1947
Capital:	¥6,591 million
Number of Employees:	978

Board of Directors and Corporate Auditors

(As of June 29, 2004)

President and Representative Director:	Kenji Kimura
Vice-president and Representative Director:	Kyosuke Kimura
Directors:	Ichiro Motozu Michihide Kimura Tadaharu Kato Ikuo Sakamoto Atsushi Tanaka Toshio Horiuchi
Standing Corporate Auditors:	Tadahiro Sekine Katsuhiko Shibata
Corporate Auditors:	Tetsuo Takekawa Etsuji Ikegami

Shareholder Information

Authorized Shares:	100,000,000
Issued Shares:	31,682,526
Number of Shareholders:	20,519

Major Shareholders

	Number of Shares Owned (Thousands)	Percentage of Voting Right to Total Shares Issued (%)
Kimura Kosan Co., Ltd.	6,607	21.1
Kenji Kimura	3,135	10.0
Kyosuke Kimura	2,413	7.7
Michihide Kimura	1,595	5.1
Mizuho Bank, Ltd.	1,563	4.9
Japan Trustee Services Bank, Ltd. (Trust)	1,259	4.0
The Master Trust Bank of Japan, Ltd. (Trust)	933	2.9
The Kimura Foundation for Nursing Education	740	2.3
Ryusuke Kimura	669	2.1
Mizuho Corporate Bank, Ltd.	626	2.0

Ownership among Shareholders

	Number of Shares Owned (Thousands)	Percentage of Total Shares Issued (%)
Financial institutions	69,031	21.8
Securities firms	1,370	0.4
Foreign corporations	6,812	2.1
Other domestic corporations	79,714	25.2
Individuals and others	157,172	49.6
Treasury stock	2,724	0.9

Network

Domestic

Head Office

14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670
Tel. +81-3-3648-1111(key number)
Tel. +81-3-3648-2961(Overseas Trade Division)

Branches

- **Sapporo Branch**
318-11, Nishi 13-chome, Minaminijo, Chuo-ku, Sapporo 060-0062
Tel. +81-11-271-1181
- **Sendai Branch**
3-3, Oroshi-machi 2-chome, Wakabayashi-ku, Sendai 984-0015
Tel. +81-22-239-5211
- **Saitama Branch**
4-7, Kamiochiai 9-chome, Chuo-ku, Saitama 338-0001
Tel. +81-48-852-0707
- **Yokohama Branch**
1715-1, Tsuruma, Machida, Tokyo 194-0004
Tel. +81-42-795-8800
- **Nagoya Branch**
20-17, Izumi 1-chome, Higashi-ku, Nagoya 461-0001
Tel. +81-52-963-0600
- **Osaka Branch**
3-33, Tosabori 2-chome, Nishi-ku, Osaka 550-0001
Tel. +81-6-6443-8791
- **Hiroshima Branch**
8-5, Yokogawa-cho 3-chome, Nishi-ku, Hiroshima 733-0011
Tel. +81-82-293-1311
- **Takamatsu Branch**
223-1, Goto-cho, Takamatsu, Kagawa 761-8031
Tel. +81-87-881-8800
- **Fukuoka Branch**
14-20, Hakataeki-higashi 3-chome, Hakata-ku, Fukuoka 812-0013
Tel. +81-92-461-1131

INTIME Shops and PUDS (Paramount Universal Design Station)

- **INTIME Kyobashi and PUDS**
Sumitomo Mitsui Hull Tepco Bldg.1F
6-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-0031
Tel. +81-3-5250-1515 (INTIME)
Tel. +81-3-5250-1535 (PUDS)
- **INTIME Shinsaibashi**
Sanei Shinsaibashi Bldg.1F
13-15, Nishishinsaibashi 1-chome, Chuo-ku, Osaka 542-0086
Tel. +81-6-6245-9021
- **INTIME Nagoya**
Address: Same as Nagoya Branch
Tel. +81-52-963-6800
- **INTIME Fukuoka**
Address: Same as Fukuoka Branch
Tel. +81-92-461-0666

Plants

- **Chiba Plant**
2078, Shirahata, Naruto-machi, Sambu-gun, Chiba 289-1306
Tel. +81-475-82-6111
- **Matsuo Plant**
617, Kashikehongo, Matsuo-machi, Sambu-gun, Chiba 289-1537
Tel. +81-479-86-3331
- **Ohira Plant**
690-1, Aza Uenohara, Shimonogo, Matsuo-machi, Sambu-gun,
Chiba 289-1536
Tel. +81-479-86-2121

Subsidiary

- **PARA TECHNO CO., LTD.**
14-5, Higashisuna 2-chome, Koto-ku, Tokyo 136-8670
Tel. +81-3-3648-3331

Overseas

Representative Office

- **Shanghai Representative Office**
Suite 1701, Shanghai Plaza Building, No.138, Huai Hai M. Road,
Shanghai 200021, China
Tel. +86-021-5383-5111 or 5383-6111
<http://www.paramountbed.com>

Subsidiaries

- **PT. Paramount Bed Indonesia**
MM2100 Industrial Town, Block M-1-1 Export Processing Zone,
Cikarang Barat Bekasi 17520, Jawa Barat, Indonesia
Tel. +62-21-8980715
- **Paramount Bed (China) Co., Ltd.**
A-105, Wuxi National Hi-Tech Industrial Development Zone, Wuxi,
Jiangsu, China



Paramount Bed Co., Ltd.
14-5, Higashisuna 2-chome,
Koto-ku, Tokyo 136-8670, Japan
Tel. +81-3-3648-1111
<http://www.paramount.co.jp>