



ANNUAL REPORT **2005** | 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 aging 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, 2005). In the fiscal year to March 2005, it had net sales of ¥50,616 million, operating income of ¥7,632 million and net income of ¥5,140 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, 2005, 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, 2005, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

# Financial Highlights

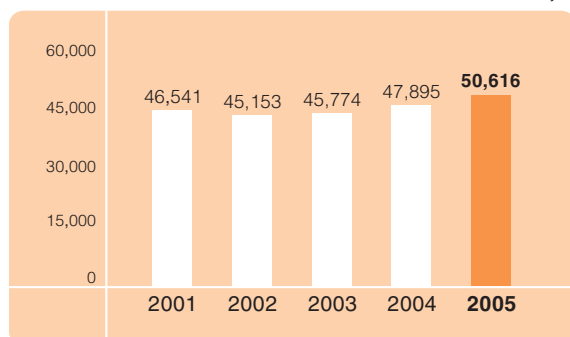
Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>For the year:</b>			
Net sales	¥ 50,616	¥ 47,895	\$ 471,329
Operating income	7,632	7,103	71,068
Income before income taxes	8,688	7,707	80,901
Net income	5,140	4,182	47,863
<b>Per share data (yen):</b>			
Basic net income	162.38	131.87	1.51
Diluted net income	162.33	—	1.51
Total shareholders' equity	2,224.17	2,105.03	20.71
<b>At year-end:</b>			
Total assets	83,161	81,170	774,383
Total shareholders' equity	69,900	66,160	650,899

Note: The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.39 to U.S.\$1, the approximate exchange rate at March 31, 2005.

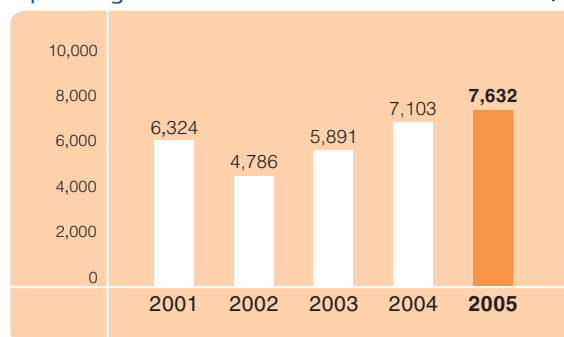
Net sales

Millions of yen



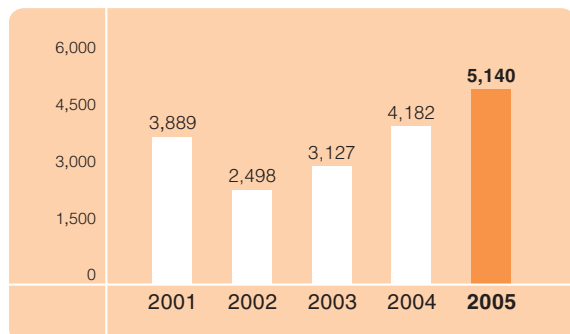
Operating income

Millions of yen



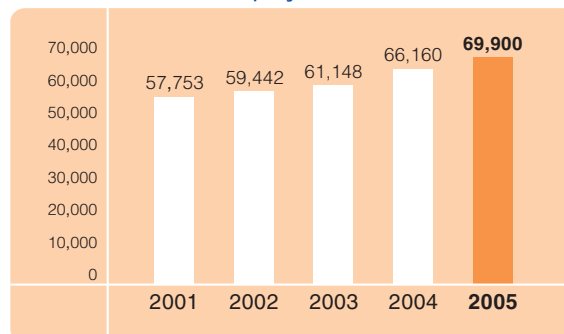
Net income

Millions of yen



Total shareholders' equity

Millions of yen



We strive to create  
a comfortable healthcare environment  
with advanced technology and  
consideration towards users.



**Kenji Kimura**  
President and Representative Director

Both sales and profits rose for  
the third straight year  
Annual dividend of total ¥50 per share

In the fiscal term under review, both sales and profits were up on a consolidated basis for the third consecutive year. Net sales rose 5.7% from the previous year, to ¥50,616 million, while operating income climbed 7.4%, to ¥7,632 million, and net income jumped 22.9%, to ¥5,140 million.

The Company has decided to disburse a year-end dividend of ¥32 per share, up ¥14 from a year earlier, following our basic policy of returning profits to shareholders commensurate with our performance. As a result, the annual dividend will amount to ¥50, including an interim dividend of ¥18.

For the current fiscal term, Paramount Bed plans to disburse ¥25 per share as both an interim and a year-end dividend, with the annual payout totaling ¥50 per share. The Company will continue to make it a priority to return profits to shareholders.

## A focus on the progress of the reforms in the nursing care insurance system

In the healthcare industry, it is expected that the reform of the mandatory number and type of beds that hospitals must have available will gain momentum considering that amendments to the Pharmaceutical Affairs Law were enacted in April 2005 while concrete standards were also established that stipulate the number of hospital beds to be available according to specific type.

In the sector of welfare for seniors, a revision of the nursing care insurance law is planned. Although only an overall outline of the envisioned reforms has been made clear to date, we expect that it will have considerable impact on nursing care related businesses. The revision of the nursing care insurance law will not fully go into effect until April 2006, some parts will already become effective in October 2005.

## Topics

### Released medical and nursing-care mattress “Ever Fit”

The Company released the medical and nursing-care mattress “Ever Fit” on August 2004.

With elasticity similar to the human body’s, Ever Fit reduces the resistance produced when users turn over on the bed and it also stabilizes the human posture during sleep.

In addition, the mattress is reversible and both sides have different functions that adapt to the intended use. Specifically, one side features “soft fit” with relative softness that prioritizes dispersiveness of the body pressure, and the other side features “hard fit” with relative hardness that prioritizes body support such as ease at turning over; users can choose either side according to their condition, build and taste, etc.

If the entire mattress is too soft, it tends to affect the users’ posture; to help maintain a steady posture, the hardness of the mattress is set so as to adapt to certain parts of the human body, relatively hard at the waist part and soft at the buttocks part.

As for mattress covers, we have taken into consideration factors such as ease of maintenance, user-friendliness, and safeness, etc. at medical and nursing-care scenes. These mattress covers are waterproof, chemical resistant, antibacterial (anti MRSA), fire resistant and flexible, and allow bed-bath and disinfection.



Medical and Nursing-care Mattress “Ever Fit”

### Improving earnings through introduction of new products and businesses

Under these circumstances, the Company strives to expand the sales of new value-added products, including the Metis Series, in addition to enhancing the sales of related products, for instance, mattresses.

In the sector of welfare for seniors, the Company is intent on continuing to increase sales of the Rakusho, a home-care bed, as well as boosting the nursing-care bed market by accepting returns and reconditioning used products. In response to the rapid growth in the number of senior citizens with a moderate need for nursing care, the Company plans to release new products that will enable such individuals to avoid the need for a high degree of nursing care.

As for the new brand INTIME, the Company will seek to enhance its sales activities by opening new directly-managed stores as well as increasing its business with department stores. In the meantime, we are successively expanding the range of items produced at our new plant in China that is now in operation.

### Restructuring the existing and establishing new organizations

In order to adapt to our changing business environment and form a stronger corporate management base, the Company established new organizations and restructured the existing ones.

## Topics

### Home-care bed “Rakusho” wins “GOOD DESIGN AWARD” — Evaluated for its universal design —

In October 2004, “Rakusho,” a very popular home-care bed launched in November 2003, won the “GOOD DESIGN AWARD 2004” (G-Mark) sponsored by the Japan Industrial Design Promotion Organization. It was the seventh time we had received the award.

Besides the basic evaluation criteria for the product such as: “developed with a true concern for the user,” “product developed with safety considerations,” “having a high functionality and performance,” or “satisfies the needs of the users,” the judges recognized Rakusho’s excellent design based on a universal design concept.

Based on the concept of universal design, Rakusho provides everyone involved in nursing-care with comfort, safety and ease of operation. Rakusho has developed its own KIND Motion mechanism, which allows the body to be

positioned appropriately, maintaining correct posture and alleviating any feeling of pressure. The KIND Motion allows the caregiver to properly synchronize the motions of raising the backrest and knees by simply pushing a single button. With these features, Rakusho reduces the burden on the user by maintaining an optimal body posture for them.

In addition, the height of Rakusho is 5cm lower than that of conventional models, with a minimum height of 25cm (without mattress). This low-height design allows most users to use the bed effectively and comfortably.

Rakusho offers 7 types of design, based primarily on “natural interior” concept. Users can choose from 126 models, featuring different combinations of functions, width, length, colors and other aspects, to suit their requirements or the ambience of their rooms.

In November 2004, we started by consolidating and expanding the existing product related departments and establishing a new Product Quality Headquarters comprising three departments: product planning, product safety center and product quality assurance. Corporate headquarters is targeting concerted company-wide efforts to improve product quality, including: marketing, service and maintenance, as well as design and manufacturing aspects.

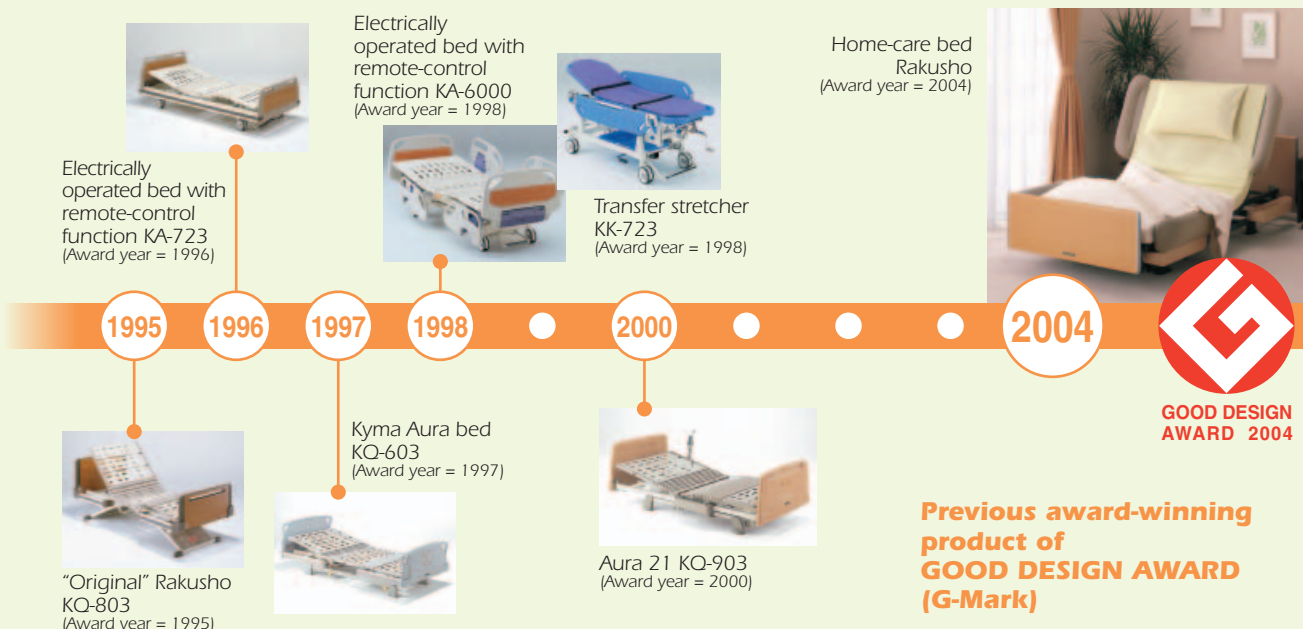
In February 2005, the Company established its EBM (evidence based medicine) laboratory. The purpose of this laboratory is to disseminate information on the proper usage of beds and bed-related peripheral products based on research and proven data to enable these products to be used more effectively.

Moreover, in April 2005, the Company transferred its entire maintenance service department to PARA TECHNO Co., Ltd., a wholly-owned subsidiary (established in July 2002 to provide services such as maintenance, repair, cleaning as well as leasing/renting of beds and bed-related peripheral products for medical facilities). By consolidating our service businesses, we at Paramount Bed are striving to further improve customer satisfaction and create more synergistic effects.

July 2005



Kenji Kimura  
President and Representative Director



The timeline features a central orange bar with white circles representing the years 1995, 1996, 1997, 1998, 2000, and 2004. Lines connect these circles to product images and descriptions:

- 1995:** "Original" Rakusho KQ-803 (Award year = 1995)
- 1996:** Electrically operated bed with remote-control function KA-723 (Award year = 1996)
- 1997:** Kyma Aura bed KQ-603 (Award year = 1997)
- 1998:** Electrically operated bed with remote-control function KA-6000 (Award year = 1998) and Transfer stretcher KK-723 (Award year = 1998)
- 2000:** Aura 21 KQ-903 (Award year = 2000)
- 2004:** Home-care bed Rakusho (Award year = 2004)

At the end of the timeline (2004), there is a large red and white 'G' logo and the text: **GOOD DESIGN AWARD 2004** and **Previous award-winning product of GOOD DESIGN AWARD (G-Mark)**.



"GOOD DESIGN AWARD" is the only comprehensive design evaluation and recommendation system in Japan sponsored by Japan Industrial Design Promotion Organization from 1998 as the successor to the "Good Design Selection System" that was established by the Ministry of International Trade and Industry in 1957. The Good Design Award was established with the aim of creating a new era of culture and life and has contributed to the development of a more affluent life style and good business, as the "G-Mark," the award-winning symbol, has gained wide acceptance throughout Japanese society.

## 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



## 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

With elasticity similar to the human body's, the new released "Ever Fit" reduces the resistance produced when users turn over on the bed and it also stabilizes the human posture during sleep.

The mattress is reversible and both sides have different functions that users can choose their condition, build and taste, etc. And the versatile Preglar Mattress, for use in hospitals, elderly-care facilities and home care.



Ever Fit 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

# Launch of lounging bed “Day Bed”

The Company released the “Day Bed,” a daytime lounging bed with a reclining function, in January 2005 as a new product of our INTIME brand that offers “quality sleep for better health.”

With the increase in the number of people suffering from insomnia in recent years, once again more attention is being given to the benefits of short naps. It has become known that people can wake up easily when they doze on a bed with a slightly-raised backrest because that helps prevent the blood pressure from going down.

With Day Bed, users can change the angle of the backrest freely between zero and fifty-five degrees by pressing a single button at the bedside, causing the backrest and knee-section to rise in synchronized motion. The Day Bed is ideal not only for short naps but also for reading and watching TV or video.

The bed is available with a choice of covering material in eight colors: basic black or white, and six additional made-to-order colors: ivory, green, orange, red, brown and blue. Day Bed is available at four directly-managed stores across Japan at a retail price of ¥194,250.



# Developed new high-function ICU bed — to be released in July 2005

Paramount Bed has developed a new highly functional ICU bed “KA-8900 series” that is equipped with various features required in intensive care units; volume production and sales will commence in July 2005. The following are main features of KA-8900 series:



### Transportation Assist System

KA-8900 series bed is equipped with an electric motor to ease transportation. In addition, this bed is designed with considerations for safety and it does not work without activating the safety switch on the transportation handle.

### Color Liquid Crystal Touch Panel

KA-8900 is equipped with a control panel that is embedded in the bedside rail that moves with the bottom and is operated by the nurse. In order to improve the ease of operation, the Company adopted a large color screen set at an angle that is eye-friendly when operated in the standing position.

### Digital Scale

So as to facilitate procedures such as dialysis, the bed is capable of measuring the patients' weight as well as any incremental change of weight in tens of gram.

### Variable Bed-length Control Function

The bed enables the length to be increased by 18cm from the standard position, or decreased by 15cm via a special control function to adjust to the height of patients.

### Cardiac Chair Position

By raising the backrest of the bed to an angle closer to that of a chair (the so-called: “cardiac chair position”), patients can reduce the burden on the heart and lungs. In this way, patients can prevent the deterioration in cardiopulmonary function to support an early recovery.

# Six-year Summary

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

	2005	2004	2003	2002	2001	2000
For the year:						
	Millions of yen					
Net sales	¥ 50,616	¥ 47,895	¥ 45,774	¥ 45,153	¥ 46,541	¥ 46,359
Cost of sales	30,232	28,251	27,574	27,304	26,836	26,074
Gross profit	20,384	19,644	18,200	17,849	19,705	20,285
Selling, general and administrative expenses	12,752	12,541	12,309	13,063	13,381	12,935
Operating income	7,632	7,103	5,891	4,786	6,324	7,350
Net income	5,140	4,182	3,127	2,498	3,889	4,355
Net cash provided by operating activities	4,556	7,138	6,194	4,076	4,042	4,761
Net cash used in investing activities	(3,253)	(423)	(1,615)	(3,948)	(3,715)	(5,373)
Net cash (used in) provided by financing activities	(1,134)	(758)	(1,198)	(1,040)	(917)	822
Cash and cash equivalents, end of year	20,790	20,622	14,661	11,267	12,158	12,641
Research and development costs	898	950	1,075	983	890	881
At year-end:						
Total assets	83,161	81,170	74,331	72,822	72,078	73,524
Total shareholders' equity	69,900	66,160	61,148	59,442	57,753	55,021
Per share data:						
	Yen					
Basic net income	162.38	131.87	98.29	78.86	122.75	140.45
Diluted net income	162.33	—	—	—	—	—
Total shareholders' equity	2,224.17	2,105.03	1,945.48	1,882.47	1,822.88	1,736.65
Value indicators:						
	%					
Return on equity (*1)	7.56	6.57	5.19	4.26	6.90	9.24
Return on assets (*2)	6.26	5.38	4.25	3.45	5.34	6.31
Shareholders' equity ratio	84.05	81.51	82.26	81.63	80.13	74.83

\*1) Return on equity (ROE): Net income / Average total shareholders' equity

\*2) Return on assets (ROA): Net income / Average total assets

## Overview of Financial Results

The Japanese economy showed moderate recovery in the fiscal term ended March 2005, primarily due to improved corporate earnings. However, the growth in consumer spending slowed down in the second half of the term and almost flattened out at the end of term, resulting in a moderate economic slowdown.

With regard to the healthcare industry, medical expenses increased slightly over the previous term, despite revisions made to the medical service fee system in April 2004 which were intended to produce a 1.0% reduction in the overall amount of medical expenses. According to a recent survey conducted by the Japan Hospital Federation, the percentage of loss-making hospitals has decreased.

In the sector of welfare for the elderly, the welfare equipment market continued to expand under the nursing-care insurance system, and the number of users of nursing-care beds increased by 17.4%, year-on-year, to 627,000 as of the end of October 2004. Regarding the revision of nursing-care insurance system, the amendment bill with significant revision, such as conversion to the system focusing on preventing senior citizens from requiring a high degree of nursing care, was submitted to the Diet (Japan's parliament) in February 2005.

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

As a first step towards enhancing its technical development department, the Company began constructing a Technical Center next to the headquarters building. In addition, we constructed a new plant for manufacturing hospital beds and related products in Wuxi (Jiangsu Province), China.

With respect to the development and sales of products, the Company released the reversible "Ever Fit Mattress," (which allows patients to alternately use either side of the mattress depending on their physical condition), and a walker with an integrated seat. In addition, the Company worked on the development of high-performance

products for hospitals such as ICU beds and new models to be manufactured at the new plant in China.

In the fiscal term under review, consolidated sales to hospitals remained stable, while those to nursing-care facilities grew 7.3% compared to the previous year. Sales of products for home-care use increased by only 2.1%, partly due to the fact that demand for Rakusho, the new home-care bed, was stagnating somewhat one year after its launch.

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

	Millions of yen		%
	2005	2004	Year-on-year Change
Beds	¥ 30,987	¥ 28,520	8.7
Mattresses	4,166	4,244	(1.8)
Hospital-use furniture	3,829	4,238	(9.6)
Medical-use products	2,919	2,925	(0.2)
Other	8,715	7,968	9.4
<b>Total</b>	<b>¥ 50,616</b>	<b>¥ 47,895</b>	<b>5.7</b>

As a result, consolidated net sales for the fiscal year rose 5.7%, or ¥2,721 million, year-on-year, to ¥50,616 million.

Operating income increased by 7.4%, year-on-year, to ¥7,632 million, primarily due to an increase in sales of beds for nursing-care facilities and a reduction in selling, general and administrative expenses despite the rise in manufacturing costs on the back of sharp price hikes for steel products and other materials. Net income jumped 22.9% to ¥5,140 million, primarily due to foreign exchange gains and a reversal of the reserves for employees' retirement benefits (commensurate with accrued profits at the termination of the qualified pension plan) following the introduction of a defined contribution pension system.

All of the above figures, as well as those in the accounting statement below, are exclusive of consumption tax.

## Cash Flows

### (Cash flows from operating activities)

Net cash provided by operating activities was ¥4,556 million in the fiscal year under review. A breakdown of inflow shows income before income taxes of ¥8,688 million, depreciation and amortization of ¥1,768 million. Meanwhile, the contributors to cash outflow were an increase in notes and accounts receivables of ¥530 million, a decrease in notes and accounts payable of ¥632 million and the payment of income taxes amounting to ¥4,267 million.

### (Cash flows from investing activities)

Net cash used in investing activities was ¥3,253 million. This was chiefly attributable to the acquisition of marketable and investment securities and property, plant and equipment, which totaled ¥6,259 million and ¥1,368 million, respectively, as well as proceeds from the sale of marketable and investment securities, which amounted to ¥5,330 million.

### (Cash flows from financing activities)

Net cash used in financing activities was ¥1,134 million, owing primarily to the payment of cash dividends.

As a result, cash and cash equivalents at year-end totaled ¥20,790 million, up ¥168 million from the previous year-end.

## Issues to Be Addressed and Outlook for the Next Term

In the healthcare industry, it is expected that the reform of the mandatory number and type of beds that hospitals must have available will gain momentum considering that amendments to the Pharmaceutical Affairs Law were enacted in April 2005 while concrete standards were also established that stipulate the number of hospital beds to be available according to specific type.

In the sector of welfare for the elderly, a revision of the nursing care insurance law is planned. Although only an overall outline of the envisioned reforms has been made clear to date, we expect that it will have considerable impact on nursing care related businesses. The revision of the nursing care insurance law will not fully go into effect until April 2006, but partial revisions will become effective in October 2005.

Under these circumstances, the Company is working to expand sales of new value-added products, including the Metis Series, in addition to enhancing sales of related products, for instance, mattresses.

In the sector of welfare for the elderly, the Company is intent on continuing to increase sales of the Rakusho, a home-care bed, as well as boosting the nursing-care bed market by accepting returns and reconditioning used products. In response to the rapid growth in the number of senior citizens with some need for nursing care, the Company plans to release new products that will enable such individuals to avoid the need for high-intensity nursing care.

As for the new brand INTIME, the Company will seek to enhance its sales activities by opening new directly-managed stores as well as increasing its business with department stores. In the meantime, we are successively expanding the range of items produced at our new plant in China, which is now in operation.

In addition, the Company will reorganize PARA TECHNO Co., Ltd., our subsidiary, to enhance maintenance services. In addition, we will focus on improving manufacturing productivity and reducing costs such as distribution expenses to offset rising raw material prices.

# Consolidated Balance Sheets

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 20,790	¥ 20,622	\$ 193,593
Marketable securities (Note 3)	3,368	2,106	31,362
Notes and accounts receivable:			
Trade notes	5,625	5,686	52,379
Trade accounts	11,851	11,305	110,355
Other	57	14	531
Allowance for doubtful accounts	(11)	(18)	(102)
Inventories (Note 4)	4,481	4,475	41,727
Deferred tax assets (Note 6)	556	555	5,177
Prepaid expenses and other current assets	91	73	847
<b>Total current assets</b>	<b>46,808</b>	<b>44,818</b>	<b>435,869</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	8,363	8,371	77,875
Buildings and structures	21,324	21,192	198,566
Machinery and equipment	12,983	12,654	120,896
Construction in progress	571	3	5,317
Total	43,241	42,220	402,654
Accumulated depreciation	(22,485)	(21,132)	(209,377)
<b>Net property, plant and equipment</b>	<b>20,756</b>	<b>21,088</b>	<b>193,277</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 3)	11,442	11,957	106,546
Life insurance premium	1,238	787	11,528
Deferred tax assets (Note 6)	8		75
Other assets	2,909	2,520	27,088
<b>Total investments and other assets</b>	<b>15,597</b>	<b>15,264</b>	<b>145,237</b>
<b>TOTAL</b>	<b>¥ 83,161</b>	<b>¥ 81,170</b>	<b>\$ 774,383</b>

See notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable:			
Trade notes	¥ 166	¥ 948	\$ 1,546
Trade accounts	6,470	6,243	60,248
Other	1,185	1,530	11,034
Income taxes payable (Note 6)	1,727	2,479	16,081
Accrued expenses	1,283	1,228	11,947
Other current liabilities	525	442	4,889
<b>Total current liabilities</b>	<b>11,356</b>	<b>12,870</b>	<b>105,745</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for employees' retirement benefits (Notes 2.f and 5)	968	1,405	9,014
Liability for directors' and corporate auditors' retirement benefits	395	381	3,678
Deferred tax liabilities (Note 6)	362	349	3,371
Other long-term liabilities	15	5	140
<b>Total long-term liabilities</b>	<b>1,740</b>	<b>2,140</b>	<b>16,203</b>
<b>MINORITY INTERESTS</b>	<b>165</b>	<b>—</b>	<b>1,536</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b> (Notes 7, 9 and 11)			
<b>SHAREHOLDERS' EQUITY</b> (Notes 8 and 13):			
Common stock — authorized, 100,000,000 shares; issued, 31,682,526 shares	6,591	6,591	61,375
Capital surplus	7,277	7,277	67,762
Retained earnings	55,426	51,456	516,119
Unrealized gain on available-for-sale securities	1,402	1,582	13,055
Foreign currency translation adjustments	(65)	(19)	(605)
Treasury stock — at cost, 273,280 shares in 2005 and 272,199 shares in 2004	(731)	(727)	(6,807)
<b>Total shareholders' equity</b>	<b>69,900</b>	<b>66,160</b>	<b>650,899</b>
<b>TOTAL</b>	<b>¥ 83,161</b>	<b>¥ 81,170</b>	<b>\$ 774,383</b>







# Consolidated Statements of Shareholders' Equity

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2005 and 2004

	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
<b>BALANCE, APRIL 1, 2003</b>	31,412	¥ 6,591	¥ 7,277	¥ 48,065	¥ (153)	¥ 92	¥ (723)
Net income				4,182			
Cash dividends, ¥24 per share				(754)			
Bonuses to directors				(37)			
Purchase of treasury stock	(2)						(4)
Net increase in unrealized gain on available-for-sale securities					1,735		
Net decrease in foreign currency translation adjustments						(111)	
<b>BALANCE, MARCH 31, 2004</b>	31,410	6,591	7,277	51,456	1,582	(19)	(727)
Net income				5,140			
Cash dividends, ¥36 per share				(1,130)			
Bonuses to directors				(40)			
Purchase of treasury stock	(3)						(9)
Proceeds from sales of treasury stock	2						5
Net decrease in unrealized gain on available-for-sale securities					(180)		
Net decrease in foreign currency translation adjustments						(46)	
<b>BALANCE, MARCH 31, 2005</b>	<b>31,409</b>	<b>¥ 6,591</b>	<b>¥ 7,277</b>	<b>¥ 55,426</b>	<b>¥ 1,402</b>	<b>¥ (65)</b>	<b>¥ (731)</b>

	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
<b>BALANCE, MARCH 31, 2004</b>	\$ 61,375	\$ 67,762	\$ 479,151	\$ 14,731	\$ (177)	\$ (6,769)
Net income			47,863			
Cash dividends, \$0.34 per share			(10,522)			
Bonuses to directors			(373)			
Purchase of treasury stock						(84)
Proceeds from sales of treasury stock						46
Net decrease in unrealized gain on available-for-sale securities				(1,676)		
Net decrease in foreign currency translation adjustments					(428)	
<b>BALANCE, MARCH 31, 2005</b>	<b>\$ 61,375</b>	<b>\$ 67,762</b>	<b>\$ 516,119</b>	<b>\$ 13,055</b>	<b>\$ (605)</b>	<b>\$ (6,807)</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 8,688	¥ 7,707	\$ 80,901
Adjustments for:			
Income taxes — paid	(4,267)	(2,982)	(39,733)
Depreciation and amortization	1,768	1,857	16,463
Gain on sales of investment securities	(130)	(568)	(1,211)
Loss on sales of investment securities	117		1,090
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(530)	786	(4,935)
(Increase) decrease in inventories	(1)	1	(9)
(Increase) decrease in prepaid expenses and other current assets	(19)	24	(177)
(Decrease) increase in notes and accounts payable	(632)	524	(5,885)
Increase in accrued expenses and other current liabilities	148	20	1,378
Other — net	(586)	(231)	(5,457)
Net cash provided by operating activities	4,556	7,138	42,425
<b>INVESTING ACTIVITIES:</b>			
Purchases of marketable securities	(3,000)	(200)	(27,936)
Proceeds from sales of marketable securities	2,100	2,009	19,555
Purchases of property, plant and equipment	(1,368)	(1,092)	(12,739)
Purchases of investment securities	(3,259)	(2,864)	(30,347)
Proceeds from sales of investment securities	3,230	2,262	30,077
Increase in other assets	(956)	(538)	(8,902)
Net cash used in investing activities	(3,253)	(423)	(30,292)
<b>FINANCING ACTIVITIES:</b>			
Purchases of treasury stock	(9)	(4)	(84)
Proceeds from sales of treasury stock	5		46
Cash dividends paid	(1,130)	(754)	(10,522)
Net cash used in financing activities	(1,134)	(758)	(10,560)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	(1)	4	(9)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>168</b>	<b>5,961</b>	<b>1,564</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>20,622</b>	<b>14,661</b>	<b>192,029</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 20,790</b>	<b>¥ 20,622</b>	<b>\$ 193,593</b>

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 2004 consolidated financial statements to conform to the classifications used in 2005.

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 ¥107.39 to \$1, the rate of exchange at March 31, 2005. 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 include the accounts of the Company and all its three 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 except for supplies, which are stated by 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 management has 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 defined contribution 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.

In connection with amendments to the Company's severance indemnity plan, effective January 1, 2005, prior service cost of ¥1,283 million was incurred. Such cost is amortized over 10 years, including current fiscal year. On January 1, 2005, in accordance with the law of defined contribution pension plan, the Company also terminated the qualified pension plan and shifted into the defined contribution pension plan and the prepaid retirement benefit plan (See Note 5).

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, such as foreign exchange forward contracts (“derivatives”) to manage their exposures to fluctuations in foreign exchange rates. 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, with gains or losses 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** — Basic 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 reflects the potential dilution that could occur if treasury stock were issued by stock option plan.

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 Group expects to adopt these pronouncements as of April 1, 2005 and 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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current:			
Government and corporate bonds	¥ 2,868	¥ 2,106	\$ 26,706
Trust fund investments	500		4,656
Total	¥ 3,368	¥ 2,106	\$ 31,362
Non-current:			
Marketable equity securities	¥ 2,394	¥ 3,173	\$ 22,293
Government and corporate bonds	4,114	3,635	38,309
Trust fund investments and others	4,241	4,453	39,491
Non-marketable equity securities	693	696	6,453
Total	¥ 11,442	¥ 11,957	\$ 106,546

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

March 31, 2005	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 381	¥ 2,018	¥ 5	¥ 2,394
Debt securities	5,483	8	110	5,381
Others	3,789	531	79	4,241
Held-to-maturity	2,100	1	35	2,066

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, 2005	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 3,548	\$ 18,791	\$ 46	\$ 22,293
Debt securities	51,057	74	1,024	50,107
Others	35,283	4,945	736	39,492
Held-to-maturity	19,555	9	326	19,238

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of yen	2004	Thousands of U.S. dollars
Available-for-sale—Equity securities	¥ 693	¥ 696	\$ 6,453

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥5,316 million (\$49,502 thousand) and ¥3,468 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥130 million (\$1,211 thousand) gains and ¥117 million (\$1,089 thousand) losses for the year ended March 31, 2005 and ¥568 million gains and ¥64 million losses for the year ended March 31, 2004.

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, 2005 were as follows:

March 31, 2005	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	¥ 3,167	¥ 500	\$ 29,490	\$ 4,656
Due after one year through five years	3,539		32,955	
Due after five years through ten years	1,288		11,994	
Due after ten years	1,438	1,600	13,390	14,899
Total	¥ 9,432	¥ 2,100	\$ 87,829	\$ 19,555

### 4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Merchandise	¥ 182	¥ 172	\$ 1,695
Finished products	3,413	3,483	31,781
Work in process	169	151	1,574
Raw materials and supplies	717	669	6,677
Total	¥ 4,481	¥ 4,475	\$ 41,727

### 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.

Prior to January 1, 2005, the Company has a qualified pension plan which covers employees only in case they retire at the normal retirement age. Effective January 1, 2005, the Company terminated the qualified pension plan and shifted into the new annuity system. In this system, employees are entitled to select the defined contribution pension plan or the prepaid retirement benefit plan. Accounting policy on transfers within retirement benefit plans (No.1 of Application Guidelines in Accounting Standards for Business Enterprises) has been applied to this shift. As a result of this shift, ¥551 million (\$5,131 thousand) gain occurred and credited to other income for the year ended March 31, 2005.

In addition to the plan above, the Company participates in 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 undivided portion of the plan assets amounted to ¥4,824 million (\$44,920 thousand) as of March 31, 2005.

Liabilities for employees' retirement benefits as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ 2,763	¥ 5,028	\$ 25,729
Fair value of plan assets	(122)	(3,003)	(1,136)
Unrecognized pension assets	20		186
Unrecognized actuarial net loss	(441)	(620)	(4,107)
Unrecognized prior service cost	(1,252)		(11,658)
Liabilities presented on the consolidated balance sheets	¥ 968	¥ 1,405	\$ 9,014

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost	¥ 296	¥ 309	\$ 2,756
Interest cost	88	113	820
Expected return on plan assets	(34)	(40)	(317)
Recognized actuarial loss	72	52	671
Amortization of prior service cost	32		298
Installation on the welfare annuity	200	194	1,862
Others	148	102	1,378
Net periodic benefit costs	¥ 802	¥ 730	\$ 7,468

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5%	1.5%
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of prior service cost	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 normal effective statutory tax rates of approximately 40.7% and 41.6% for the years ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued bonuses	¥ 360	¥ 345	\$ 3,352
Enterprise taxes	139	218	1,295
Liability for directors' and corporate auditors' retirement benefits	161	155	1,499
Liability for employees' retirement benefits	320	424	2,980
Other	251	200	2,337
Less valuation allowance	(64)	(47)	(596)
Deferred tax assets	1,167	1,295	10,867
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(962)	(1,085)	(8,958)
Reserve for advanced depreciation	(3)	(4)	(28)
Deferred tax liabilities	(965)	(1,089)	(8,986)
Net deferred tax assets	¥ 202	¥ 206	\$ 1,881

## 7. CONTINGENT LIABILITIES

At March 31, 2005, the Group had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Guarantees for employees' housing loans	¥ 610		\$ 5,680
Recourse obligation for the balance on the transfers of payables in factoring transactions	1,901		17,702

## 8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code.

The Code requires that all shares of common stock are 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 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 Code allows Japanese companies to purchase treasury stock, if authorized by the Articles of Incorporation. 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. In order to be able to execute flexible financial strategies which comply with the operating environment, the Company established a new article on purchase of treasury stock authorized by the resolution of the shareholders at the general shareholders meeting on June 29, 2004.

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. The amount of retained earnings available for dividends under the Code was ¥53,796 million (\$500,940 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

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 221,000 shares of the Company's common stock in the period from July 1, 2004 to June 29, 2007. The options is granted at an exercise price of ¥2,687 (\$25.02). 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. As a lessor, the Group leases certain beds to its customers.

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 ¥83 million (\$773 thousand) and ¥112 million for the years ended March 31, 2005 and 2004, respectively. Total lease revenues were ¥4 million (\$37thousand) and ¥3 million for the years ended March 31, 2005 and 2004, respectively.

### (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, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥ 324	¥ 458	\$ 3,017
Accumulated depreciation	159	295	1,481
Net leased property	¥ 165	¥ 163	\$ 1,536

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 65	¥ 69	\$ 605
Due after one year	104	97	969
Total	¥ 169	¥ 166	\$ 1,574

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥ 79	¥ 105	\$ 736
Interest expense	5	5	46
Total	¥ 84	¥ 110	\$ 782



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, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition cost	¥ 25	¥ 20	\$ 233
Accumulated depreciation	8	4	75
Net leased property	¥ 17	¥ 16	\$ 158

Credits under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 4	¥ 4	\$ 37
Due after one year	13	13	121
Total	¥ 17	¥ 17	\$ 158

Depreciation expense and interest income under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥ 4	¥ 3	\$ 37
Interest income	1	1	9
Total	¥ 5	¥ 4	\$ 46

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 ¥898 million (\$8,362 thousand) and ¥950 million for the years ended March 31, 2005 and 2004, 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 foreign currencies.

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 qualified for hedge accounting and were recorded on the consolidated balance sheets as of March 31, 2005 and 2004.

## 12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2005	Net income	Weighted-average shares	EPS	
Basic EPS —				
Net income available to common shareholders	¥ 5,100	31,409	¥ 162.38	\$ 1.51
Effect of dilutive securities—				
Warrants		10		
Diluted EPS —				
Net income for computation	¥ 5,100	31,419	¥ 162.33	\$ 1.51

	Millions of yen	Thousands of shares	Yen
Year Ended March 31, 2004	Net income	Weighted-average shares	EPS
Basic EPS —			
Net income available to common shareholders	¥ 4,142	31,411	¥ 131.87

Diluted EPS for the year ended March 31, 2004 is not disclosed because it is anti-dilutive.

## 13. SUBSEQUENT EVENT

On June 29, 2005, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Ordinary year-end cash dividends, ¥32 (\$0.30) per share	¥ 1,005	\$ 9,358
Bonuses to directors	40	373
Total	¥ 1,045	\$ 9,731





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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, 2005 and 2004, 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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, 2005

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



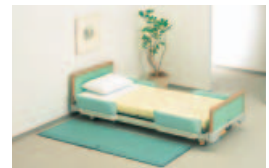
KA-500 Series hospital bed



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:	951

## Board of Directors and Corporate Auditors

(As of June 29, 2005)

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:	19,843

### Major Shareholders

	Number of Shares Owned (Hundreds)	Percentage of Equity (Ownership to Total Shares Issued (%)
Kimura Kosan Co., Ltd.	66,078	20.8
Kenji Kimura	25,350	8.0
Kyosuke Kimura	19,134	6.0
Mizuho Bank, Ltd.	15,632	4.9
Michihide Kimura	11,954	3.7
Morgan Stanley & Company International Limited	10,437	3.2
Japan Trustee Services Bank, Ltd. (Trust)	9,178	2.8
The Master Trust Bank of Japan, Ltd. (Trust)	8,455	2.6
The Kimura Foundation for Nursing Education	7,103	2.2
Ryusuke Kimura	6,691	2.1

### Ownership among Shareholders

	Number of Shares Owned (Hundreds)	Percentage of Total Shares Issued (%)
Financial institutions	66,258	20.9
Securities firms	1,484	0.5
Foreign corporations	27,199	8.6
Other domestic corporations	79,524	25.1
Individuals and others	139,619	44.1
Treasury stock	2,738	0.8

## 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, Hokkaido 060-0062  
Tel. +81-11-271-1181
- **Sendai Branch**  
3-3, Oroshi-machi 2-chome, Wakabayashi-ku, Sendai, Miyagi 984-0015  
Tel. +81-22-239-5211
- **Saitama Branch**  
4-7, Kamiochiai 9-chome, Chuo-ku, Saitama, 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, Aichi 461-0001  
Tel. +81-52-963-0600
- **Osaka Branch**  
3-33, Tosabori 2-chome, Nishi-ku, Osaka, Osaka 550-0001  
Tel. +81-6-6443-8791
- **Hiroshima Branch**  
8-5, Yokogawa-cho 3-chome, Nishi-ku, Hiroshima, 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, 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 Sapporo**  
1-4, Nishi 5-chome, Kitayajo, Chuo-ku, Sapporo, Hokkaido 060-0004  
Tel. +81-11-219-8800
- **INTIME Nagoya**  
Address: Same as Nagoya Branch  
Tel. +81-52-963-6800
- **INTIME Shinsaibashi**  
Sanei Shinsaibashi Bldg.1F  
13-15, Nishishinsaibashi 1-chome, Chuo-ku, Osaka, Osaka 542-0086  
Tel. +81-6-6245-9021
- **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.**  
1648-7, 1-chome, Kaijincho-minami, Funabashi, Chiba 273-0024  
Tel. +81-47-431-0552

### Overseas

#### Representative Office

- **Shanghai Representative Office**  
Suite 1701, Shanghai Plaza Building, No.138, Huai hai M. Road, Shanghai 200021, P.R. China  
Tel. +86-021-5383-5111

#### 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 & New Tech Industrial Development Zone, Wuxi, Jiangsu, China  
Tel. +86-510-532-3201



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>