ANNUAL REPORT 2006 | 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, 2006). In the fiscal year to March 2006, it had net sales of ¥51,011 million, operating income of ¥6,331 million and net income of ¥3,782 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).

Contents

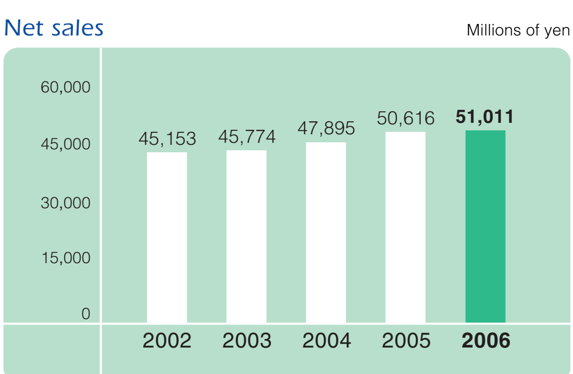
Disclaimer Regarding Forward-Looking Statements
The information contained in this annual report is given for the sole purpose of providing information regarding the business performance of Paramount Bed Co., Ltd. during the fiscal year ended March 31, 2006, and is not intended to solicit investment in 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, 2006, and involve known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

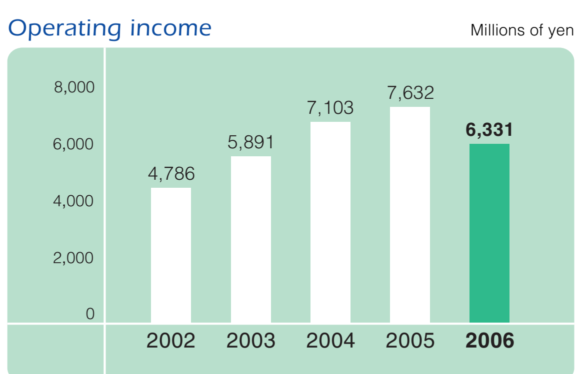
Financial Highlights

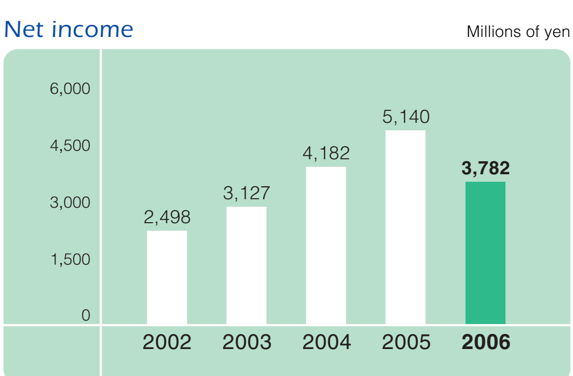
Paramount Bed Co., Ltd. and Subsidiaries — Years ended March 31, 2006 and 2005

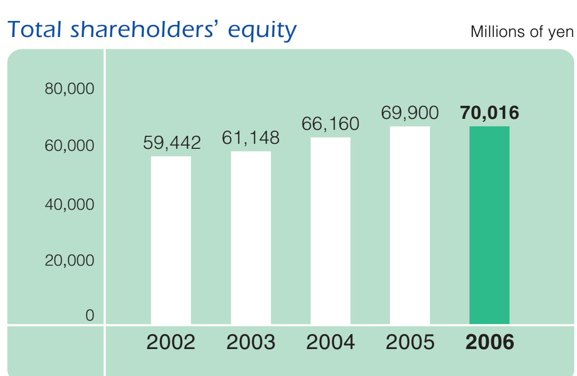
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
For the year:			
Net sales	**¥ 51,011**	¥ 50,616	**$ 434,247**
Operating income	**6,331**	7,632	**53,895**
Income before income taxes and minority interests	**6,544**	8,688	**55,708**
Net income	**3,782**	5,140	**32,195**
Per share data (yen):			
Basic net income	**120.61**	162.38	**1.03**
Diluted net income	**120.59**	162.33	**1.03**
Total shareholders' equity	**2,300.19**	2,224.17	**19.58**
At year-end:			
Total assets	**84,315**	83,161	**717,758**
Total shareholders' equity	**70,016**	69,900	**596,033**

Note: The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47 to U.S.$1, the approximate exchange rate at March 31, 2006, as discribed.









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

Kenji Kimura
President and Representative Director

Sales increased, but profits decreased

With consolidated net sales up 0.8% from the previous year at ¥51,011 million, Paramount Bed Co., Ltd. has achieved a growth in sales for the fourth consecutive year. However, a commensurate increase in profits for the fourth straight year could not be realized, mainly because the rises in manufacturing cost due to sharp price increases for steel components and other materials could not be offset by enhanced sales activities, such as the launch of new products. As a result, the Company posted operating income of ¥6,331 million (down 17.1%, year-on-year) and net income of ¥3,782 million (down 26.4%, year-on-year).

The Company disbursed ¥25 per share to the shareholders as an interim dividend, and the same amount as a year-end dividend, for a total annual payout of ¥50 per share.

For the fiscal year ending March 2007, we plan to continue disbursing ¥25 per share both as an interim and a year-end dividend, totaling ¥50 per share annually. The Company continues to put a high priority on providing returns to its shareholders.

Revisions of medical service fee and nursing-care insurance system

Concerning the fiscal year ending March 2007, in the Japanese healthcare industry, a revision of medical service fees became effective from April 2006, and the fees were cut by 1.36% in the core portion and by 3.16% in total — the largest ever reductions. This is expected to adversely affect the management conditions of medical facilities, our main clients.

In the sector of welfare for seniors, a revised nursing-care insurance law became effective from April 2006. Due to this amendment, welfare-equipment rental services such as those of nursing-care beds for persons requiring mild nursing care at home — the Company's main business area — are no longer eligible for the insurance payments. Even though this revision entailed a transitional period of six months, rental companies have been putting off new equipment purchases since March 2006, because of the uncertain outlook.

Topics

Technical Center started full operation


Technical Center

In March 2006, the Company completed construction of the Technical Center, which was under construction since January 2005, adjacent to head office. The building is entirely glass-walled, having 7 stories above ground, with a total lot area of 1,095m^2 and a gross floor area of 5,089m^2.

Besides the office spaces for the development staff, the Center has laboratories for mattresses and sleeping tests, as well as facilities for noise measurement, electronic microscopy, bed cleaning, and testing for driving/rolling on inclined slopes. This Center will become the basis for our technological developments.

PT. Paramount Bed Indonesia: 10th Anniversary of foundation


At a hospital constructing new annex toward recovery
Hospital staff and President of PBI, Hideo Sakamoto (second left)
(November 2005)

PT. Paramount Bed Indonesia (PBI) celebrated the 10th anniversary of its foundation in September 2005.

In the fiscal year ending March 2007, PBI seeks to obtain the largest share in the hospital-use bed market in Indonesia, as well as to pioneer new markets as alternatives to China, and to develop new products.

The Indian Ocean tsunami in 2004 caused severe damage, especially to Aceh province in Indonesia. PBI donated 30 beds to the local hospitals, along with clothes, food and support payments. Considering that the damage was serious and further aid would be necessary, PBI additionally donated 100 beds to the hospitals specified by the Ministry of Health of Indonesia in autumn 2005.

✻ It was reported that a major earthquake occurred on May 27, 2006 on the island of Java in Indonesia, resulting in over 6,000 casualties. On June 1, the Paramount Bed group delivered and installed 18 beds and 40 mattresses among others to the five hospitals in the afflicted area through PBI.

Priority issues for fiscal year ending March 2007

In the healthcare sector, the Company is endeavoring to expand sales by stepping up the distribution of existing products, such as the strong-selling mattress “Ever Fit,” and safety products including low-height beds, as well as by increasing the number of products such as medical carts (i.e., vehicles/trolleys for medical equipment and drugs). In addition, the Company continues to train sales specialists to be in charge of the so-called “high care” field (intensive care, including ICU and emergency medical care).

In the sector of welfare for seniors, the Company is enhancing sales activities to elderly-care facilities, the number of which is likely to increase. As for home care, we are explaining the utility of nursing-care beds to prospective users and other concerned parties, by holding workshops on “fitting” (selecting and adjusting) our products, as well as expanding their use for elderly patients with medium- to high-nursing care requirements.

Regarding the “INTIME” brand, the Company continues to enhance its sales capabilities in directly-managed stores, and also stimulates demand from various incorporated entities and foundations.

Role sharing and enhanced partnerships within the Group

The Paramount Bed group consists of the core company of Paramount Bed Co., Ltd. (the Company), overseas subsidiaries engaging in production, such as PT. Paramount Bed Indonesia (PBI), and Paramount Bed (China) Co., Ltd. (PBC), as well as a domestic subsidiary PARA TECHNO Co., Ltd. (PT), which is engaged in

Topics

Fully revised Internet websites of Paramount Bed and INTIME

We upgraded our INTIME and Paramount Bed websites, in June and July 2005, as described.

INTIME website

We revised the INTIME website to emphasize our superior product quality by selecting sophisticated and exclusive images. For electrically adjustable beds, we use videos to explain the movements, which are difficult to convey in conventional hard-copy catalogues. For our custom-made mattress “Styleport,” before visiting our shops clients can peruse the website to inform themselves about the customizing process from measurements to ordering process, including product specifications.

http://www.in-time.jp

The Company is enhancing its web content by including information about INTIME Sapporo (a newly opened retail outlet), as well as various informative articles written by medical doctors and designers.

Paramount Bed website

The new website of Paramount Bed provides bright and clean images based on the colors white and blue. Being friendly to users is the primary focus, and all catalogues for home-care and nursing-care facilities can be accessed for maintenance services and the lease/installment-selling businesses in Japan. Currently, we are strengthening cooperation within the group, to be able to rapidly respond to changes in our business environment, and ensure a solid management basis.

PBI, which celebrated the 10th anniversary of its founding in September 2005, has been strengthening sales within Indonesia, in order to offset the decline in exports to China after the launch of PBC in April 2005. In addition, part of the production of hand-operated beds was transferred from the Company to PBI to optimize the production process within the group. PBI continues to pursue the development of new products.

PBC, which started the operation in April 2005, has been facing intensive competition with domestic bed makers in China. In January 2006, PBC reviewed its initial business strategy for the hospital-use bed market in China and decided to improve its profitability by focusing its production and sales activities on high-end models. PBC plans to manufacture some of the new products for the Company.

In April 2005, PT took over all services previously handled internally by the Customer Service Center and After Service Division in the Company. Furthermore, PT reinforced its services by newly adding lease/installment-selling businesses to the existing maintenance services, including upkeep and inspection, etc. PT continues to do its best to improve the reliability and brand image of Paramount Bed by stepping up its business activities.

July 2006

Kenji Kimura
President and Representative Director

http://www.paramount.co.jp

browsing to one's heart's content.

In addition, we offer a special web page for people considering establishing for-profit nursing homes, and inform our sales track records to these facilities, as well as our proprietary approaches to support establishments.

Finally, we enhanced the information related to PARA TECHNO Co., Ltd. (our subsidiary), universal design and IR, as well as highlighting the links to the INTIME website.

Website for home-care specialists opened

In December 2005, we opened a "Website for home-care specialists," targeting care managers and rental-business companies of welfare equipment. This website enables visitors to download instruction manuals of the Company's products, find useful information including event schedules, and browse "Care Full," an information magazine published by the Company for home-care specialists.

Website for home-care specialists

Product Lineup

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-8900 ICU Bed

Multi-Purpose Medical Chair

Acute care (for special rooms)

SO-5000

Metis Series

Beds for elderly-care facilities

Falling out of bed can be a cause of serious injury for residents of elderly-care facilities. Our ultra-low Callisto beds (Callisto Series) reduce the risk of harm 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 the 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 posture during sleep.
The mattress is reversible and both sides have different functions that users can choose to suit their condition, build and preference.
We also offer the versatile Preglar Matress, 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

Launched "Rakusho — independence encouragement series": a bed aiming to promote independence of elderly patients requiring mild nursing care

On September 13, 2005, the Company released "Rakusho — independence encouragement series," with a new concept of encouraging independence of elderly patients. This series targets patients requiring moderate nursing care (needing level 1-2 nursing care) whose numbers are now increasing at the highest rate. This series is equipped with enhanced functions and options to effectively support independent "sitting-up" and "standing-up" movements of patients, with simplified electrical operations.

The series consists of two models, "Sitting-up bed" (the backrest comes up electrically) and "Standing-up bed" (the height is adjustable). Furthermore, users can select from a total of 144 types by combining various elements such as width of mattress (1,000 mm and 910 mm), length of bed (mini, regular and long), and design, etc. The price ranges from ¥239,400 to ¥300,300 (including tax).

Sitting-up movement using the support wing

The main features of "Rakusho — independence promotion series"

- "Support wing" that triggers movements of "sitting-up" and "standing-up" are standard equipment.
- "Limiter function" (automatically locks into the pre-adjusted angle or height) promotes "sitting-up" and "standing-up" movements on one's own (available for some models).
- Support patients' movements with seven options jointly developed with a specialized institution (Yokohama Rehabilitation Center).
- Newly equipped with a monitoring system that enables caregivers to check the operating status remotely, and monitor patients (pay-for-use service).

Newly launched "Para Walk," a user-friendly walking chair that allows fine-tuning

In April 2006, the Company released "Para Walk," a walking chair that can be fine-tuned to suit the user's physical condition, stature, habits, etc.

With Para Walk, the height of the handlevers is infinitely variable between 670 mm to 870 mm, the angle of the handlevers can be flexibly shifted from side to side or up and down, and the height of the seat is adjustable to three levels (450 mm, 490 mm, 530 mm). Thanks to the appropriate adjustments, users can easily place their weight on the walking chair, and walk steadily. Furthermore, Para Walk incorporates a shock absorbing function to reduce impact from roadway surfaces, to stabilize the body even on bumpy uneven surfaces.

We offer two models of Para Walk without a basket (¥64,000) and with attached basket (¥69,500) (excluding sales tax).

Para Walk without a basket

Para Walk with attached basket

Six-year Summary

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

	2006	2005	2004	2003	2002	2001
For the year:		Millions of yen				
Net sales	¥ 51,011	¥ 50,616	¥ 47,895	¥ 45,774	¥ 45,153	¥ 46,541
Cost of sales	31,630	30,232	28,251	27,574	27,304	26,836
Gross profit	19,381	20,384	19,644	18,200	17,849	19,705
Selling, general and administrative expenses	13,050	12,752	12,541	12,309	13,063	13,381
Operating income	6,331	7,632	7,103	5,891	4,786	6,324
Net income	3,782	5,140	4,182	3,127	2,498	3,889
Net cash provided by operating activities	5,069	4,556	7,138	6,194	4,076	4,042
Net cash used in investing activities	(6,057)	(3,253)	(423)	(1,615)	(3,948)	(3,715)
Net cash used in financing activities	(4,588)	(1,134)	(758)	(1,198)	(1,040)	(917)
Cash and cash equivalents, end of year	15,247	20,790	20,622	14,661	11,267	12,158
Research and development costs	1,004	898	950	1,075	983	890
At year-end:						
Total assets	84,315	83,161	81,170	74,331	72,822	72,078
Total shareholders' equity	70,016	69,900	66,160	61,148	59,442	57,753
Per share data:		Yen				
Basic net income	120.61	162.38	131.87	98.29	78.86	122.75
Diluted net income	120.59	162.33	—	—	—	—
Total shareholders' equity	2,300.19	2,224.17	2,105.03	1,945.48	1,882.47	1,822.88
Value indicators:		%				
Return on equity (*1)	5.41	7.56	6.57	5.19	4.26	6.90
Return on assets (*2)	4.52	6.26	5.38	4.25	3.45	5.34
Shareholders' equity ratio	83.04	84.05	81.51	82.26	81.63	80.13

*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 2006, primarily due to higher corporate earnings, increased capital expenditure, improved employment conditions and a gradual rise in consumer spending.

With regard to the healthcare industry, several bills related to medical system reforms were submitted to the Diet, based on a medical system reform outline determined by the Japanese government and the ruling party. These bills propose the establishment of a medical care system for the elderly, an increase in burden of medical charges to be borne by elderly patients, and the reforming of the system for long-term care beds.

In the sector of welfare for the elderly, the welfare equipment market continued to expand, backed up by the nursing-care insurance system, and the number of users of home nursing-care beds jumped by 10.7%, year-on-year, to 705,000 by the end of December 2005. As for the changes related to the nursing care insurance system, nursing-care facility users became liable to pay food and accommodation costs from October 2005, due to a revision of the system. In addition, details of the revision planned in April 2006 were clarified, and nursing-care benefits were revised (down by 2.4% including the revision made in October).

In this business environment, the Company group increased its capital investment and focused on research and development activities in order to bolster earnings.

As for major capital investments, the Company completed construction of a Technical Center next to the headquarters which was launched in the previous fiscal year as a part of the efforts to enhance its technical development. In addition, the Company expanded and upgraded the Osaka branch's showroom, and opened a directly-managed store, "INTIME Sapporo," to strengthen the sales force.

With respect to the development and sales of products, the Company released "Rakusho — independence encouragement series," home-care beds to help elderly persons who require mild nursing care in sitting up and standing up; universal design walking chairs; and the washable "Ever Fit Mattress." In addition, the Company launched hand-operated beds, gatch beds for hospital use in China, and started development of powered beds.

The Company fully transferred its maintenance service to its subsidiary, PARA TECHNO Co., Ltd.

In the fiscal term under review, consolidated sales related to nursing-care facilities grew by 6.1% year-on-year, driven by increasing demand from private hospitals due to reconstruction and renovation, while sales of home-care products dropped by 9.1%, year-on-year, despite launches of new products, because the revisions to the nursing-care insurance system remained uncertain and distributors tended to take a wait-and-see stance.

Sales by major product category for the fiscal year were as follows:

	Millions of yen		%
	2006	2005	Year-on-year Change
Beds	¥ **30,164**	¥ 30,987	**(2.7)**
Mattresses	**4,390**	4,166	**5.4**
Hospital-use furniture	**3,884**	3,829	**1.4**
Medical-use products	**3,017**	2,919	**3.4**
Other	**9,556**	8,715	**9.7**
Total	¥ **51,011**	¥ 50,616	**0.8**

As a result, consolidated net sales for the fiscal year rose 0.8%, or ¥395 million, year-on-year, to ¥51,011 million.

Operating income decreased by 17.1% year-on-year, to ¥6,331 million, primarily due to rises in manufacturing costs on the back of sharp price hikes of steel products and other materials. Net income for the fiscal year dropped by 26.4% year-on-year, to ¥3,782 million, due to a decline in non-operating income such as interest received and a significant decrease in extraordinary income compared with the previous year, when the Company posted accrued profits due to the termination of its qualified pension plan.

Cash Flows

(Cash flows from operating activities)
Net cash provided by operating activities amounted to ¥5,069 million in the fiscal year under review. A breakdown of inflow shows income before income taxes and minority interests of ¥6,544 million, depreciation and amortization of ¥1,768 million, and decrease in notes and accounts receivable of ¥1,002 million. Meanwhile, the contributors to cash outflow were an increase in inventories of ¥827 million and the payment of income taxes amounting to ¥3,199 million.

(Cash flows from investing activities)
Net cash used in investing activities was ¥6,057 million. This was chiefly attributable to acquisition of marketable and investment securities and acquisition costs of property, plant and equipment, which totaled ¥9,374 million and ¥2,524 million, respectively, as well as proceeds from sales of marketable and investment securities, which amounted to ¥5,652 million.

(Cash flows from financing activities)
Net cash used in financing activities was ¥4,588 million, owing primarily to the payment of cash dividends of ¥1,789 million, and acquisition of treasury stock of ¥2,801 million.

As a result, cash and cash equivalents at end of year totaled ¥15,247 million, down ¥5,543 million from the previous year-end.

Issues to Be Addressed and Outlook for the Next Term

In the healthcare industry, the business environment is expected to become more severe for medical institutions due to a revision of medical service fees that became effective from April 2006, with the largest ever range of reduction (down 3.16% in total). In the sector of welfare for the elderly, a revision of the nursing-care insurance system became effective from April 2006 to handle the growing numbers of persons requiring nursing care. Welfare equipment rental services, including nursing-care beds to persons with need of mild nursing care, became ineligible for insurance payments by this revision, which has forced companies in the sector to take special measures.

Due to this situation in the healthcare sector, the Company plans to train sales specialists in the area of “high care” (intensive care), a quickly developing market, to meet the increasing demand for private hospital rooms, and in addition will work to expand sales of various safety products, including low-height beds and medical carts (vehicles for carrying medical equipment and drugs).

In the sector of welfare for the elderly, the Company seeks to improve the utilization ratio of home nursing-care beds using workshops on selection and adjustment of beds, in addition to encouraging existing customers to replace older beds, since an increasing number of items are approaching a suitable time for their replacement. With regard to elderly-care facilities, the Company is making efforts to enhance its sales force by training sales specialists in this area, similarly to its approach to the high-care products area.

With regard to its “INTIME” brand, the Company will seek to enhance its sales capabilities in directly-managed stores, as well as to develop corporate demand. In addition, the Company plans to review its production system throughout the group, and to manufacture in its Chinese plants new products targeting the Japanese market.

Consolidated Balance Sheets

Paramount Bed Co., Ltd. and Subsidiaries — March 31, 2006 and 2005

ASSETS	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 15,247	¥ 20,790	$ 129,795
Marketable securities (Note 3)	4,501	3,368	38,316
Notes and accounts receivable:			
Trade notes	5,052	5,625	43,007
Trade accounts	11,542	11,851	98,255
Other	23	57	196
Allowance for doubtful accounts	(7)	(11)	(60)
Inventories (Note 4)	5,346	4,481	45,510
Deferred tax assets (Note 6)	611	556	5,201
Prepaid expenses and other current assets	164	91	1,396
Total current assets	42,479	46,808	361,616
PROPERTY, PLANT AND EQUIPMENT:			
Land	8,403	8,363	71,533
Buildings and structures	23,722	21,324	201,941
Machinery and equipment	14,436	12,983	122,891
Construction in progress	95	571	809
Total	46,656	43,241	397,174
Accumulated depreciation	(23,903)	(22,485)	(203,482)
Net property, plant and equipment	22,753	20,756	193,692
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	14,825	11,442	126,202
Life insurance premium	1,228	1,238	10,454
Deferred tax assets (Note 6)	3	8	26
Other assets	3,027	2,909	25,768
Total investments and other assets	19,083	15,597	162,450
TOTAL	¥ 84,315	¥ 83,161	$ 717,758

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
CURRENT LIABILITIES:			
Notes and accounts payable:			
Trade notes		¥ 166	
Trade accounts	**¥ 6,372**	6,470	**$ 54,244**
Other	**1,639**	1,185	**13,952**
Income taxes payable (Note 6)	**1,741**	1,727	**14,821**
Accrued expenses	**1,308**	1,283	**11,135**
Other current liabilities	**512**	525	**4,358**
Total current liabilities	**11,572**	11,356	**98,510**
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Notes 2.g and 5)	**1,280**	968	**10,896**
Liability for directors' and corporate auditors' retirement benefits		395	
Deferred tax liabilities (Note 6)	**551**	362	**4,691**
Other long-term liabilities	**769**	15	**6,547**
Total long-term liabilities	**2,600**	1,740	**22,134**
MINORITY INTERESTS	**127**	165	**1,081**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 9 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock — authorized, 100,000,000 shares; issued, 31,682,526 shares	**6,591**	6,591	**56,108**
Capital surplus	**7,277**	7,277	**61,948**
Retained earnings	**57,378**	55,426	**488,448**
Unrealized gain on available-for-sale securities	**2,168**	1,402	**18,456**
Foreign currency translation adjustments	**132**	(65)	**1,123**
Treasury stock — at cost, 1,260,653 shares in 2006 and 273,280 shares in 2005	**(3,530)**	(731)	**(30,050)**
Total shareholders' equity	**70,016**	69,900	**596,033**
TOTAL	**¥ 84,315**	¥ 83,161	**$ 717,758**

Consolidated Statements of Income

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
NET SALES	**¥ 51,011**	¥ 50,616	**$ 434,247**
COST OF SALES	**31,630**	30,232	**269,260**
Gross profit	**19,381**	20,384	**164,987**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	**13,050**	12,752	**111,092**
Operating income	**6,331**	7,632	**53,895**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**162**	212	**1,379**
Foreign exchange gain	**47**	38	**400**
Gain on sales of investment securities (Note 3)	**6**	130	**51**
Gain on termination of qualified pension plan (Notes 2.g and 5)		551	
Loss on sales of investment securities (Note 3)		(117)	
Other — net	**(2)**	242	**(17)**
Other income — net	**213**	1,056	**1,813**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**6,544**	8,688	**55,708**
INCOME TAXES (Note 6):			
Current	**3,213**	3,420	**27,352**
Deferred	**(385)**	128	**(3,278)**
Total income taxes	**2,828**	3,548	**24,074**
MINORITY INTERESTS IN NET LOSS	**66**		**561**
NET INCOME	**¥ 3,782**	¥ 5,140	**$ 32,195**

	Yen		U.S. dollars
PER SHARE OF COMMON STOCK (Notes 2.n and 12):			
Basic net income	**¥ 120.61**	¥ 162.38	**$ 1.03**
Diluted net income	**120.59**	162.33	**1.03**
Cash dividends applicable to the year	**50.00**	50.00	**0.43**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2006 and 2005

	Thousands	Millions of yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	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)
Disposal of treasury stock	2						5
Net decrease in unrealized gain on available-for-sale securities					(180)		
Net decrease in foreign currency translation adjustments						(46)	
BALANCE, MARCH 31, 2005	31,409	6,591	7,277	55,426	1,402	(65)	(731)
Net income				**3,782**			
Cash dividends, ¥57 per share				**(1,790)**			
Bonuses to directors				**(40)**			
Purchase of treasury stock	**(988)**						**(2,801)**
Disposal of treasury stock	**1**						**2**
Net increase in unrealized gain on available-for-sale securities					**766**		
Net increase in foreign currency translation adjustments						**197**	
BALANCE, MARCH 31, 2006	**30,422**	**¥ 6,591**	**¥ 7,277**	**¥ 57,378**	**¥ 2,168**	**¥ 132**	**¥ (3,530)**

	Thousands of U.S. dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$ 56,108	$ 61,948	$ 471,831	$ 11,935	$ (554)	$ (6,223)
Net income			**32,195**			
Cash dividends, $0.49 per share			**(15,238)**			
Bonuses to directors			**(340)**			
Purchase of treasury stock						**(23,844)**
Disposal of treasury stock						**17**
Net increase in unrealized gain on available-for-sale securities				**6,521**		
Net increase in foreign currency translation adjustments					**1,677**	
BALANCE, MARCH 31, 2006	**$ 56,108**	**$ 61,948**	**$ 488,448**	**$ 18,456**	**$ 1,123**	**$ (30,050)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Paramount Bed Co., Ltd. and Subsidiaries — Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2006	2005	**2006**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 6,544**	¥ 8,688	**$ 55,708**
Adjustments for:			
Income taxes — paid	**(3,199)**	(4,267)	**(27,232)**
Depreciation and amortization	**1,768**	1,768	**15,051**
Gain on sales of investment securities	**(6)**	(130)	**(51)**
Loss on sales of investment securities		117	
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable	**1,002**	(530)	**8,530**
Increase in inventories	**(827)**	(1)	**(7,040)**
Increase in prepaid expenses and other current assets	**(68)**	(19)	**(579)**
Decrease in notes and accounts payable	**(616)**	(632)	**(5,244)**
(Decrease) increase in accrued expenses and other current liabilities	**(24)**	148	**(204)**
Other — net	**495**	(586)	**4,213**
Net cash provided by operating activities	**5,069**	4,556	**43,152**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(3,801)**	(3,000)	**(32,357)**
Proceeds from sales of marketable securities	**3,360**	2,100	**28,603**
Purchases of property, plant and equipment	**(2,524)**	(1,368)	**(21,486)**
Purchases of investment securities	**(5,573)**	(3,259)	**(47,442)**
Proceeds from sales of investment securities	**2,292**	3,230	**19,511**
Increase in other assets	**189**	(956)	**1,609**
Net cash used in investing activities	**(6,057)**	(3,253)	**(51,562)**
FINANCING ACTIVITIES:			
Purchases of treasury stock	**(2,801)**	(9)	**(23,844)**
Disposal of treasury stock	**2**	5	**17**
Cash dividends paid	**(1,789)**	(1,130)	**(15,230)**
Net cash used in financing activities	**(4,588)**	(1,134)	**(39,057)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**33**	(1)	**281**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,543)**	168	**(47,186)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,790**	20,622	**176,981**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 15,247**	¥ 20,790	**$ 129,795**

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 2005 consolidated financial statements to conform to the classifications used in 2006.

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 ¥117.47 to $1, the rate of exchange at March 31, 2006. 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 Company and its consolidated domestic subsidiary is computed by the declining-balance method, while the straight-line method is applied to the buildings of the Company and its consolidated domestic subsidiary acquired after April 1, 1998 and is principally applied to the property, plant and equipment of consolidated foreign subsidiaries. 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. Long-lived Assets — In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were 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 Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate 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.

There was no effect of adoption of the new accounting standard for impairment of fixed assets.

g. 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.

The existing accounting standard for employees' retirement benefits prohibited recognition of any excess portion of plan assets exceeding the projected benefit obligation that had arisen due to an excess of the actual return of plan assets over the expected return or a reduction of benefits level. This standard was amended in March 2005 to allow recognition of such excess portion of plan assets from the year ended March 31, 2005. In accordance with the amended standard, the Company recognized excess plan assets due to actual return of plan assets exceeding the expected return. Such excess was recognized as actuarial gain and is being recognized over 10 years from the year ended March 31, 2006.

The effect of this change to profit or loss was not material.

Prior to June 29, 2005, retirement benefit 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 each balance sheet date.
On June 29, 2005, the Company terminated retirement benefit

plan to directors and corporate auditors of the Company. The amount granted prior to the termination date was transferred to other long-term liabilities.

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

i. Lease — 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.

j. 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.

k. 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.

l. 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.

m. 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.

n. 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.

o. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standards for Business Separations" and ASBJ Guidance No.10, "Guidance for Accounting Standards for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.
The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standards for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.
This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "Accounting

Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current:			
Government and corporate bonds	**¥ 1,001**	¥ 2,868	**$ 8,521**
Trust fund investments	**3,500**	500	**29,795**
Total	**¥ 4,501**	¥ 3,368	**$ 38,316**
Non-current:			
Marketable equity securities	**¥ 2,466**	¥ 2,394	**$ 20,993**
Government and corporate bonds	**4,610**	4,114	**39,244**
Trust fund investments and others	**7,060**	4,241	**60,100**
Non-marketable equity securities	**689**	693	**5,865**
Total	**¥ 14,825**	¥ 11,442	**$126,202**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 381	¥ 2,092	¥ 7	¥ 2,466
Debt securities	4,773	3	65	4,711
Others	8,928	1,679	47	10,560
Held-to-maturity	900	10	13	897

	Millions of yen			
March 31, 2005	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

	Thousands of U.S. dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 3,243	$ 17,809	$ 59	$ 20,993
Debt securities	40,632	25	553	40,104
Others	76,002	14,293	400	89,895
Held-to-maturity	7,662	85	111	7,636

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Available-for-sale—Equity securities	**¥ 689**	¥ 693	**$ 5,865**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥4,980 million ($42,394 thousand) and ¥5,316 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥6 million ($51 thousand) gains for the year ended March 31, 2006 and ¥130 million gains and ¥117 million losses for the year ended March 31, 2005.

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, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2006	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 6,001		$ 51,085	
Due after one year through five years	7,186		61,173	
Due after five years through ten years	1,834		15,613	
Due after ten years	997	¥ 900	8,487	$ 7,662
Total	¥ 16,018	¥ 900	$136,358	$ 7,662

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Merchandise	**¥ 255**	¥ 182	**$ 2,171**
Finished products	**3,949**	3,413	**33,617**
Work in process	**167**	169	**1,422**
Raw materials and supplies	**975**	717	**8,300**
Total	**¥ 5,346**	¥ 4,481	**$ 45,510**

5. LIABILITY FOR RETIREMENT BENEFITS

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their average pay during their employment, years of service and certain other factors.

A portion of the severance payment is made in the form of a lump-sum payment for the terminating employee, and the rest is annuity payment by a defined contribution pension plan. Under the plan, employees are entitled to select the defined contribution pension plan or the prepaid retirement benefit plan.

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 ¥6,031 million ($51,341 thousand) as of March 31, 2006.

Liabilities for employees' retirement benefits as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 2,877**	¥ 2,763	**$ 24,491**
Fair value of plan assets	**(107)**	(122)	**(911)**
Unrecognized pension assets		20	
Unrecognized actuarial net loss	**(369)**	(441)	**(3,141)**
Unrecognized prior service cost	**(1,123)**	(1,252)	**(9,560)**
Prepaid pension cost	**2**		**17**
Liabilities presented on the consolidated balance sheets	**¥ 1,280**	¥ 968	**$ 10,896**

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 185**	¥ 296	**$ 1,575**
Interest cost	**54**	88	**460**
Expected return on plan assets	**(2)**	(34)	**(17)**
Recognized actuarial loss	**57**	72	**485**
Amortization of prior service cost	**128**	32	**1,090**
Installment on the welfare annuity	**229**	200	**1,949**
Installment on the defined contribution pension plan	**116**	19	**988**
Others	**14**	129	**119**
Net periodic benefit costs	**¥ 781**	¥ 802	**$ 6,649**

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
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**	10 years

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 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Accrued bonuses	**¥ 354**	¥ 360	**$ 3,014**
Enterprise taxes	**143**	139	**1,217**
Liability for directors' and corporate auditors' retirement benefits		161	
Payables for directors' and corporate auditors' retirement benefits	**263**		**2,239**
Liability for employees' retirement benefits	**519**	320	**4,418**
Other	**348**	251	**2,962**
Less valuation allowance	**(74)**	(64)	**(630)**
Deferred tax assets	**1,553**	1,167	**13,220**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**(1,487)**	(962)	**(12,659)**
Reserve for advanced depreciation	**(3)**	(3)	**(25)**
Deferred tax liabilities	**(1,490)**	(965)	**(12,684)**
Net deferred tax assets	**¥ 63**	¥ 202	**$ 536**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2006 is as follows:

	2006
Normal effective statutory tax rate	**40.7%**
Lower income tax rates applicable to income in certain foreign countries	**2.0**
Permanently non-deductible expenses	**0.7**
Other—net	**(0.2)**
Actual effective tax rate	**43.2%**

7. CONTINGENT LIABILITIES

At March 31, 2006, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees for employees' housing loans	¥ 449	$ 3,822
Recourse obligation for the balance on the transfers of payables in factoring transactions	2,068	17,604

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented 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 by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥53,349 million ($454,150 thousand) as of March 31, 2006, 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 end of 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.

On May 1, 2006, a new corporate law (the “Corporate Law”) became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends
Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.
The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.
Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases / Decreases and Transfer of Common Stock, Reserve and Surplus
The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights
The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.
Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders’ equity.
The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders’ equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders’ equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders’ equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

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 are granted at an exercise price of ¥2,687 ($22.87). 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 ¥76 million ($647 thousand) and ¥83 million for the years ended March 31, 2006 and 2005, respectively. Total lease revenues were ¥21 million ($179 thousand) and ¥4 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost	**¥ 304**	¥ 324	**$ 2,588**
Accumulated depreciation	**130**	159	**1,107**
Net leased property	**¥ 174**	¥ 165	**$ 1,481**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 75**	¥ 65	**$ 638**
Due after one year	**132**	104	**1,124**
Total	**¥ 207**	¥ 169	**$ 1,762**

Depreciation expense and interest expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Depreciation expense	**¥ 73**	¥ 79	**$ 621**
Interest expense	**4**	5	**34**
Total	**¥ 77**	¥ 84	**$ 655**

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, 2006

and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition cost	**¥ 218**	¥ 25	**$ 1,856**
Accumulated depreciation	**27**	8	**230**
Net leased property	**¥ 191**	¥ 17	**$ 1,626**

Credits under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 42**	¥ 4	**$ 357**
Due after one year	**150**	13	**1,277**
Total	**¥ 192**	¥ 17	**$ 1,634**

Depreciation expense and interest income under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Depreciation expense	**¥ 20**	¥ 4	**$ 170**
Interest income	**2**	1	**17**
Total	**¥ 22**	¥ 5	**$ 187**

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 ¥1,004 million ($8,547 thousand) and ¥898 million for the years ended March 31, 2006 and 2005, 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.

Fair Value of Derivative Financial Instruments

The fair value of the Company's derivative financial instruments at March 31, 2006 is as follows:

	Millions of yen		
	2006		
	Contract Amount	Fair Value	Unrealized Loss
Foreign exchange forward contracts—Receivables—Euro	¥ 1,128	¥ (56)	¥ (56)

	Thousands of U.S. dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Loss
Foreign exchange forward contracts—Receivables—Euro	$ 9,602	$ (477)	$ (477)

Foreign exchange forward contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005 and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheets at March 31, 2006 and 2005, are excluded from disclosure of market value information.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year Ended March 31, 2006	Net income	Weighted-average shares	EPS	
Basic EPS — Net income available to common shareholders	**¥ 3,743**	**31,029**	**¥ 120.61**	**$ 1.03**
Effect of dilutive securities— Warrants		**5**		
Diluted EPS — Net income for computation	**¥ 3,743**	**31,034**	**¥ 120.59**	**$ 1.03**
Year Ended March 31, 2005				
Basic EPS — Net income available to common shareholders	¥ 5,100	31,409	¥ 162.38	
Effect of dilutive securities— Warrants		10		
Diluted EPS — Net income for computation	¥ 5,100	31,419	¥ 162.33	

13. SUBSEQUENT EVENT

On June 29, 2006, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
Ordinary year-end cash dividends, ¥25 ($0.21) per share	¥ 761	$ 6,478
Bonuses to directors	40	341
Total	¥ 801	$ 6,819

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www.deloitte.com/jp

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, 2006 and 2005, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f, effective April 1, 2005, the consolidated financial statements have been prepared in accordance with the new accounting standard for impairment of fixed assets.

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, 2006

Member of
Deloitte Touche Tohmatsu

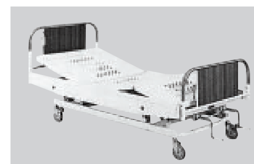
Corporate History

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.


Gatch (hospital) bed

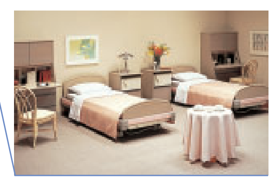
May 1961: Head office is moved to current location.
April 1962: KA-45, the first electric bed in Japan, is developed and sold.
March 1966: Kyushu sales office (now Fukuoka branch) is set up.
May 1966: Chiba plant is built.
February 1970: Matsuo plant is built and absorbs Edogawa plant operation.
February 1971: Osaka branch is set up.
January 1972: KA-500 and KA-600 Series hospital beds are developed and sold.


KA-500 Series hospital bed

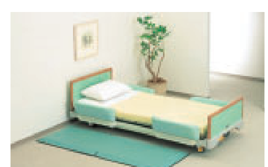
September 1977: Hiroshima and Nagoya sales offices (now Hiroshima branch and Nagoya branch) are set up.
June 1980: Scot-klean (automatic urine receptacle) is developed and sold.
December 1983: KQ-100 (Aura electric bed) home-care bed is developed and sold.


Aura electric bed

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.


Hestia Series

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.


Callisto Series

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.


INTIME

July 2003: Paramount Universal Design Station (PUDS) is set up.
November 2003: Rakusho Series (home-care beds) is developed and sold.


Rakusho Series

March 2004: Paramount Bed (China) Co., Ltd. is set up as a consolidated subsidiary.
March 2006: Head Office, Completed construction of the Technical Center.

Corporate Information

As of March 31, 2006

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:	936

Board of Directors and Corporate Auditors

(As of June 29, 2006)

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 Hirokatsu Tokuda
Standing Corporate Auditors:	Tadahiro Sekine Katsuhiro Shibata
Corporate Auditors:	Tetsuo Takekawa Etsuji Ikegami

Shareholder Information

Authorized Shares:	100,000,000
Issued Shares:	31,682,526
Number of Shareholders:	20,237

Major Shareholders

	Number of Shares Owned (Thousands)	Percentage of Voting Rights (%)
Kimura Kosan Co., Ltd.	6,607	21.8
Kenji Kimura	2,535	8.4
Kyosuke Kimura	1,913	6.3
Mizuho Bank, Ltd.	1,203	4.0
Michihide Kimura	1,195	3.9
The Master Trust Bank of Japan, Ltd. (Trust)	787	2.6
Japan Trustee Services Bank, Ltd. (Trust)	704	2.3
The Kimura Foundation for Nursing Education	675	2.2
Ryusuke Kimura	669	2.2
Paramount Bed Employees' Stockholding Association	292	1.0

The Company holds 1,260 thousands shares of treasury stock, but is excluded from the above major shareholders.

Ownership among Shareholders

	Number of Shares Owned (Thousands)	Percentage of Total Shares Issued (%)
Financial institutions	4,969	15.7
Securities firms	169	0.5
Foreign corporations	2,777	8.8
Other domestic corporations	8,004	25.2
Individuals and others	14,500	45.8
Treasury stock	1,260	4.0

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, Kitayojo, 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, Sammu-shi, Chiba 289-1306
  Tel. +81-475-82-6111
- Matsuo Plant
  617, Kashikehongo, Matsuo-machi, Sammu-shi, Chiba 289-1537
  Tel. +81-479-86-3331
- Ohira Plant
  690-1, Shimonogo, Matsuo-machi, Sammu-shi, 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 1105, Liu Lin Tower, No.1 Huai Hai Middle Road, Shanghai 20021, P.R. China
  Tel. +86-21-5383-5111

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 Developement Zone, Wuxi, Jiangsu, China
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PARAMOUNT BED

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