

# Overview of the Financial Condition and Business Results in the First Quarter of the Fiscal Year Ending September 30, 2004 (Consolidated)

(From March 30 to June 30, 2004)

August 6, 2004

Name of the listed company: **Francebed Holdings Co., Ltd.**  
(Code number: 7840, 1st Section on Tokyo and Osaka Stock Exchange)

URL: <http://www.francebed-hd.co.jp>

Representative: Shigeru Ikeda, President and Representative Director

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## 1. Matters relating to the preparation of the quarterly financial information

(1) Use of simplified methods in accounting procedure: Yes

Description: The Company uses simplified methods in part of its accounting procedure such as in calculation of tax expenses, to an extent that does not have a significant impact on the judgment of investors and other interested parties.

(2) Change in accounting procedure from the most recent consolidated fiscal year: None

(3) Change in scope of consolidation and application of equity method: None

## 2. Overview of the financial condition and business results in the first quarter of the fiscal year ending September 30, 2004 (March 30 June 30, 2004)

The Company was established on March 30, 2004, and its initial consolidated fiscal year commenced on March 30, 2004 and ends on September 30, 2004. Since the Company commenced actual operations on April 1, 2004, the present quarterly financial information has been prepared on the basis that the initial quarterly period is deemed to have begun on March 30, 2004 and ended on June 30, 2004.

### (1) Status of Business Performance (Consolidated)

	Net Sales		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
First quarter ended June 30, 2004	17,428	-	974	-	1,065	-

	Net income		Net income per share	Net income per share, diluted
	Million yen	%	Yen	Yen
First quarter ended June 30, 2004	468	-	2.12	-

(Notes)

1. The figures shown above have been rounded off to the nearest unit displayed.
2. This report is the first quarterly business results disclosed by the Company. Therefore, it does not include either business results in the same quarterly period in the previous fiscal year or year-on-year comparison.
3. Fiscal year ending September 30, 2004 is the first fiscal year for the Company. Therefore, the report does not contain any results in the previous fiscal year.

## **[Qualitative information on the status of business performance (consolidated)]**

In the three months ended June 30, 2004, the economy in Japan showed steady signs of a recovery, such as an improvement in corporate earnings and a rise in stock prices, in spite of some negative factors such as the trend in crude oil prices.

In the period, which was the first fiscal quarter for the Francebed Group, we aggressively promoted our business, placing our main focus on “investing management resources in the growing acute and long term care business” and “ensuring stable earnings in the home furnishing business.”

As a result, in the first quarter ended June 30, 2004 we reported consolidated net sales of 17,428 million yen, an operating income of 974 million yen, an ordinary income of 1,065 million yen, and a net income of 468 million yen.

### **(Home furnishing business)**

In the home furnishing business, we made strategic efforts to increase the product unit prices for high-functional mattresses by expanding their sales, and also thoroughly implemented product strategies for each distribution channel. As a result, we were able to achieve an increase in sales to national chain retailers which operate stores across the country. On the other hand, sales through voluntary chain retailers and general furniture retailers declined significantly, and, as a result, we were not able to achieve the level of sales that we had originally planned. In the current quarter, we launched Internet business and established an online retailer support system on the website of the Company. The system created a business model that attracts consumers through website information and provides retailers with a venue to sell products to those consumers who accessed the website. Retailers can use “Presentation (PR) Studios,” which are located within exhibits sponsored by Francebed and some of its factories. Retailers can participate in the business model through registering with Internet Business Club. To this point, more than 300 retailers have already registered to join the business model. In order to boost the number of consumers that access the website, we plan to increase advertising in interior decorating and bridal magazines. There are already 4 PR studios in operation within Francebed factories in Hokkaido (Chitose City), Tokyo (Akishima City), Hyogo (Sannan Town), and Saga (Tosu City), and more studios are scheduled to open in the future.

We introduced the above mentioned retailer support system in the given three months, and the establishment and full operation of the PR studios within the said factories did not take place until the latter part of the period. Therefore, the system has had a small impact on our overall sales. As a result, in the first quarter of the fiscal year 2004, the overall sales for the home furnishing business remained sluggish at 9,471 million yen, with an operating income of 224 million yen.

### **(Acute and long term care business)**

It was reported that the cost of nursing care which is associated with the leasing of nursing and medical equipment under the Long-Term Care Insurance System in March 2004 grew by 26.8% year-on-year, even though the pace of the growth has slowed down compared to the time immediately after the enforcement of the System by the government. Under such circumstances, in the acute and long term care business, we opened 3 new sales offices to help strengthen the sales system, while also undertaking efforts to secure potential customers by introducing new rental products covered under the Insurance and expanding home-care assistance business. As a consequence, in the first quarter of the fiscal year 2004, we earned net sales of 6,342 million yen and an operating income of 707 million yen.

In the coming three months, we will open a new sales office for the acute and long term care

business. We expect 3 more in the coming fiscal year between October 1, 2004 and March 31, 2005. In addition, we plan to relocate the existing Mito Sales Office and Nagano Sales Office and transform the former into the Mito branch of the health and welfare plaza “*Suke-San Takusan*,” and the latter into an integrated base for the acute and long term care business that will house a training facility, a day care service facility, and a mid-size nursing care shop. With all these efforts, we aim to further expand the business.

**(Other businesses)**

As for other businesses segment, in retail sales of health appliances and accessories, we made efforts to make each sales unit “a relaxing oasis salon for customers,” and created a space in each unit to allow a close interaction with customers at the local level. As a result of introducing new products at these salons, sales of health appliances and accessories are starting to gradually recover.

In the retailing of miscellaneous daily goods, sales in the current quarter substantially fell from the same period in the previous year as a result of the closing of underperforming shops which was the outcome of a restructuring initiative that was implemented in March 2004.

As a result of the above, the other businesses in the first quarter of the fiscal year 2004 had poor net sales of 1,751 million yen, with an operating income of 46 million yen.

**(2)Changes in financial position (Consolidated)**

	Total assets	Shareholders' equity	Ratio of shareholders' equity	Shareholders' equity per share
	Million yen	Million yen	%	Yen
First quarter ended June 30, 2004	69,837	37,722	54.0	170.12

**Status of consolidated cash flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
First quarter ended June 30, 2004	1,466	(613)	(373)	19,061

(Notes)

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**[Qualitative information on the changes in financial condition (Consolidated)]**

**(Cash flows from operating activities)**

Cash flows from operating activities increased by 1,466 million yen largely due to an inflow of 1,026 million yen from income before income taxes and minority interest and a decrease in notes and accounts receivable, trade, in spite of negative factors such as the payment of income and other taxes.

**(Cash flows from investing activities)**

Cash flows from investing activities decreased by 613 million yen mainly as a result of the acquisition of property, plant, and equipment.

**(Cash flows from financing activities)**

Cash flows from financing activities decreased by 373 million yen largely as a result of an aggressive repayment of debt.

In view of the foregoing, cash and cash equivalents at end of the quarter amounted to 19,061 million yen.

**[Reference]**

**Forecast of consolidated results for the fiscal year ending September 30, 2004  
(March 30 September 30, 2004)**

There have been no changes from the forecasted business results that were announced on March 19, 2004.

	Net sales	Ordinary income	Net income
	Million yen	Million yen	Million yen
Year ending September 30, 2004	36,300	2,100	1,000

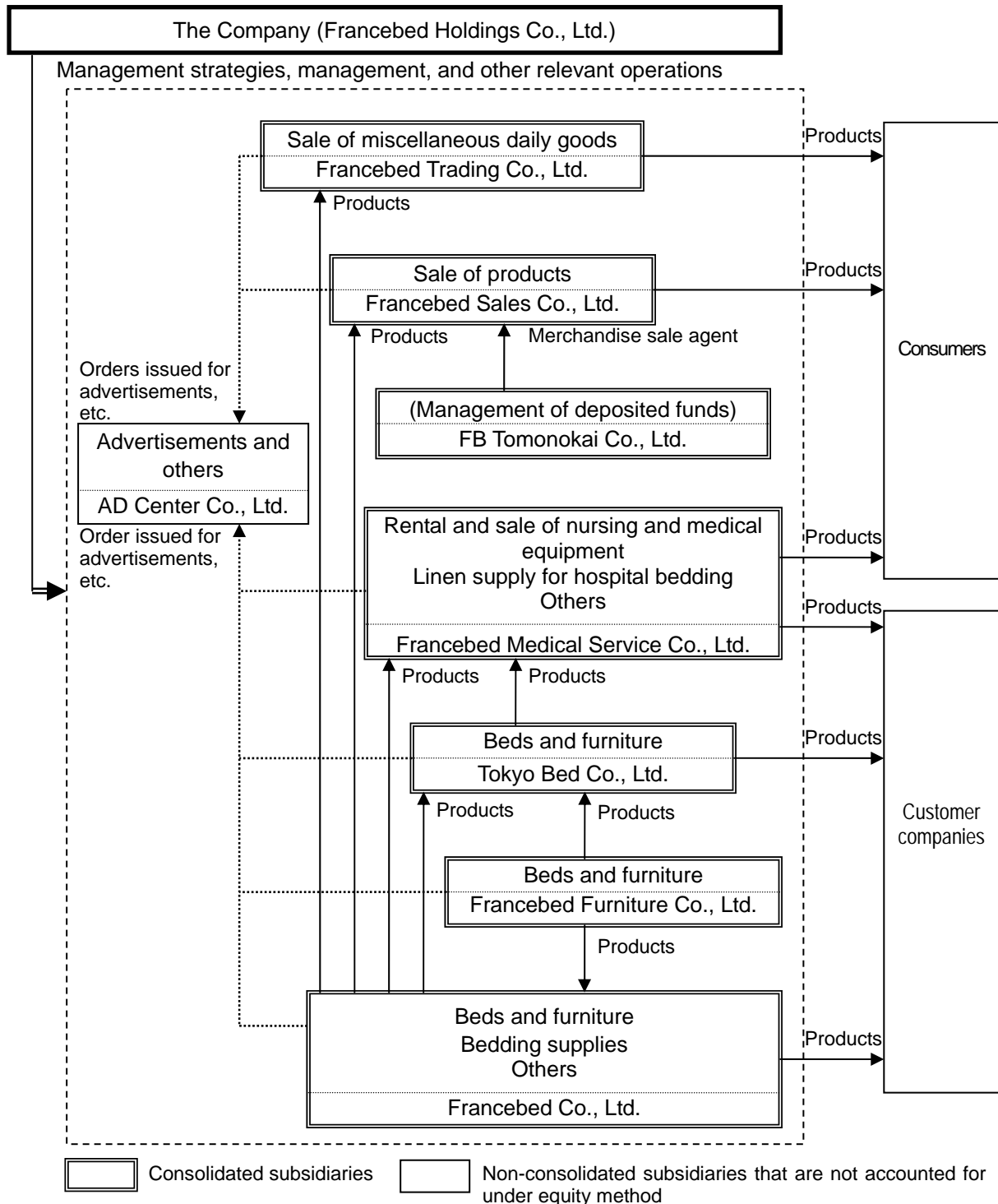
It should be noted that the forecasted consolidated business results for the fiscal year ending September 30, 2004 have been prepared on the basis of information that was available as of the date of the announcement. Therefore, actual results may be different from these forecasts due to various factors that may take place in the future.

## 1. Condition of the corporate group

The Company was established as a fully controlling company (a joint holding company) for Francebed Co., Ltd. and Francebed Medical Service Co., Ltd. as a result of a transfer of their respective shares to the Company on March 30, 2004.

An overview of the operating structure of the Group is illustrated in the diagram shown below:

(Operating structure)



## 2. Consolidated balance sheets for the first quarter ended June 30, 2004 (Condensed)

(In millions of yen)

Account	Current quarter (As of June 30, 2004)
<b>Assets</b>	
Current assets	
Cash and deposits	19,091
Notes and accounts receivable, trade	13,917
Inventories	10,465
Other current assets	2,787
Total current assets	46,260
Fixed assets	
Property, plant and equipment	12,536
Intangible fixed assets	632
Investments and other assets	10,407
Total fixed assets	23,576
Total assets	69,837
<b>Liabilities</b>	
Current liabilities	
Notes and accounts payable, trade	8,821
Short-term borrowings (including the current portion of long-term debt)	8,926
Other current liabilities	8,973
Total current liabilities	26,721
Long-term liabilities	
Long-term debt	908
Other long-term liabilities	4,485
Total long-term liabilities	5,394
Total liabilities	32,115
<b>Minority interest</b>	
Minority interest	-
<b>Shareholders' equity</b>	
Common stock	3,000
Capital surplus	3,527
Retained earnings	33,147
Difference in valuation of other securities	320
Treasury stock	(2,273)
Total shareholders' equity	37,722
Total liabilities, minority interest and shareholders' equity	69,837

(Notes)

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3. Fiscal year ending September 30, 2004 is the first fiscal year for the Company. Therefore, the report does not contain any results in the previous fiscal year. (The same applies to the pages that follow hereinafter.)

### 3. Consolidated statements of income for the first quarter ended June 30, 2004 (Condensed)

(In millions of yen)

Account	Current quarter (March 30 June 30, 2004)
Net sales	17,428
Cost of sales	9,634
Gross profit	7,794
Selling, general and administrative expenses	6,819
Operating income	974
Other income	191
Other expenses	100
Ordinary income	1,065
Extraordinary income	22
Extraordinary loss	61
Income before income taxes and minority interest	1,026
Tax expenses	558
Net income for the quarter	468

### 4. Consolidated statements of cash flows for the first quarter ended June 30, 2004 (Condensed)

(In millions of yen)

Account	Current quarter (March 30 June 30, 2004)
<b>Cash flows from operating activities</b>	
Income before income taxes and minority interest	1,026
Decrease in notes and accounts receivable, trade	1,302
Payments of income and other taxes	(1,466)
Other	604
Cash flows from operating activities	1,466
<b>Cash flows from investing activities</b>	
Payments for acquisition of property, plant and equipment	(453)
Other	(160)
Cash flows from investing activities	(613)
<b>Cash flows from financing activities</b>	
Decrease in short-term borrowings, net	(30)
Repayment of long-term debt	(182)
Other	(160)
Cash flows from financing activities	(373)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	-
<b>Increase in cash and cash equivalents</b>	480
<b>Cash and cash equivalents at beginning of the fiscal year</b>	18,581
<b>Cash and cash equivalents at end of the quarter</b>	19,061

## 5. Segment information

### (1) Information by operating segment

The current quarter (March 30 June 30, 2004 )

(In millions of yen)

	Home furnishing business	Acute and long term care business	Other businesses	Total	Elimination or corporate	Consolidated
Net sales						
(1) Net sales to external customers	9,361	6,336	1,730	17,428	-	17,428
(2) Inter-segment sales or transfers	109	5	20	135	(135)	-
Total	9,471	6,342	1,751	17,564	(135)	17,428
Operating expenses	9,246	5,634	1,704	16,585	(132)	16,453
Operating income	224	707	46	978	(3)	974

(Notes)

#### 1. Method for classifying operation types

The Company classifies its operating segments in accordance with similarities that are based on type, nature, sales market, and form of sales.

#### 2. Main products and a description of each classified operating segment

1) Home furnishing business: Manufacture and wholesale of regular beds, goods for daily use and other home furnishing products, bedding products, and duvet bedding products.

2) Acute and long term care business: Rental of acute care beds, hospital linen, and other medical equipment. Provision of long term nursing care beds, reimbursed and non-reimbursed durable medical equipment, and other health care services.

3) Other businesses: Retail of miscellaneous daily goods and bedding products.

### (2) Segment information by geographical location

The current quarter (March 30 June 30, 2004 )

No information is presented in this report as the Company has no subsidiaries or branches which are operating overseas.

### (3) Overseas sales

The current quarter (March 30 June 30, 2004 )

No information is presented in this report as overseas sales account for less than 10% of the consolidated net sales.