HOGY MEDICAL Co., Ltd.
7-7, Akasaka 2-chome, Minato-ku,
Tokyo 107-8615, Japan

October 12, 2004

Interim Consolidated Financial Results for Fiscal 2004

Name: **Hogy Medical Co., Ltd.**
Listing: **First Section, Tokyo Stock Exchange**
Stock code number: **3593**
Phone: **+81-3-6229-1300**
URL: **http://www.hogy.co.jp**
Representative: **Masao Hoki, President and CEO**
Contact: **Kazutaka Itoh, Executive Officer, Administration Dept.**
Meeting of Board of Directors for Consolidated Financial Results: **October 12, 2004**
U.S. accounting standards: **Not applied**

1. Interim financial results for fiscal 2004 (April 1–September 30, 2004)

(1) Results of operations

(Millions of yen, except per-share figures, rounded down to nearest million)

	Net sales		Operating income		Ordinary income	
		(% change)		(% change)		(% change)
Fiscal 2004—interim	¥12,343	–1.3%	¥2,818	–7.2%	¥2,984	+2.8%
Fiscal 2003—interim	12,500	+5.0	3,038	–6.1	2,904	–6.4
Fiscal 2003—full year	24,844		5,842		5,604	

	Net income		Net income per share (Yen)	Net income per share (fully diluted) (Yen)
		(% change)		
Fiscal 2004—interim	¥1,920	+11.2%	¥123.36	¥113.12
Fiscal 2003—interim	1,725	–4.8	109.96	100.91
Fiscal 2003—full year	3,225		202.05	185.37

Notes: 1. Gain/loss on investments based on equity method
Fiscal 2004—interim: ¥—million
Fiscal 2003—interim: ¥—million
Fiscal 2003—full year: ¥—million
2. Average number of shares outstanding (Consolidated)
Fiscal 2004—interim: 15,564,742
Fiscal 2003—interim: 15,695,756
Fiscal 2003—full year: 15,630,611
3. Changes in accounting method: Not applicable
4. Percentage figures shown in the net sales, operating income, ordinary income, and net income columns indicate year-on-year changes for those items.

(2) Financial position (term-end)

(Millions of yen, except per-share figures, rounded down to nearest million)

	Total assets	Shareholders' equity	Equity ratio	Equity per share (Yen)
Fiscal 2004—interim	¥61,068	¥42,625	69.8%	¥2,738.61
Fiscal 2003—interim	57,719	39,914	69.2	2,564.28
Fiscal 2003—full year	58,508	41,047	70.2	2,632.81

Note: Number of shares outstanding at term-end (consolidated)
Fiscal 2004—interim: 15,564,484
Fiscal 2003—interim: 15,565,629
Fiscal 2003—full year: 15,565,292

(3) Cash flows

(Millions of yen, , except per-share figures, rounded down to nearest million)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
Fiscal 2004—interim	¥2,324	–¥ 105	–¥ 191	¥16,741
Fiscal 2003—interim	2,373	–2,288	–1,091	12,576
Fiscal 2003—full year	5,280	–2,857	–1,279	14,570

(4) Included in scope of consolidation or applicable under equity method

Consolidated subsidiaries: 1
Nonconsolidated subsidiaries: 0
Affiliates: 0

(5) Changes in scope of consolidation or equity method

Consolidated subsidiaries
Newly included: 0
Newly exempted: 0
Affiliates (based on equity method)
Newly included: 0
Newly exempted: 0

2. Forecast for fiscal 2004 (April 1, 2004–March 31, 2005)

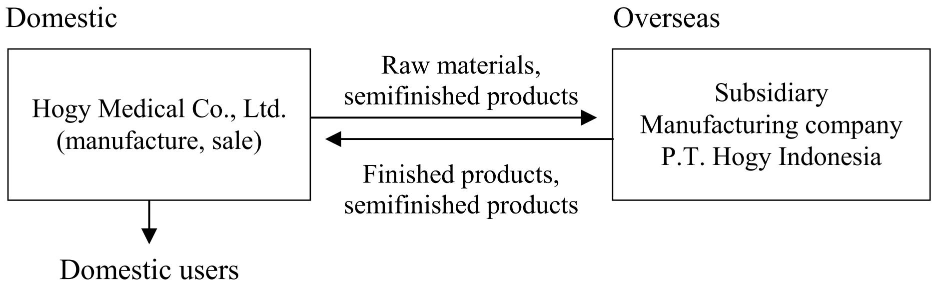
(Millions of yen, rounded down to nearest million)

	Net sales	Ordinary income	Net income
Fiscal 2004	¥25,344	¥5,959	¥3,544

Note: Forecast net income per share (full year): ¥223.45
*The above estimates are based on information available to the Company on the date of the report's announcement. Due to unforeseen circumstances, however, actual results may differ from such estimates. For more information related to the above figures, please refer to pages 6 of this report. The forecast net income per share figure was calculated using the same adjustments as those used for fiscal 2003.

1. Hogy Medical Group

The Hogy Medical Group consists of Hogy Medical (the "Company") and its consolidated subsidiary, P.T. Hogy Indonesia. Main Group businesses are the manufacture and sale of various items for medical use, namely consumables, implements, machinery and equipment, medical recording paper, and nonwoven fabric materials. The Company entrusts part of its nonwoven fabric materials and consumables manufacturing operations to P.T. Hogy Indonesia. Practically all of the products made by that subsidiary are supplied to the Company. Therefore, this subsidiary can be regarded at the Company's manufacturing base. The Group's structure and interrelationships are shown below.



2. Management Policies

(a) Basic Policy

Hogy Medical is committed to "fostering medical progress and promoting the health and happiness of people through its business activities, thus contributing to social prosperity." Through its campaign to combat the spread of in-hospital infections, the Company places top priority on assuring the safety of patients and medical facility personnel. We also offer a line of products that enable medical institutions to enhance their streamlining and energy-saving efforts.

(b) Basic Profit Appropriation Policy

Our basic policy with respect to profit appropriation emphasizes a strategy of paying cash dividends, and since our foundation, we have adhered to our corporate motto of "ensuring harmonious coexistence with customers, shareholders, employees, and corporations." To this end, we have continued to actively and consistently reward our shareholders for their patronage.

We have introduced a stock option plan, with the intention of raising will and morale by providing benefits to directors and employees. These measures are designed to improve our business performance.

(c) Policy on Reduction of Minimum Share Unit

With respect to reducing the minimum trading unit of our shares, we recognize the importance of ensuring liquidity of our shares and creating an environment that facilitates investment in Hogy Medical. We are studying all relevant factors, including stock price, number of shareholders, and financial conditions, with a view to reducing the minimum share unit. However, specific policies and timing are yet to be determined.

(d) Key Performance Indicators

Two financial indicators prioritized by management are earnings per share (EPS) and return on equity (ROE). Our objective is to raise EPS and ROE to more than ¥300 and 10%, respectively.

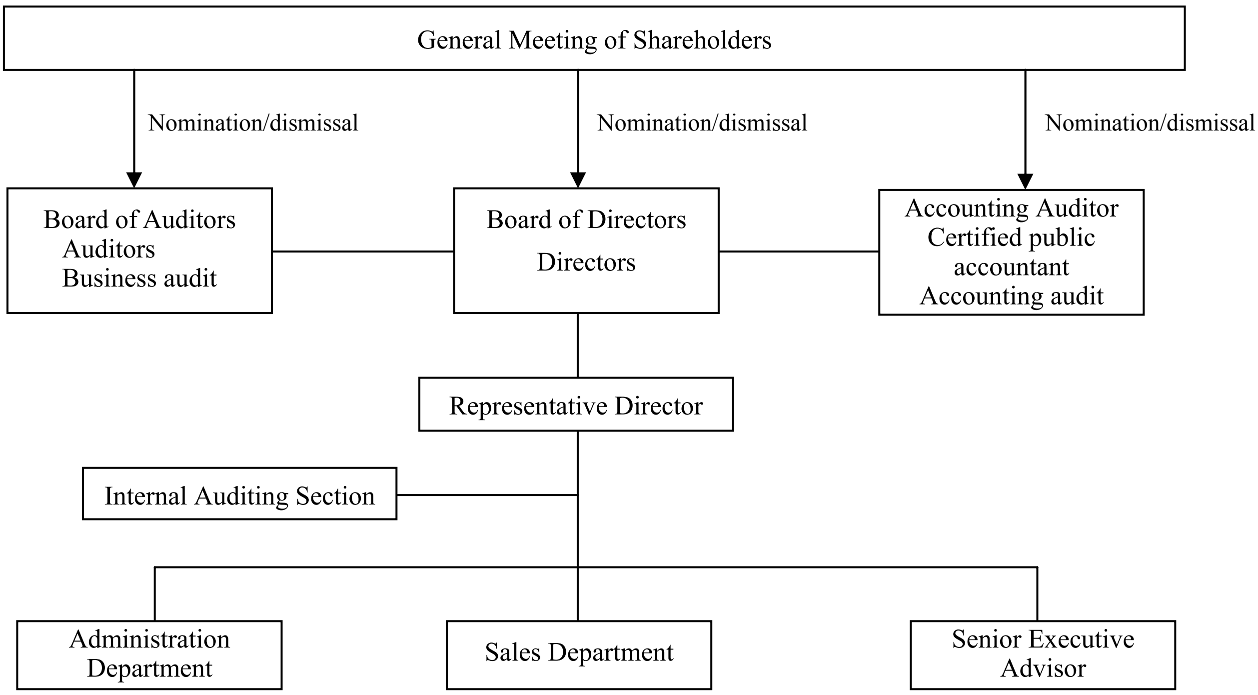
(e) Medium- and Long-Term Strategies and Issues

We accord high emphasis to product life cycles, acknowledging that even the most superior products cannot sustain long-term growth. With this in mind, we have implemented a strategy of "getting next-generation growth products on stream while sales of mainstay items are expanding." We believe this strategy will enable us to achieve revenue and profit growth. To this end, we are concentrating our management resources on new product development, and one of our management objectives is to raise the share of new products to more than 30% of net sales.

To achieve these objectives, we are pursuing a marketing strategy aimed at making Opera Master—a product, distribution, and information system centered around full kit offerings—into a main pillar of our business. Full kit products, the core component of Opera Master, incorporate all of the sterilized medical supplies used in operating rooms. Opera Master is based on the concept of making full kits for each doctor and medical condition as single-set units. In addition to enhancing operating efficiency and saving labor costs, Opera Master helps make surgical procedures safer. At the same time, they contribute to the improvement of hospital management because they eliminate need for product-specific inventory management. In the area of logistics, it shortens the manufacturing schedule of our new Tsukuba Plant to as little as four days. As surgery schedules are determined, hospitals are able to place orders directly to Hogy from dedicated information terminals, for delivery on the day before surgery. Hospitals can thus look forward to reduced inventory burdens. In the area of information management, Opera Master not only provides an order receipt and issuing system, but also integrates management of surgery scheduling, personnel and cost management systems. Managing the schedules of operating rooms also becomes easier, which helps boost increase the number of surgeries. Moreover, it simplifies management of materials receipt and payment and eliminates waste in inventory management, allowing hospitals to control their cost accounting more effectively. Our quest is to promote the widespread popularity of Opera Master as a solution service to medical institutions, which currently confront many problems.

(f) Corporate Governance

We place great importance on our shareholders and have set up a system that allows us to implement sound corporate governance. Our management organization and corporate governance system are outlined below.



The Board of Directors consists of five members—a small number that allows us to make swift management decisions. The Board meets on the sixth business day of every month as a general rule. All important issues and business progress are discussed, and responsive measures are reviewed. We have also introduced an executive director system. By clearly defining the separate functions of the Board (strategic decision-making and business supervision) and those of the executive directors (managing the Company's business), we have created a system that allows the Company to respond quickly to changing business conditions. As a general rule, a management meeting attended by executive directors is held on the business day following the Board meeting. Each department presents its latest report, and concrete measures are formulated through a process of deliberation.

The Company adopts an auditing system. We have three corporate auditors, including two outside ones, who attend every Board meeting and management meeting. For some time, they have also actively participated in various internal committees and meetings. The system allows the auditors to fully monitor directors in the execution of their duties. The outside auditors are completely independent of the business of the Company. We also have an internal auditing section to conduct internal audits as necessary.

The Company entrusts Shin Nihon & Co. as its certified public accounting firm. Audits are conducted throughout the period instead of just at the end of the year. We submit computerized data and provide an environment that allows accurate audits to be conducted without any hindrance.

Nagashima, Ohno & Tsunematsu Law Office and Tachiiri Law Office provide the Company with legal services. We request their advice as necessary.

We are confident that sound corporate governance is ensured by the systems described above.

With respect to our subsidiary, from the beginning that company has pursued policies tailored to its region. It has four directors (including a part-time director from the parent company), consisting of one Japanese person and two Indonesians. Financial data and other required materials are fully reported to the parent company to ensure that audits can be carried out at short notice.

3. Performance and Financial Position

(a) Performance

In the interim term under review, the Japanese economy continued to recover, supported by steady increases in exports and internal demand, which outweighed concerns about crude oil prices, global economic trends, and other factors.

However, conditions in the medical industry remained severe. The situation was exacerbated by the reorganization of national hospitals into independent administrative corporations, a process that began in April 2004, as well as an increase in the amount paid by individuals covered by health insurance in the previous fiscal year. These factors increased the downward pressure on medical fees and inflicted major damage on many companies involved in the industry.

The Hogy Medical Group faced similar difficulties to the industry itself, which had a negative effect on its performance in the interim period. Sales of surgical-use kit products increased, but failed to reach our projected target. After adding sales of mainstay surgical-use nonwoven fabrics, net sales fell below our forecasts. Thanks mainly to a decline in depreciation, operating expenses were below our projection, remaining mostly unchanged from the previous corresponding period. On the nonoperating side, we generated an exchange gain on foreign currency-denominated assets owing to favorable exchange rate movements. We also posted extraordinary income in the form of a gain on sales of investment securities, following the sale of our holdings of bank stocks.

As a result, consolidated interim net sales amounted to ¥12,343 million, down 1.3% from the previous corresponding period. Operating income declined 7.2%, to ¥2,818 million, and ordinary income rose 2.8%, to ¥2,984 million. Net income climbed 11.2%, to ¥1,920 million.

For the remainder of the fiscal year and beyond, the Japanese economy is expected to continue recovering. However, the pace of recovery will slow due to declines in inventory investments and other factors, prompting some to take a cautious view of the economic outlook.

Conditions for companies in the medical industry will become even more severe. As mentioned earlier, the increase in the medical expense burden borne by insured people has led to declines in revenues of medical institutions. Other factors affecting the industry include the reorganization of national hospitals into independent administrative corporations and a revision to the Pharmaceutical Law, to take effect in the next fiscal year.

The Hogy Medical Group is fully aware that these difficult conditions are unavoidable. For this reason, we have revised our initial full-year projections for fiscal 2004. To prevail, we will further reinforce our Opera Master strategy, in order to distinguish ourselves from the competition.

For the fiscal year to March 2005, we forecast consolidated net sales of ¥25,344 million, up 2.0% from the previous corresponding period; operating income of ¥5,789 million, down 0.9%; ordinary income of ¥5,959 million, up 6.3%; and net income of ¥3,544 million, up 9.9%.

(b) Financial Position

Cash and cash equivalents at the end of the interim under review amounted to ¥16,741 million, up ¥2,170 million from March 31, 2004.

Net cash provided by operating activities amounted to ¥2,324 million. Positive factors in this result include ¥3,187 million in income before income taxes and minority interests and ¥1,132 million in depreciation. Negative factors included a ¥511 million increase in notes and accounts receivable and ¥922 million in income taxes paid.

Net cash used in investing activities totaled ¥105 million. This was primarily due to ¥354 million in purchases of tangible fixed assets, including production equipment for Opera Master, which outweighed ¥246 million in proceeds from sales of investment securities.

Net cash used in financing activities was ¥191 million. This stemmed mainly from ¥187 million in dividends paid.

For the entire fiscal year, we expect net cash provided by operating activities to exceed ¥7,000 million, reflecting our corporate performance. Net cash used in investing activities is forecast to total around ¥2,000 million, including around ¥1,300 million in capital equipment for the Tsukuba plant. We not expect major changes in cash flows from financing activities.

As a result, we forecast an increase of more than ¥5,000 million in cash and cash equivalents at the end of fiscal 2004, compared with the fiscal 2003 year-end figure.

	Fiscal 2001—interim (Six months to Sept. 2001)	Fiscal 2002—interim (Six months to Sept. 2002)	Fiscal 2003—interim (Six months to Sept. 2003)	Fiscal 2004—interim (Six months to Sept. 2004)	Fiscal 2003—Full year (Year to March 2004)
Equity ratio (%)	82.0	68.0	69.2	69.8	70.2
Equity ratio based on market price (%)	243.7	172.1	124.9	121.0	132.4
Debt repayment term (years)	0.7	0.1	—	—	—
Interest coverage ratio	173.0	1,052.9	—	—	—

Notes:
Equity ratio: Equity capital /Total assets
Equity ratio based on market price: Total stock value based on market price/Total assets
Debt repayment term: Interest-bearing debt/Operating cash flow
Interest coverage ratio: Operating cash flow/Interest paid

1. Each index is calculated based on consolidated financial figures.
2. Market value of total stock is calculated by multiplying the stock price (closing price at the end of the term) by the number of shares outstanding at the end of the term.
3. Operating cash flow is calculated using net cash provided by operating activities (listed in the Interim Consolidated Statements of Cash Flows). Interest-bearing debt refers to all debt that incurs interest (listed in the Interim Consolidated Balance Sheets). For interest paid, the amount shown in the Interim Consolidated Statements of Cash Flows is used.
4. Debt repayment term figures are based on annual operating cash flow figures. To calculate interim term debt repayment terms, we have multiplied the annual figures by two.

4. Consolidated Interim Financial Statements

(1) Balance Sheets

(¥ millions, rounded down)

	Fiscal 2003—interim (September 30, 2003)		Fiscal 2004—interim (September 30, 2004)		Fiscal 2003 (March 31, 2004)	
		% of total		% of total		% of total
ASSETS						
Current assets						
Cash and bank deposits	¥ 6,748		¥11,281		¥ 8,815	
Notes and accounts receivable	7,413		7,544		7,029	
Short-term investments	6,028		5,699		5,984	
Inventories	5,970		6,193		5,722	
Deferred income taxes	392		357		319	
Other current assets	137		228		291	
Allowance for doubtful accounts	–8		–7		–7	
Total current assets	26,681	46.2%	31,296	51.3%	28,154	48.1%
Fixed assets						
Property, plant and equipment						
Buildings and structures	15,234		14,255		14,725	
Machinery, equipment and vehicles	6,191		5,417		5,639	
Land	6,586		6,564		6,562	
Construction in progress	61		462		178	
Other	653		495		566	
Total property, plant and equipment	28,726	49.8	27,195	44.5	27,671	47.3
Intangibles	124	0.2	175	0.3	216	0.4
Investments and other assets						
Investment securities	491		360		579	
Deferred income taxes	200		293		206	
Other assets	1,530		1,824		1,751	
Allowance for doubtful accounts	–36		–77		–71	
Total investments and other assets	2,186	3.8	2,401	3.9	2,466	4.2
Total fixed assets	31,037	53.8	29,772	48.7	30,354	51.9
Total assets	¥57,719	100.0%	¥61,068	100.0%	¥58,508	100.0%

(¥ millions, rounded down)

	Fiscal 2003—interim (September 30, 2003)		Fiscal 2004—interim (September 30, 2004)		Fiscal 2003 (March 31, 2004)	
		% of total		% of total		% of total
LIABILITIES						
Current liabilities						
Notes and accounts payable	¥ 3,563		¥ 3,270		¥ 3,000	
Income taxes	1,170		1,312		906	
Allowance for employees' bonuses	491		426		391	
Other current liabilities	1,416		1,888		1,750	
Total current liabilities	6,641	11.5%	6,898	11.3%	6,048	10.3%
Long-term liabilities						
Convertible bonds	10,000		10,000		10,000	
Deferred income taxes	194		161		167	
Reserve for employees' retirement benefits	212		251		229	
Reserve for directors' bonuses	388		405		402	
Other long-term liabilities	357		716		602	
Total long-term liabilities	11,153	19.3	11,535	18.9	11,402	19.5
Total liabilities	17,794	30.8	18,433	30.2	17,451	29.8
MINORITY INTERESTS						
Minority interests	9	0.0	10	0.0	10	0.0
SHAREHOLDERS' EQUITY						
Common stock	7,123	12.3	7,123	11.7	7,123	12.2
Capital surplus	8,336	14.5	8,336	13.7	8,336	14.2
Retained earnings	28,913	50.1	31,892	52.2	30,225	51.7
Net unrealized gain or loss on securities	63	0.1	9	0.0	116	0.2
Translation adjustments	58	0.1	–149	–0.3	–172	–0.3
Treasury stock	–4,580	–7.9	–4,586	–7.5	–4,581	–7.8
Total shareholders' equity	39,914	69.2	42,625	69.8	41,047	70.2
Total liabilities, minority interests, and shareholders' equity	¥57,719	100.0%	¥61,068	100.0%	¥58,508	100.0%

(2) Statements of Income

(¥ millions, rounded down)

	Fiscal 2003—interim (April 1–September 30, 2003)		Fiscal 2004—interim (April 1–September 30, 2004)		Fiscal 2003 (April 1, 2003–March 31, 2004)	
		% of total		% of total		% of total
Net sales	¥12,500	100.0%	¥12,343	100.0%	¥24,844	100.0%
Cost of sales	5,982	47.9	6,042	49.0	12,160	49.0
Gross profit	6,518	52.1	6,300	51.0	12,683	51.0
Selling, general, and administrative expenses	3,480	27.8	3,482	28.2	6,840	27.5
Operating income	3,038	24.3	2,818	22.8	5,842	23.5
Other income	31	0.3	172	1.4	55	0.2
Other expenses	165	1.3	5	0.0	293	1.1
Ordinary income	2,904	23.3	2,984	24.2	5,604	22.6
Extraordinary income	2	0.0	205	1.6	3	0.0
Extraordinary expenses	1	0.0	2	0.0	129	0.5
Income before income taxes and minority interests	2,906	23.3	3,187	25.8	5,477	22.1
Income taxes						
Current	1,239	9.9	1,329	10.8	2,287	9.2
Deferred	–59	–0.4	–62	–0.5	–35	–0.1
Minority interests	0	0.0	0	0.0	1	0.0
Net income	¥ 1,725	13.8%	¥ 1,920	15.5%	¥ 3,225	13.0%

(3) Retained Earnings

(¥ millions, rounded down)

	Fiscal 2003—interim (April 1–September 30, 2003)		Fiscal 2004—interim (April 1–September 30, 2004)		Fiscal 2003 (April 1, 2003–March 31, 2004)	
CAPITAL SURPLUS						
Balance at beginning of term		¥ 8,336		¥ 8,336		¥ 8,336
Balance at end of term		8,336		8,336		8,336
RETAINED EARNINGS						
Balance at beginning of term		27,443		30,225		27,443
Add:						
Net income	1,725	1,725	1,920	1,920	3,225	3,225
Deduct:						
Cash dividends paid	189		186		375	
Bonuses to directors	67		67		67	
Loss on disposal of treasury stock	0	256	0	253	0	443
Balance at end of term		¥28,913		¥31,892		¥30,225

(4) Statements of Cash Flows

(¥ millions, rounded down)

	Fiscal 2003—interim (April 1– September 30, 2003)	Fiscal 2004—interim (April 1– September 30, 2004)	Fiscal 2003 (April 1, 2003– March 31, 2004)
Operating activities			
Income before income taxes and minority interests	¥ 2,906	¥ 3,187	¥ 5,477
Depreciation	1,217	1,132	2,500
Retirement benefits, net of payments	9	24	40
Increase (decrease) in allowance for doubtful accounts	–3	5	31
Interest and dividend income	–7	–6	–12
Gain on sales of investment securities	—	–205	—
Foreign exchange gain	—	–149	—
Foreign exchange loss	152	—	277
Gain on sales of fixed assets	–0	–0	–0
Loss on disposal of fixed assets	1	2	87
Changes in assets and liabilities:			
Notes and accounts receivable	–657	–511	–296
Inventories	–424	–461	–259
Notes and accounts payable	473	265	–50
Accrued consumption tax and other	15	–58	217
Other current assets	44	42	21
Other current liabilities	113	40	13
Other investments	6	–9	–9
Other liabilities	0	9	30
Bonuses paid to directors	–67	–67	–67
Subtotal	3,782	3,240	8,004
Interest and dividends received	7	6	12
Incomes taxes paid	–1,415	–922	–2,735
Net cash provided by operating activities	2,373	2,324	5,280
Investing activities			
Increase in time deposits	–0	–10	–29
Proceeds from sales of investment securities	—	246	—
Capital expenditures	–2,211	–354	–2,656
Proceeds from sales of property, plant and equipment	0	5	0
Purchases of intangible assets	–25	–21	–110
Payment for loans receivable	–0	–2	–0
Collection of loans receivable	1	1	3
(Increase) decrease in other investments	–51	29	–63
Net cash used in investing activities	–2,288	–105	–2,857
Financing activities			
Proceeds from sales of treasury stock	0	0	0
Purchases of treasury stock	–902	–4	–904
Cash dividends paid	–189	–187	–376
Net cash used in financing activities	–1,091	–191	–1,279
Effect of exchange rate changes on cash and cash equivalents	–135	143	–289
Net change in cash and cash equivalents	–1,141	2,170	852
Cash and cash equivalents at beginning of term	13,717	14,570	13,717
Cash and cash equivalents at end of term	¥12,576	¥16,741	¥14,570