

HOGY



April 17, 2006

Financial Report Fiscal 2005

(April 1, 2005 – March 31, 2006)

Jun-ichi Hoki, President and COO

Mitsunori Suzuki, Executive Vice President

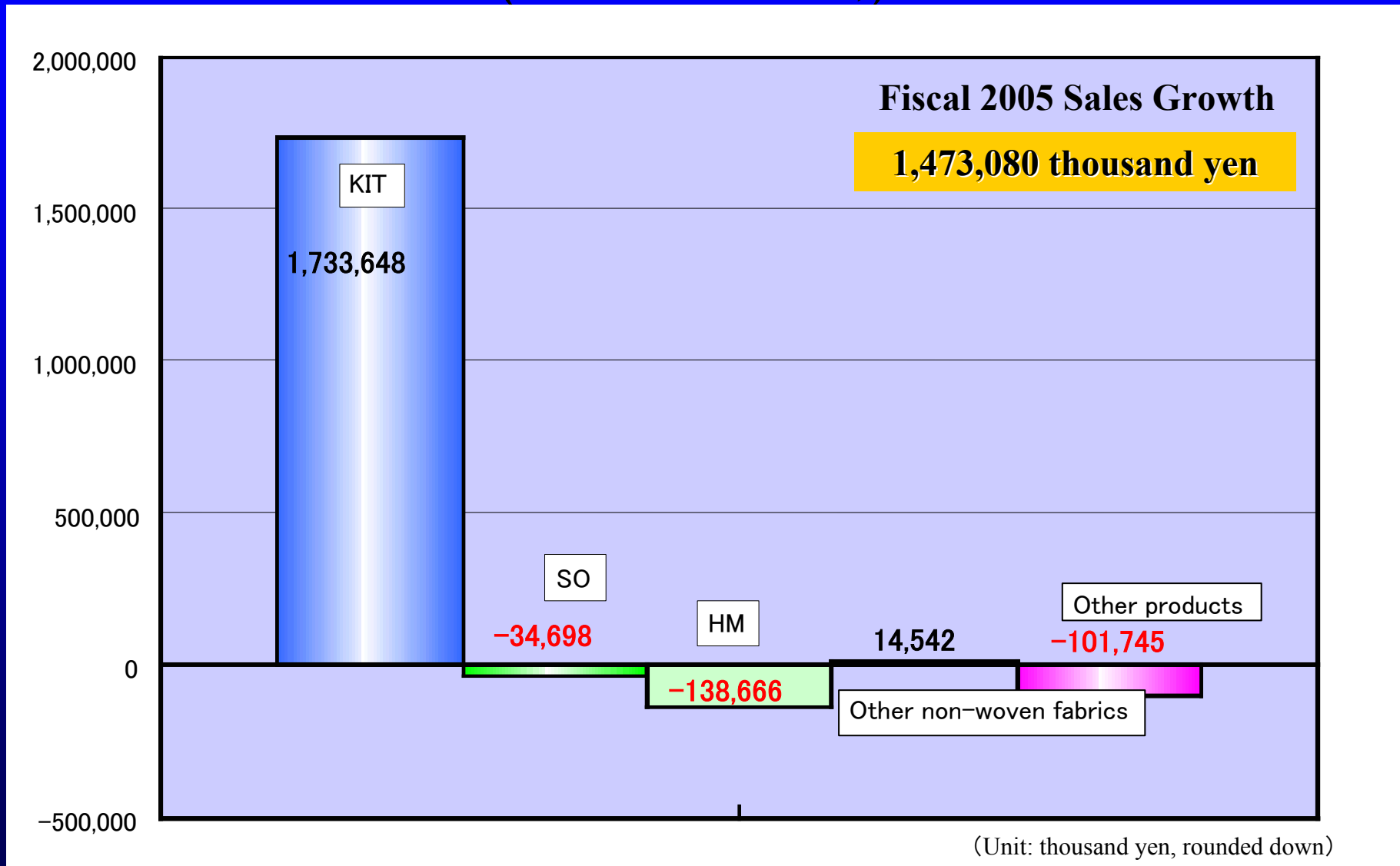
Kazuo Takahashi, Executive Officer, Administration Div.

Overview and Analysis (Consolidated)

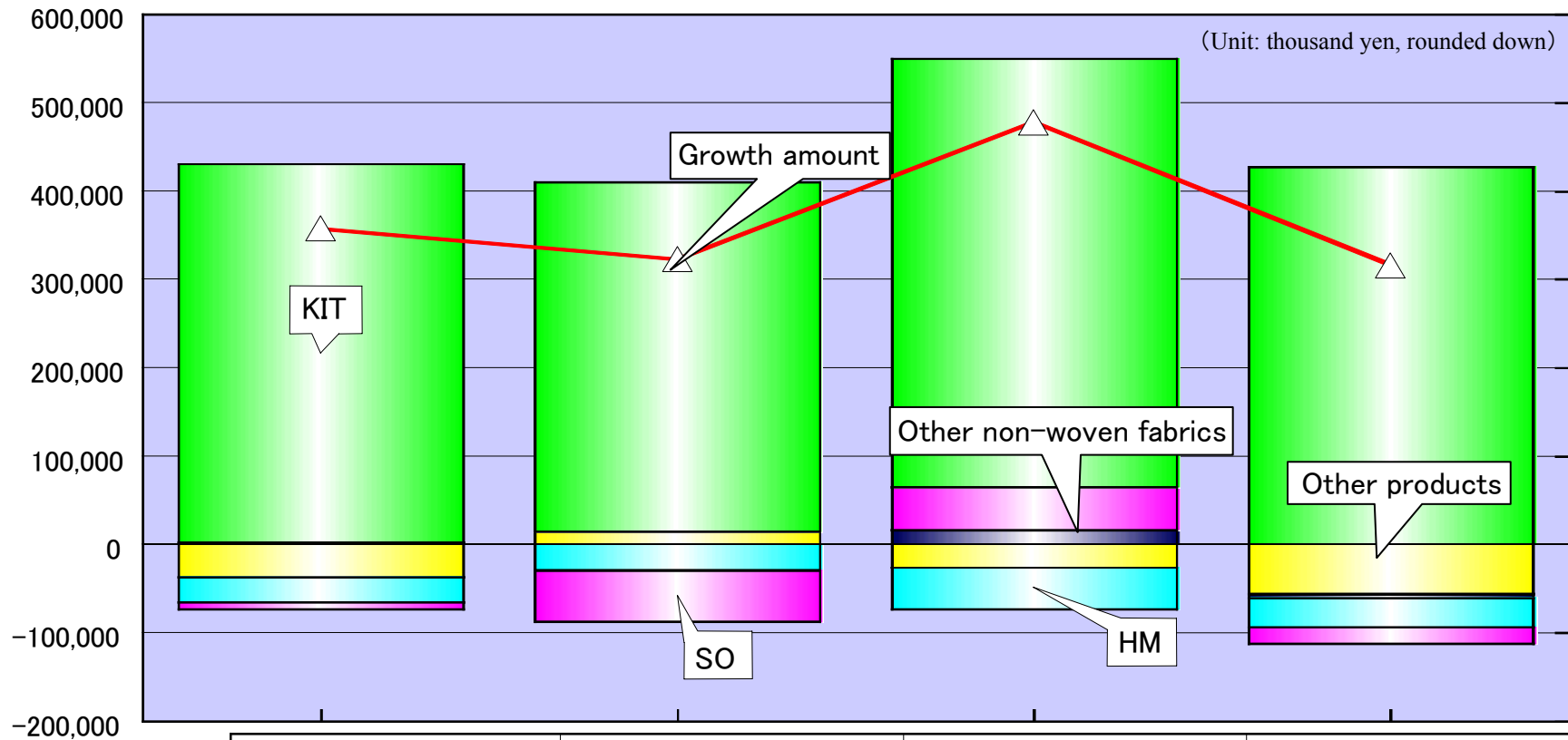
Fiscal 2005 Statements of Income (Consolidated)

(Unit: million yen, rounded down)	Fiscal 2004 Results		Fiscal 2005 Revised Plan		Fiscal 2005 Results		Year-on-Year Comparison		Plan Comparison	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	%	Amount	%
Net sales	24,961		27,015		26,434		1,473	105.9%	-580	97.9%
Cost of sales	12,225	49.0%	13,374	49.5%	12,860	48.6%	634	105.2%	-514	96.2%
Gross profit	12,735	51.0%	13,640	50.5%	13,574	51.4%	838	106.6%	-66	99.5%
SG&A expenses	7,005	28.1%	7,569	28.0%	7,373	27.9%	368	105.3%	-195	97.4%
Operating income	5,730	22.9%	6,071	22.5%	6,200	23.5%	470	108.2%	129	102.1%
Non-operating income/loss	167		100		237					
Ordinary income	5,897	23.6%	6,171	22.8%	6,438	24.4%	540	109.2%	266	104.3%
Extraordinary income/loss	- 83		-50		8					
Income before income taxes and minority interests	5,813	23.3%	6,121	22.7%	6,446	24.4%	632	110.9%	324	105.3%
Net income	3,494	14.0%	3,773	14.0%	3,909	14.8%	415	111.9%	135	103.6%
EPS (total shares)	209.75 yen		226.85 yen		235.15 yen					
Number of shares outstanding	16,341,155		16,341,155		16,341,155					
EPS (minus treasury shares)	220.21 yen		237.98 yen		246.83 yen					
Number of shares after deducting treasury shares	15,564,400		15,576,444		15,567,955					

Fiscal 2005 Sales Growth by Major Products (Consolidated)



Fiscal 2005 Sales Growth by Quarter (Consolidated)



	1Q	2Q	3Q	4Q
KIT	428,585	393,852	484,030	427,179
SO	-7,937	-57,763	48,980	-17,977
HM	-28,871	-29,279	-47,053	-33,462
Other non-woven fabrics	2,329	308	16,490	-4,586
Other products	-36,538	15,440	-24,979	-55,667
Total	357,566	322,558	477,469	315,485
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Net Sales

Sales of kit products slightly below forecast

- **Kit products : Up ¥1,733 million year-on-year**
 - **Focus on getting Operamaster into full-scale operation**
 - **Regular kits : Steady sales growth → Upgraded kit contents**

- **Sontara products : Down ¥34 million year-on-year**
 - **Bottoming out thanks to launch of new products**

Fiscal 2005 Performance Analysis

- **Cost of sales :**
 - ✓ **According to revised plan**

- **SG & A expenses :**
 - ✓ **According to revised plan**
 - **Loss on disposal of products : ¥197 million**

- **Non-operating income/loss**
 - ✓ **¥174 million foreign exchange gains**
(rate at end of March 2006 : ¥117.47/US\$)

- **Extraordinary income/loss**
 - ✓ **¥26 million gain on sale of investment securities**
 - ✓ **¥20 million loss on disposal of fixed assets**

Fiscal 2006 Plan

(Consolidated)

Fiscal 2006 Projected Statements of Income (Consolidated)

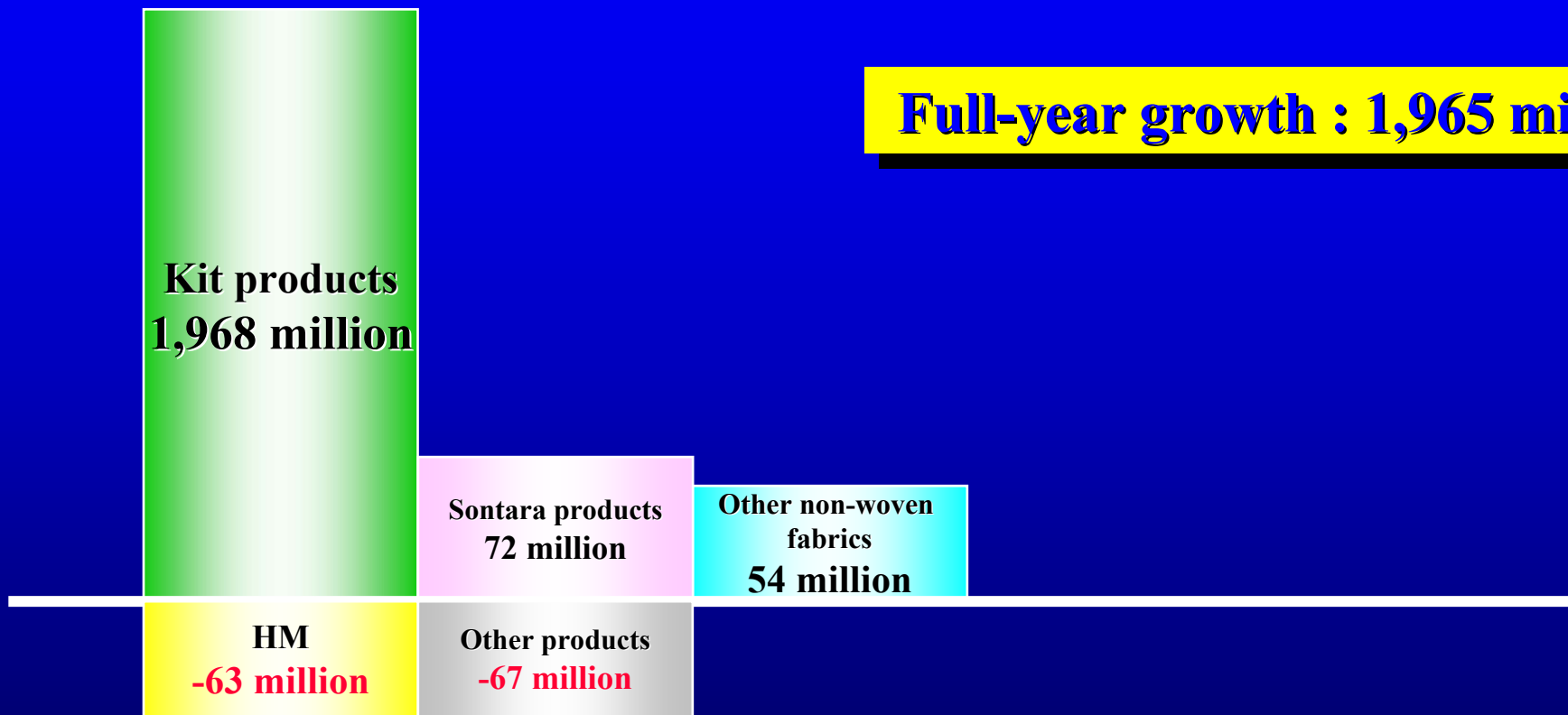
(Unit: million yen, rounded down)	Fiscal 2005 Results		Fiscal 2006 Forecast		Year-on-Year Comparison	
	Amount	% of total	Amount	% of total	Amount	%
Net sales	26,434		28,400		1,965	107.4%
Cost of sales	12,860	48.6%	13,543	47.7%	683	105.3%
Gross profit	13,574	51.4%	14,856	52.3%	1,282	109.5%
SG & A expenses	7,373	27.9%	7,850	27.6%	476	106.5%
Operating income	6,200	23.5%	7,006	24.7%	805	113.0%
Non-operating income/loss	237		12			
Ordinary income	6,438	24.4%	7,018	24.7%	580	109.0%
Extraordinary income/loss	8		-50			
Income before income taxes and minority interests	6,446	24.4%	6,968	24.5%	522	108.1%
Net income	3,909	14.8%	4,201	14.8%	291	107.5%
EPS (total shares)	235.15 yen		257.10 yen			
Number of shares outstanding	16,341,155		16,341,155			
EPS (minus treasury shares)	246.83 yen		269.71 yen			
Number of shares after deducting treasury shares	15,567,955		15,576,799			

Fiscal 2006 Projected Statement of Income by Quarter (Consolidated)

(Unit: million yen, rounded down)	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
	Plan	Growth (Amount)	Growth (%)	Plan	Growth (Amount)	Growth (%)	Plan	Growth (Amount)	Growth (%)	Plan	Growth (Amount)	Growth (%)
Net sales	6,903	473	107.4%	7,143	549	108.3%	7,731	561	107.8%	6,621	381	106.1%
Operating income	1,676	141	109.2%	1,765	143	108.8%	2,052	280	115.9%	1,511	240	118.9%
Ordinary income	1,679	84	105.3%	1,767	76	104.5%	2,055	163	108.6%	1,515	255	120.3%
Net income	985	2	100.3%	1,059	21	102.1%	1,249	96	108.4%	906	170	123.2%
EPS (total shares)	60.32 yen			64.85 yen			76.47 yen			55.46 yen		
Number of shares outstanding	16,341,155			16,341,155			16,341,155			16,341,155		
EPS (minus treasury shares)	63.28 yen			68.03 yen			80.23 yen			58.18 yen		
Number of shares after deducting treasury shares (End of March 2006)	15,576,799			15,576,799			15,576,799			15,576,799		

Fiscal 2006 Sales Growth by Major Products (Consolidated)

Full-year growth : 1,965 million



Fiscal 2006 Plan Breakdown

➤ Net Sales

- **Kit products : Up ¥1,968 million year-on-year**
 - ✓ Early launch of Operamaster and expansion in covered specializations (coverage rate)
 - ✓ Enhance recognition of Operamaster via academic societies, seminars, etc.
 - ✓ Focus reinforcement in regions where marketing of Operamaster has lagged

- **Sontara products : Up ¥72 million year-on-year**
 - ✓ Forecast sales that are roughly equivalent to year-on-year levels
 - ✓ Introduction of new products

- **Development of Surrem Strategy**

Fiscal 2006 Plan Breakdown

12

➤ **Cost of sales**

- ✓ Despite increased depreciation expenses associated with the opening of new Operamaster production line, these were offset by improved productivity and efficiency

➤ **SG & A expenses :**

- ✓ Depreciation of the newly opened distribution center has started

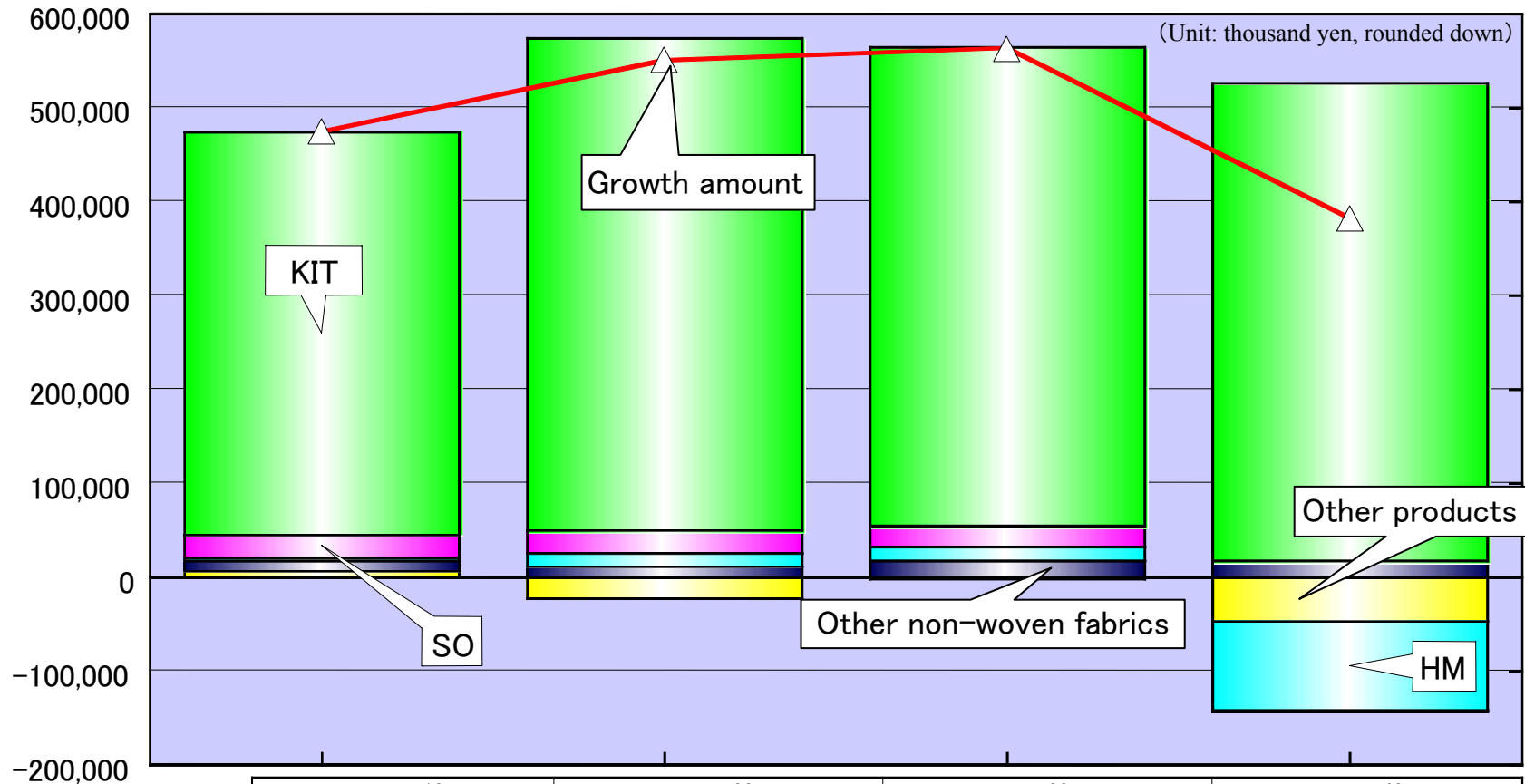
➤ **Non-operating income/loss**

- ✓ No particular comments

➤ **Extraordinary income/loss**

- ✓ No particular comments

Fiscal 2006 Sales Growth by Quarter



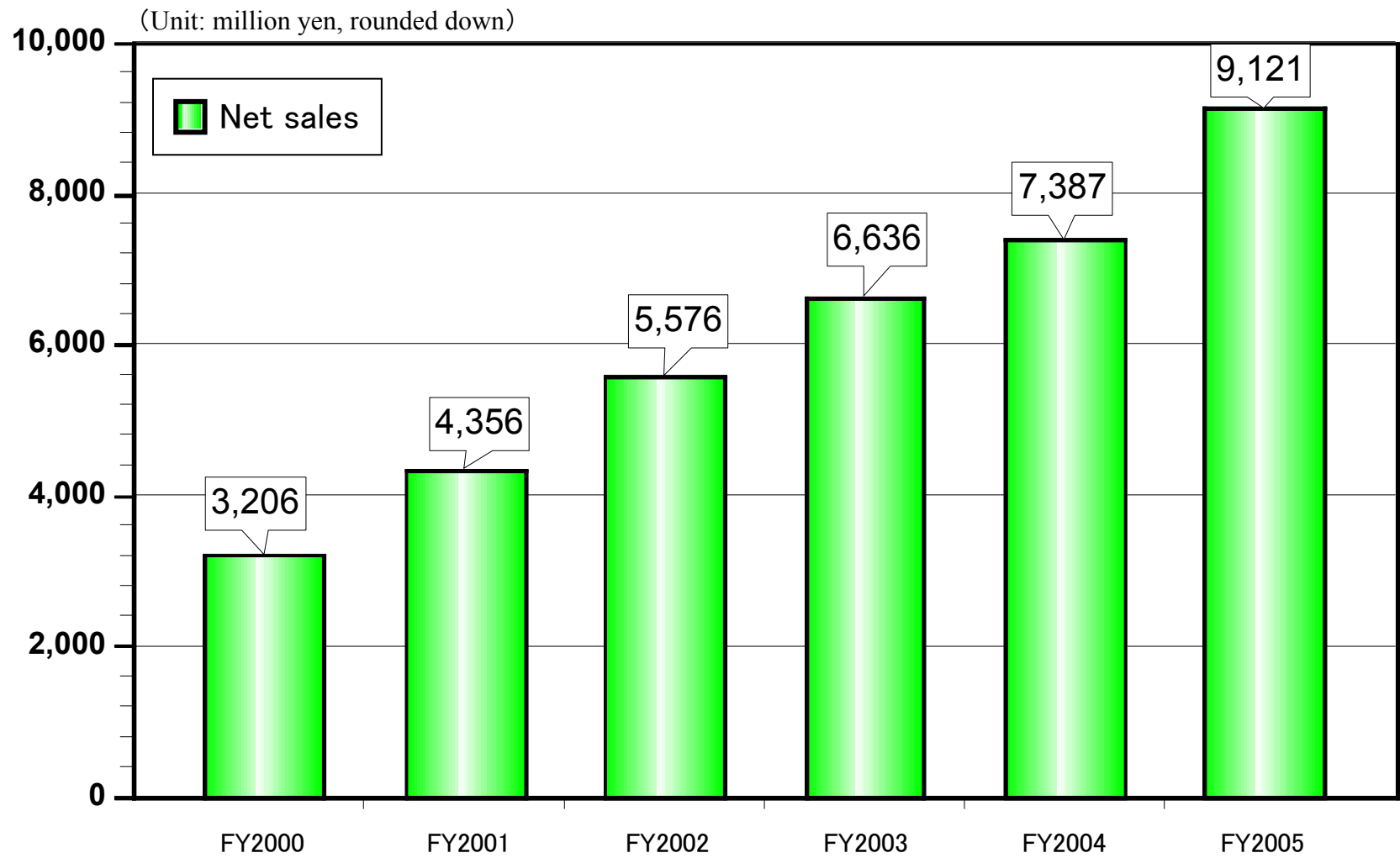
	1Q	2Q	3Q	4Q
KIT	428,185	523,540	508,537	508,659
SO	24,876	24,726	23,698	-489
HM	3,854	14,063	13,668	-94,985
Other non-woven fabrics	10,621	10,604	17,198	16,158
Other products	5,883	-23,142	-1,991	-48,263
Total	473,422	549,792	561,111	381,079
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Marketing Overview

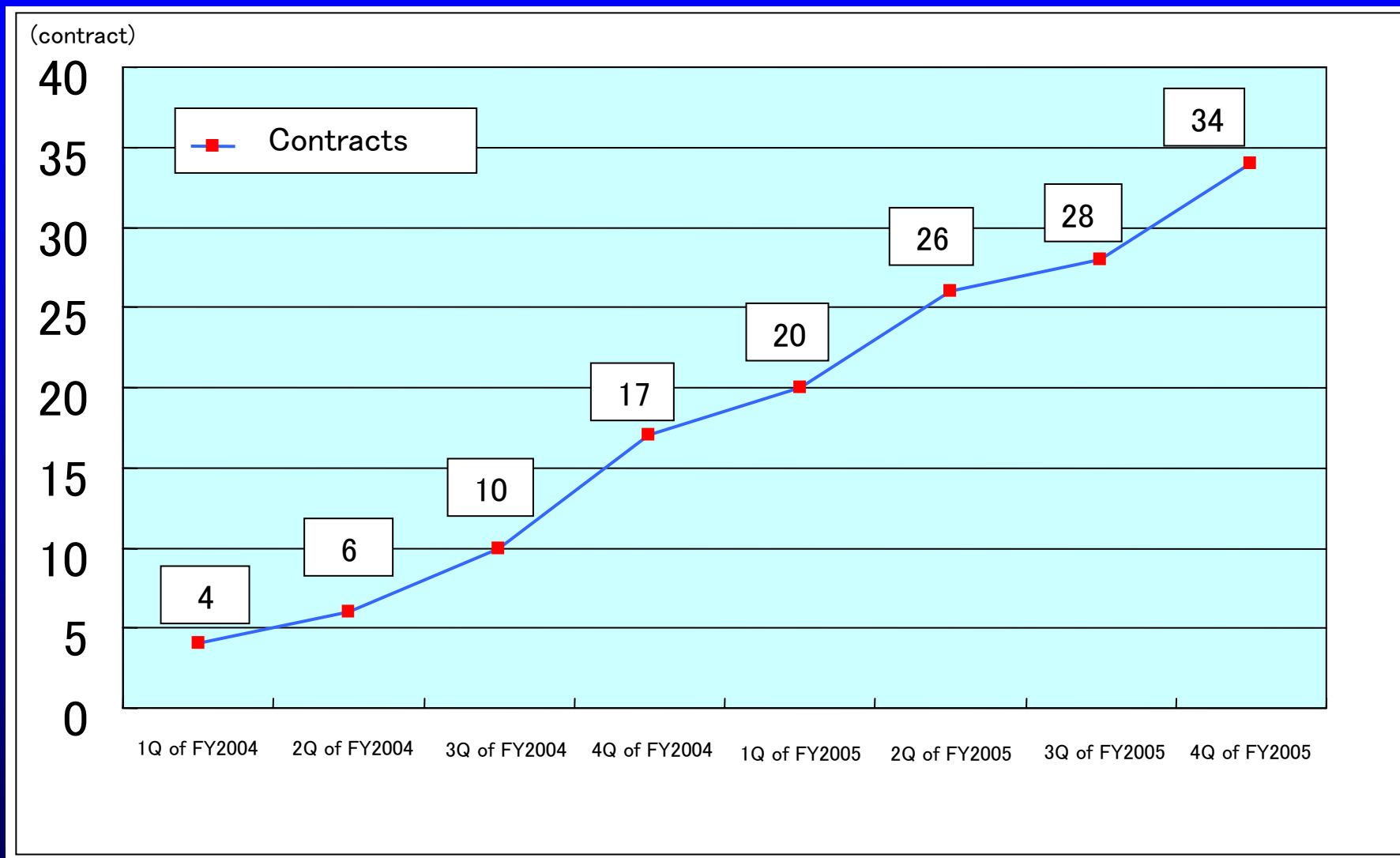
Marketing Overview

- **Sales of kit products**
- **History of contracts for Operamaster**
- **Operamaster : Daily production volume**
- **Nurses' auxiliary duties**
- **Materials usage ratio for specific operation**
- **Progress of Operamaster marketing**
- **Stronger sales system**
- **Plans for seminars in Fiscal 2006**
- **Surrem Strategy**

Sales for Kit Products

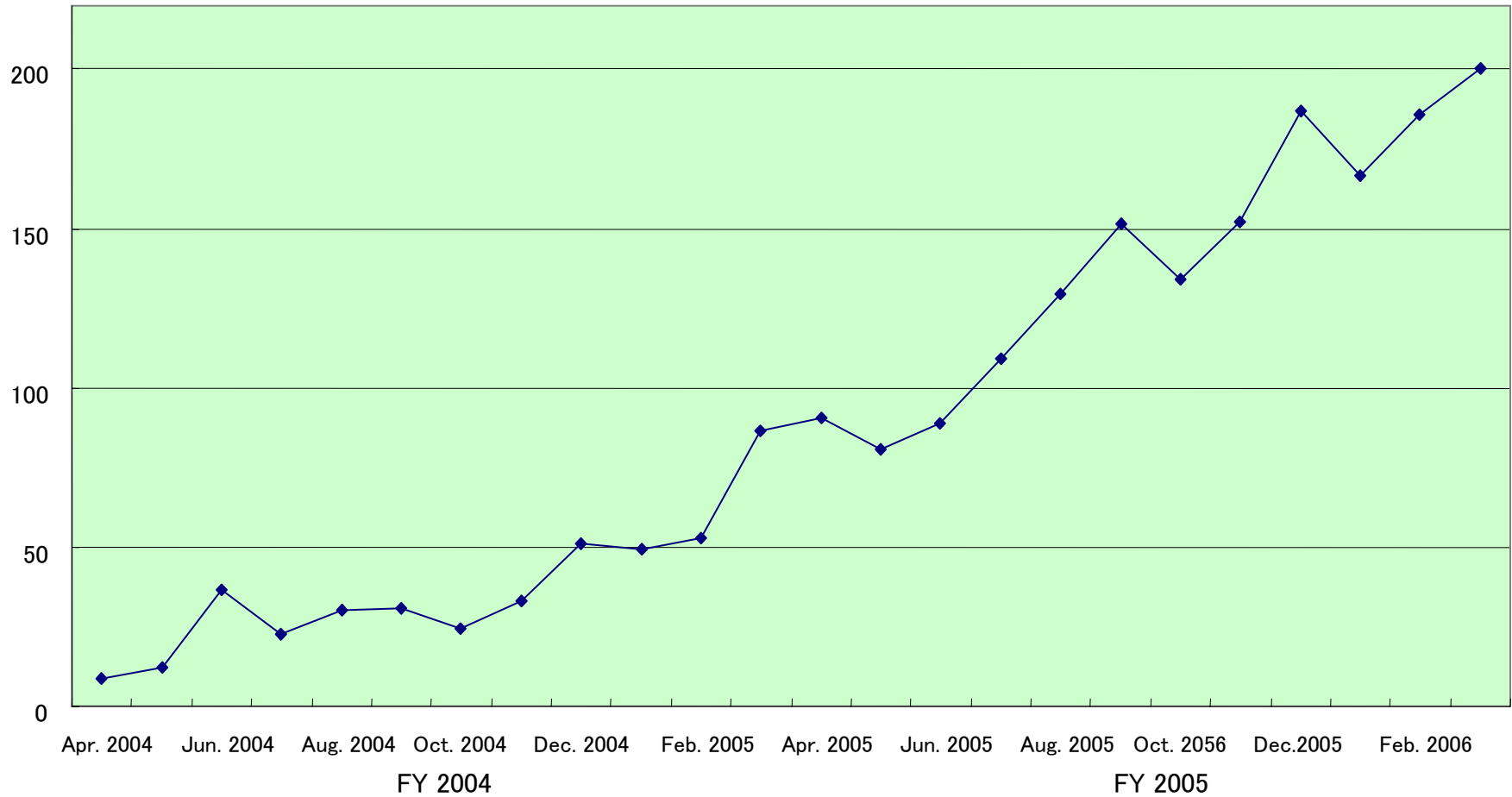


History of Contracts for Operamaster



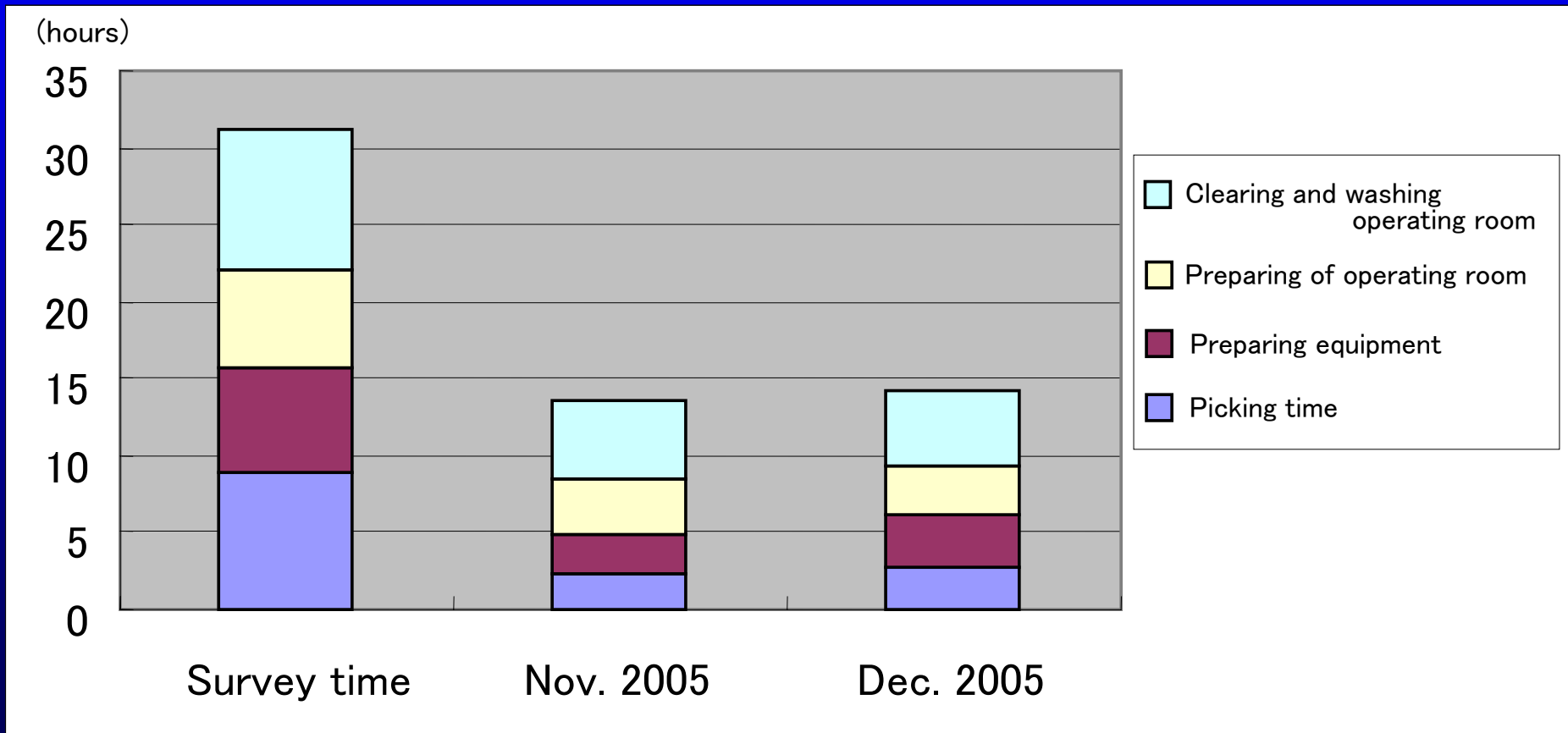
Operamaster : Daily Production Volume

(Product)



Nurses' Auxiliary Duties

In hospitals with Operamaster, the average daily time spent by nursing staff on miscellaneous tasks has declined by more than 56%



Materials Usage Ratio for Specific Operation

Actual operation	No. of operations, by type	Item					
		Total no.	Overall consistency No.	Total unused No.	Variation No.	Overall consistency ratio	Variation ratio
A	31	133	49	64	20	37%	15%
B	24	293	91	103	99	31%	34%
C	19	201	73	75	53	36%	26%
D	18	217	63	60	94	29%	43%
E	14	201	61	75	65	30%	32%
F	13	357	43	223	91	12%	25%
G	13	217	64	99	54	29%	25%
H	13	324	49	137	138	15%	43%
I	10	213	64	84	65	30%	31%
J	10	186	28	100	58	15%	31%
K	10	133	48	69	16	36%	12%
L	8	315	45	175	95	14%	30%
M	8	252	52	130	70	21%	28%
N	8	133	45	75	13	34%	10%

- Survey of unused materials among materials expected to be used, by type of operation.
 - We will seek to pinpoint materials that will not be used for each operation type.
- Through standardization to maximum extent, we will seek to enhance efficiency of operating rooms.

Progress of Operamaster Marketing

➤ Fiscal 2005 Progress of Operamaster

✓ Contracts : 34

✓ Sales : ¥1,800 million (19.7% of kit sales, ¥9,121 million)

➤ Fiscal 2006 Plan of Operamaster

✓ Cumulative contracts : 69 (new : 35)

✓ Sales : ¥4,100 million (37.0% of kit sales, ¥11,090 million)

Stronger Sales System

- Number of sales departments up from 3 to 6 (from January 1, 2006)
- Establish 2 new sales offices (Utsunomiya, Kagoshima)
(from January 1, 2006)
- Reinforce skills and knowledge of Sales Promotion Dept.
- Adopt new approaches via academic societies, seminars, etc.
- Strengthen marketing aimed at hospital groups
- Reinforce presence in regions where Operamaster contracts are lagging

Plans for Seminars in Fiscal 2006

✓ Schedule for seminars hosted by Hogy Medical

- Tokyo End of July
- Nagoya Beginning of October
- Osaka Mid-November

✓ Announcements of hospitals using Operamaster

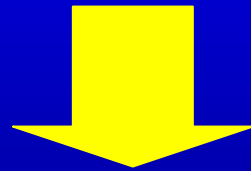
- Japan Society for Health Care Management End of June
- Japan Operative Nursing Academy End of October
- Japanese Association for Operative Medicine Beginning of
November

* Others are under consideration

Surrem Strategy

✓ Establish the Surrem brand


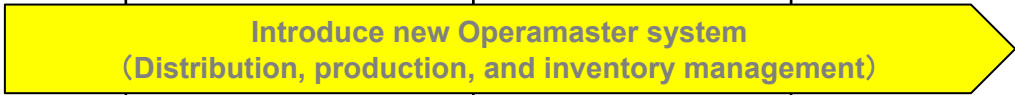

- Apply the concept of Surrem non-wovens (low price, high function, high quality) to low-value-added products



- Expand market share of such products

Medium-Term Business Plan
(Consolidated)
03/2007 – 03/2011

Operating Environment

	Fiscal 2006 Plan	Fiscal 2007 Plan	Fiscal 2008 Plan	Fiscal 2009 Plan	Fiscal 2010 Plan
Conditions affecting customers	<p>3.16% reduction in medical remuneration</p> <p>Reductions in treatment fees and drug prices</p> <p><u>Nursing standing order (1.4:1)</u></p>	<p>“Year 2007 Problem”</p> <p>Working population to begin declining.</p> <p>No. of patients to start rising</p>	<p>Revision to medical treatment remuneration system</p> <p>Combined procedures</p>		Breakdown of public insurance system?
	Improved productivity or influx of foreign workers to counter decline in worker population; declining trend in hospital beds				
	Increased focus on price				
				Regular companies to enter hospital management business	
	Reorganization of overall hospital and medical treatment systems				
	Pursuit of safety and quality				
Hogy Medical's response					
					
	Launch of Operamaster production line and new distribution center			New Sterilization center	New Operamaster production line

Operating Environment

Market environment

Revision of medical treatment remuneration system in 2006

- Expansion of hospitals paying by DPC

“Year 2007 Problem”

- Working population to begin declining, but the illness rate will increase

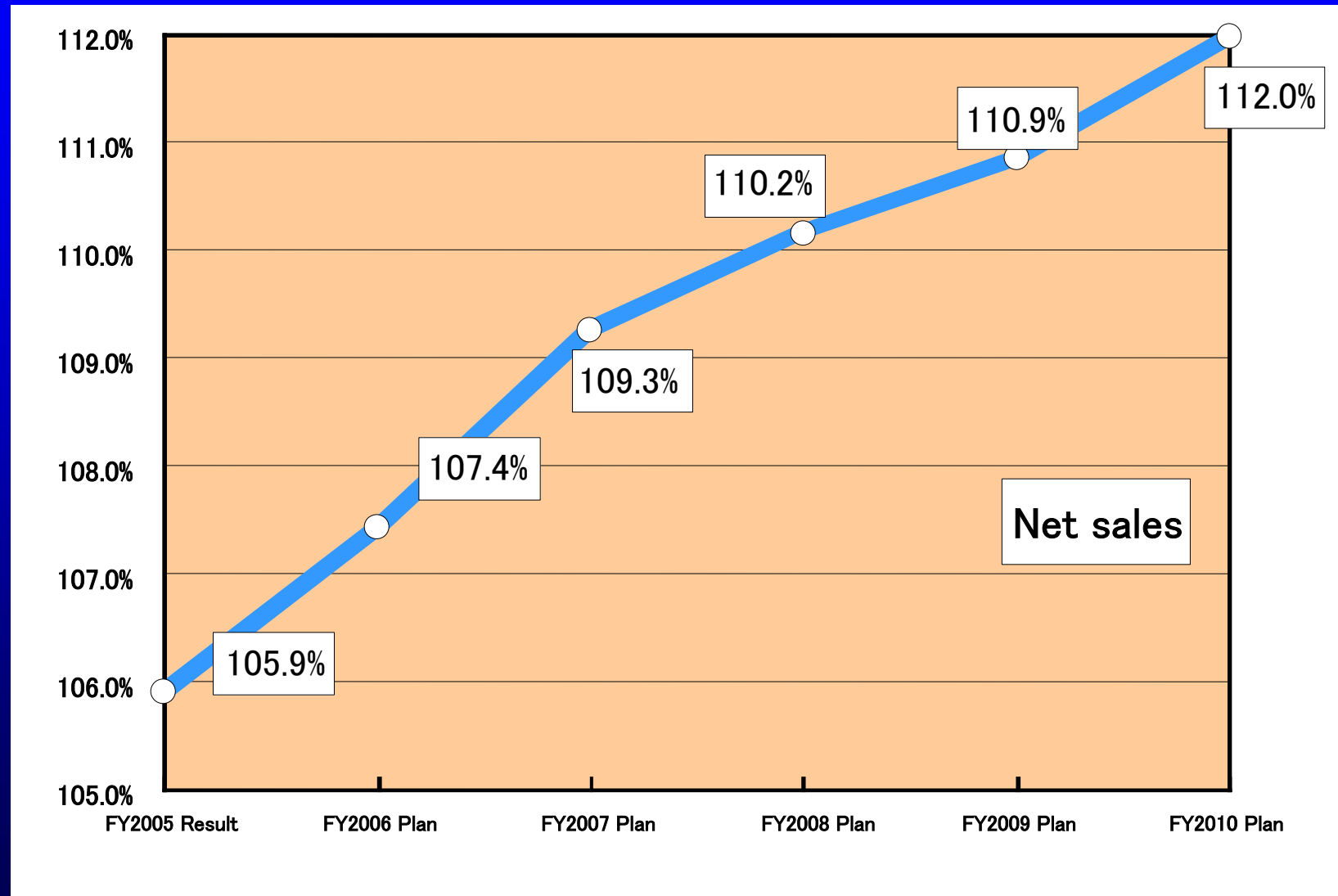
Hospital bed reduction policy through 2010 (Health, Labor and Welfare Ministry draft proposal)

- Regular hospital beds to decline from 1.2 million to 420,000

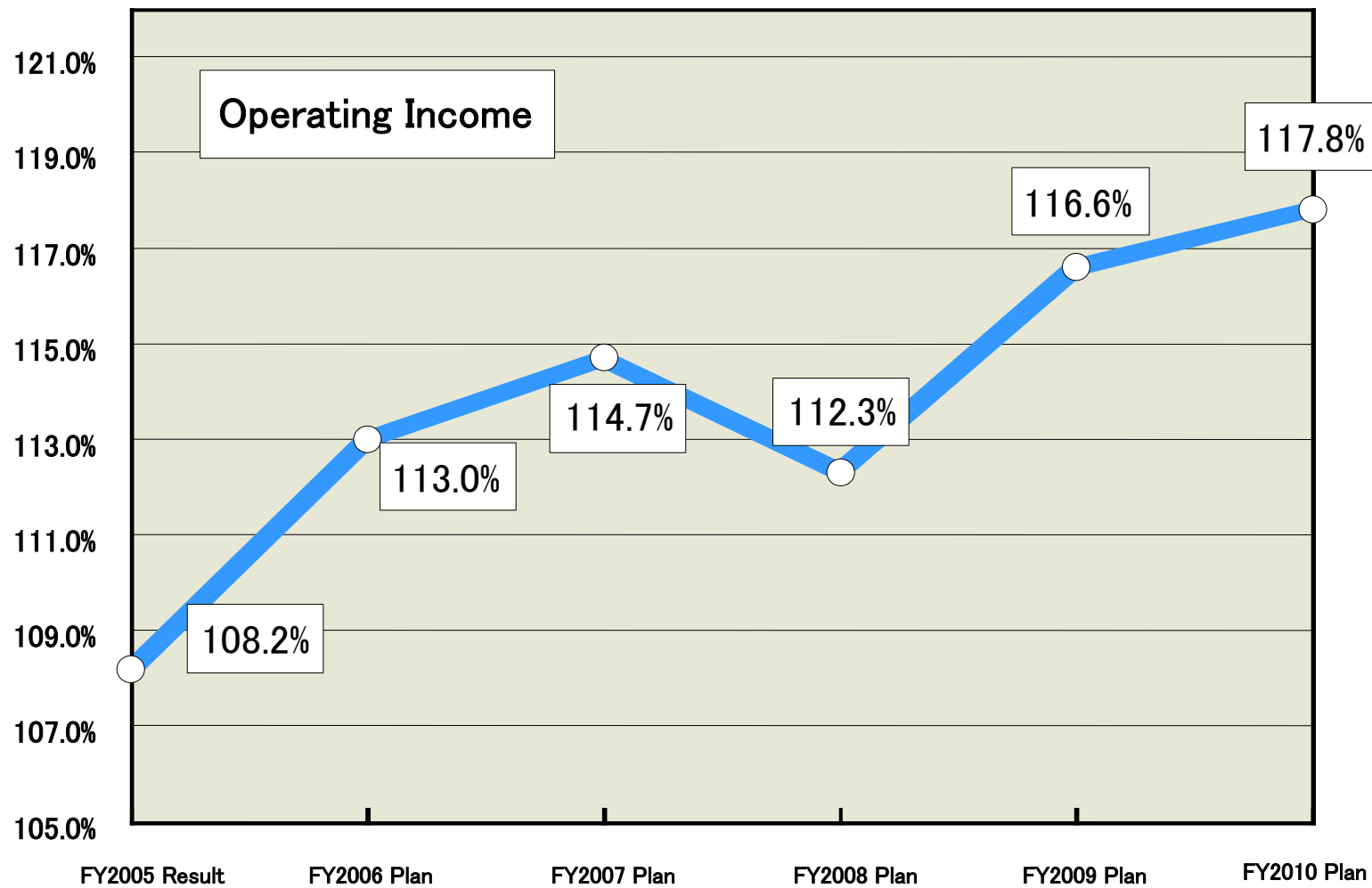
Profit/Loss Plan

(Unit: million yen, rounded down)	Fiscal 2005 Results (First Half)	Fiscal 2006 Plan	Fiscal 2007 Plan	Fiscal 2008 Plan	Fiscal 2009 Plan	Fiscal 2010 Plan
Net sales	26,434	28,400	31,030	34,180	37,890	42,430
Operation income	6,200	7,006	8,030	9,020	10,520	12,390
Ordinary income	6,438	7,018	8,040	9,030	10,540	12,400
Net income	3,909	4,201	4,820	5,420	6,320	7,440
EPS (total shares)	235.15 yen	257.10 yen	295.20 yen	331.74 yen	387.06 yen	455.85 yen
EPS (minus treasury shares)	246.83 yen	269.71 yen	302.26 yen	335.86 yen	391.87 yen	461.51 yen
ROE	8.6%	8.4%	8.8%	9.2%	10.0%	10.9%
Comment: Depreciation of large-scale capital investment items expected to begin		Launch of new distribution center			Launch of new sterilization center	Launch of new Operamster production line

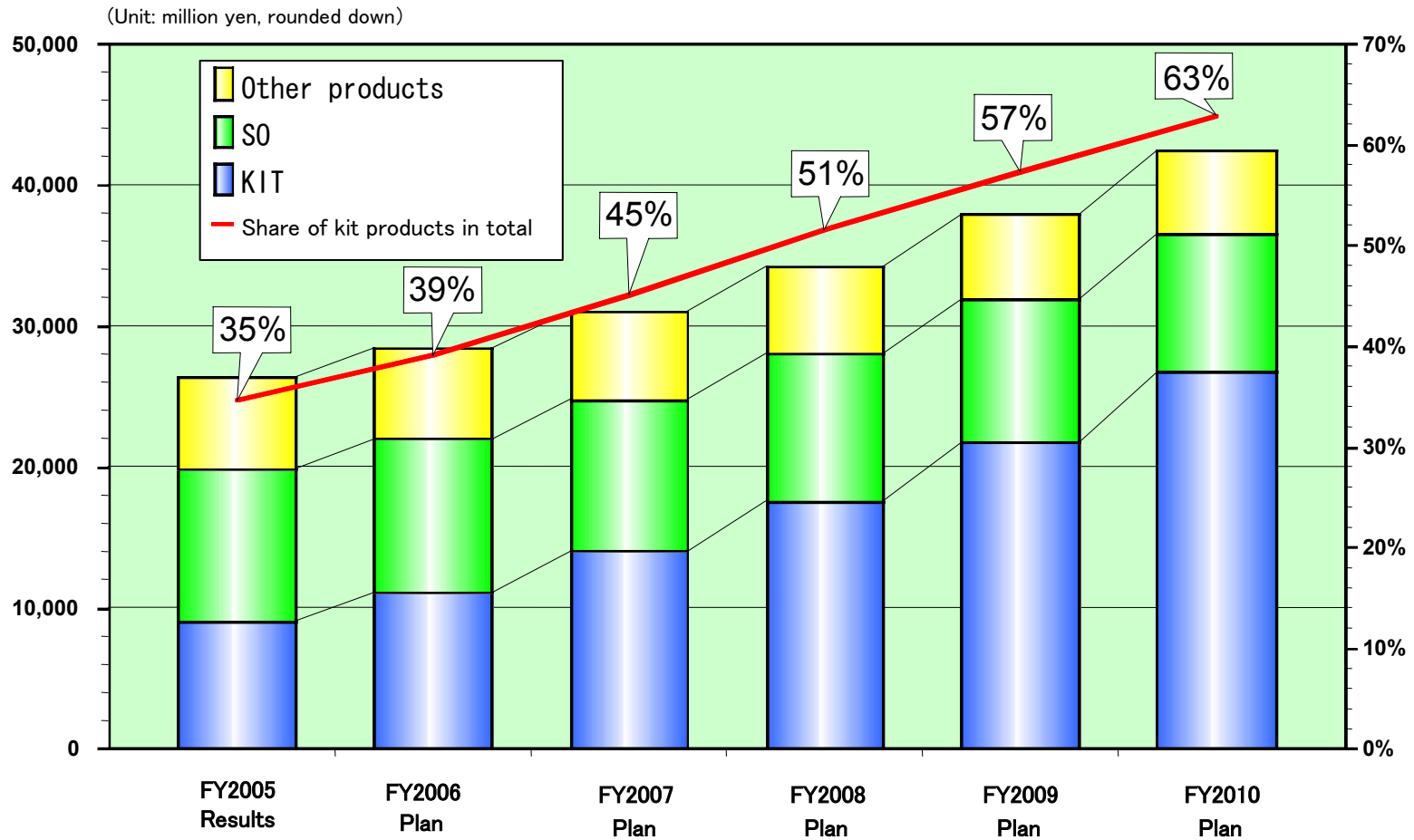
Sales Growth Rate



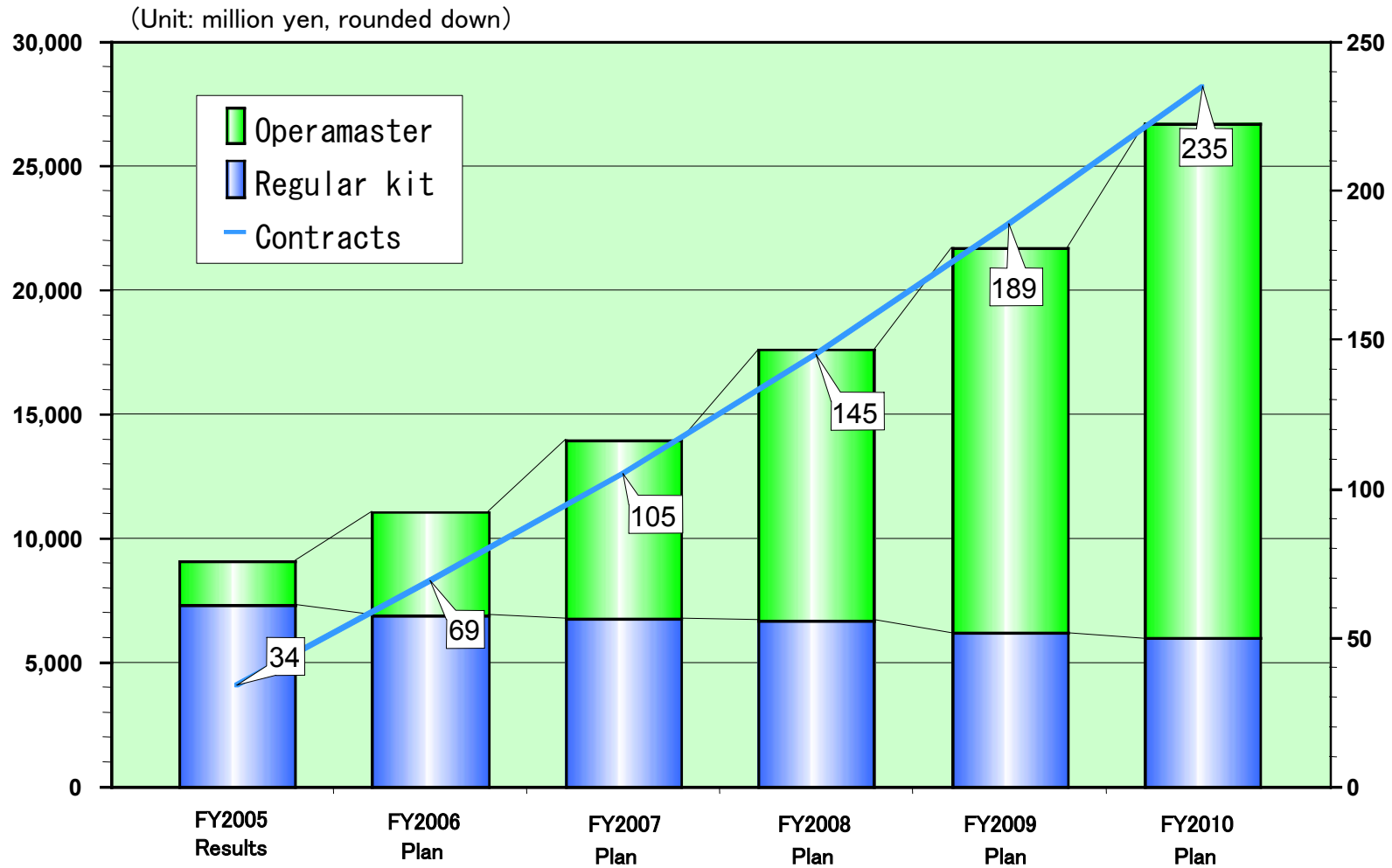
Operating Income



Sales Plan for Major Products



Sales Plan for Operamaster



Capital Investment Plan

(Unit: million yen, rounded down)	Fiscal 2005 Results (First Half)	Fiscal 2006 Plan	Fiscal 2007 Plan	Fiscal 2008 Plan	Fiscal 2009 Plan	Fiscal 2010 Plan
Total capital investment	5,266	1,512	1,230	2,230	8,730	6,930
Major large-scale investments	Launch of new Operamster production line	Launch of new distribution center			Launch of new sterilization center	Launch of new Operamster production line
Investment amount					7,500	6,700
Total depreciation expense	2,316	3,022	2,760	2,850	3,300	3,590
Manufacturing cost	1,812	2,111	1,780	1,560	1,890	2,260
SG & A expenses	504	911	980	1,290	1,410	1,330