

July 12, 2010

Consolidated Financial Results

for the First Quarter of Fiscal 2010 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
 Stock code number: **3593**
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 Submission of Quarterly Business Report: **August 11, 2010**
 Start of cash dividend payments: **August 31, 2010**
 Preparation of supplementary materials for quarterly financial results: Yes
 Information meeting for quarterly financial results to be held: Yes

1. Fiscal 2010–First quarter (April 1–June 30, 2010)

(1) Results of operations

(Millions of yen, except per share data, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
		(% change from previous year)		(% change)		(% change)		(% change)
Fiscal 2010–First quarter	¥7,705	-1.4%	¥2,164	+9.1%	¥2,120	+7.0%	¥1,260	+6.5%
Fiscal 2009–First quarter	7,817	+3.9%	1,984	+13.1%	1,981	+11.5%	1,183	+10.8%

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2010–First quarter	¥80.12	—
Fiscal 2009–First quarter	78.13	—

(2) Financial position

(Millions of yen, except per share data, rounded down)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2010–First quarter	¥68,030	¥59,353	87.2%	¥3,772.10
Fiscal 2009–year-end	68,259	58,506	85.7	3,718.27

Note: Equity capital at term-end

Fiscal 2010–1st quarter: ¥59,338 million

Fiscal 2009: ¥58,492 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2009	¥23.00	¥23.00	¥23.00	¥23.00	¥ 92.00
Fiscal 2010	25.00				
Fiscal 2010 (est.)		25.00	25.00	25.00	100.00

Note: Revision of cash dividend forecast for quarter in review: None

Breakdown of dividends for fiscal 2010: Commemorative dividend of ¥2.00 in each quarter, for a total of ¥8.00 per share.

3. Forecast for fiscal 2010 (April 1, 2010–March 31, 2011)

(Millions of yen, rounded down; percentage figures denote year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
First 2 quarters	¥15,960	0.7%	¥4,310	7.2%	¥4,340	9.6%	¥2,590	9.0%	¥164.64
Full year	32,200	2.7%	8,550	7.2%	8,610	7.4%	5,140	4.4%	326.74

Note: Revision of consolidated forecasts for quarter in review: None

4. Others (For details, please refer to page 6 of this report.)

(1) Important changes in scope of consolidation during period: No

Note: This refers to presence/absence of changes to specified subsidiaries accompanying changes in scope of consolidation in the period under review.

(2) Simplified accounting method or special accounting method: Yes

Note: This refers to presence/absence of application of simplified accounting method of special accounting method for preparing quarterly consolidated financial statements.

(3) Changes in accounting principles, procedures, disclosure methods, etc.

1. Changes associated with changes in accounting standards: Yes

2. Other changes: No

Note: This refers to presence/absence of changes in accounting principles, procedures, disclosure methods, etc., pertaining to preparation of quarterly consolidated financial statements (changes in major basic items for preparing quarterly financial statements).

(4) Shares outstanding (common stock) at term-end

1. Number of shares outstanding (including treasury stock)

Fiscal 2010–1st quarter: 16,341,155

Fiscal 2009: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2010–1st quarter: 610,353

Fiscal 2009: 610,158

3. Average number of shares over period (consolidated total for quarter)

Fiscal 2010–1st quarter: 15,730,890

Fiscal 2009–1st quarter: 15,146,877

Implementation status of quarterly review procedures

This quarterly financial results report is subject to quarterly review procedures under Japan’s Financial Instruments and Exchange Law. At the time of this report’s release, however, such quarterly review procedures under the Financial Instruments and Exchange Law had not been completed.

Appropriate use of business forecasts; other special items

Performance forecasts and other forward-looking statements contained in this report are based on information currently available and on certain assumptions deemed rational at the time of this report’s release. Due to various circumstances, however, actual results may differ significantly from such statements. For cautionary notes on assumptions underlying the Company’s forecasts and the usage of such forecasts, please refers to “(3) Full-Year Forecasts for Fiscal 2010” on page 5.

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1. Performance and Financial Position

(1) Performance

In the first quarter under review, the Japanese economy, despite signs of a partial turnaround after a period of deterioration, remained difficult due to several factors. These included turmoil sparked by fiscal crises in various European nations, which led to feelings of instability and caused stock prices to decline and the yen to appreciate, with a resulting negative impact on corporate earnings.

Despite an increase in overall medical treatment remuneration—the first in 10 years since 2000—conditions in the medical equipment industry remained challenging as companies associated with the industry faced growing pressure to enhance efficiency and streamline operations.

Amid these conditions, the Hogy Medical Group offered a range of products that contribute to safety of patients and medical practitioners and help medical institutions streamline and save labor in their operations. As a result, consolidated net sales for the quarter amounted to ¥7,705 million, down 1.4% from the previous corresponding period. Sales of surgical-use kit products increased 7.1%, to ¥3,515 million, owing mainly to the popularity of Operamaster, a solution-based service for medical institutions incorporating products, logistics, and information management. Although the Group signed six new Operamaster contracts with medical institutions, there were three cancellations.

For surgical-use non-wovens, year-on-year sales remained mostly unchanged, edging down 0.8%, to ¥2,736 million. During the period, we reinforced our “Surrem strategy,” based on the concept of low price, high function, and high quality. This led to a recovery in sales of some products that had been declining. However, sales of masks and other products posted a year-on-year decrease due to special demand in the previous corresponding period, which saw an outbreak of the H1N1 influenza virus. Other sales fell 34.5%, to ¥181 million, due to the partial sale of a business of our consolidated subsidiary.

The cost of sales ratio improved thanks to enhanced productivity stemming from an increase in manufacturing volume. We also focused on efficient expense allocations in the selling, general, and administrative expenses category. Consequently, consolidated operating income rose 9.1%, to ¥2,164 million. The main non-operating item was a foreign exchange loss of ¥75 million, resulting in a 7.0% increase in ordinary income, to ¥2,120 million. Net income climbed 6.5%, to ¥1,260 million.

(2) Financial Position

At June 30, 2010, total assets amounted to ¥68,030 million, down ¥229 million from March 31, 2010. During the period, current assets declined ¥855 million, to ¥32,507 million. Major components included a ¥1,094 million decrease in cash and bank deposits stemming from payment of income taxes, a ¥380 million increase in notes and accounts receivable, and a ¥219 million decline in inventories. Fixed assets rose ¥626 million, to ¥35,522 million. Within this figure, tangibles were up ¥552 million, to ¥30,674 million, due mainly to ¥873 million in investments in equipment related to the New Sterilization Center in Tsukuba. Intangibles rose ¥74 million, to ¥671 million, and investments and other assets remained largely unchanged, ¥4,176 million.

At term-end, total liabilities amounted to ¥8,676 million, down ¥1,076 million. Current liabilities declined ¥647 million, to ¥7,358 million. Main factors included a ¥1,121 million decrease in accrued income taxes, a ¥650 million increase in accrued expenses, a ¥631 million increase in equipment-related notes and accounts payable, and a ¥317 million decline in reserve for bonuses. Long-term liabilities fell ¥428 million, to ¥1,317 million. Major factors included ¥425 million in repayments of long-term debt. Interest-bearing debt declined ¥425 million, to ¥1,500 million.

Net assets at term-end totaled ¥59,353 million, up ¥847 million. Major factors included ¥1,260 million in net income and ¥361 million in cash dividends paid. As a result, the equity ratio rose from 85.7% to 87.2%.

(Statements of Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥16,312 million, down ¥1,092 million from the end of fiscal 2009.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥633 million, down ¥1,153 million from the previous corresponding period. Factors in this result included ¥1,913 million in income taxes paid and a ¥374 million increase in notes and accounts receivable. These contrasted with ¥2,092 million in income before income taxes and minority interests and ¥574 million in depreciation.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥938 million, down ¥571 million from the previous corresponding period. Major factors included purchases of tangible fixed assets related to the New Sterilization Center in Tsukuba.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥786 million, compared with ¥2,411 million net cash provided by such activities in the previous corresponding period. This was due primarily to repayments of long-term debt and cash dividends paid.

For the entire fiscal year, we expect net cash provided by operating activities to be around ¥7,000 million, reflecting our business performance. Net cash used in investing activities is expected to total around ¥4,000 million, due mainly to the purchases related to the New Sterilization Center in Tsukuba, replacement of existing equipment, and construction of new systems. Net cash used in financing activities is expected to be around ¥2,500 million, due to payments of cash dividends and repayments of borrowings.

(3) Full-Year Forecasts for Fiscal 2010

The outlook for the Japanese economy remains difficult to predict. In the medical equipment industry, we expect the polarization trend among medical institutions to gain further momentum. Meanwhile, companies in the industry will continue facing pressure to enhance efficiency and streamline operations. As we approach our 50th year of operation, we will step up efforts to raise corporate value. At the same time, we will assertively promote our “Operamaster strategy”, as well as our “Surrem strategy”, in order to distinguish ourselves from the competition. The aforementioned declines in sales of other non-wovens in surgical products and other sales are expected to continue through the second quarter of the fiscal year. The impact of such declines is factored into our full-year consolidated performance forecasts, which are shown below.

(Consolidated forecasts)

Net sales	¥32,200 million	(up 2.7%)
Operating income	¥ 8,550 million	(up 7.2%)
Ordinary income	¥ 8,610 million	(up 7.4%)
Net income	¥ 5,140 million	(up 4.4%)

2. Other Information

(1) Important Changes in Subsidiaries

Not applicable.

(2) Application of Simplified Accounting Method or Special Accounting Method

(a) *Valuation of inventories*

The value of inventories is calculated based on physical inventories at the end of the previous fiscal year.

The Company has reduced the book price of certain inventory assets that were clearly deemed to be declining in profitability, after estimating the net selling value of such assets.

(b) *Accounting for income tax*

Income tax for the quarter is calculated according to the estimated full-year tax rate, which is based on the legal effective rate.

(3) Changes in Accounting Principles, Procedures, and Disclosure Methods

Effective the period under review, the Company has applied “Accounting Standard Related to Asset Disposal Obligations” (Accounting Standard No. 18, March 31, 2008) and “Application Guidance for Accounting Standard Related to Asset Disposal Obligations” (Guidance No. 21, March 31, 2008). This change led to ¥0 million year-on-year decreases in operating income and ordinary income and a ¥33 million decline in income before income taxes and minority interests.

(4) Major Items Related to Ongoing Concern Assumption

Not applicable.

3. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2010–First quarter (June 30, 2010)	Fiscal 2009 (March 31, 2010)
ASSETS		
Current assets		
Cash and bank deposits	¥16,672	¥17,766
Notes and accounts receivable	9,504	9,124
Goods and merchandise	2,981	3,075
Products in progress	298	308
Materials and supplies	2,143	2,259
Other	911	832
Allowance for doubtful accounts	–4	–2
Total current assets	32,507	33,363
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	12,249	12,374
Machinery and vehicles (net)	4,969	4,896
Land	9,419	9,410
Construction in progress	3,738	3,137
Other (net)	298	302
Total property, plant and equipment	30,674	30,121
Intangible fixed assets	671	597
Investments and other assets	4,176	4,176
Total fixed assets	35,522	34,895
Total assets	68,030	68,259
LIABILITIES		
Current liabilities		
Notes and accounts payable	3,240	3,452
Long-term debt due within 1 year	1,000	1,000
Accrued income tax	870	1,991
Reserves	160	545
Other current liabilities	2,086	1,017
Total current liabilities	7,358	8,006
Long-term liabilities		
Long-term debt	500	925
Reserves	35	34
Other long-term liabilities	782	786
Total long-term liabilities	1,317	1,746
Total liabilities	8,676	9,752

(Millions of yen, rounded down)

	Fiscal 2010–First quarter (June 30, 2010)	Fiscal 2009 (March 31, 2010)
NET ASSETS		
Shareholders' equity		
Common stock	7,123	7,123
Capital surplus	8,336	8,336
Retained earnings	47,497	46,598
Treasury stock	-3,314	-3,313
Total shareholders' equity	59,642	58,744
Valuation/translation adjustments		
Net unrealized gain or loss on securities	243	345
Deferred hedging gain or loss	3	80
Translation adjustments	-551	-678
Total valuation/translation adjustments	-304	-252
Minority interests	15	14
Total net assets	59,353	58,506
Total liabilities and net assets	68,030	68,259

(2) Statements of Income

(Millions of yen, rounded down)

	Fiscal 2009—First quarter (April 1—June 30, 2009)	Fiscal 2010—First quarter (April 1—June 30, 2010)
Net sales	¥7,817	¥7,705
Cost of sales	3,817	3,678
Gross profit	3,999	4,026
Selling, general and administrative expenses	2,015	1,862
Operating income	1,984	2,164
Other income		
Interest income	3	0
Dividend income	30	27
Amortization of negative goodwill	6	—
Other	7	9
Total other income	48	38
Other expenses		
Interest expense	10	6
Foreign exchange loss	33	75
Other	6	0
Total other expenses	50	82
Ordinary income	1,981	2,120
Extraordinary income		
Transfer to allowance for doubtful accounts	—	7
Gain on sales of fixed assets	0	0
Total extraordinary income	0	7
Extraordinary expenses		
Loss on sales of fixed assets	0	—
Loss on disposal of fixed assets	0	2
Effect of application of asset disposal liability accounting standards	—	32
Total extraordinary expenses	1	35
Income before income taxes	1,980	2,092
Income taxes	796	832
Income before minority interests	—	1,260
Minority interests	0	0
Net income	1,183	1,260

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2009—First quarter (April 1–June 30, 2009)	Fiscal 2010—First quarter (April 1–June 30, 2010)
Operating activities		
Income before income taxes and minority interests	¥1,980	¥2,092
Depreciation	621	574
Amortization of negative goodwill	-6	—
Effect of application of asset disposal liability accounting standards	—	32
Increase (decrease) in allowance for doubtful accounts	0	-11
Interest and dividend income	-33	-28
Interest expenses	10	6
Foreign exchange gain	36	87
Gain on sale of tangible fixed assets	-0	-0
Changes in assets and liabilities:		
Notes and accounts receivable	-256	-374
Inventories	193	230
Notes and accounts payable	-160	-213
Other	331	134
Subtotal	2,715	2,529
Interest and dividends received	33	28
Interest paid	-17	-10
Incomes taxes paid	-945	-1,913
Net cash provided by operating activities	1,786	633
Investing activities		
Purchase of tangible fixed assets	-1,441	-731
Proceeds from sale of tangible fixed assets	1	1
Purchase of investment securities	—	-75
Expenditures by loans receivable	-1	-2
Collection of loans receivable	1	11
Other	-69	-142
Net cash used in investing activities	-1,509	-938
Financing activities		
Repayments of long-term debt	-425	-425
Sales of treasury stock	3,183	—
Purchase of treasury stock	-0	-0
Cash dividends paid	-345	-360
Net cash used in financing activities	2,411	-786
Effect of exchange rate changes on cash and cash equivalents	76	-1
Net change in cash and cash equivalents	2,765	-1,092
Cash and cash equivalents at beginning of term	12,182	17,405
Cash and cash equivalents at end of term	14,947	16,312

(4) Note Related to Ongoing Concern Assumption

Not applicable.

(5) Segment Information

[Information by business segment]

First quarter of previous year (April 1–June 30, 2009)

The Company and its consolidated subsidiaries are engaged in the manufacture and sales of medical-use consumables and in peripheral activities, which together are regarded as a single business. Accordingly, there are no classified segments for disclosure purposes.

[Information by geographical segment]

First quarter of previous year (April 1–June 30, 2009)

(Millions of yen, rounded down)

	Japan	Indonesia	Total	Eliminations or Companywide	Consolidated
Net sales					
(1) Sales to outside customers	¥7,705	¥ 111	¥7,817	¥ —	¥7,817
(2) Inter-segment sales	—	1,011	1,011	(1,011)	—
Total	7,705	1,123	8,829	(1,011)	7,817
Operating expenses	5,828	985	6,814	(981)	5,833
Operating income	1,876	138	2,014	(30)	1,984

[Overseas sales]

First quarter of previous year (April 1–June 30, 2009)

Overseas sales represented less than 10% of consolidated net sales, so are omitted here.

[Segment information]

The Company and its consolidated subsidiaries are engaged in the manufacture and sales of medical-use consumables and in peripheral activities, which together are regarded as a single business. Accordingly, there are no classified segments for disclosure purposes.

(Supplementary information)

Effective the period under review, the Company has applied “Accounting Standard on Disclosure of Segment Information” (Accounting Standard No. 17, March 27, 2009) and “Application Guidance for Accounting Standard on Disclosure of Segment Information” (Guidance No. 20, March 21, 2008).

(6) Note in Event of Significant Change in Shareholders’ Equity

Not applicable.