

October 13, 2011

Consolidated Financial Results

for the First 2 Quarters of Fiscal 2011 [Japanese Standards]

Name: **Hogy Medical Co., Ltd.**
 Listing: **First Section, Tokyo Stock Exchange**
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 Submission of Quarterly Business Report: **November 9, 2011**
 Start of cash dividend payments: **November 30, 2011**
 Preparation of supplementary materials for quarterly financial results: **Yes**
 Information meeting for quarterly financial results to be held: **Yes**

1. Fiscal 2011-First 2 quarters (April 1–September 30, 2011)

(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 2011–First 2 quarters	¥15,835	+1.2%	¥4,000	–6.8%	¥3,979	–5.4%	¥2,369	–5.9%
Fiscal 2010–First 2 quarters	15,653	–1.2%	4,294	+6.9%	4,208	+6.3%	2,517	+5.9%

Note: Comprehensive income

Fiscal 2011—1st 2 quarters: ¥2,305 million (+5.6%)

Fiscal 2010—1st 2 quarters: ¥2,182 million (—%)

	Net income per share	Net income per share (fully diluted)
	(Yen)	(Yen)
Fiscal 2011–First 2 quarters	¥150.67	—
Fiscal 2010–First 2 quarters	160.04	—

(2) Financial position

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

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Fiscal 2011–First 2 quarters	¥70,776	¥62,286	88.0%	¥3,959.19
Fiscal 2010–Year-end	69,834	60,698	86.9	3,857.83

Note: Equity capital at term-end

Fiscal 2011—1st 2 quarters: ¥62,278 million

Fiscal 2010: ¥60,684 million

2. Cash dividends

Date of record	Cash dividend per share (yen)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal 2010	¥25.00	¥25.00	¥25.00	¥25.00	¥100.00
Fiscal 2011	20.00	20.00	—	—	—
Fiscal 2011 (est.)	—	—	20.00	20.00	80.00

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

3. Forecast for fiscal 2011 (April 1, 2011–March 31, 2012)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
Full year	¥30,700	-2.0%	¥6,900	-19.8%	¥6,970	-18.6%	¥4,200	-5.7%	¥267.00

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

4. Others

(1) Important changes in scope of consolidation during period (presence/absence of changes to specified subsidiaries accompanying changes in scope of consolidation): No

(2) Application of special accounting method: Yes

Note: For more details, please refer to “2. Note on Summary Information (Other)” on page 6 of this report.

(3) Changes in accounting policies; changes in accounting estimates; restatements

(1) Changes in accounting policies due to amendment of accounting standards: No

(2) Other changes in accounting policies: No

(3) Changes in accounting estimates: No.

(4) Restatements: No

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

1. Number of shares outstanding (including treasury stock)

Fiscal 2011–1st 2 quarters: 16,341,155

Fiscal 2010: 16,341,155

2. Number of treasury shares outstanding

Fiscal 2011–1st 2 quarters: 611,105

Fiscal 2010: 610,955

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

Fiscal 2011–1st 2 quarters: 15,730,135

Fiscal 2010–1st 2 quarters: 15,730,795

Implementation status of quarterly review procedures

This quarterly financial results report is not subject to quarterly review procedures under Japan’s Financial Instruments and Exchange Law. At the time of this report’s release, 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 2011” on page 5.

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1. Performance and Financial Position

(1) Performance

In the two-quarter period under review, the Japanese economy was affected by various factors, including the Great East Japan Earthquake, global economic stagnation stemming from financial instability in the United States and Europe, and the yen's sharp appreciation. Accordingly, the economic outlook remains unclear.

Conditions in the medical equipment industry continued to be difficult, due to a difficult domestic financial situation and lack of clarity with respect to medical treatment remuneration in the future. In addition, companies associated with the industry are facing more and more pressure to enhance efficiency and streamline operations.

Under these circumstances, the Hogy Medical Group undertook a Group-wide effort to restore production facilities damaged by the Great East Japan Earthquake and address associated production delays. Our sales system promoted the Group's Operamaster and Surrem strategies while focusing on responses to the disaster. Moreover, the impact of electric power shortages and the like was much lower than initially predicted.

As a result, consolidated net sales for the period amounted to ¥15,835 million, up 1.2% from the previous corresponding period. Within this total, sales of surgical-use kit products rose 4.5%, to ¥7,481 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 eight new Operamaster contracts with medical institutions, there were five cancellations, bringing total contracts in force to 134 at term-end. Sales of surgical-use non-wovens were down 2.5%, to ¥5,367 million, as demand retracted following a temporary increase.

Cost of sales was pushed up by an increase in depreciation associated with the new Tsukuba Sterilization Center, which commenced operations in stages from May 2011. This led to a rise in the cost of sales ratio. Selling, general, and administrative expenses were up year-on-year, due to a number of factors. These included expenses arising from our response to production delays, as well as expenses related to the Operamaster surgery management system and an increase in research and development expenses.

Consequently, consolidated operating declined 6.8%, to ¥4,000 million, and ordinary income slipped 5.4%, to ¥3,979 million. Net income was down 5.9%, to ¥2,369 million.

(2) Financial Position

At September 30, 2011, total assets amounted to ¥70,776 million, up ¥942 million from March 31, 2011. During the period, current assets increased ¥1,735 million, to ¥35,249 million. Major factors were a ¥1,256 million rise in cash and back deposits, a ¥348 million increase in inventories, and a ¥330 million rise in notes and accounts receivable. Fixed assets were down ¥793 million, to ¥35,526 million. Within this figure, tangibles decreased ¥1,022 million, to ¥30,496 million. Machinery and vehicles (net) rose ¥2,866 million, to ¥7,085 million, due mainly to a ¥3,613 million increase in investments for expansion of manufacturing facilities at the Tsukuba Sterilization Center. Intangibles rose ¥206 million, to ¥1,095 million, and investments and other assets remained largely unchanged, at ¥3,935 million.

At term-end, total liabilities amounted to ¥8,489 million, down ¥646 million. Current liabilities declined ¥874 million, to ¥7,447 million. Main factors included a ¥418 million decrease in accrued payables, a ¥299 million decline in equipment-related notes payable, and a ¥188 million decrease in reserve for loss on disaster. Long-term liabilities rose ¥227 million, to ¥1,041 million. Interest-bearing debt declined ¥500 million, to ¥425 million.

Net assets at term-end totaled ¥62,286 million, up ¥1,588 million. Major factors included ¥2,369 million in net income and ¥707 million in cash dividends paid. As a result, the equity ratio rose from 86.9% to 88.0%.

(Statement of Cash Flows)

Cash and cash equivalents at the end of the period stood at ¥19,395 million, up ¥1,255 million from the end of fiscal 2010.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to ¥3,751 million, up ¥600 million from the previous corresponding period. Factors in this result included ¥3,977 million in income before income taxes and minority interests and ¥1,439 million in depreciation. These contrasted with ¥1,293 million in income taxes paid and a ¥334 million increase in notes and accounts receivable.

(Cash Flows from Investing Activities)

Net cash used in investing activities totaled ¥1,283 million, down ¥744 million from the previous corresponding period. Major factors included purchases of tangible fixed assets related to expansion of the new Tsukuba Sterilization Center.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥1,207 million, down ¥47 million from 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 ¥5,100 million, reflecting our business performance. Net cash used in investing activities is expected to total around ¥2,000 million, due to replacement of existing equipment. Net cash used in financing activities is expected to be around ¥2,200 million, due mainly to payments of cash dividends and repayments of borrowings.

(3) Full-Year Forecasts for Fiscal 2011

The outlook for the Japanese economy remains uncertain, due mainly to the aftereffects of the Great East Japan Earthquake and unstable world economic conditions. Although the impact of electric power outages and the like was less than initially thought, it is difficult to predict future demand trends. Under these circumstances, we will strive to develop products based on the concept of “products that contribute to the medical front lines.” At the same time, we will assertively promote our Operamaster strategy and our Surrem strategy.

Our full-year consolidated forecasts are shown below.

(Consolidated forecasts)

Net sales	¥30,700 million	(down 2.0%)
Operating income	¥ 6,900 million	(down 19.8%)
Ordinary income	¥ 6,970 million	(down 18.6%)
Net income	¥ 4,200 million	(down 5.7%)

2. Notes on Summary Information (Other)

(1) Important Changes in Subsidiaries

Not applicable.

(2) Application of Special Accounting Method

(a) 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 Policies; Changes in Accounting Estimates; Restatements

Not applicable.

3. Major Items Related to Ongoing Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Balance Sheets

(Millions of yen, rounded down)

	Fiscal 2010 (March 31, 2011)	Fiscal 2011– First 2 quarters (September 30, 2011)
ASSETS		
Current assets		
Cash and bank deposits	¥18,505	¥19,762
Notes and accounts receivable	9,091	9,422
Goods and merchandise	2,570	2,880
Products in progress	288	285
Materials and supplies	2,083	2,125
Other	977	778
Allowance for doubtful accounts	–4	–5
Total current assets	33,513	35,249
Fixed assets		
Property, plant and equipment		
Buildings and structures (net)	13,302	12,918
Machinery and vehicles (net)	4,219	7,085
Land	9,375	9,373
Construction in progress	4,283	776
Other (net)	337	342
Total property, plant and equipment	31,518	30,496
Intangible fixed assets	888	1,095
Investments and other assets	3,913	3,935
Total fixed assets	36,320	35,526
Total assets	69,834	70,776
LIABILITIES		
Current liabilities		
Notes and accounts payable	3,338	3,743
Long-term debt due within 1 year	925	425
Accrued income tax	1,576	1,615
Reserves	1,188	1,032
Other current liabilities	1,294	631
Total current liabilities	8,322	7,447
Long-term liabilities		
Reserves	44	98
Other long-term liabilities	768	942
Total long-term liabilities	813	1,041
Total liabilities	9,135	8,489

(Millions of yen, rounded down)

	Fiscal 2010 (March 31, 2011)	Fiscal 2011– First 2 quarters (September 30, 2011)
NET ASSETS		
Shareholders' equity		
Common stock	7,123	7,123
Capital surplus	8,336	8,336
Retained earnings	49,510	51,172
Treasury stock	–3,316	–3,317
Total shareholders' equity	61,653	63,314
Valuation and translation adjustments		
Net unrealized gain or loss on securities	78	140
Deferred hedging gain or loss	9	–177
Translation adjustments	–1,055	–999
Total valuation and translation adjustments	–968	–1,036
Minority interests	13	8
Total net assets	60,698	62,286
Total liabilities and net assets	69,834	70,776

(2) Statements of Income and Statements of Comprehensive Income

(Statements of Income)

(Millions of yen, rounded down)

	Fiscal 2010– First 2 quarters (April 1– September 30, 2010)	Fiscal 2011– First 2 quarters (April 1– September 30, 2011)
Net sales	¥15,653	¥15,835
Cost of sales	7,425	7,745
Gross profit	8,227	8,090
Selling, general and administrative expenses	3,932	4,089
Operating income	4,294	4,000
Other income		
Interest income	1	1
Dividend income	41	40
Other	27	34
Total other income	70	76
Other expenses		
Interest expense	12	4
Foreign exchange loss	142	92
Other	1	0
Total other expenses	156	97
Ordinary income	4,208	3,979
Extraordinary income		
Transfer to allowance for doubtful accounts	11	—
Gain on sales of fixed assets	0	0
Total extraordinary income	11	0
Extraordinary expenses		
Loss on sales of fixed assets	0	—
Loss on disposal of fixed assets	3	2
Effect of application of accounting standards for asset retirement obligations	32	—
Valuation loss on golf membership	10	—
Total extraordinary expenses	46	2
Income before income taxes	4,173	3,977
Income taxes	1,655	1,607
Income before minority interests	2,518	2,370
Minority interests	0	0
Net income	2,517	2,369

(Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Fiscal 2010– First 2 quarters (April 1– September 30, 2010)	Fiscal 2011– First 2 quarters (April 1– September 30, 2011)
Income before minority interests	¥2,518	¥2,370
Other comprehensive income		
Net unrealized gains or losses on securities	–184	61
Deferred hedging gains or losses	–121	–186
Translation adjustments	–29	59
Total other comprehensive income	–335	–64
Comprehensive income	2,182	2,305
(Breakdown)		
Comprehensive income attributable to owners of parent company	2,182	2,302
Comprehensive income attributable to minority interests	0	3

(3) Statements of Cash Flows

(Millions of yen, rounded down)

	Fiscal 2010– First 2 quarters (April 1– September 30, 2010)	Fiscal 2011– First 2 quarters (April 1– September 30, 2011)
Operating activities		
Income before income taxes and minority interests	¥4,173	¥3,977
Depreciation	1,120	1,439
Valuation loss on golf membership	10	—
Effect of application of accounting standards for asset retirement obligations	32	—
Increase (decrease) in allowance for doubtful accounts	–20	–2
Interest and dividend income	–43	–41
Interest expenses	12	4
Foreign exchange gain	151	94
Gain on sale of tangible fixed assets	0	–0
Changes in assets and liabilities:		
Notes and accounts receivable	–508	–334
Inventories	407	–357
Notes and accounts payable	–252	390
Other	30	–161
Subtotal	5,113	5,008
Interest and dividends received	43	41
Interest paid	–12	–5
Incomes taxes paid	–1,992	–1,293
Net cash provided by operating activities	3,151	3,751
Investing activities		
Purchase of tangible fixed assets	–1,678	–1,048
Proceeds from sale of tangible fixed assets	1	0
Purchase of investment securities	–75	—
Purchase of shares in affiliates	—	–8
Expenditures by loans receivable	–4	–0
Collection of loans receivable	14	4
Other	–286	–231
Net cash used in investing activities	–2,028	–1,283
Financing activities		
Repayments of long-term debt	–500	–500
Sales of treasury stock	0	—
Purchase of treasury stock	–1	–0
Cash dividends paid	–753	–707
Other	—	0
Net cash used in financing activities	–1,255	–1,207
Effect of exchange rate changes on cash and cash equivalents	–26	–4
Net change in cash and cash equivalents	–158	1,255
Cash and cash equivalents at beginning of term	17,405	18,139
Cash and cash equivalents at end of term	17,246	19,395

(4) Note Related to Ongoing Concern Assumption

Not applicable.

(5) 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.

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

Not applicable.