

HOGY



July 18, 2006

Financial Report

First Quarter of Fiscal 2006

(April 1 – June 30, 2006)

Jun-ichi Hoki, President and COO

Mitsunori Suzuki, Executive Vice President

Kazuo Takahashi, Executive Officer, Administration Div.

Notice Regarding Forward-Looking Statements

This presentation contains statements about the Company's plans, forecasts, strategies, and beliefs related to its future performance. Such forward-looking statements were prepared based on judgments of the Company's management according to information available when this presentation was prepared. Readers are asked not to rely completely on performance forecasts contained herein, and understand that actual results may differ from such forecasts.

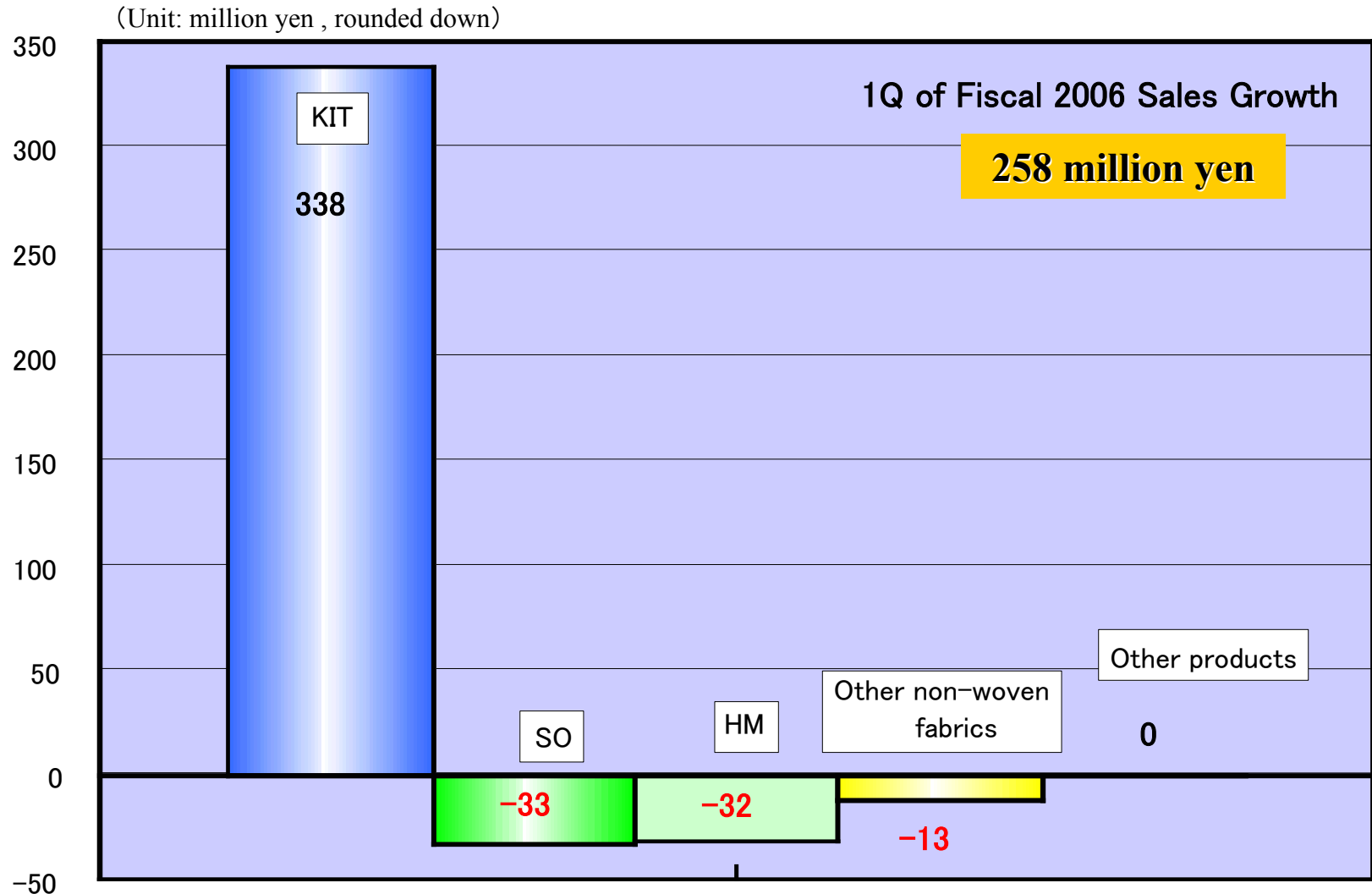
Financial results reported herein have not been audited.

Overview and Analysis (Consolidated)

Fiscal 2006 Statements of Income (First Quarter)

| (Unit: million yen, rounded down) | Fiscal 2005 1st quarter Results | | Fiscal 2006 1st quarter Plan | | Fiscal 2006 1st quarter Results | | Year-on-Year Comparison | | Plan Comparison | |
|--|------------------------------------|------------|---------------------------------|------------|------------------------------------|------------|----------------------------|--------|-----------------|--------|
| | Amount | % of total | Amount | % of total | Amount | % of total | Amount | % | Amount | % |
| Net sales | 6,429 | | 6,903 | | 6,688 | | 258 | 104.0% | -214 | 96.9% |
| Cost of sales | 3,088 | 48.0% | 3,270 | 47.4% | 3,330 | 49.8% | 242 | 107.8% | 59 | 101.8% |
| Gross profit | 3,341 | 52.0% | 3,632 | 52.6% | 3,357 | 50.2% | 16 | 100.5% | -274 | 92.4% |
| SG&A expenses | 1,805 | 28.1% | 1,955 | 28.3% | 1,835 | 27.4% | 30 | 101.7% | -119 | 93.9% |
| Operating income | 1,535 | 23.9% | 1,676 | 24.3% | 1,521 | 22.8% | -13 | 99.1% | -154 | 90.8% |
| Non-operating income/loss | 59 | | 2 | | 10 | | | | | |
| Ordinary income | 1,595 | 24.8% | 1,679 | 24.3% | 1,532 | 22.9% | -62 | 96.1% | -146 | 91.3% |
| Extraordinary income/loss | - 0 | | - | | - 0 | | | | | |
| Income before income taxes and minority interests | 1,594 | 24.8% | 1,679 | 24.3% | 1,532 | 22.9% | -62 | 96.1% | -147 | 91.2% |
| Net income | 982 | 15.3% | 985 | 14.3% | 932 | 13.9% | -50 | 94.9% | -53 | 94.6% |
| EPS (total shares) | 60.14 yen | | 60.32 yen | | 57.05 yen | | | | | |
| Number of shares outstanding | 16,341,155 | | 16,341,155 | | 16,341,155 | | | | | |
| EPS (minus treasury shares) | 63.15 yen | | 63.28 yen | | 59.79 yen | | | | | |
| Number of shares after deducting treasury shares | 15,563,442 | | 15,576,799 | | 15,592,545 | | | | | |

Fiscal 2006 Sales Growth by Major Products (First Quarter)



**Net Sales : Continuation of previous year-end trends
(temporary effect of reforms to medical treatment
remuneration)**

**Up ¥258 million (104.0%), compared with forecast decrease
of ¥214 million (96.9%)**

- **Kit products : Up ¥338 million (116.1%), compared with forecast decrease of
¥89 million (96.5%)**
 - **Operamaster : According to plan**
 - **Regular kits : Pressure to reduce prices of low-value-added products**

- **Sontara products : Down ¥33 million (98.7%), compared with forecast decrease
of ¥58 million (97.8%)**
 - **Purchases negatively influenced by medical treatment remuneration reforms**
 - **Market share down for low-value-added products**

Fiscal 2006 Performance Analysis (First Quarter)

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- **Costs of sales : 2.4 points higher than target**
 - ✓ Internal profits
 - ✓ Product mix

- **SG & A expenses : Compared with forecast decrease of ¥119 million**
 - ✓ Actual cost of new distribution center reported for depreciation purposes
 - ✓ R & D expenses

- **Non-operating income/loss; extraordinary income/loss**
 - ✓ No particular comments

Fiscal 2006 Projected Statements of Income

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| (Unit: million yen, rounded down) | Fiscal 2005 Results | | Fiscal 2006 Plan | | 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 | | 269.39 yen | | | |
| Number of shares after deducting treasury shares | 15,567,955 | | 15,595,705 | | | |

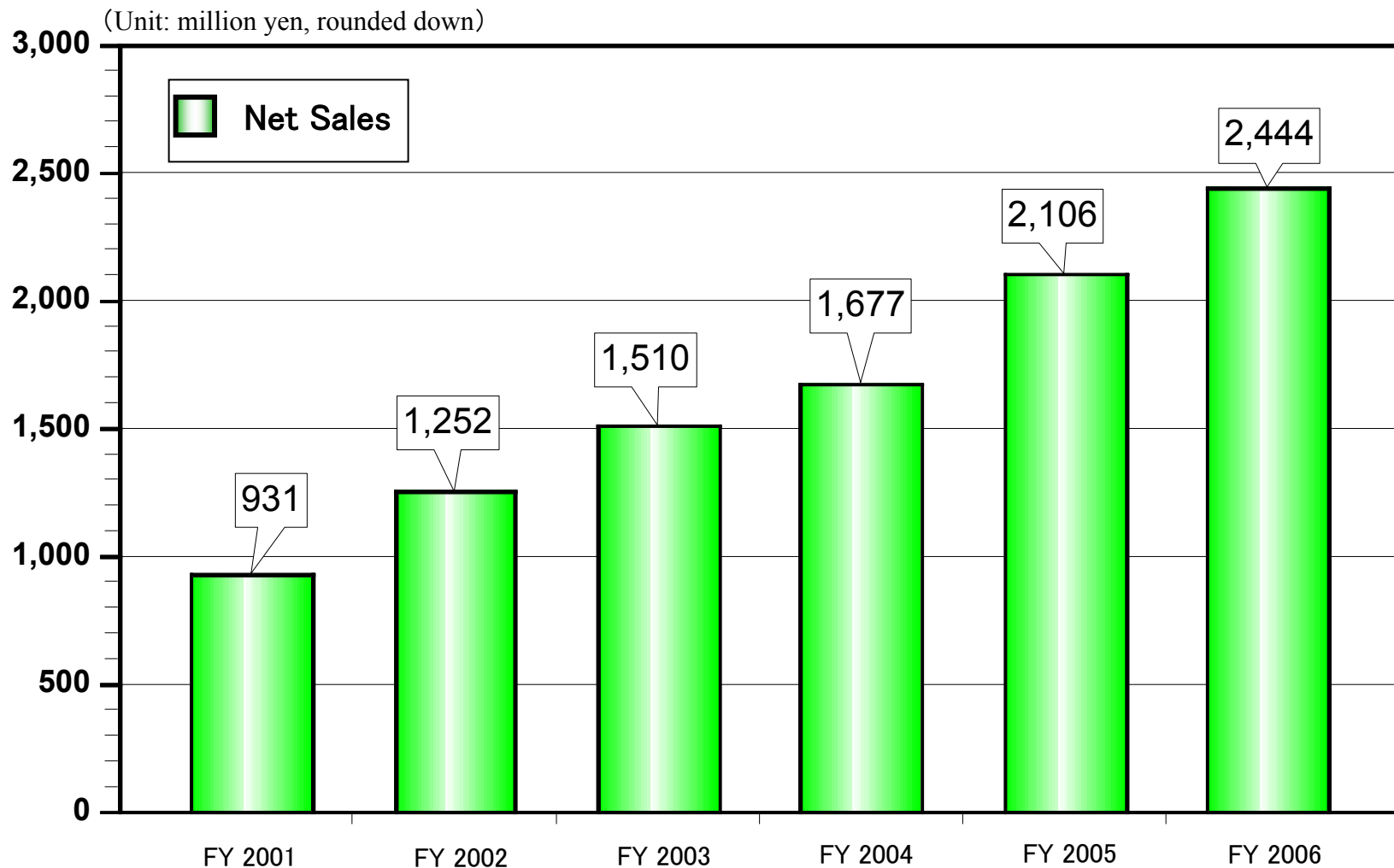
* EPS forecasts are based on number of shares outstanding at June 30, 2006 (excluding treasury stock of 745,450 shares).

Marketing Overview

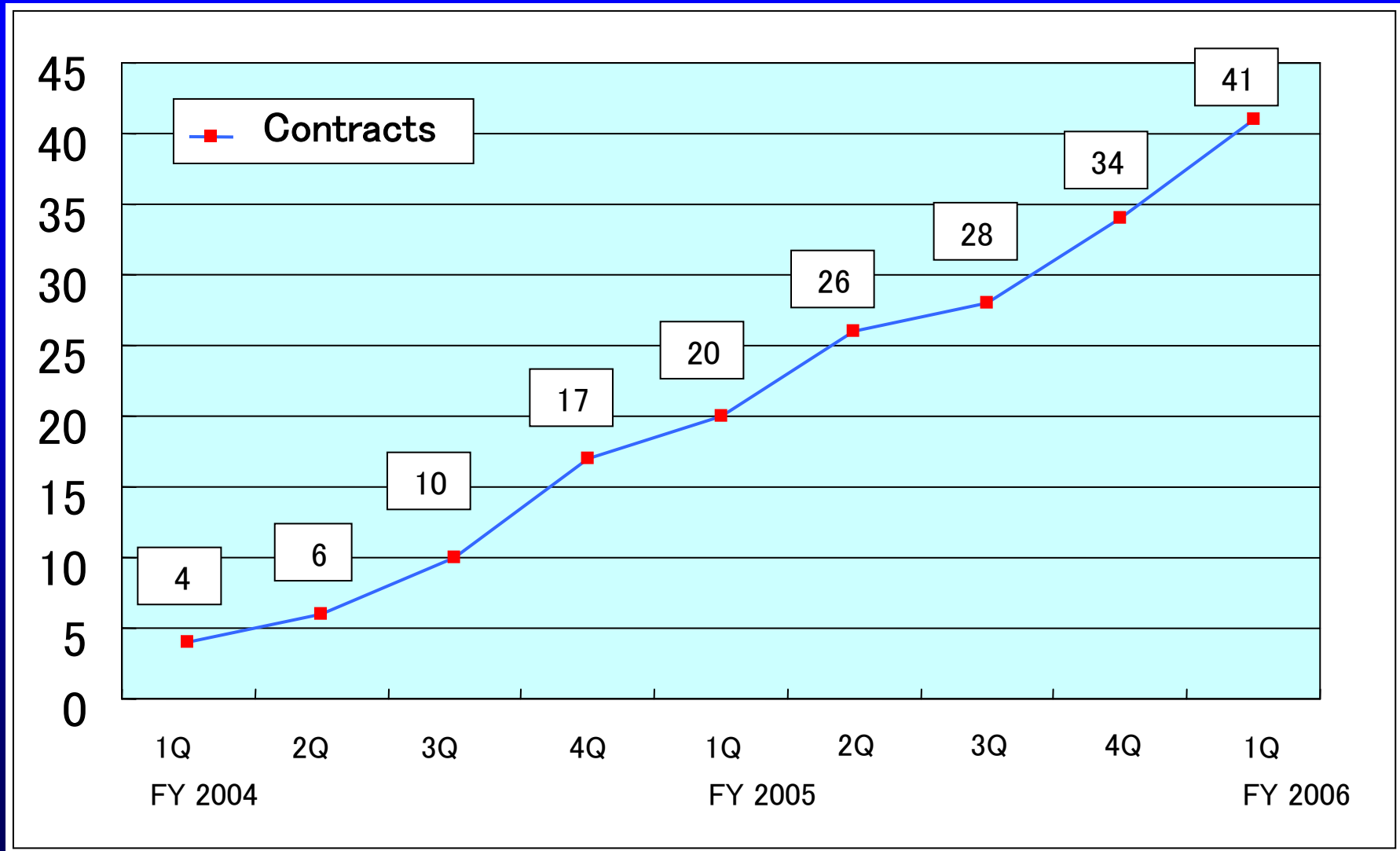
Marketing Overview

- **Sales of kit products in the first quarter**
- **Contracts for Operamaster**
- **Sales of Operamaster**
- **Daily production volume of Operamaster**
- **Progress of Operamaster marketing**
- **Operamaster introduction : Benefit 1 (enhanced business efficiency)**
- **Operamaster introduction : Benefit 2 (enhanced business efficiency)**
- **Operamaster introduction : Benefit 3 (lower inventories)**
- **Seminars**
- **Surrem Strategy**

Sales of Kit Products in the First Quarter

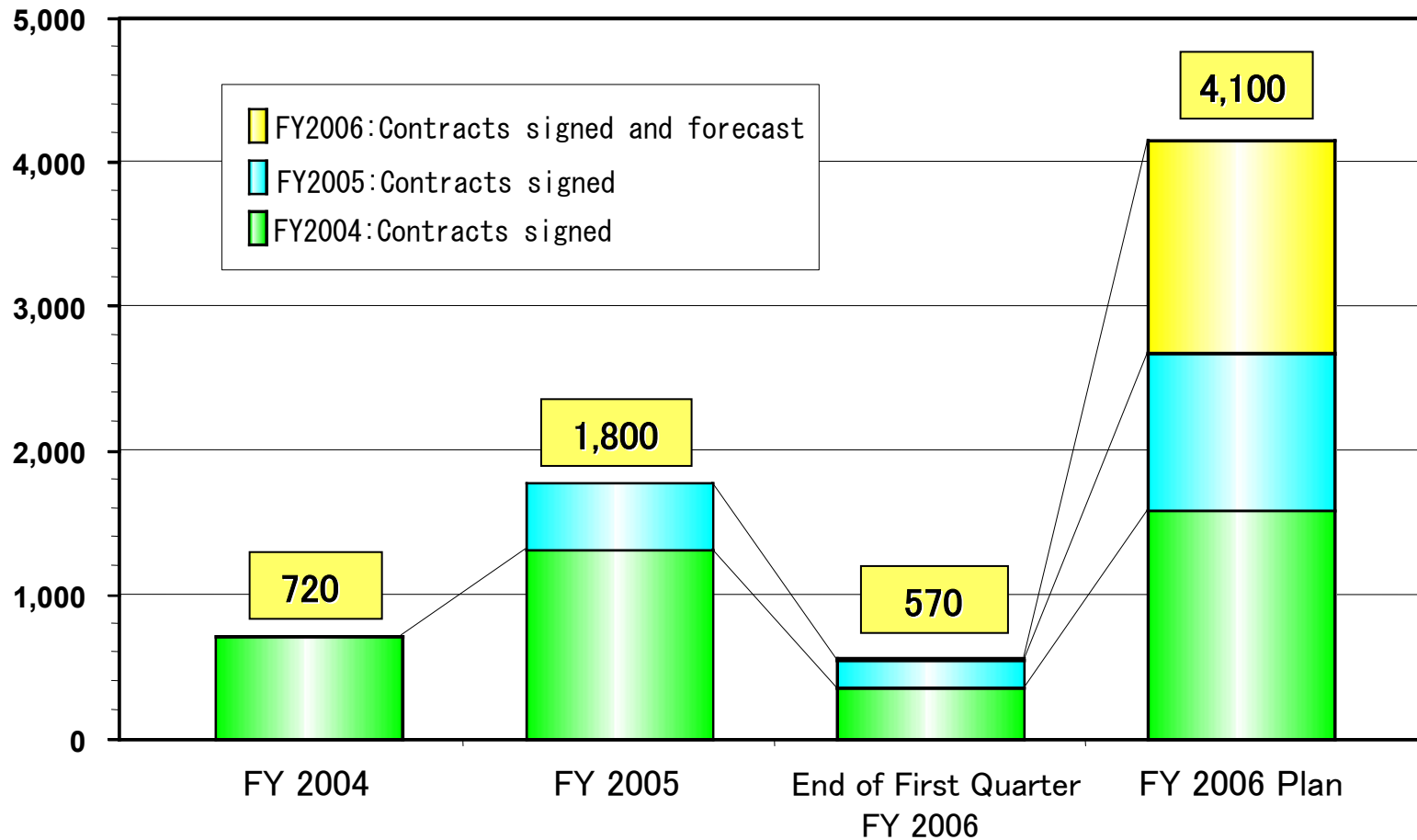


Contracts for Operamaster



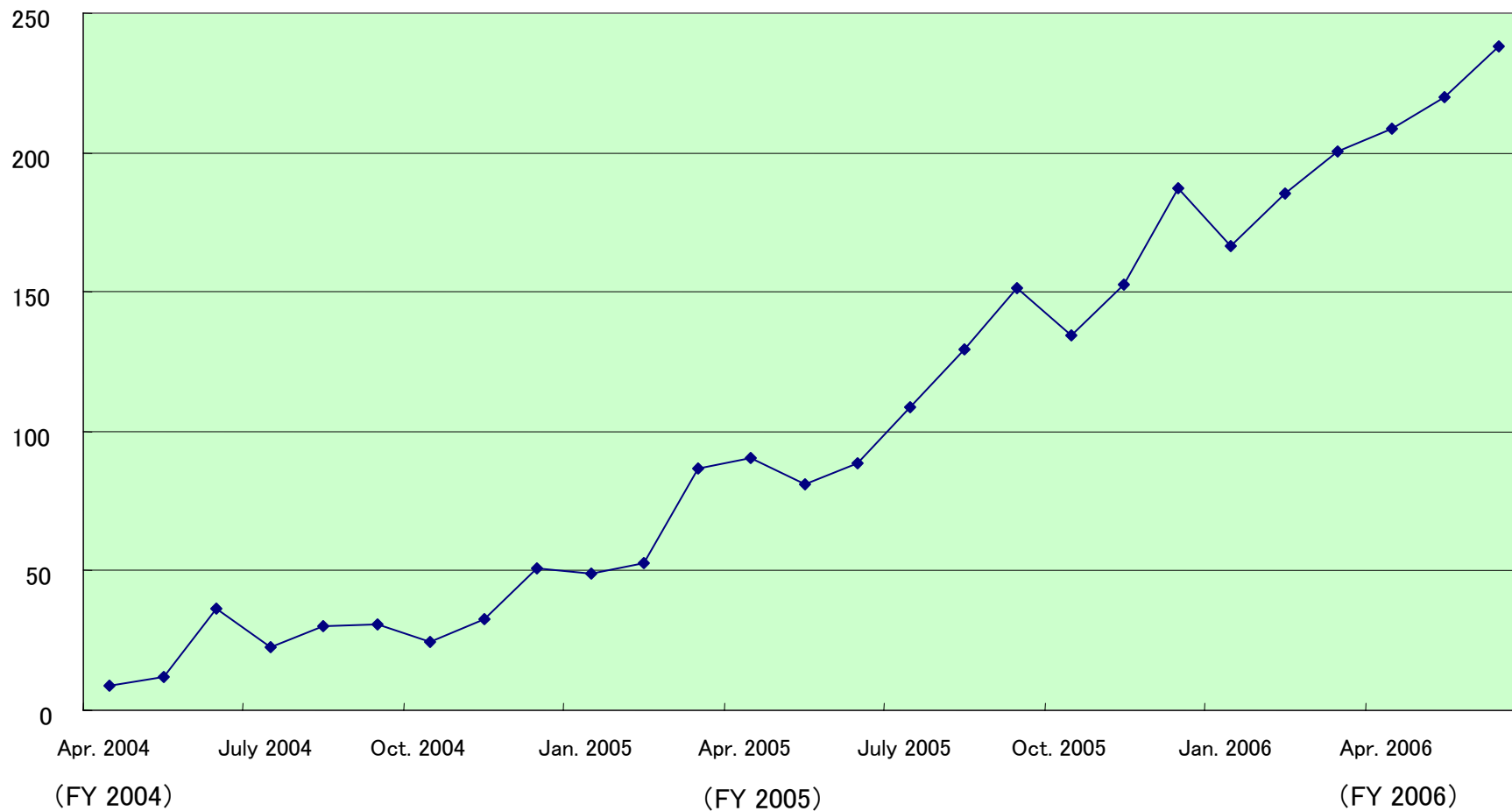
Sales of Operamaster

(Unit: million yen, rounded down)



Daily Production Volume of Operamaster

(Product)



Progress of Operamaster Marketing

- **Number of Operamaster contracts**
 - by the end of first quarter, Fiscal 2006 : 41**
 - Sales of Operamaster : ¥570 million (Up 153% year-on-year)**

- **Sales of kit products in the first quarter, Fiscal 2006 : ¥2,444 million**
(Up 116.1% year-on-year)

- **Plan of Operamaster in Fiscal 2006**
 - **Contracts : 69 (cumulative)**
 - **Sales : ¥4,100 million**

- **Plan of kit sales in Fiscal 2006**
 - **¥11,090 million (of which Operamaster to account for 37%)**

Operamaster Introduction : Benefit 1

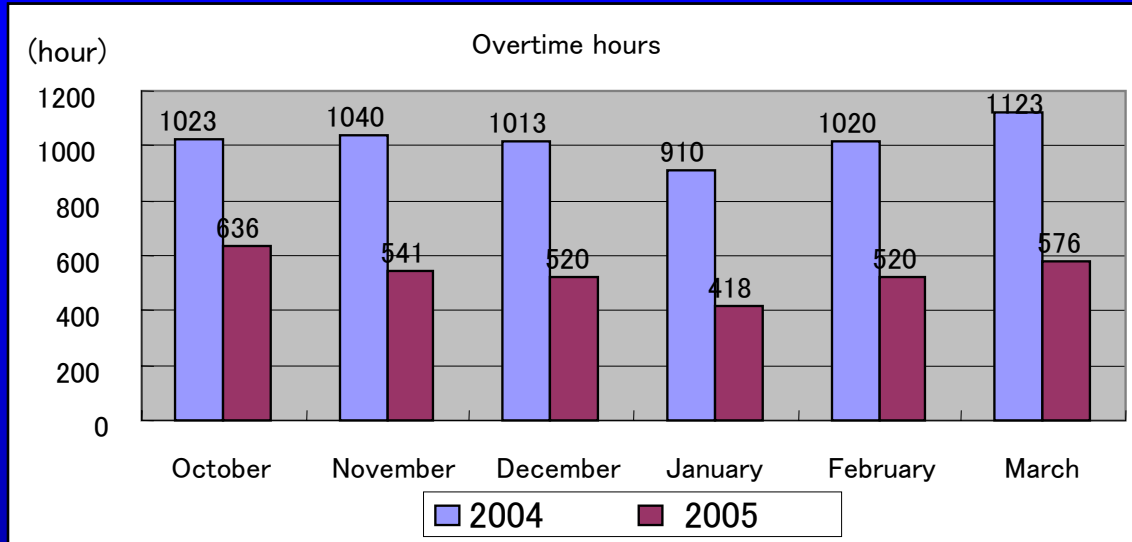
(Example of enhanced business efficiency)

| Task | Time | | Person in charge | |
|--|--------------------|-------------------|--------------------|-------------------|
| | Before Operamaster | After Operamaster | Before Operamaster | After Operamaster |
| 1. Room preparation | 16 min. | 00 min. | Nurse | Vendor |
| 2. Arrangement of anesthesia and catheterization | 05 min. | 01 min. | Nurse | Nurse |
| 3. Arrangement of consumables | 12 min. | 03 min. | Nurse | Nurse |
| 4. Equipment and materials clean-up | Not applicable | 00 min. | Vendor | Vendor |
| 5. Room cleaning | Not applicable | 00 min. | Vendor | Vendor |
| 6. Machinery counting and washing | Not applicable | 00 min. | Vendor | Vendor |
| 7. Picking | 12 min. | 00 min. | Nurse | Vendor |
| 8. Transportation | 02 min. | 00 min. | Nurse | Vendor |
| 9. Inventory checking | 19 min. | 00 min. | Nurse | Vendor |
| Total | 66 min. | 04 min. | | |

* Real example of Hospital C

Operamaster Introduction : Benefit 2

(Enhanced business efficiency - examples of reduction in overtime)



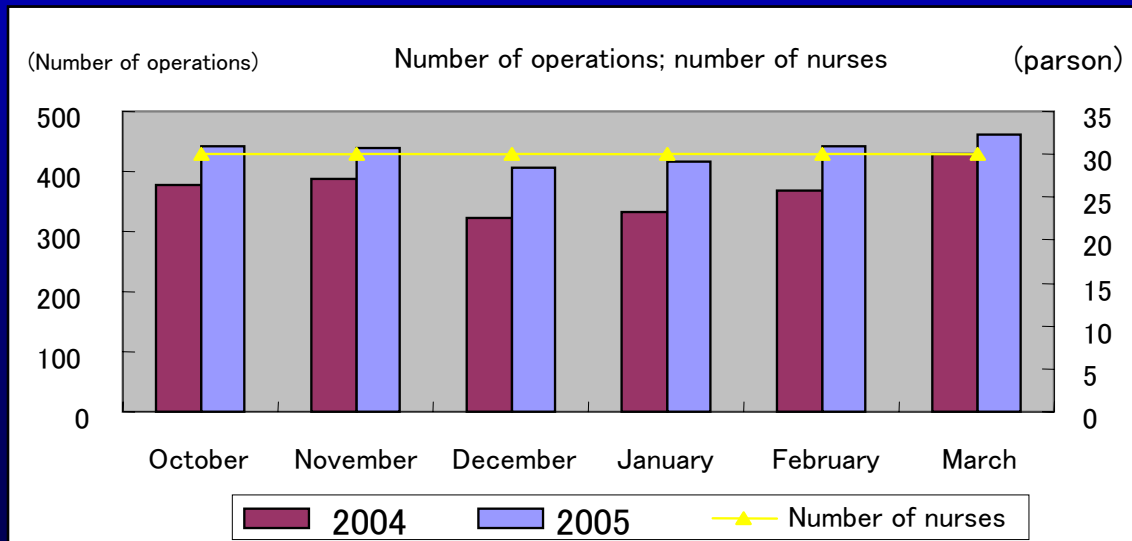
Before Operamaster:
6121 hours (half year)



After Operamaster:
3211 hours (half year)



Improved leeway
and motivation



More operations,
without increasing nurses

* Real example of Hospital C

Operamaster Introduction : Benefit 3

(Example of lower inventories)

(Before Operamaster)



88 types; 946 items

(After Operamaster)



73 types; 174 items

Seminars

✓ Announcements of hospitals using Operamaster

- Japan Society for Health Care Management (Opening Jun. 17, 2006)
Around 300 attendees

✓ Schedule for seminars hosted by Hogy Medical

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

Surrem Strategy

- ✓ Further strengthen Surrem brand and strategies
 - Apply the concept of Surrem non-wovens (low price, high function, high quality) to low-value-added products

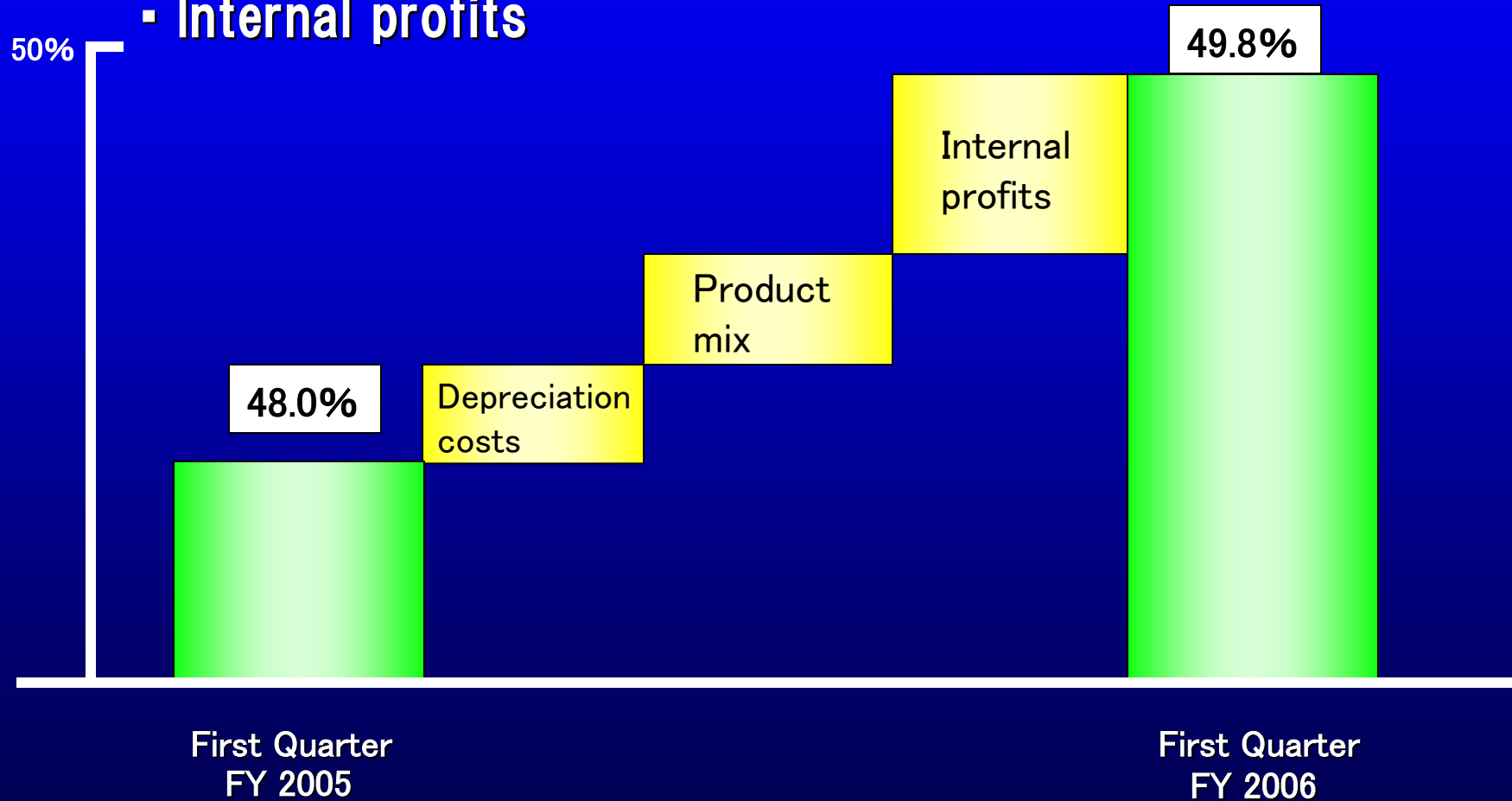


- Recover market share by raising competitiveness

Next strategies

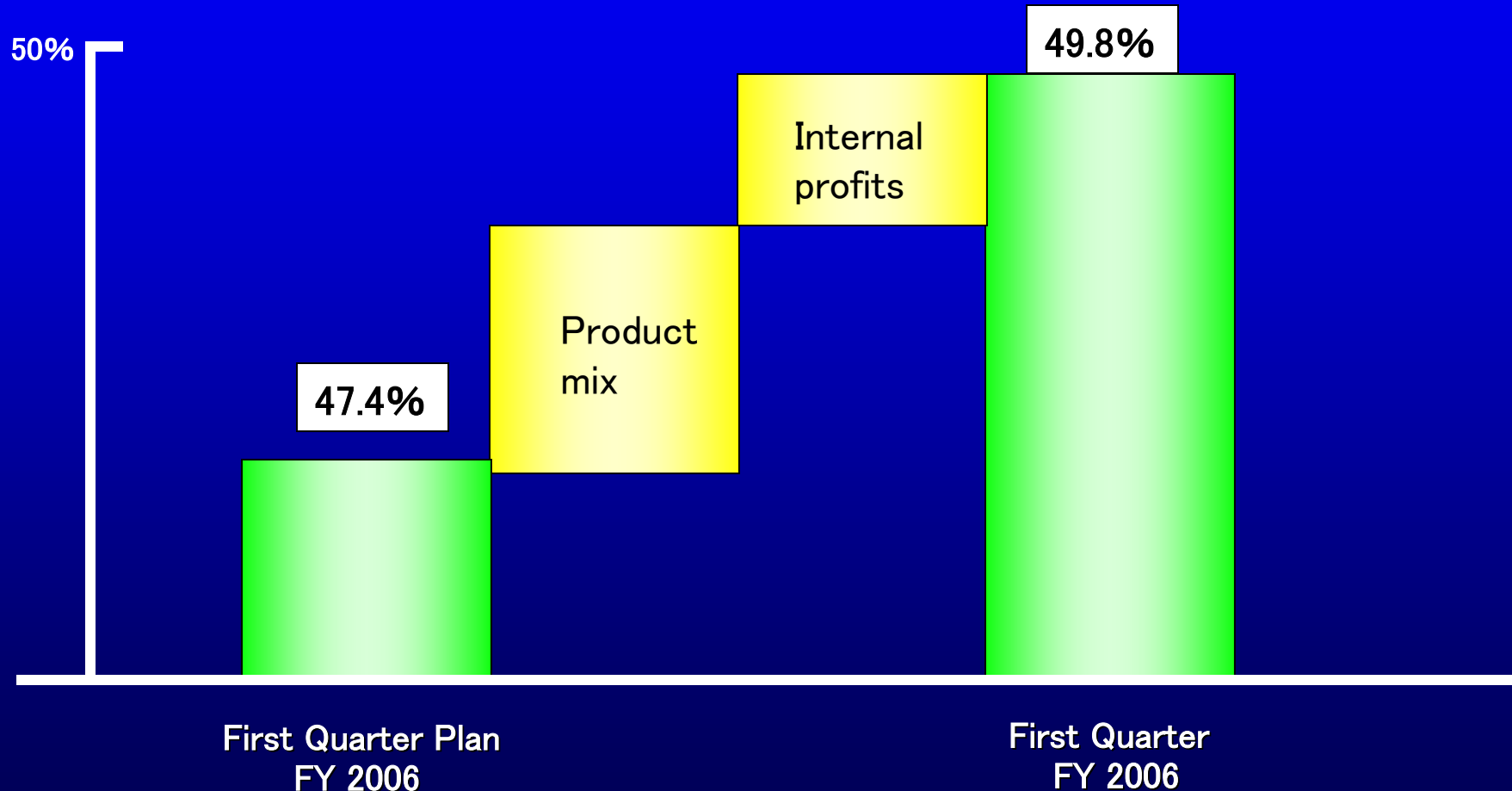
Cost of Sales Analysis (year-on-year comparison)

- Higher depreciation costs
- Product mix (Sontara – mainly gowns)
- Internal profits

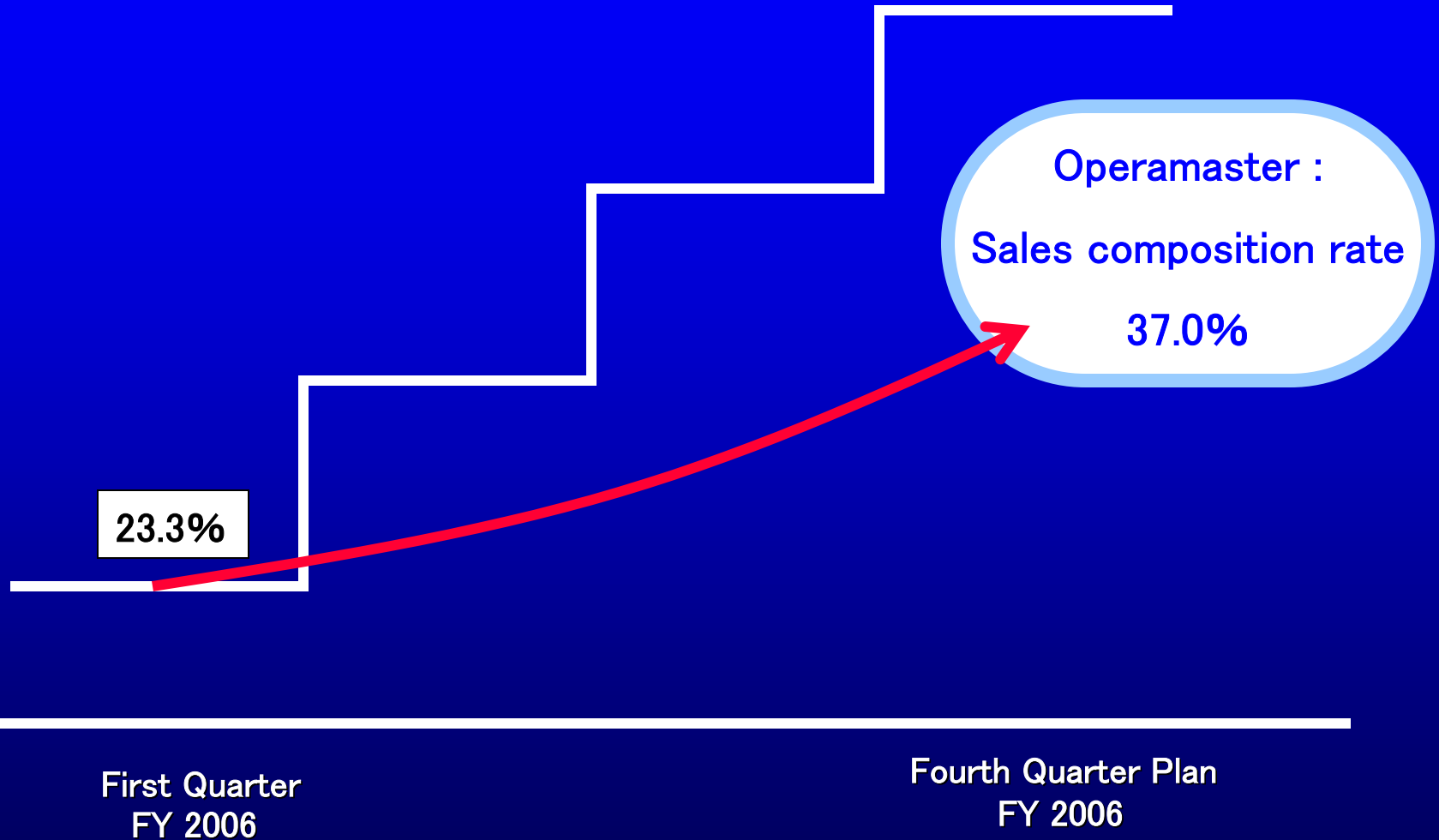


Cost of Sales Analysis (compared with forecast)

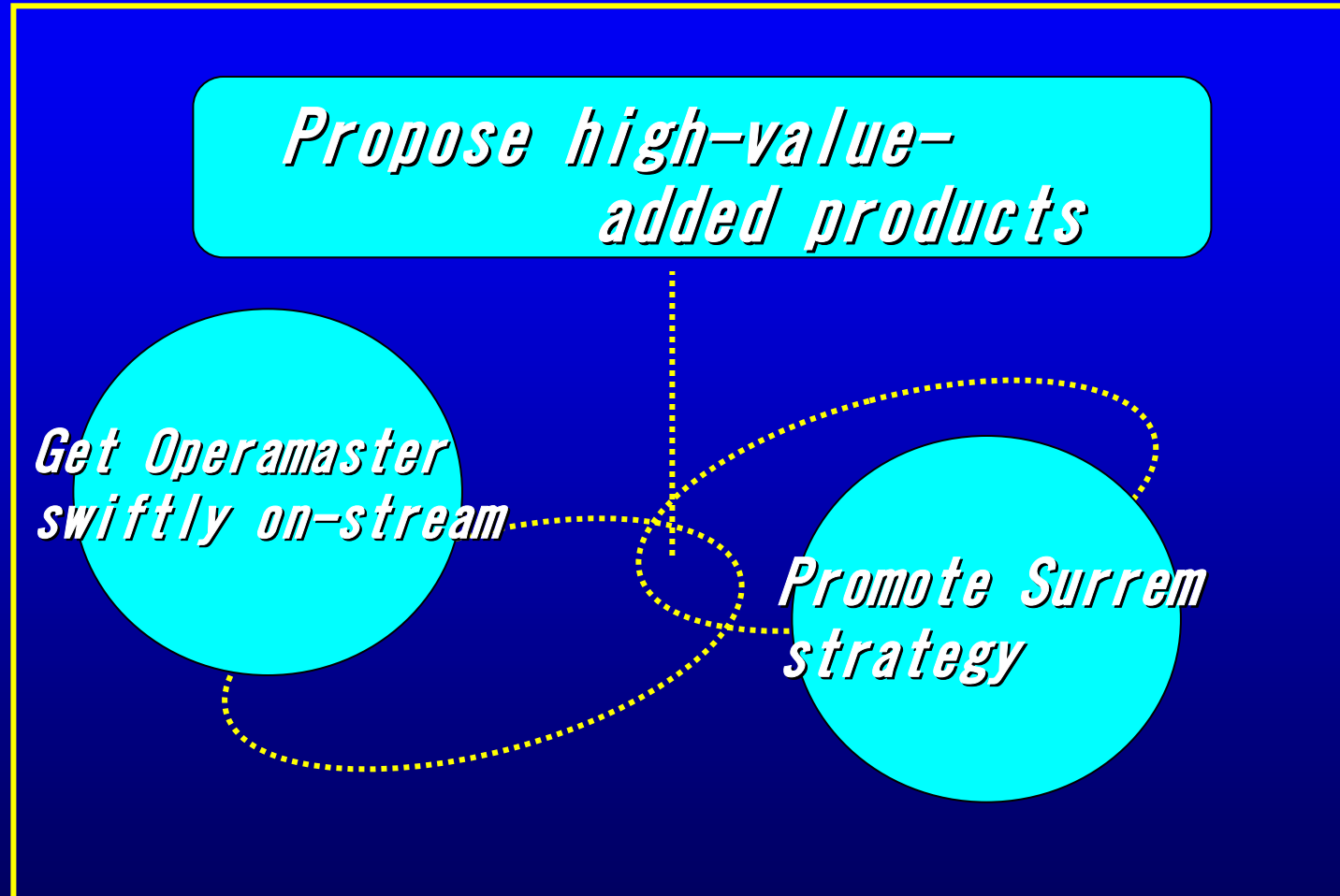
- Product mix (kit products)
- Internal profits



Sales Composition Rate of Operamaster



Next Strategies



Operamaster Strategy

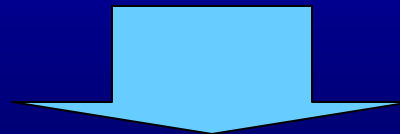
Number of sales departments up from 3 to 6

Establish 2 new sales offices (Utsunomiya, Kagoshima)

Reinforce and upgrade Sales Promotion Dept.

Strengthen marketing aimed at hospital groups

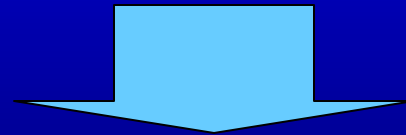
Adopt new approaches via academic societies, seminars, etc.



Accelerate launch

Surrem Strategy

1. Kit products: Upgrade ophthalmology, radiation, and hospital ward kits
2. Non-wovens: Launch new products, especially in second half
3. Diversify procurement methods



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

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