

HOGY



October 17, 2006

Interim Report First Half of Fiscal 2006

(April 1 – September 30, 2006)

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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.

First Term Analysis and Second Term Correspondence

First Term Analysis and Second Term Correspondence

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Profit and loss factors during the first term



Factors for failure of the planned sales: Impact of market environment, short sighted measures and slow progress of Operamaster

Complex impact of the factors above brought the growth to a sharp fall

Market environment factor

Revision of medical treatment remuneration to minus has alarmed customers about the cost

Decrease in sales price; Apparent delay in signing contracts for Operamaster”

Short sighted measures

Despite the introduction of leadership working-in-team system,

Outcome : Sharp fall on sales staff's visit to customers

(PR and follow ups: both insufficient)

- Lost to other companies (Drop of amount)
- Lack of new customers and short termed success

Factors for slower progress of Operamaster

- Delay on the part of hospitals in reaching consensus
- Delay in installment even after signing of contracts

First Term Analysis and Second Term Correspondence⁴

Second term measures

Surrem Strategies

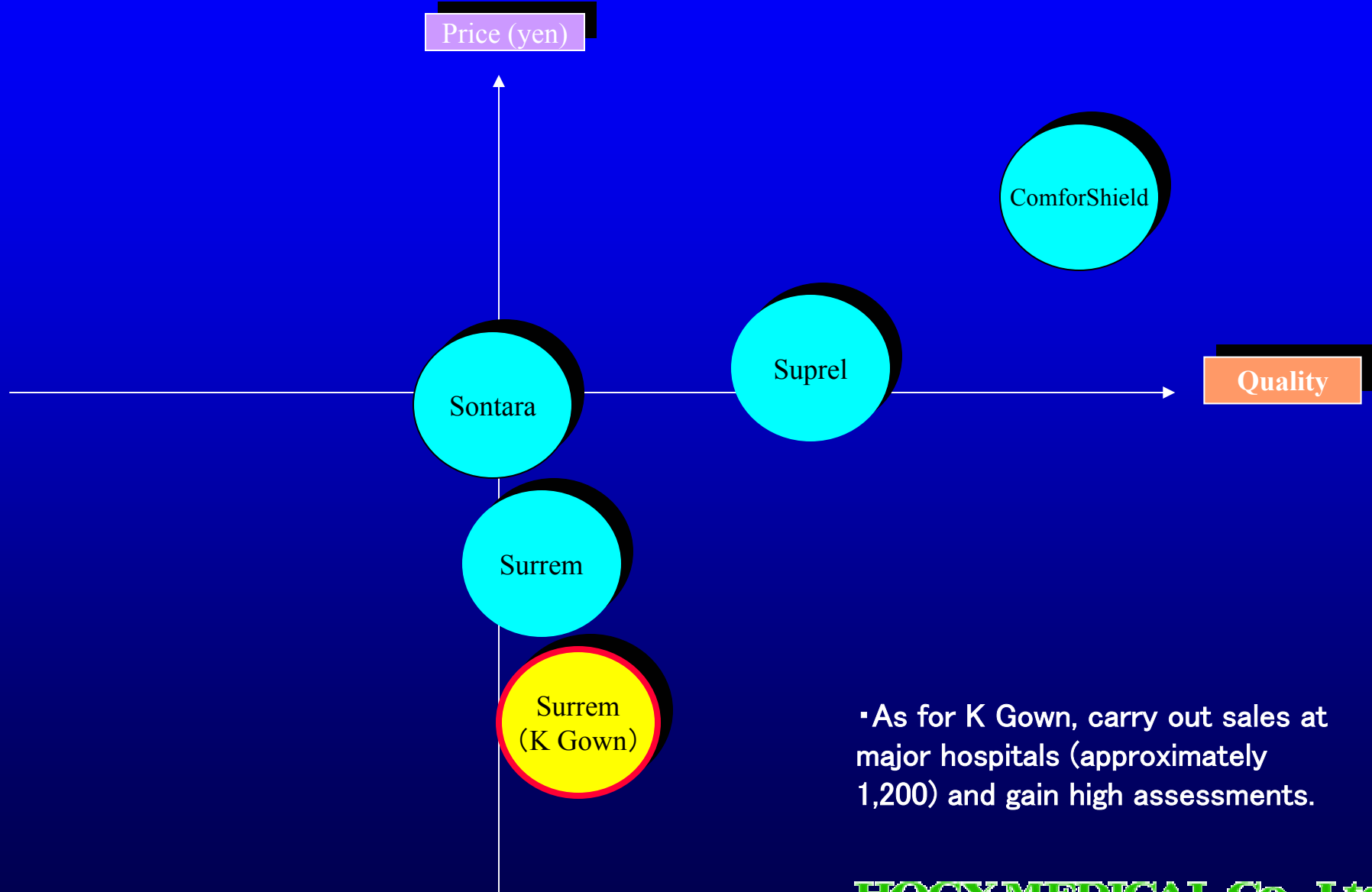
Promotion of high level function, low priced product

Suspend the leadership system

Show of the Company's strong points, mobility to respond any demanding situation

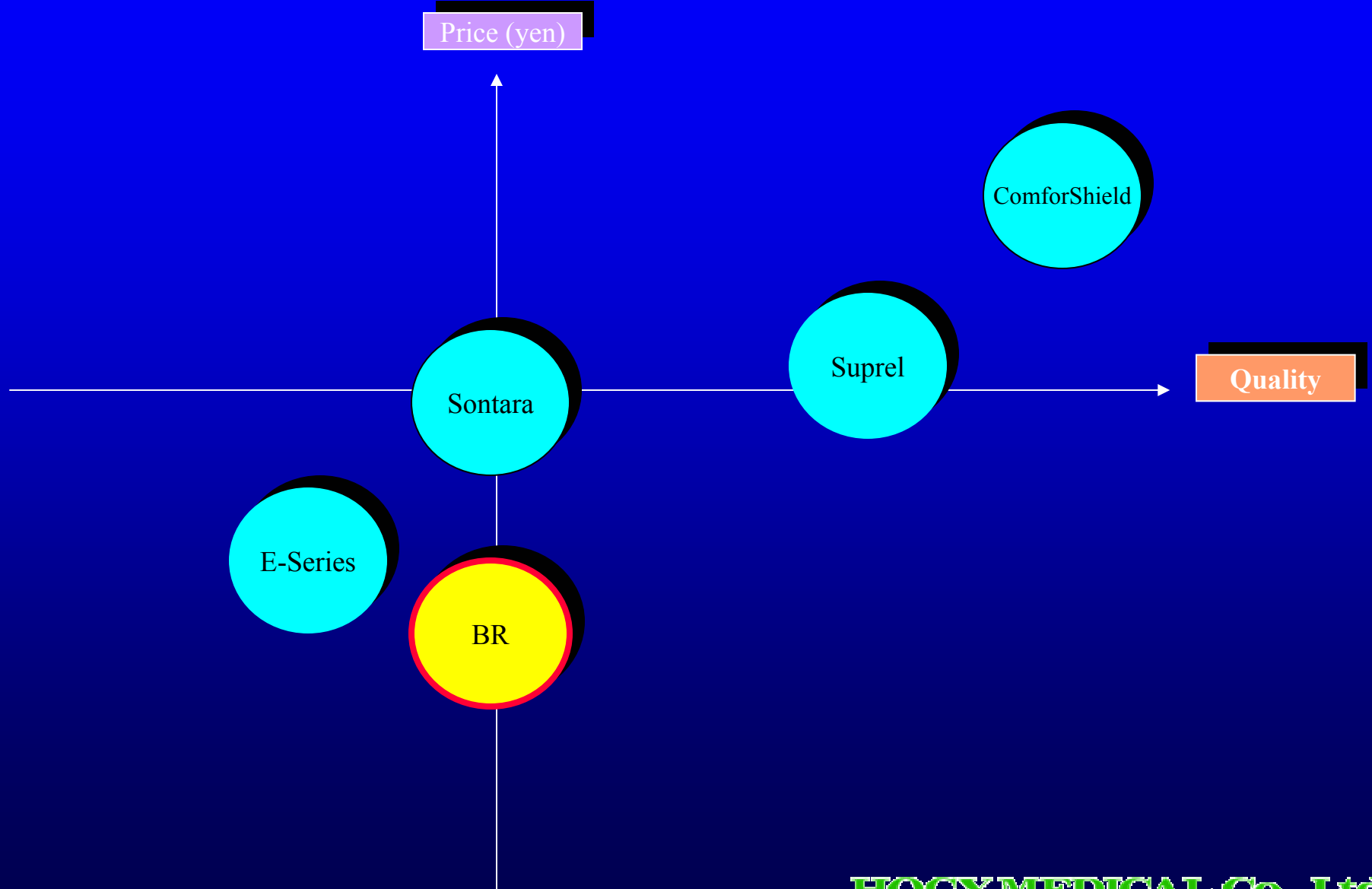
Apply efficient supervision on Operamaster

Positioning of Gown (Image)



• As for K Gown, carry out sales at major hospitals (approximately 1,200) and gain high assessments.

Positioning of Drape (Image)

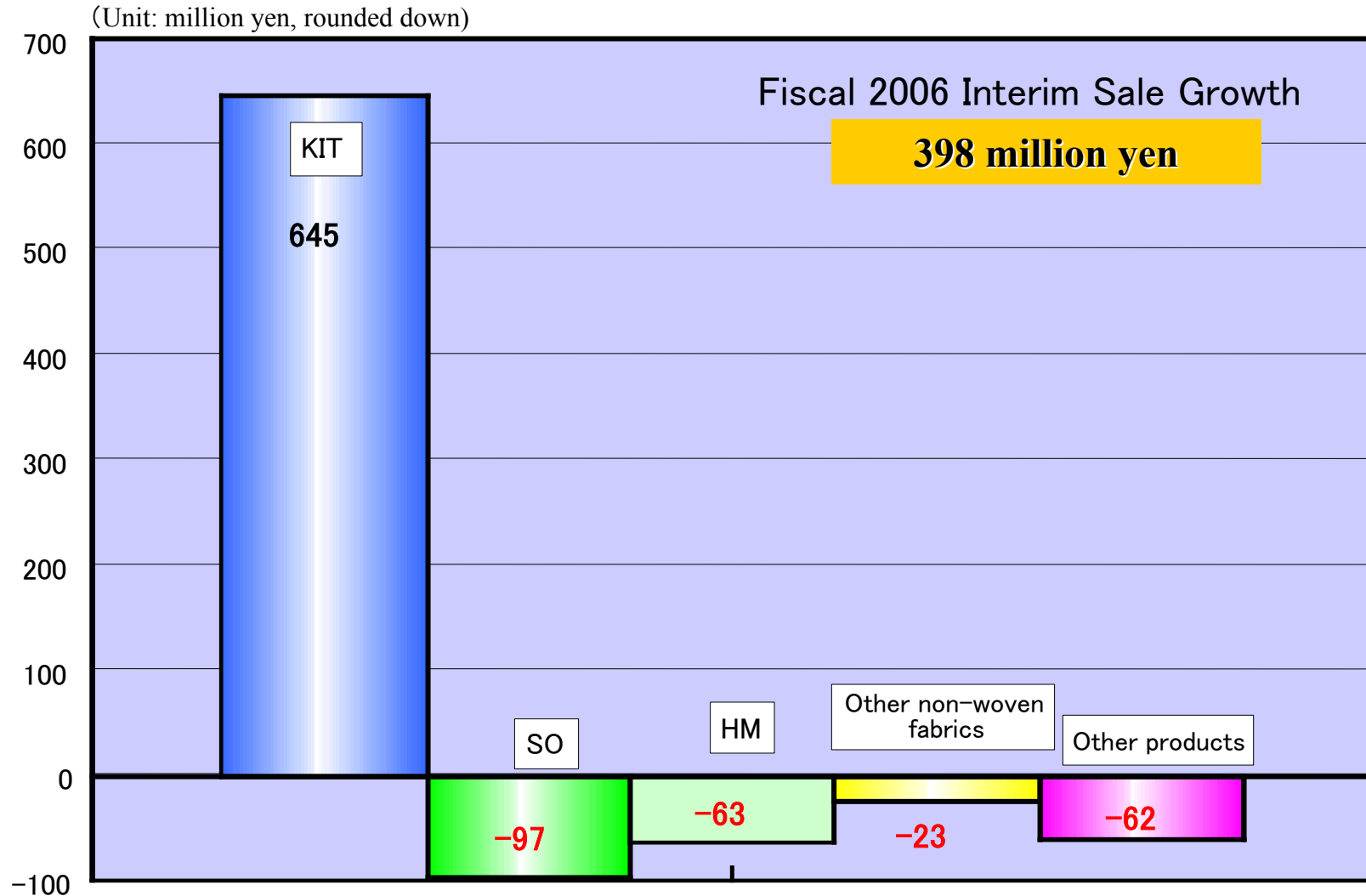


Overview and Analysis (Consolidated)

Fiscal 2006 Income Statements (Interim Periods)

(Unit: million yen, rounded down)	Fiscal 2005 Interim Results		Fiscal 2006 Interim Initial Plan		Fiscal 2006 Interim Results		Year-on-Year Comparison		Plan Comparison	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	%	Amount	%
Net sales	13,023		14,046		13,422		398	103.1%	-624	95.6%
Cost of sales	6,267	48.1%	6,677	47.5%	6,668	49.7%	401	106.4%	-8	99.9%
Gross profit	6,756	51.9%	7,369	52.5%	6,753	50.3%	-2	100.0%	-615	91.6%
SG&A expenses	3,599	27.6%	3,928	28.0%	3,796	28.3%	197	105.5%	-131	96.7%
Operating income	3,157	24.2%	3,441	24.5%	2,957	22.0%	-200	93.7%	-484	85.9%
Non-operating income/loss	128		5		69		-59		62	
Ordinary income	3,286	25.2%	3,447	24.5%	3,026	22.5%	-259	92.1%	-420	87.8%
Extraordinary income/loss	24		-25		-26		-49		-1	
Income before income taxes and minority interests	3,310	25.4%	3,422	24.4%	3,000	22.4%	-310	90.6%	-422	87.7%
Net income	2,020	15.5%	2,045	14.6%	1,784	13.3%	-236	88.3%	-261	87.2%
EPS (total shares)	123.66 yen		125.17 yen		109.18 yen					
Number of shares outstanding	16,341,155		16,341,155		16,341,155					
EPS (minus treasury shares)	129.84 yen		131.31 yen		114.41 yen					
Number of shares after deducting treasury shares	15,563,272		15,576,799		15,594,062					

Fiscal 2006 Sales Growth by Major Products (Interim Period)



Fiscal 2006 Performance Analysis (Interim Period)

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Net Sales : Up ¥398 million (103.1%), compared with forecast decrease of ¥624 million (95.6%)

- **Kit products : Up ¥645 million (114.8%), compared with forecast decrease of ¥306 million (94.2%)**
 - **Operamaster : Wider gap among hospitals**
 - **Regular kits : Pressure to reduce prices of low-value-added products**

- **Sontara products : Down ¥97 million (98.2%), compared with forecast decrease of ¥146 million (97.3%)**
 - **Pressure to reduce prices of low-value-added products**

Progress of Operamaster

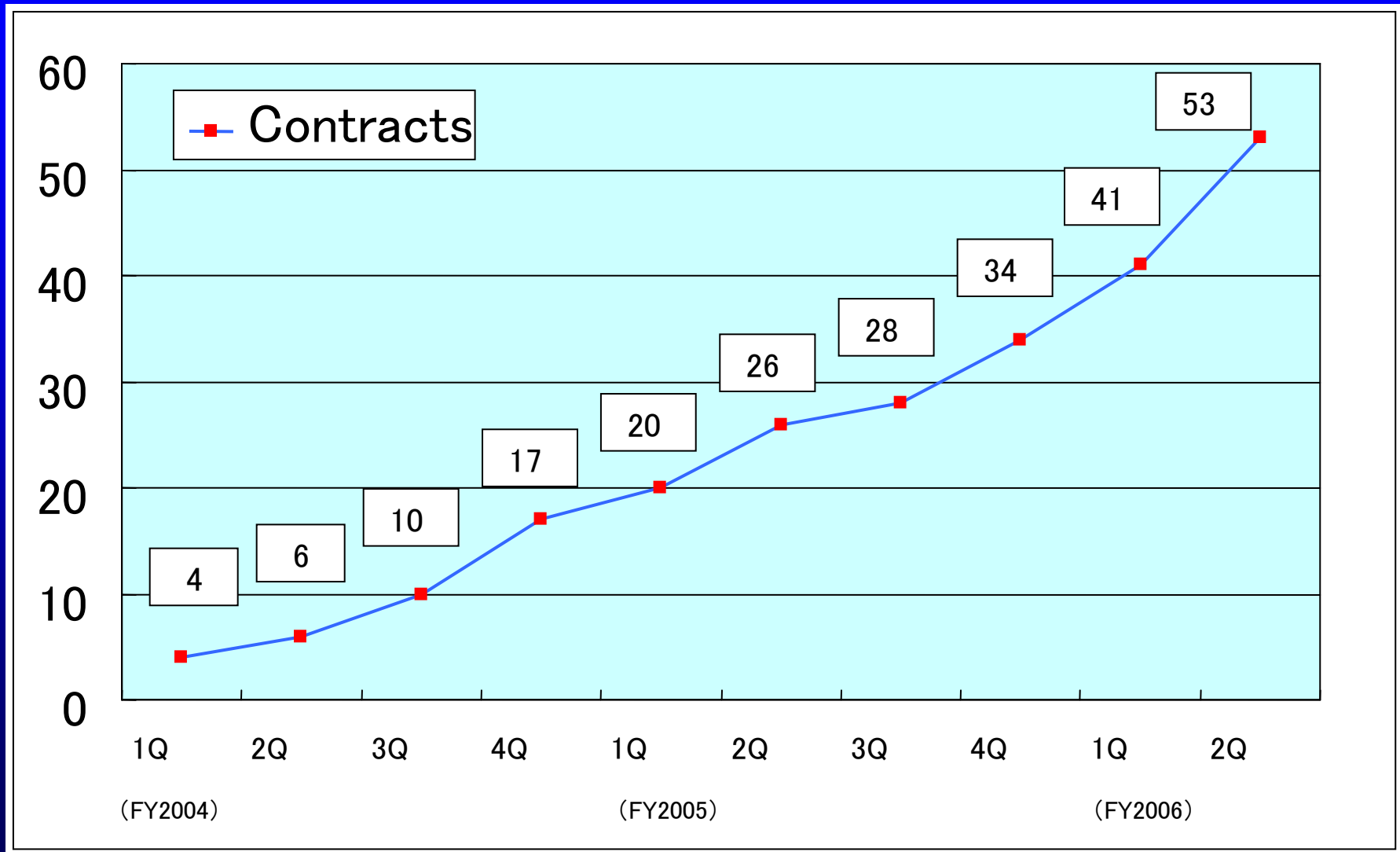
- **Fiscal 2006 Number of Operamaster contracts at interim term-end**
: 53(cumulative)
Sales of Operamaster : ¥1,350 million (Up 152% year-on-year)

- **Fiscal 2006 Sales of kit products (Interim period)**
: ¥4,996 million (Up 114.8% year-on-year)

- **Fiscal 2006 Operamaster revised plan**
 - **Contracts : 69 (cumulative)**
 - **Sales : ¥3,100 million**

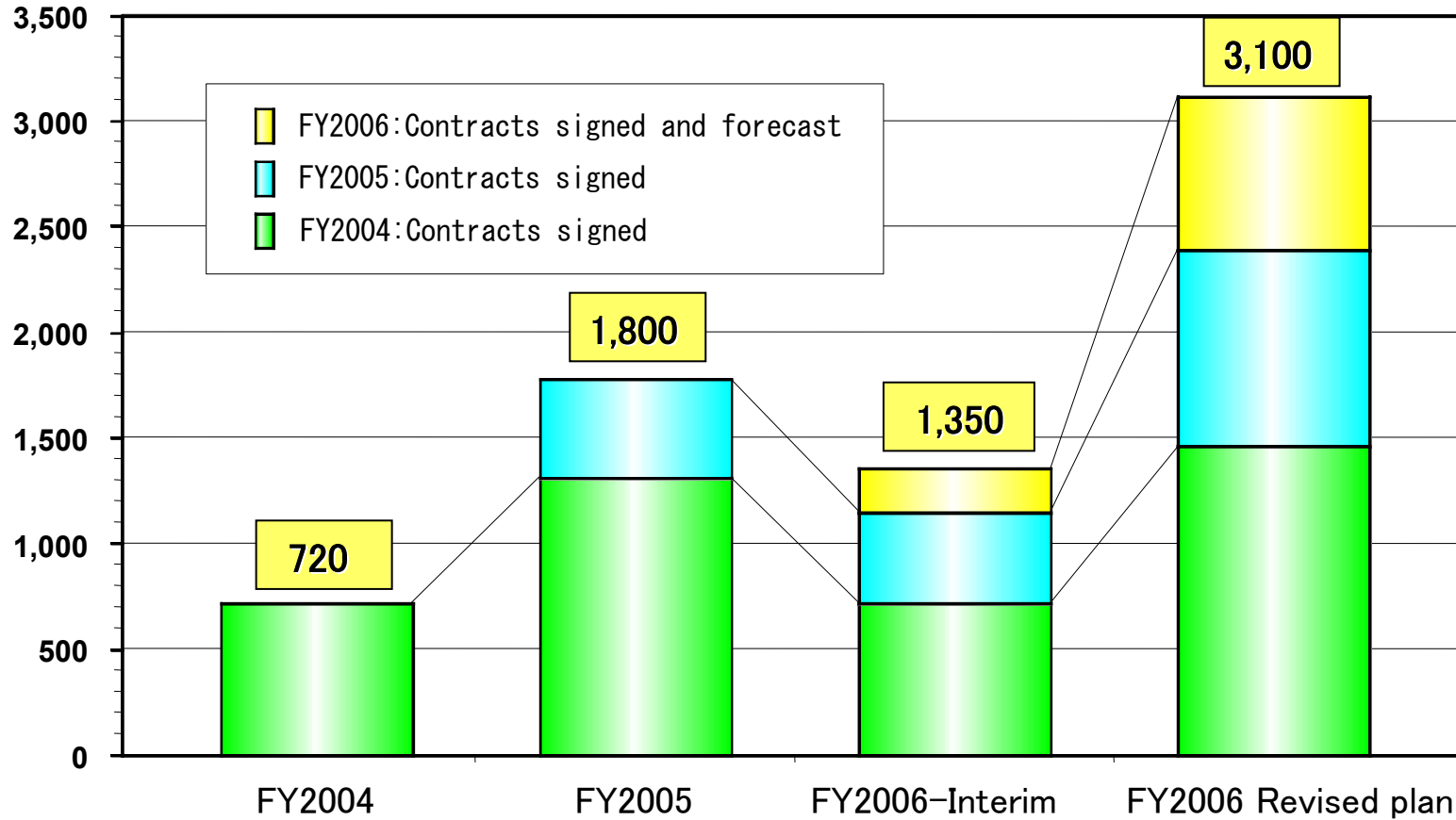
- **Fiscal 2006 Kit products sales revised plan**
 - **¥10,322 million (of which Operamaster to account for 30%)**

Contracts for Operamaster



Sales of Opermaster

(Unit: million yen, rounded down)



Fiscal 2006 Performance Analysis (Interim Period)

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- **Cost of sales : 2.2 points higher than target**
 - ✓ **Product mix**
 - ✓ **Internal profits**

- **SG & A expenses : Compared with forecast decrease of ¥131 million**
 - ✓ **Depreciation expense, R & D expenses and transportation**

- **Non-operation income/loss**
 - ✓ **Gain from expiry of directors' insurance policies**

- **Extraordinary income/loss**
 - ✓ **Allowance for doubtful accounts**

Fiscal 2006 Second Term Statements of Income (Revised Plan)

(Unit: million yen, rounded down)	Fiscal 2005 Second Half Results		Fiscal 2006 Second Half Initial Plan		Fiscal 2006 Second Half Revised Plan		Year-on-Year Comparison		Initial Plan Comparison	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	%	Amount	%
Net sales	13,410		14,353		13,577		166	101.2%	-775	94.6%
Cost of sales	6,592	49.2%	6,866	47.8%	6,671	49.1%	78	101.2%	-194	97.2%
Gross profit	6,818	50.8%	7,486	52.2%	6,906	50.9%	88	101.3%	-580	92.2%
SG&A expenses	3,774	28.1%	3,921	27.3%	3,753	27.6%	-21	99.4%	-168	95.7%
Operating income	3,043	22.7%	3,564	24.8%	3,152	23.2%	109	103.6%	-412	88.4%
Non-operating income/loss	108		6		30		-78		24	
Ordinary income	3,152	23.5%	3,571	24.9%	3,183	23.4%	31	101.0%	-387	89.1%
Extraordinary income/loss	-15		-25		-13		2		11	
Income before income taxes and minority interests	3,136	23.4%	3,546	24.7%	3,169	23.3%	33	101.1%	-376	89.4%
Net income	1,888	14.1%	2,155	15.0%	1,905	14.0%	16	100.9%	-250	88.4%

Fiscal 2006 Full Year Statements of Income (Revised Plan)

(Unit: million yen, rounded down)	Fiscal 2005 Results		Fiscal 2006 Initial Plan		Fiscal 2006 Revised Plan		Year-on-Year Comparison		Initial Plan Comparison	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	%	Amount	% of total
Net sales	26,434		28,400		27,000		565	102.1%	-1,400	95.1%
Cost of sales	12,860	48.6%	13,543	47.7%	13,340	49.4%	479	103.7%	-203	98.5%
Gross profit	13,574	51.4%	14,856	52.3%	13,660	50.6%	85	100.6%	-1,196	91.9%
SG&A expenses	7,373	27.9%	7,850	27.6%	7,550	28.0%	176	102.4%	-300	96.2%
Operating income	6,200	23.5%	7,006	24.7%	6,110	22.6%	-90	98.5%	-896	87.2%
Non-operating income/loss	237		12		100		-137		87	
Ordinary income	6,438	24.4%	7,018	24.7%	6,210	23.0%	-228	96.5%	-808	88.5%
Extraordinary income/loss	8		-50		-40		-48		10	
Income before income taxes and minority interests	6,446	24.4%	6,968	24.5%	6,170	22.9%	-276	95.7%	-798	88.5%
Net income	3,909	14.8%	4,201	14.8%	3,690	13.7%	-219	94.4%	-511	87.8%
EPS (total shares)	235.15 yen		257.10 yen		225.81 yen					
Number of shares outstanding	16,341,155		16,341,155		16,341,155					
EPS (minus treasury shares)	246.83 yen		269.71 yen		236.61 yen					
Number of shares after deducting treasury shares	15,567,955		15,576,799		15,595,394					

Fiscal 2006 Revised Plan of Sales Growth by Main Products (Interim Period)

Sales growth (first half results and second half revised plan)

(Unit: million yen, rounded)



	KIT	SO	HM	Other non-woven fabrics	Other products
Second half revised plan	556	-189	-90	-33	-75
First half results	645	-97	-63	-23	-62
Total	1,201	-286	-153	-56	-138
Full-year revised plan	1,201	-286	-153	-56	-138

Fiscal 2006 Full Year Forecast Breakdown

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Net sales : Rectification of factors in the first term

Reconsideration of present progress of Operamaster

Cost of sales : Change of cost rate depending on composition of products

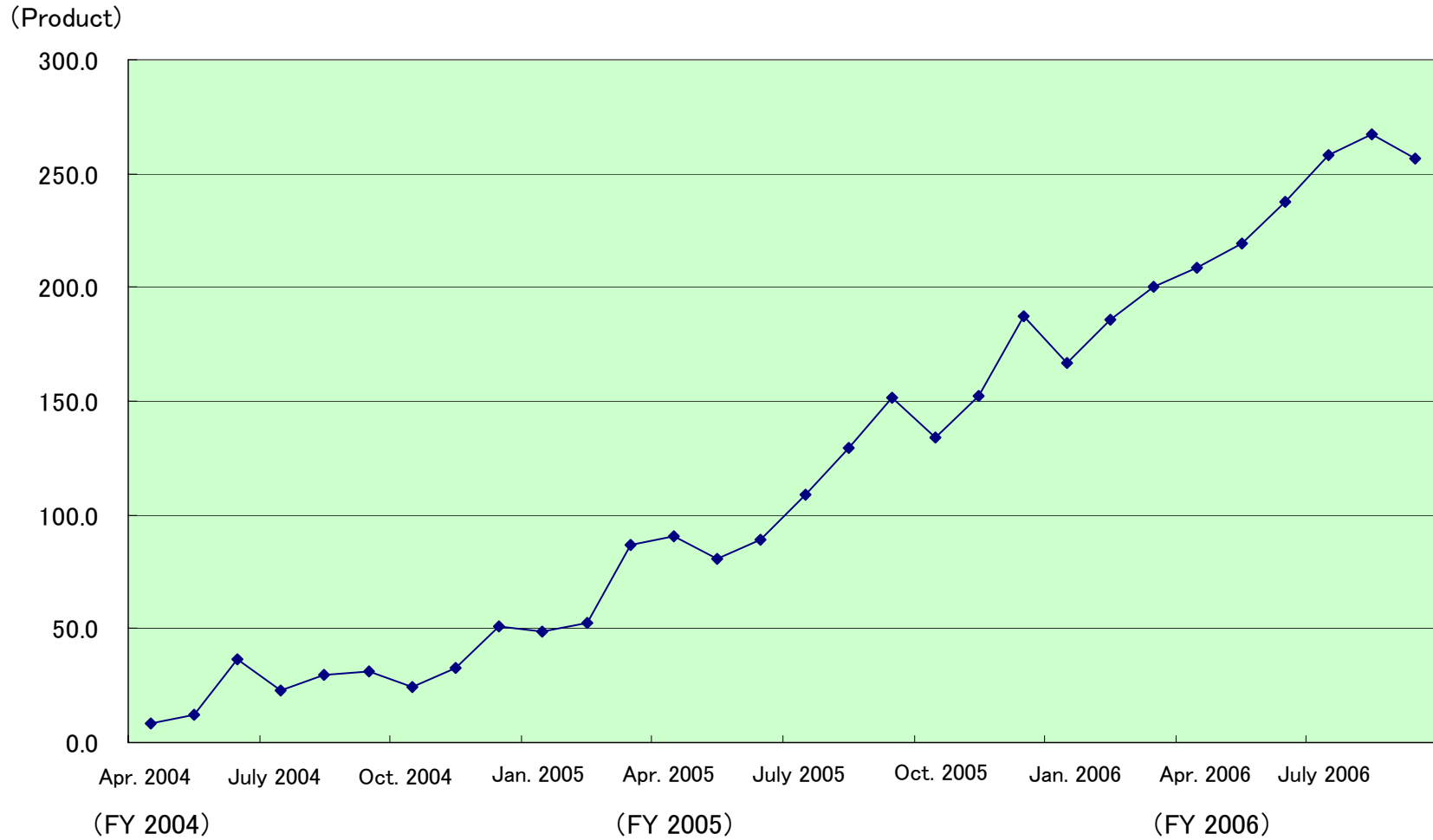
SG & A : Reassessed Second half plan based on first half results

→ Further planning of effective cost control

Non operating income/expenses : No changes (Second term as scheduled in the initial plan)

Extraordinary income/expenses : No changes (Second term as scheduled in the initial plan)

Daily Production Volume of Operamaster



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