November 15, 2006

## Financial Statements

For the First half ended September 30, 2006

SANIX INCORPORATED

| | |
|---|---|
| Stock Listed: | Tokyo Stock Exchange First Section, Osaka Stock Exchange First Section, Fukuoka Stock Exchange |
| Code No.: | 4651 |
| URL: | http://www.sanix.co.jp/ |
| Headquarters: | 2-1-23, Hakataeki Higashi, Hakata-ku, Fukuoka 812-0013 JAPAN<br>TEL: 81-92-436-8870 / FAX: 81-92-436-8871 |
| President and CEO: | Shin-ichi Munemasa |
| Contact: | Kozo Inoue, Managing Director, Administration Department, Management and Planning Division |

### 1. Non-Consolidated Financial Highlights for the First-Half ended September 30, 2006

(April 1, 2006 to September 30, 2006)

#### (1) Non-Consolidated Operating Results

(Millions of Yen)

| | First Half between April 1 and September 30 | | | | Full Year ended March 31 |
|---|---|---|---|---|---|
| | **FY2007** | **% change** | FY2006 | % change | FY2006 |
| Net Sales. . . . . . . . . . . . . . . . . . . . . . . | **14,706** | **(25.6%)** | 19,774 | (9.7%) | 35,031 |
| Operating Income. . . . . . . . . . . . . . . . . | **(1,465)** | **-** | (891) | - | (3,467) |
| Recurring Profit. . . . . . . . . . . . . . . . . . . | **(1,526)** | **-** | (908) | - | (3,580) |
| Net Income. . . . . . . . . . . . . . . . . . . . . | **(1,537)** | **-** | (1,330) | - | (4,354) |
| Net Income per Share(¥). . . . . . . . . . . . | **(¥36.25)** | **-** | (¥33.49) | - | (¥109.55) |

Note (1) Average number of shares issued and outstanding during the fiscal term

| | |
|---|---|
| First Half ended September 30, 2006 | 42,423,483 shares |
| First Half ended September 30, 2005 | 39,722,071 shares |
| Fiscal Year ended March 31, 2006 | 39,749,110 shares |

Note (2) Changes in accounting method: None

Note (3) Percentages shown for net sales, operating income, recurring profit and net income are the increase and decrease compared with the previous first half ended September 30, 2005.

(2) Non-Consolidated Financial Position

(Millions of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | **FY2007** | FY2006 | FY2006 |
| Total Assets. . . . . . . . . . . . . . . . . . . . . . . . . . . | **33,975** | 40,361 | 36,791 |
| Shareholders' Equity. . . . . . . . . . . . . . . . . . . . . | **17,350** | 18,855 | 16,082 |
| Shareholders' Equity Ratio (%). . . . . . . . . . . . . . . | **51.1%** | 46.7% | 43.7% |
| Shareholders' Equity per Share (¥). . . . . . . . . . . | **¥363.65** | ¥474.55 | ¥401.89 |

Note (1) Number of shares issued and outstanding at period end

| | |
|---|---|
| First Half ended September 30, 2006 | 47,711,293 shares |
| First Half ended September 30, 2005 | 39,733,778 shares |
| Fiscal Year ended March 31, 2006 | 40,017,513 shares |

(2) Number of treasury stocks at period end

| | |
|---|---|
| First Half ended September 30, 2006 | 1,208,103 shares |
| First Half ended September 30, 2005 | 1,206,274 shares |
| Fiscal Year ended March 31, 2006 | 1,207,223 shares |

## 2. Forecasts for Non-Consolidated Business Results

(April 1, 2006 to March 31, 2007)

(Millions of Yen)

| | Full Year ending March 31 |
|---|---|
| | FY2007 |
| Net Sales. . . . . . . . . . . . . . . . . . . . . . . | 28,920 |
| Recurring Profit. . . . . . . . . . . . . . . . . . . | (830) |
| Net Income. . . . . . . . . . . . . . . . . . . . . . | (900) |
| Net Income per Share(¥). . . . . . . . . . . . | (¥18.86) |

Note: Forecasts above are based on assumptions, prospects and plans as of the date of this document. Actual results may differ significantly from these forecasts, due to various factors affecting the Company's business performance, such as change in economical conditions.

## 3. Dividends

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31 |
| | **FY2007** | FY2006 | FY2006 |
| Dividend per Share (¥). . . . . . . . . . . . . | **-** | - | - |

# I. Non-Consolidated Interim Financial Statements

## 1. Non-Consolidated Balance Sheet for the First Half

(Thousands of Yen)

| | Fist Half as of September 30 | | | | Full Year as of March 31, 2006 | |
|---|---|---|---|---|---|---|
| **ASSETS** | FY2006 | Ratio % | **FY2007** | **Ratio %** | FY 2006 | Ratio % |
| **Current Assets:** | | | | | | |
| Cash and bank deposits | 4,958,606 | | **536,314** | | 2,991,403 | |
| Note receivable | 110,702 | | **82,681** | | 84,749 | |
| Accounts receivable | 2,483,895 | | **1,973,137** | | 2,255,167 | |
| Inventories | 1,019,259 | | **707,355** | | 826,844 | |
| Other current assets | 987,506 | | **1,252,824** | | 330,362 | |
| Allowance for doubtful accounts | (42,000) | | **(50,000)** | | (42,000) | |
| **Total Current Assets:** | 9,517,970 | 23.6 | **4,502,313** | **13.3** | 6,446,528 | 17.5 |
| **Fixed Assets:** | | | | | | |
| **Tangible Fixed Assets:** | | | | | | |
| Buildings | 4,866,998 | | **4,540,779** | | 4,763,361 | |
| Machinery, equipment and vehicles | 6,013,283 | | **5,303,031** | | 5,585,545 | |
| Land | 13,583,163 | | **13,584,463** | | 13,583,163 | |
| Construction in progress | 1,051 | | **14,542** | | 2,271 | |
| Other tangible fixed assets | 1,528,358 | | **1,390,023** | | 1,469,234 | |
| **Total Tangible Fixed Assets:** | 25,992,854 | | **24,832,840** | | 25,403,576 | |
| **Intangible Fixed Assets:** | | | | | | |
| **Total Intangible Fixed Assets:** | 76,929 | | **76,308** | | 76,586 | |
| **Investments and Other Assets:** | | | | | | |
| Lease guaranty deposits | 1,486,267 | | **1,419,780** | | 1,455,800 | |
| Other | 3,688,859 | | **3,542,455** | | 3,806,909 | |
| Allowance for bad loans | (401,214) | | **(398,299)** | | (398,293) | |
| **Total Investments and Other Assets:** | 4,773,912 | | **4,563,936** | | 4,864,416 | |
| **Total Fixed Assets:** | 30,843,697 | 76.4 | **29,473,085** | **86.7** | 30,344,579 | 82.5 |
| **Total Assets:** | 40,361,667 | 100.0 | **33,975,398** | **100.0** | 36,791,107 | 100.0 |

(Thousands of Yen)

| LIABIRITIES AND NET ASSETS | First Half as of September 30 FY2006 | Ratio % | **FY2007** | **Ratio %** | Full Year as of March 31, 2006 FY 2006 | Ratio % |
|---|---|---|---|---|---|---|
| **Current Liabilities:** | | | | | | |
| Notes payable | 489,462 | | **608,145** | | 247,546 | |
| Accounts payable | 458,454 | | **380,570** | | 487,417 | |
| Short-term loans | 4,300,000 | | **3,040,000** | | 3,200,000 | |
| Long-term loans payable in 1 year | 2,540,400 | | **2,128,400** | | 2,410,400 | |
| Corporate bonds payable in 1 year | 330,000 | | **330,000** | | 330,000 | |
| Amount in arrears | 2,832,402 | | **1,716,102** | | 2,222,481 | |
| Accrued income taxes | 134,622 | | **116,184** | | 160,786 | |
| Accrued expenses | 1,302,266 | | **880,813** | | 1,139,848 | |
| Accrued bonuses | 200,000 | | - | | 170,000 | |
| Allowance for resource-recycling expenses | 772,114 | | **683,619** | | 904,914 | |
| Other current liabilities | 416,359 | | **1,309,927** | | 157,649 | |
| **Total Current Liabilities:** | 13,776,081 | 34.1 | **11,193,762** | **32.9** | 11,431,043 | 31.1 |
| **Non-Current Liabilities:** | | | | | | |
| Corporate bond | 920,000 | | **590,000** | | 3,605,000 | |
| Long-term debt | 4,788,900 | | **2,968,500** | | 3,583,700 | |
| Accrued retirement benefits | 1,658,777 | | **1,559,091** | | 1,658,304 | |
| Other non-current liabilities | 362,316 | | **313,687** | | 430,306 | |
| **Total Non-Current Liabilities:** | 7,729,994 | 19.2 | **5,431,279** | **16.0** | 9,277,311 | 25.2 |
| **Total Liabilities:** | 21,506,076 | 53.3 | **16,625,042** | **48.9** | 20,708,355 | 56.3 |
| **Shareholders' Equity:** | | | | | | |
| Paid-in capital | 12,541,096 | 31.1 | - | - | 12,616,253 | 34.3 |
| Capital surplus | | | | | | |
| Capital surplus reserve | 3,140,711 | | - | | 3,215,555 | |
| Other capital surplus | 6,005,855 | | - | | 6,005,855 | |
| Capital surplus total | 9,146,567 | 22.6 | - | - | 9,221,410 | 25.0 |
| Earned surplus | | | | | | |
| Unappropriated profits | (1,330,366) | | - | | (4,354,542) | |
| Earned surplus total | (1,330,366) | (3.3) | - | - | (4,354,542) | (11.8) |
| Valuation difference on available-for-sale securities | 107,756 | 0.3 | - | - | 209,741 | 0.6 |
| Less treasury stock at cost | (1,609,462) | (4.0) | - | - | (1,610,111) | (4.4) |
| **Total Shareholders' Equity:** | 18,855,591 | 46.7 | - | - | 16,082,752 | 43.7 |
| **Total Liabilities and Stockholders Equity:** | 40,361,667 | 100.0 | - | - | 36,791,107 | 100.0 |
| **Owners' Equity:** | | | | | | |
| Paid-in capital | - | - | **14,041,834** | | - | - |
| Capital surplus | | | | | | |
| Capital legal reserve | - | - | **4,639,973** | | - | - |
| Other capital surplus | - | - | **1,651,313** | | - | - |
| Capital surplus total | - | - | **6,291,287** | | - | - |
| Earned surplus | - | - | **(1,537,749)** | | - | - |
| Treasury stock | - | - | **(1,610,439)** | | - | - |
| **Total Owners' Equity:** | - | - | **17,184,932** | **50.6** | - | - |
| **Valuation and Translation Adjutments:** | | | | | | |
| Valuation difference on available-for-sale securities | - | - | **165,423** | | - | - |
| **Total Valuation and Translation Adjustments:** | - | - | **165,423** | **0.5** | - | - |
| **Total Net Assets:** | - | - | **17,350,356** | **51.1** | - | - |
| **Total Liabilities and Net Assets:** | - | - | **33,975,398** | **100.0** | - | - |

## 2. Non-Consolidated Statement of Income for the First Half

(Thousands of Yen)

| | First Half | | | | Full Year | |
|---|---|---|---|---|---|---|
| | between April 1 and September 30 | | | | ended March 31, 2006 | |
| | FY2006 | Ratio % | **FY2007** | **Ratio %** | FY2006 | Ratio % |
| Net sales | 19,774,677 | 100.0 | **14,706,945** | **100.0** | 35,031,780 | 100.0 |
| Cost of sales | 10,258,059 | 51.9 | **8,035,703** | **54.6** | 19,032,291 | 54.3 |
| Gross profit | 9,516,618 | 48.1 | **6,671,242** | **45.4** | 15,999,488 | 45.7 |
| Selling, general and administrative expenses | 10,407,845 | 52.6 | **8,136,286** | **55.4** | 19,466,842 | 55.6 |
| Operating income | (891,227) | (4.5) | **(1,465,043)** | **(10.0)** | (3,467,354) | (9.9) |
| Total non-operating income | 256,383 | 1.3 | **134,735** | **0.9** | 376,544 | 1.1 |
| Total non-operating expenses | 273,330 | 1.4 | **195,737** | **1.3** | 489,357 | 1.4 |
| Recurring profit | (908,174) | (4.6) | **(1,526,046)** | **(10.4)** | (3,580,167) | (10.2) |
| Total extraordinary income | 1,379,897 | 7.0 | **223,857** | **1.5** | 1,335,700 | 3.8 |
| Total extraordinary losses | 1,743,089 | 8.8 | **180,560** | **1.2** | 1,998,075 | 5.7 |
| Income before income taxes | (1,271,366) | (6.4) | **(1,482,749)** | **(10.1)** | (4,242,542) | (12.1) |
| Corporate income, local and enterprise taxes | 59,000 | 0.3 | **55,000** | **0.4** | 112,000 | 0.3 |
| Net income / loss | (1,330,366) | (6.7) | **(1,537,749)** | **(10.5)** | (4,354,542) | (12.4) |
| Unappropriated profits | (1,330,366) | | **-** | | (4,354,542) | |

## 3. Non-consolidated Statement of Changes in Net Assets for the First Half

Current first quarter (April 1, 2006 to September 30, 2006)

(Thousands of Yen)

| | Owners' Equity | | | |
|---|---|---|---|---|
| | Paid-in Capital | Capital Surplus | | |
| | | Capital Legal Reserve | Other Capital Surplus | |
| **Balance at the end of previous period** | 12,616,253 | 3,215,555 | 6,005,855 | 9,221,410 |
| **Changes of items during the period** | | | | |
| Issuanse of new shares | 1,425,581 | 1,424,418 | | 1,424,418 |
| Net income | | | | |
| Purchase of treasury stock | | | | |
| Reversal of profit from capital surplus | | | (4,354,542) | (4,354,542) |
| Net changes of items other than owners' equity | | | | |
| **Total changes of items during the period** | 1,425,581 | 1,424,418 | (4,354,542) | (2,930,123) |
| **Balance at the end of current period** | 14,041,834 | 4,639,973 | 1,651,313 | 6,291,287 |

| | Owners' Equity | | | |
|---|---|---|---|---|
| | Earned Surplus | | Treasury Stock | |
| | Other Earned Surplus | | | |
| | Earned Surplus brought forward | | | |
| **Balance at the end of previous period** | (4,354,542) | (4,354,542) | (1,610,111) | 15,873,010 |
| **Changes of items during the period** | | | | |
| Issuanse of new shares | | | | 2,850,000 |
| Net income | (1,537,749) | (1,537,749) | | (1,537,749) |
| Purchase of treasury stock | | | (328) | (328) |
| Reversal of profit from capital surplus | 4,354,542 | 4,354,542 | | - |
| Net changes of items other than owners' equity | | | | - |
| **Total changes of items during the period** | 2,816,792 | 2,816,792 | (328) | 1,311,922 |
| **Balance at the end of current period** | (1,537,749) | (1,537,749) | (1,610,439) | 17,184,932 |

| | Valuation and Translation Adjustments | | Net Assets |
|---|---|---|---|
| | Valuation Difference on Availble-for-sale Securities | | |
| **Balance at the end of previous period** | 209,741 | 209,741 | 16,082,752 |
| **Changes of items during the period** | | | |
| Issuanse of new shares | | | 2,850,000 |
| Net income | | | (1,537,749) |
| Purchase of treasury stock | | | (328) |
| Reversal of profit from capital surplus | | | - |
| Net changes of items other than owners' equity | (44,318) | (44,318) | (44,318) |
| **Total changes of items during the period** | (44,318) | (44,318) | 1,267,603 |
| **Balance at the end of current period** | 165,423 | 165,423 | 17,350,356 |

## Events or Situations that Arouse Serious Doubt Regarding the Assumption of a Going Concern

Six months ended September 30, 2006 (April 1, 2006 to September 30, 2006)

SANIX has posted operating loss, recurring loss and negative operating cash flow in three out of four fiscal years since the year ended March 31, 2003 (i.e. in fiscal 2002 and two consecutive years ending March 31, 2006), and net loss for four consecutive fiscal years.

Moreover, during the first half of the current year, the HS Division, the core business of the SANIX Group, was imposed administrative punishments by the Ministry of Economy, Trade and Industry for its improper operation, including suspension of six sales offices' operation for three months from July 7, 2006. Due to the impact of these punishments, sales of the HS Division decreased significantly. As a result, for the first half of the current year, SANIX posted again operating loss of 1,473 million yen, net loss of 1,579 million yen and negative operating cash flow of 837 million yen.
These circumstances may raise a serious doubt regarding the assumption of a going concern.

On August 9, 2006, to overcome these conditions, the Board of Directors of SANIX resolved at its meeting on the Business Streamlining Plan. Specific activities and their purposes are as follows:

(1) Closing and consolidation of sales offices

In the Kanto Area where the HS Division has been underperforming, all sales offices are closed except one location that will be engaged exclusively in customer management activities. In other geographical areas, underperforming sales offices are closed and consolidated into other profitable offices. In addition, certain facilities of indirect departments are reorganized to save costs related to these facilities and to improve the profitability of the operation.

(2) Personnel reduction

Following the closing and consolidation of sales offices as described above, the number of employees will be reduced to the optimum size according to the sales revenues of respective operations. Moreover, directors' remuneration and salaries were and will be reduced during the period from August 2006 to March 2007.

As of September 30, 2006, the Company had 2,269 employees (2,144 as of October 31, 2006), compared to 2,803 employees as of June 30, 2006. The personnel reduction has been implemented smoothly as planned, and we believe the personnel reduction target for the year can be achieved.

(3) Other cost reduction measures

Necessary measures are taken to reduce advertising expenses and other strategic expenses as well as overhead expenses including corporate/headquarters expenses.

Actually, the above-mentioned actions were implemented by the end of September 2006, which will result in reduction in labor and other fixed costs in and after the second half of the current year. In terms of a full year, we expect that the cost will be saved by 2.2 billion yen in fiscal 2006 and by 3.5 billion yen in and after fiscal 2007.

In addition to the sales office closing and consolidation, personnel reduction and other measures to improve the efficiency of operations, SANIX will endeavor to establish a compliance system. To this end, the Company established the Compliance Department on September 1, 2006 to ensure its business development in stricter compliance with laws and regulations. The Department focuses on proactive and preventive actions to detect internal risks and implement corrections before problems

may occur, and development of a “self-cleansing” operating system by strengthening the internal control functions.
Furthermore, the Department will establish a "Compliance Committee" comprising the president and other executive officers, which will meet periodically to report on the activities of the Compliance Department and the present status of compliance of SANIX, to provide a companywide compliance system.

Non-consolidated financial statements were prepared based on the assumption of a going concern, and did not reflect the impact of these serious doubts regarding our ability to continue as a going concern.

# Significant Accounting Policies

### Relating to Financial Statements

### 1. Accounting Treatment Standards

(1) Appraisal standards and appraisal methods for principal assets

1) Short-term investments in securities:

Stocks of subsidiaries: Cost method, computed by moving average method

Other marketable securities:

*Securities valued at market: Market value method based on the market prices on the settlement date (all valuation difference are reflected directly in shareholders' equity, the sale price being computed using the moving average method.)

*Securities not valued at market: Cost method, cost being determined by the moving average method

2) Inventories:

Commodity, products and products in process: Cost method computed by moving average method

Stored goods: The latest purchase cost method

(2) Depreciation methods for depreciable assets

1) Tangible fixed assets: Fixed percentage on declining-balance method

The useful lives of major assets are as follows:

| | |
|---|---|
| Buildings and structures | 8 years - 50 years |
| Machinery and vehicles | 2 years - 17 years |
| Tools and furniture | 2 years - 15 years |

2) Intangible fixed assets: Straight-line method

3) Long-term prepaid expenses: Straight-line method

(3) Accounting standards for allowances and reserves

1) Allowance for doubtful accounts: Provision for losses on doubtful accounts is made up to the maximum allowable based on individual assessments and the actual percentage of bad loan write-offs, as prescribed in the Corporate Income Tax Law. If that amount is deemed to be insufficient, additional provision is made.

2) Provision for accrued bonuses: Provision for accrued bonuses to employees is made by appropriating an amount based on estimated total bonuses that will be paid during the year.

3) Allowance for retirement benefits for employees: In order to provide for retirement allowances the company accrues an amount equivalent to the amount that would be paid if the payment occurred at the end of the consolidated first quarter, based on the projected amount of retirement allowance liabilities and pension assets at the end of the consolidated accounting fiscal year. Furthermore, the Company will treat the entire variance at the time the accounting standards were changed as a one-off expense during the next consolidated accounting period.

4) Allowance for resource-recycling expenses: Allowance for resource-recycling expenses is provided in preparation for payment of transportation and storage relating to recycling waste plastics for fuel.

(4) Accounting treatment for lease transactions

Finance lease transactions, except those under which the title of the leased asset is deemed to be transferred to the lessee, are treated according to the method used for ordinary loan transactions.

(5) Hedging accounting

1) Method of hedging accounting: Interest rate swap arrangements were accounted for by the special treatment method of hedging accounting as they satisfy the requirements for the special treatment.

2) Hedging arrangements and transactions to be hedged

Hedging arrangement: Interest rate swap contracts

Transactions to be hedged: Interest on borrowings

3) Hedging policy: The Company concludes interest rate swap contracts for the purpose of hedging the risk of floating of interest rates of borrowings. Transactions to be hedged by an interest rate swap contract are specified for each contract.

4) Assessment of validity of hedging arrangements: The Company concludes only interest rate swap contracts that satisfy all of the following conditions, in accordance with its risk management policy:

i. The notional principal amount of the interest rate swap contract is the same as that of the principal amount of the relevant long-term borrowing;

ii. The term and maturity of the interest rate swap contract are the same as those of the relevant long-term borrowing;

iii. The index of the floating rate of the relevant long term borrowing is TIBOR+1.1%;

iv. The terms for revision of interest rate of the interest rate swap contract are the same as those stipulated in the relevant long-term borrowing; and

v. The receipt-and-payment conditions of the interest rate swap contract are fixed throughout the swap period.

Assessment of validity of interest rate swap contracts concluded and maintained by the Company as of the account settlement date is omitted as they satisfy all of the above-mentioned requirements, and are thus qualified to be accounted for by the special treatment method.

(6) Other significant policies used in these consolidated financial statements

Accounting treatment of consumption tax:

<u>(Prior first half ended September 30, 2005)</u>

Consumption and local consumption taxes are not included in the amounts reported on the consolidated financial statements. Temporary consumption taxes paid and temporary consumption taxes received were setoff with each other, and the net amount (210,336 thousand yen) was included in “Others” under the “Current Liabilities” category on the balance sheet.

<u>(Current first half ended September 30, 2006)</u>

Consumption and local consumption taxes are not included in the amounts reported on the consolidated financial statements. Temporary consumption taxes paid and temporary consumption taxes received were setoff with each other, and the net amount (185,778 thousand yen) was included in “Others” under the “Current Liabilities” category on the balance sheet.

<u>(Prior fiscal year ended March 31, 2006)</u>

Excluding tax method

## Change in accounting method

(Accounting Standard for Presentation of Net Assets in the Non-Consolidated Balance Sheet)

<u>(Current First Half ended September 30, 2006)</u>

From the end of this first half, “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (the Accounting Standards Board of Japan Statement No.5, December 9, 2005), and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (the Accounting Standards Board of Japan Guidance No.8, December 9, 2005) are adopted.

This change will have no impact on the profit and loss status of the Company.

Equity section of balance sheet, which is calculated in a conventional way reaches 17,350,356 thousand yen.

Following the revision of the Rules for Interim Financial Statements, the non-consolidated financial statements of the Company for the six months ended September 30, 2006 were prepared in accordance with those revised rules.

(Accounting Standard for Treasury Shares and Appropriation of Legal Reserve)

(Current First Half ended September 30, 2006)

From the end of this first half, revised “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” (the Accounting Standards Board of Japan Statement No.1, updated on August 11, 2006), and “Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve” (the Accounting Standards Board of Japan Guidance No.2, updated on August 11, 2006) are adopted.

This change will have no impact on the profit and loss status of the Company.

Following the revision of the Rules for Interim Financial Statements, the non-consolidated financial statements of the SANIX Group for the six months ended September 30, 2006 were prepared in accordance with those revised rules.

# Notes

## Notes to Non-Consolidated Balance Sheet

1.Total accumulated depreciation for tangible fixed assets (Thousands of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | FY2006 | **FY2007** | FY2006 |
| Total accumulated depreciation for tangible fixed assets. . . . . . . . . . . . . | 16,115,741 | **17,482,808** | 16,840,696 |

2. Hypothecated assets and secured liabilities

Assets provided as collateral (Factory foundation) (Thousands of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | FY2006 | **FY2007** | FY2006 |
| Buildings. . . . . . . . . . . . . . . . . . . . . . . . . . | 368,361 | **351,987** | 363,893 |
| Machinery and equipment. . . . . . . . . . . . . . | 571,057 | **498,784** | 532,616 |
| Land . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 1,311,067 | **1,311,067** | 1,311,067 |
| Other tangible fixed assets. . . . . . . . . . . . . . | 86,402 | **80,561** | 83,315 |
| Total. . . . . . . . . . . . . . . . . . . . . . . . . . . . | 2,336,888 | **2,242,401** | 2,290,893 |

Assets provided as collateral (Other than factory foundation) (Thousands of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | FY2006 | **FY2007** | FY2006 |
| Buildings and structures. . . . . . . . . . . . . . . . | 2,899,201 | **3,270,435** | 2,896,311 |
| Land . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 9,077,279 | **10,925,096** | 9,203,839 |
| Investments in securities . . . . . . . . . . . . . . . | 481,059 | **576,880** | 647,368 |
| Time deposit . . . . . . . . . . . . . . . . . . . . . . . | 300,000 | **100,000** | 300,000 |
| Deposit at notice . . . . . . . . . . . . . . . . . . . . | 2,700,000 | — | 1,700,000 |
| Total. . . . . . . . . . . . . . . . . . . . . . . . . . . . | 15,457,539 | **14,872,413** | 14,747,518 |

Secured liabilities (Thousands of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | FY2006 | FY2007 | FY2006 |
| Short-term loans . . . . . . . . . . . . . . . . . . . . | 1,393,000 | 1,606,000 | 1,000,000 |
| Lomg-term loans payable in 1 year . . . . . . . . | 2,348,600 | 2,128,400 | 2,314,800 |
| Long-term loans . . . . . . . . . . . . . . . . . . . . | 4,788,900 | 1,797,100 | 3,583,700 |
| Total. . . . . . . . . . . . . . . . . . . . . . . . . . . . | 8,530,500 | 5,531,500 | 6,898,500 |

3. Notes receivable and payable

(Current first half ended September 30, 2006)

Notes matured at the end of period are settled at the day of exchanging notes. Since the closing date of the current interim period was a bank holiday, the following notes receivable matured at the end of this interim period are included in the outstanding balance as of the interim period-end:

Notes receivable: 14,689 thousands of yen

Notes payable: 53,127 thousands of yen

4. Contingent liabilities

(Prior first half ended September 30, 2005)

(Litigation)

On September 17, 2003, the KAJIMA CORP. sought arbitration through the Hokkaido Council for Investigation on Construction Work Disputes on a dispute between KAJIMA and Sanix regarding the payment of a contract price (399,000 thousand yen), a modification cost (325,500 thousand yen) and a cleaning cost (17,417 thousand yen) for the construction work of the pre-treatment facilities in the Tomakomai Power Plant.

Sanix withheld the payment of the contract price for the construction of pre-treatment facilities performed by KAJIMA CORP., because the designs and the performed work were defective. Regarding the cost of modification of the aforementioned facilities and the cleaning cost, we submitted a reply to the Council on November 5, 2003 that Sanix does not have any obligation to pay those costs because the works were performed as part of the obligations to correct defects in the original construction work.

Sanix filed with the Council a counterclaim dated December 5, 2003 to claim against KAJIMA CORP. compensation for damages resulting from the defects in the structures built under the construction contract.

Furthermore, the KAJIMA CORP. filed with the Council a petition dated April 20, 2004 that claims against Sanix payment of additional construction cost of 34,419 thousand yen for the modification of the pre-treatment facilities in the Tomakomai Power Plant, and a petition dated December 9, 2005 that claims against Sanix payment of overdue damages.

## Notes to Non-Consolidated Statement of Income

1. Breakdown of non-operating income (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Interest income . . . . . . . . . . . . . . . . . . . . . | 4,081 | **4,273** | 8,397 |
| Dividend income. . . . . . . . . . . . . . . . . . . . . | 35,657 | **37,784** | 51,512 |
| Rent revenue. . . . . . . . . . . . . . . . . . . . . . | 181,751 | **58,248** | 237,904 |

2. Breakdown of non-operating expenses (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Interest expenses . . . . . . . . . . . . . . . . . . . | 123,732 | **96,908** | 232,747 |
| Rental expenses. . . . . . . . . . . . . . . . . . . . | 120,844 | **88,298** | 203,603 |

3. Breakdown of extraordinary income (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Gain on sales of investment securities . . . . . . . . | 8,811 | **3,390** | 9,375 |
| Gain on sales of property, plant and equipment. . | 373,331 | **-** | 373,331 |
| Insurance money received. . . . . . . . . . . . . . . . | 997,755 | **33,463** | 952,759 |
| Transfer from reserve for bonuses. . . . . . . . . . . | - | **187,000** | - |

Breakdown of gain on sales of property, plant, and equipment (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Buildings . . . . . . . . . . . . . . . . . . . | 358,459 | — | 358,459 |
| Machinery and equipment. . . . . . . . | 12,006 | — | 12,006 |
| Other. . . . . . . . . . . . . . . . . . . . . . | 2,865 | — | 2,865 |
| Total | 373,331 | — | 373,331 |

4. Breakdown of extraordinary losses (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Loss on sales of property, plant and equipment. . | 544,679 | **-** | 544,715 |
| Loss on disposal of property, plant and equipment. . . . | - | **64,354** | - |
| Loss due to disaster. . . . . . . . . . . . . . . . . . . | 955,913 | **33,463** | 892,390 |
| Loss on settlement of construction cost of Tomakomai Power Plant. . . . . . . . . . . | - | **-** | 225,372 |
| Net provision for resource-recycling expenses. . . | 224,663 | **-** | 256,740 |
| Reorganization of offices expense. . . . . . . . . . . | - | **75,431** | - |

Breakdown of loss on sales of property, plant, and equipment (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Land | 544,679 | — | 544,679 |
| Right of telephone | — | — | 35 |
| Total | 544,679 | — | 544,715 |

Breakdown of loss on disposal of property, plant, and equipment (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Machinery | — | **62,503** | — |
| Other | — | **1,851** | — |
| Total | — | **64,354** | — |

5. Amount of depreciation cost (Thousands of Yen)

| | First Half between April 1 and September 30 | | Full Year ended March 31, 2006 |
|---|---|---|---|
| | FY2006 | **FY2007** | FY2006 |
| Depreciation cost for tangible fixed assets | 775,093 | **674,633** | 1,532,958 |
| Depreciation cost for intangible fixed assets | 278 | **278** | 556 |

6. Insurance money received and loss due to disaster

(Prior first half accounting period between April 1 and September 30, 2005)

Insurance money received and losses due to disaster are those related to fires that occurred in the Kitakyushu Plant and the Tomakomai Power Plant. Since these losses will be fully covered by the non-life insurance maintained by the Company, the estimate amounts of insurance claims to be received are included in the extraordinary income for the current interim period.

(Current first half accounting period between April 1 and September 30, 2006)

Insurance money received and losses due to disaster are those related to fire that occurred in the Ota Plant. Since these losses will be fully covered by the non-life insurance maintained by the Company, the estimate amounts of insurance claims to be received are included in the extraordinary income for the current interim period.

7. Loss due to disaster

(Prior accounting period ended March 31, 2006)

Losses due to disaster are those related to fires that occurred in the Kitakyushu Plant and the Tomakomai Power Plant. Since these losses will be fully covered by the non-life insurance maintained by the Company, the estimate amounts of insurance claims to be received are included in the extraordinary income for the current interim period.

8. Loss on settlement of construction cost of Tomakomai Power Plant

(Prior accounting period ended March 31, 2006)

The KAJIMA CORP. sought arbitration through the Hokkaido Council for Investigation on Construction Work Disputes on a dispute between KAJIMA and Sanix regarding the payment of a contract price (399,000 thousand yen), a modification cost (359,919 thousand yen) and cleaning cost (17,417 thousand yen) for the construction work of the pre-treatment facilities in the Tomakomai Power Plant. However, both parties reached an agreement on March 2, 2006, in which Sanix will pay 625 thousand yen. As a result, Sanix posted loss on settlement of construction cost of Tomakomai Power Plant.

## Notes to Non-consolidated Statement of Changes in Net Assets

Current first half (April 1, 2006 to September 30, 2006)

1. Numbers of Shares of Treasury Stock

| | 31-Mar-06 | Increase | Decrease | 30-Sep-06 |
|---|---|---|---|---|
| Number of shares of treasury stock (Shares) . . . . . . . . . . . | 1,207,223 | 880 | - | **1,208,103** |

(Reasons for changes)

The number of shares increased due to a following reason.

Purchase of odd stock: 880 shares

**Notes to lease transactions**

①Relationship between balance of cash and cash equivalents at the end of period and value of items stated on the consolidated balance sheet

(Thousands of Yen)

| | First Half | | Full Year |
|---|---|---|---|
| | between April 1 and September 30 | | ended March 31, 2006 |
| | FY2006 | **FY2007** | FY2006 |
| | | Machinery and Equipment | |
| Book Value. . . . . . . . . . . . . . . . . . . | 209,390 | **151,050** | 170,640 |
| Cumulative depreciation. . . . . . . . . . | 118,210 | **99,782** | 108,150 |
| Value at end of half year. . . . . . . . . . | 91,179 | **51,267** | 62,489 |
| | | Others (Tool Function) | |
| Book Value. . . . . . . . . . . . . . . . . . . | 591,043 | **458,476** | 626,318 |
| Cumulative depreciation. . . . . . . . . . | 314,274 | **219,784** | 345,866 |
| Value at end of half year. . . . . . . . . . | 276,769 | **238,691** | 280,451 |
| | | Others (Vehicles) | |
| Book Value. . . . . . . . . . . . . . . . . . . | 890,344 | **649,507** | 819,021 |
| Cumulative depreciation. . . . . . . . . . | 559,847 | **380,431** | 541,178 |
| Value at end of half year. . . . . . . . . . | 330,497 | **269,076** | 277,843 |
| | | Total | |
| Book Value. . . . . . . . . . . . . . . . . . . | 1,690,778 | **1,259,033** | 1,615,979 |
| Cumulative depreciation. . . . . . . . . . | 992,332 | **699,998** | 995,195 |
| Value at end of half year. . . . . . . . . . | 698,445 | **559,035** | 620,783 |
| ②Outstanding balance of future lease payments at the end of the period: | | | |
| Within one year. . . . . . . . . . . . . . . . | 302,649 | **231,722** | 265,589 |
| Over one year. . . . . . . . . . . . . . . . . | 414,517 | **349,197** | 388,194 |
| Total. . . . . . . . . . . . . . . . . . . . . . . | 717,167 | **580,919** | 653,784 |
| ③Amount of lease fee payments, depreciation expense and interest expense: | | | |
| Lease fee payments. . . . . . . . . . . . . | 209,321 | **139,236** | 391,297 |
| Depreciation expense. . . . . . . . . . . . | 196,017 | **128,745** | 357,078 |
| Interest expense. . . . . . . . . . . . . . . | 8,233 | **7,458** | 16,607 |

④Accounting method for the amount equivalent to depreciation expenses:

Accounting method for the amount equivalent to depreciation expenses and interest expenses:

Calculated by assuming the lease term is the depreciable life and depreciating the remaining amount to zero using the straight-line method.

Accounting method for the amount equivalent to interest expenses:

Interest expense for lease assets is calculated as the difference between the total lease payments and the acquisition price of the leased assets, with the amount allocated to each accounting period using the interest method.

⑤Operating lease transactions:

Outstanding balance of future lease payments

| | FY2006 | **FY2007** | FY2006 |
|---|---|---|---|
| Within one year. . . . . . . . . . . . . . . . | - | **128,199** | 116,107 |
| Over one year. . . . . . . . . . . . . . . . . | - | **172,445** | 180,926 |
| Total. . . . . . . . . . . . . . . . . . . . . . . | - | **300,645** | 297,034 |

## Notes to Short-term Investments

(Prior first half accounting period ended September 30, 2005)

There were no securities valued at market of subsidiaries and affiliates.

(Current first half accounting period ended September 30, 2006)

There were no securities valued at market of subsidiaries and affiliates.

(Prior full year accounting period ended March 31, 2006)

There were no securities valued at market of subsidiaries and affiliates.