



Fiscal Year 2006
Semi-Annual Report
(April 1, 2006 through September 30, 2006)

SANYO CHEMICAL INDUSTRIES, LTD
PERFORMANCE CHEMICALS

Cautionary Statement with Respect to Forward-looking Statement

This semi-annual report contains forward-looking statements that are based on Sanyo Chemical Group's current plans, strategies and results. These forward-looking statements were formulated by managers based on currently-available information, but actual results may vary significantly depending on the economic environment where Sanyo Chemical Group conducts its business, competitive conditions, change in the states of product development, relevant laws and regulations, and fluctuations in the currency exchange rate. Moreover, the factors that can affect these forward-looking statements are not limited to those listed here.

The following summary of the business results that Sanyo Chemical Group submitted to the Tokyo & Osaka Stock Exchange is unaudited.

Consolidated Financial Highlights (Unaudited)

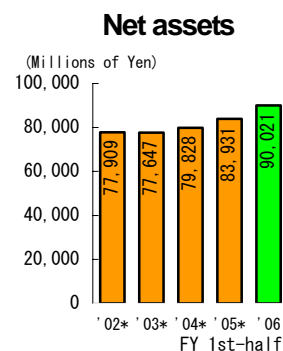
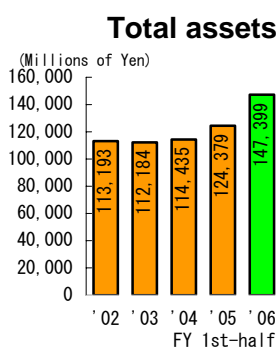
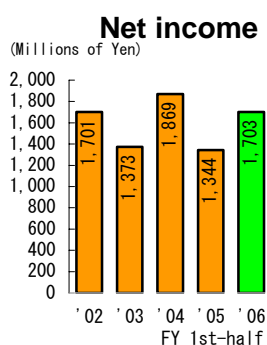
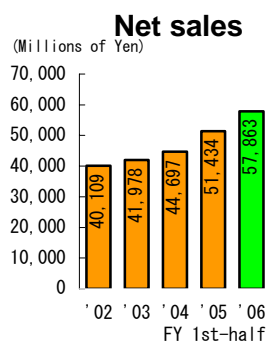
Six months ended September 30, each Fiscal Year	Millions of Yen			Thousands of U.S. Dollars
	FY 2006 1st-half	FY 2005 1st-half	FY 2004 1st-half	FY 2006 1st-half
Net sales	¥57,863	¥51,434	¥ 44,697	\$490,781
Operating income	2,636	3,139	2,882	22,360
Income before income taxes and minority interests	3,277	2,745	3,182	27,801
Net income	1,703	1,344	1,869	14,448
Return on equity	3.9%	3.3%	4.7%	3.9%
Investment in plant and equipment	4,562	4,434	3,798	38,694
Depreciation and amortization	3,848	3,161	3,028	32,638

As of September 30, each Fiscal Year	Millions of Yen			Thousands of U.S. Dollars
	FY 2006 1st-half	FY 2005 1st-half	FY 2004 1st-half	FY 2006 1st-half
Total assets	¥147,399	¥124,379	¥ 114,435	\$1,250,205
Net assets	90,021	83,931	79,828	763,542
Shareholders' equity ratio	59.5%	67.5%	69.7%	59.5%

	Yen			U.S. Dollars
	FY 2006 1st-half	FY 2005 1st-half	FY 2004 1st-half	FY 2006 1st-half
Net income per share	¥15.43	¥12.18	¥ 16.93	\$0.13
Earnings per share after dilution	14.28	—	—	0.12
Cash dividends per share	7.5	7.5	7.5	0.06
Net assets per share	794.61	760.59	723.16	6.739

Note: 1. U.S. dollars have been converted at the rate of ¥117.90 to US\$1, the effective rate of exchange at September 30, 2006.

2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.



*For the previous first-half periods, amounts posted under shareholders' equity are shown here

Business and Financial Results (Unaudited)

(1) Business Review

During the six-month first-half period under review (April 1 to September 30, 2006), the Japanese economy moved still closer to the goal of finally eliminating the deflationary pressure under which it has labored for so long. The economy gave every appearance of increasing its underlying growth sustainability to the point where it is capable of marking the longest postwar period of expansion driven principally by the private sector.

On the other hand, the future prospects for the Japanese economy are far from clear, given the continued high price of crude oil and fears of a business slowdown in the USA.

The Japanese chemical industry during the reporting period enjoyed firm demand both in Japan and overseas, but the high costs of raw materials and fuel stemming from the continued high level of crude oil prices inevitably pulled down profitability, and so the business environment in general was severe in this industry.

In these circumstances, Sanyo Chemical Group focused on growing its business through the expansion of strategically developed products (Strategic Products), while attempting to reduce costs with the aim of keeping product sales prices stable in spite of the sharp rise in raw material costs. The Group's management also made concerted efforts to move further along the path of globalization in marketing and procurement so as to expand the total scale of the Group's business operations.

During the reporting period, sales volumes were generally favorable, particularly for polyurethane chemicals, superabsorbent polymers, and specialty products. In value terms, we registered growth in sales of Strategic Products such as thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, polyester beads (PEB) used as a core component of polymerization toners, and other mainstay products developed utilizing our proprietary technology. Thanks to increased sales of existing products by the parent company, in addition to the contribution made by our domestic and overseas subsidiaries, total net sales on a consolidated basis increased by 12.5% from the same period of the previous fiscal year to ¥57,863 million, which was roughly in line with our expectations.

In terms of profits, operating income decreased by 16.0% from the same period of the previous fiscal year, to ¥2,636 million, while ordinary income declined 3.7% from the same period of the previous fiscal year, to ¥3,312 million. These declines came against the backdrop of high costs of raw materials and fuels, as well as increased depreciation and amortization resulting from large-scale capital expenditure relating to our Strategic Products. These expenditures more than offset the impact of increased sales and improved profits at overseas subsidiaries.

Net income for the reporting period increased by 26.7% to ¥1,703 million, due to the non-repetition of the impairment loss on fixed assets of ¥920 million (of which, ¥626 million was recorded as extraordinary loss) recognized for the previous fiscal year's first-half period.

Sales performance for the reporting period by product group was as follows.

Surfactants

Sales of industrial surfactants recorded steady growth thanks to expanded sales of surfactants for use in cleaning electronic components, growth in sales on the Japanese market of detergent base materials with superior biodegradability (nonionic surfactants derived from higher alcohols), and favorable sales of dispersants and defoamers for paints on rising demand in China.

In surfactants for textiles, demand grew for agents used in textile manufacturing processes for industrial materials such as automobile airbags and seatbelts, but demand for agents for textile manufacturing for clothing remained slack. Sales of surfactants for textiles as a whole posted only a slight increase.

As a result, total net sales in this product group increased by 2.1% to ¥11,030 million from the same period of the previous fiscal year.

Polyurethane Chemicals

Sales of raw materials for polyurethane foam benefited from the successful launching of new products as well as vigorous demand in both the Japanese and overseas markets, while we were also able to revise our product prices to pass on increases in raw material costs. In addition, sales of high-performance materials to make polyurethane foam also increased, mainly for automobile use, as a result of which sales recorded a sharp rise.

In the field of polyurethane resins, we enjoyed growth in sales of TUB for the interior parts of automobiles in the Japanese market as well as overseas. In addition, further progress was made in the development of waterborne resins for automobile paints, and these conditions helped to push up sales by a wide margin.

As a result, total net sales in this product group increased sharply by 21.0% to ¥14,414 million from the same period of the previous fiscal year.

Lipophilic High-molecular Agents

In the field of office machine-related products, sales of PEB used as a core component of polymerization toners increased sharply for both black and color copiers, thanks to the increased popularity of high-resolution models. Meanwhile, sales of conventional pulverized toner binder slackened off somewhat from the previous fiscal year. Sales for office machine-related products as a whole, however, were favorable.

Sales of lubricating oils and machining-related products posted growth in line with our expectations, thanks to strong demand for viscosity index improvers for automobile transmissions, as well as growth in sales of lubricity improvers for diesel fuels in response to the tightening of regulations on diesel sulfur content levels.

In coatings and adhesives, demand increased in adhesives for medical equipment and glass fibers, both in Japan and overseas, and sales of coating agents for fertilizers also increased. Sales for coatings and adhesives as a whole were favorable.

As a result, total net sales in this product group increased by 11.0% from the same period of the previous fiscal year, to ¥12,906 million.

Hydrophilic High-molecular Agents

Thanks to strong demand in the Japanese and overseas markets for hygiene use materials such as disposable diapers, sales of superabsorbent polymers were favorable, in addition to which production at San-Dia Polymers (Nantong) Co., Ltd., which began commercial operations in April of 2005, also contributed to a sharp increase in sales from the same period of the previous fiscal year.

Sales of water treatment products weakened against the background of continued intense competition in the market for polymer flocculants.

As a result, total net sales in this product group increased by 16.6% from the same period of the previous fiscal year, to ¥11,889 million.

Specialty Products

In the field of polymer modifier-related products, growth was seen in sales of permanent antistatic agents for use in packaging materials for electronic components, among others, and an increase in demand for resins for automobile paints was also recorded. Thanks to these factors, sales expanded as per our projections.

In the field of electric/electronic-related products, sales of electrolytes for aluminum electrolytic capacitors increased, mainly due to growth in demand for digital home appliances. In addition, sales of chemical mechanical planarization cleaners and silicon wafer processing agents also posted growth.

Sales of other products were also favorable, driven mainly by sales of epoxy resins for iron reinforcing joints and our recently-launched paste resins for design models.

As a result, total net sales in this product group increased by 12.1% from the same period of the previous fiscal year, to ¥6,764 million.

Although the Japanese economy is expected to continue on its growth course for the time being, optimism would be unjustified in view of the upward trend in raw material costs.

In the face of these difficult circumstances, Sanyo Chemical Group will focus on achieving the following

three targets in pursuit of its goal of becoming a unique and excellent corporate group through growth via profitable operations.

1. Reduction in expenses wherever possible, and revising product prices to pass on the increased cost of raw materials
2. Focus on expanding sales of Strategic Products and improving their profitability
3. Steps to improve the profitability of overseas subsidiaries

By these means, we aim to improve our overall profitability and expand our customer base.

In terms of our current projections of business performance for the present fiscal year, ending March 2007, we appear to be on course to reach the initially projected sales figures thanks to the contribution made by Strategic Products. As for profits, judging by the figures for the first half, and taking into account the improbability of a major positive turnaround in raw material costs in the second half, we have applied a downward revision to our full-term business performance forecasts, as shown below.

	Millions of Yen	
	Consolidated	Nonconsolidated
Net sales	122,000	92,000 (90,000)
Operating income	6,700 (8,200)	3,800 (4,800)
Ordinary income	8,000 (9,200)	6,000 (6,600)
Net income	3,300 (4,200)	4,000 (4,500)

Note: Figures in parentheses are start-of-term forecasts.

(2) Financial Position

	Millions of Yen		
	FY 2006 1st-half (A)	FY 2005 1st-half (B)	Increase (decrease) (A-B)
Net cash provided by operating activities	2,660	2,956	(295)
Net cash used in investing activities	(4,004)	(4,361)	356
Net cash provided by (used in) financing activities	2,231	(965)	3,197
Effects of exchange rate changes on cash and cash equivalents	(6)	99	(106)
Net Increase (decrease) in cash and cash equivalents	881	(2,270)	3,151
Cash and cash equivalents at end of period	15,640	11,519	4,120

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥2,660 million. This is attributable to ¥3,277 million in income before income taxes and minority interests, and depreciation and amortization in the amount of ¥3,857 million, which more than offset ¥4,076 million in notes and accounts receivables and ¥1,825 million in inventories.

Cash Flows from Investing Activities

Net cash used in investing activities came to ¥4,004 million. This breaks down into ¥7,719 million invested in the acquisition of fixed assets, and ¥1,559 million invested in the acquisition of investment securities, which offset the receipt of ¥5,000 million in time deposit repayments.

Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥2,231 million, mainly as a result of the procurement of ¥3,294 million in long-term loans for the purpose of financing capital investment in overseas subsidiaries.

As a result of the above, the balance of cash and cash equivalents at the reporting first-half term-end increased by ¥881 million compared with the end of the previous term-end. Added to ¥354 million in cash and cash equivalents resulting from the addition of another company to the list of consolidated subsidiaries, the total of cash and cash equivalents came to ¥15,640 million.

The trend for the cash flow index of Sanyo Chemical Group is as follows:

	FY 2003 1st-half	FY 2004 1st-half	FY 2005 1st-half	FY 2006 1st-half
Equity ratio (%)	69.2	69.7	67.5	59.5
Equity ratio based on market price (%)	73.9	72.4	79.8	60.3
Years to maturity for obligation (years)	0.4	0.2	0.4	3.0
Interest coverage ratio	124.0	147.2	70.4	33.3

Note: Equity ratio: Equity / Total assets

Equity ratio based on market price: Aggregate market value of the shares / Total assets

Years to maturity of obligations: Interest bearing obligations / Operating cash flow

Interest coverage ratio: Operating cash flow / interest payment

* Each indicator is calculated based on consolidated financial figures.

* Aggregate market value of the shares is calculated as the closing price of shares as of the end of the period times the number of issued shares excluding treasury shares as of the end of the period.

* Operating cash flow uses the cash flow provided by operating activities on the consolidated interim statements of cash flows. Interest payments refer to the amounts on the consolidated interim statements of cash flows.

* Years to maturity of the obligations are calculated by converting operating cash flow into annual base figures.

(3) Risk Factors Involved in the Company's Business Operations

The following factors may have a significant effect on the business performance, stock price, and/or financial position of Sanyo Chemical Group.

Economic Conditions

Demand for the products of Sanyo Chemical Group is affected by changes in the prevailing economic situations in the markets where our products are sold.

Consequently, in the event of declines in demand for the Group's products caused by economic recessions occurring in the Group's principal markets, such as Japan, North America, Europe, and Asia, such events may have an adverse impact on the overall business performance and/or financial position of the Group.

Foreign Exchange Rates

Attendant on the overseas expansion of the business operations of Sanyo Chemical Group, changes in the exchange rates of the Japanese yen against other currencies may exert an adverse impact on the business performance and/or financial position of the Group.

Fluctuations in the Costs of Raw Materials

The principal raw materials employed by Sanyo Chemical Group are derived from crude oil, the price of which on international markets is subject to the influence of a wide variety of factors, including, but not limited to, political and/or military developments in the Middle East, the worldwide balance of supply and demand, and changes in the exchange rate between the yen and the U.S. dollar. In the event of a rise in the average price of crude oil, concomitant rises can be expected to occur in the costs of the Group's principal raw materials, which could adversely impact the business performance and/or financial position of the Group.

Earthquakes and Other Natural Disasters

The principal manufacturing plant of Sanyo Chemical Group is located in Nagoya, in Aichi Prefecture, which, along with the entire Tokai Region of which it is a part, is a particularly earthquake-prone area.

Sanyo Chemical Group has taken measures to ameliorate the damage likely to be caused by a major earthquake, such as strengthening the structure of its equipment and facilities as well as dispersing production facilities for any particular product over a multiple number of sites.

Nonetheless, the occurrence of a major earthquake would be likely to cause temporary termination of production activities and damage to equipment and facilities, thus adversely impacting the business performance and/or financial position of the Group.

Country Risks

Sanyo Chemical Group operates production facilities in the USA, Thailand, and China, and is currently pursuing a program of expansion of business operations outside Japan.

In view of this process of global operational expansion, the business performance and/or financial position of the Group could be adversely affected by unforeseen legal changes or the imposition of restrictions on the Group's business activities in the countries in which it operates, or by situations involving major social upheavals in those countries, as a result of political factors.

Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets (Assets)

ASSETS	Millions of Yen		
	FY 2006 1st-Half Sep., 30, 2006	FY 2005 1st-Half Sep., 30, 2005	FY 2005 Mar., 31, 2006
Current assets	69,237	55,827	67,461
Cash and cash equivalents	15,640	11,519	19,405
Notes and accounts receivable-trade	34,313	28,462	30,254
Inventories	17,370	13,845	15,560
Deferred tax assets	812	807	1,007
Other current assets	1,127	1,215	1,258
Allowance for doubtful accounts	(26)	(22)	(25)
Fixed assets	78,161	68,552	76,801
Property, plant and equipment	48,630	44,982	47,868
Building and structures	13,911	13,280	13,681
Machinery and equipment	23,465	19,307	23,044
Land	7,687	7,167	7,201
Construction in progress	1,732	3,386	1,982
Other	1,833	1,842	1,957
Intangible assets	1,795	2,186	2,020
Capitalized computer software costs	741	980	866
Consolidated goodwill	816	993	905
Other	237	211	248
Investments and other assets	27,734	21,383	26,913
Investments in securities	26,106	19,683	25,353
Long-term loans	65	81	73
Deferred tax assets	309	495	364
Other	1,326	1,212	1,194
Allowance for doubtful accounts	(72)	(89)	(72)
Total assets	147,399	124,379	144,263

Consolidated Balance Sheets (Liabilities and shareholders' equity)

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		
	FY 2006	FY 2005	FY 2005
	1st-half Sep., 30, 2005	1st-half Sep., 30, 2005	Mar., 31, 2006
Current liabilities	33,966	28,810	33,981
Notes and accounts payable-trade	23,905	17,993	20,089
Short-term debt	988	595	737
Current portion of long-term debt	309	294	309
Accrued expenses	2,799	2,442	2,376
Accrued income taxes	828	1,322	1,820
Allowance for bonuses	1,319	1,271	1,655
Allowance for bonuses to directors and corporate auditors	32	—	—
Notes payable-plant and equipment	2,086	2,642	3,038
Other current liabilities	1,696	2,248	3,955
Long-term liabilities	23,410	9,744	20,649
Bonds	10,000	—	10,000
Long-term debt	4,483	1,500	1,397
Deferred tax liabilities	1,083	31	1,159
Accrued severance indemnities	5,831	6,119	6,019
Directors' and corporate auditors' retirement allowances	1,112	1,175	1,214
Other long-term liabilities	900	917	859
Total liabilities	57,377	38,555	54,630
Minority interests	—	1,893	2,310
Shareholders' equity	—	83,931	87,322
Common stock	—	13,051	13,051
Additional paid-in capital	—	12,191	12,198
Retained earnings	—	59,642	60,626
Unrealized gains on securities	—	5,380	7,169
Foreign currency translation adjustments	—	(665)	(81)
Treasury stock, at cost	—	(5,668)	(5,641)
Total liabilities, minority interests and shareholders' equity	—	124,379	144,263

Net assets			
Shareholders' equity	81,039	—	—
Common stock	13,051	—	—
Capital surplus	12,199	—	—
Retained earnings	61,430	—	—
Treasury stock, at cost	(5,642)	—	—
Valuation and translation adjustments	6,679	—	—
Unrealized gains on available-for-sale securities	6,868	—	—
Foreign exchange translation adjustment	(189)	—	—
Minority interests	2,302	—	—
Total net assets	90,021	—	—
Total liabilities and net assets	147,399	—	—

Consolidated Statements of Income

	Millions of Yen		
	FY 2006 1st-half Apr., 2006 through Sep., 2006	FY 2005 1st-half Apr., 2005 through Sep., 2005	FY 2005 Apr., 2005 through Mar., 2006
Net sales	57,863	51,434	108,413
Cost of sales	46,252	39,628	83,884
Gross profit	11,610	11,806	24,528
Selling, general and administrative expenses	8,974	8,667	17,331
Operating income	2,636	3,139	7,197
Non-operating income	888	546	1,268
Interest income	36	14	36
Dividend income	210	125	219
Equity in earnings of unconsolidated affiliates	359	—	168
Other	281	405	844
Non-operating expenses	212	247	519
Interest expenses	75	38	86
Equity in losses of unconsolidated affiliates	—	51	—
Other	136	157	432
Ordinary income	3,312	3,438	7,946
Extraordinary profit	29	—	—
Gains on sale of investments in securities	29	—	—
Extraordinary expenses	64	693	1,375
Loss on assets impairment	—	626	1,219
Loss on disposal of fixed assets	64	63	134
Loss on valuation of investment securities	—	3	22
Income before income taxes and minority interests	3,277	2,745	6,570
Income taxes - current	934	1,310	2,990
Income taxes - deferred	323	(15)	(164)
Minority interests	315	106	588
Net income	1,703	1,344	3,155

Consolidated Statements of Capital Surplus and Retained Earnings

	Millions of Yen	
	FY 2005 1st-half Apr., 2005 through Sep., 2005	FY 2005 Apr., 2005 through Mar., 2006
Capital Surplus		
I . Balance at the beginning of period	12,191	12,191
II . Increase in capital surplus	0	7
Gain on sales of treasury stock	0	7
III . Balance at the end of period	12,191	12,198
Retained Earnings		
I . Retained earnings at the beginning of period	59,191	59,191
II . Increase in retained earnings	1,344	3,155
Net income	1,344	3,155
III . Decrease in retained earnings	893	1,720
Cash dividends paid	827	1,655
Bonuses paid to directors and corporate auditors	65	65
IV . Balance at the end of period	59,642	60,626

Consolidated Statement of Shareholders' Equity (From April 1, 2006 to September 30, 2006)

(Millions of Yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at the previous term-end	13,051	12,198	60,626	(5,641)	80,234
Changes during period					
Cash dividend			(827)		(827)
Bonuses to directors and corporate auditors			(71)		(71)
Net income			1,703		1,703
Gains on disposal of treasury shares		1			1
Acquisition of own shares				(11)	(11)
Disposal of own shares				10	10
Net changes outside scope of shareholders' equity					
Total changes		1	804	(0)	805
Balance at interim balance-sheet date	13,051	12,199	61,430	(5,642)	81,039

(Millions of Yen)

	Valuation and translation adjustments			Minority interests	Total net assets
	Unrealized gains on available-for-sale securities	Foreign exchange translation adjustments	Total		
Balance at the previous term-end	7,169	(81)	7,088	2,310	89,632
Changes during period					
Cash dividend					(827)
Bonuses to directors and corporate auditors					(71)
Net income					1,703
Gains on disposal of treasury shares					1
Acquisition of own shares					(11)
Disposal of own shares					10
Net changes outside scope of shareholders' equity	(300)	(108)	(409)	(7)	(416)
Total changes	(300)	(108)	(409)	(7)	389
Balance at interim balance-sheet date	6,868	(189)	6,679	2,302	90,021

Consolidated Statements of Cash Flows

	Millions of Yen		
	1H/FY 2006 Apr., 2006 through Sep., 2006	1H/FY 2005 Apr., 2005 through Sep., 2005	FY 2005 Apr., 2005 through Mar., 2006
Operating Activities			
Income before income taxes and minority interests	3,277	2,745	6,570
Depreciation and amortization	3,857	3,171	6,998
Net loss on disposal of fixed assets	64	63	134
Loss on assets impairment	—	626	1,219
Amortization of goodwill	89	89	178
Increase (decrease) in allowance for doubtful accounts	1	(14)	(28)
Increase (decrease) in allowance for bonuses	(335)	(259)	124
Net increase (decrease) in accrued severance indemnities	(187)	(127)	(227)
Increase (decrease) in Directors' and corporate auditors' retirement allowances	(101)	(118)	(79)
Increase in allowance for bonuses to directors and corporate auditors	32	—	—
Interest and dividend income	(247)	(140)	(255)
Interest expenses	75	38	86
Equity in losses (earnings) of unconsolidated affiliates	(359)	51	(168)
Gains on sale of investments in securities	(29)	—	—
Loss on valuation of investments in securities	—	3	22
Other, non-operating income	(281)	(405)	(844)
Other, non-operating expenses	69	114	214
Decrease (increase) in notes and accounts receivable	(4,076)	(1,530)	(3,233)
Decrease (increase) in inventories	(1,825)	(1,434)	(3,040)
Decrease (increase) in other assets net	(309)	(470)	(85)
Increase (decrease) in notes and accounts payable	3,849	1,249	3,207
Increase (decrease) in consumption tax payable	122	135	103
Decrease (increase) in consumption tax receivable	—	50	50
Increase (decrease) in other liabilities	464	197	110
Directors' and corporate auditors' bonuses paid	(71)	(65)	(65)
Sub-total	4,078	3,970	10,994
Interest and cash dividends received	436	499	717
Interest paid	(79)	(42)	(85)
Other, non-operating proceeds	257	212	425
Other, non-operating payments	(88)	(131)	(258)
Income taxes paid	(1,942)	(1,553)	(2,726)
Net cash provided by operating activities	2,660	2,956	9,067
Investing activities			
Proceeds from withdrawal of time deposits	5,000	—	—
Increase in time deposits	—	—	(5,000)
Payments for purchase of fixed assets	(7,719)	(4,324)	(8,836)
Proceeds from sales of fixed assets	1	0	0
Payments for purchase of investments in securities	(1,559)	(4)	(2,377)
Proceeds from sale of investments in securities	67	—	—
Additional investments in subsidiaries	—	—	(62)
Disbursements for loans	(138)	(30)	(36)
Payments received on loans	146	51	91
Other, investing proceeds	493	69	38
Other, investing payments	(295)	(123)	(663)
Net cash used in investing activities	(4,004)	(4,361)	(16,844)
Financing Activities			
Proceeds from short-term debt	529	1,158	1,434
Repayments of short-term debt	(264)	(1,060)	(1,236)
Proceeds from long-term loans	3,294	25	26
Repayments of long-term loans	(182)	(168)	(280)
Proceeds from issuance of corporate bonds	—	—	10,000
Purchase of treasury stock	(11)	(16)	(42)
Proceeds from sale of treasury stock	12	0	59
Dividends paid	(827)	(827)	(1,655)
Payments of cash dividends to minority shareholders	(318)	(79)	(159)
Net cash provided by (used in) financing activities	2,231	(965)	8,148
Effects of exchange rate changes on cash and cash equivalents	(6)	99	243
Net increase (decrease) in cash and cash equivalents	881	(2,270)	614
Cash and cash equivalents at beginning of period	14,405	13,790	13,790
Net increase in cash and cash equivalents resulting from widening scope of consolidation	354	—	—
Cash and cash equivalents at the end of period	15,640	11,519	14,405

Material basis for presenting Consolidated Interim Financial Statements

1. Scope of consolidation

Consolidated subsidiaries: 10

San-Dia Polymers, Ltd., San Chemical Co., Ltd., Sanyo Kasei (Nantong) Co., Ltd.,
San-Dia Polymers (Nantong) Co., Ltd. and other six subsidiaries

Sanyo Chemical Texas Inc. is included in the scope of consolidation as the importance of the company has increased.

Other non-consolidated subsidiaries were excluded from consolidation as they are all small in size and do not have any material impact on the interim results even as a whole.

Non-consolidated subsidiaries: 5

Sanyo Transport Co., Ltd., San Nopco (Shanghai) Trading Co., Ltd.
and other three subsidiaries

Other non-consolidated subsidiaries were excluded from consolidation as they are all small in size and do not have any material impact on the interim results even as a whole.

2. Application of the Equity Method

Non-consolidated subsidiaries applying the equity method: 3

Sanyo Transport Co., Ltd. and two other subsidiaries

Affiliated companies applying the equity method: 3

San-Petrochemicals Co., Ltd. and two other affiliated companies

Non-consolidated subsidiaries not applying the equity method: 2

San Nopco (Shanghai) Trading Co., Ltd. and one other subsidiary

Affiliated companies not applying the equity method: 2

Dah Shyang Chemical Co., Ltd. and one other affiliated company

3. Account settlement date of consolidated subsidiaries

The companies with different account settlement dates from the company filing the interim financial statements include the following six: Sanyo Chemical & Resins Inc., Sanyo Kasei (Thailand) Ltd., SANAM Corporation, Sanyo Kasei (Nantong) Co., Ltd., San-Dia Polymers (Nantong) Co., Ltd., and Sanyo Chemical Texas Inc. for which the interim account settlement date is June 30.

The consolidated interim financial statements are based on figures from the interim financial statements as of the interim account settlement date for each company. For material transactions that occurred between such date and the interim account settlement date, necessary adjustments for consolidation were made.

4. Accounting Standards

(1) Valuation standards and valuation method for material assets

i) Securities

Available-for-sale securities

With market quotations: Stated at fair market value based on market prices as of the interim balance-sheet date. (Unrealized gains/losses are directly charged to net assets and acquisition costs are calculated using the moving average cost method.)

Without market quotations: Moving average cost method

ii) Inventory

Monthly gross average cost method

(2) Depreciation method for material depreciable assets

i) Property, plant and equipment

Depreciation is computed by the declining-balance method for the Company and its domestic consolidated subsidiaries, except for depreciation of buildings acquired by the Company on or after April 1, 1998, which is computed by the straight-line method. Depreciation of the Company's overseas consolidated subsidiaries is computed principally by the straight-line method.

The principal estimated useful lives for computing depreciation are as follows:

Buildings and structures: 3 – 50 years

Machinery, equipment and vehicles: 4 – 8 years

ii) Intangible assets

Depreciation is calculated by the straight-line method. Computer software for internal use is depreciated over five years as the estimated internal useful life of computer software using the straight-line method.

(3) Accounting standard for material allowances

i) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover any bad-debt losses for accounts receivable and loans. Estimated non-recoverable amounts are provided as an allowance based on the historical bad debt rate for general debt and based on individual consideration of recoverability for doubtful debts.

ii) Allowance for bonuses

The allowance for employees' bonuses are provided based on the estimated amount of the bonus payment.

iii) Allowance for bonuses to directors and corporate auditors

Provision is made in an amount deemed necessary for the payments to directors and corporate auditors.

iv) Accrued severance indemnities

Accrued severance indemnities are provided in an amount recognized as accrued at the end of the interim period. Such amounts are calculated based on the projected benefit obligation reduced by pension plan assets at fair value at the end of the interim period. Past service liability is provided as an expense for the amount calculated by the straight-line method over a specific number of years within the employees' average number of remaining service years (14 years) at the time of occurrence of such obligation. Any actuarial difference is provided as an expense from the fiscal year following such difference for pro rata amounts calculated by the straight-line method over a specific number of years within the employees' average remaining service period (14 years) at the time of accrual of such differences.

v) Directors' and corporate auditors' retirement allowance

The Company, with respect to directors and corporate auditors, provides for lump-sum severance benefits at the end of the interim period based on the Code for Directors' Corporate and Corporate Auditors Retirement benefit (the internal code).

(4) Translation standard for material foreign currency denominated assets into Japanese yen

The monetary assets and liabilities in foreign currency are translated into Japanese yen at the relevant exchange rates prevailing as of the account settlement date for the interim period. The resulting gains or losses are charged to income. The assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the relevant exchange rates prevailing as of the account settlement date for the interim period of such subsidiaries and affiliates. Revenues and expenses of such companies are translated into Japanese yen at the average exchange rate during the relevant period. Resulting translation gains or losses are included in foreign currency translation adjustment and minority interest in the net assets section.

(5) Material Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the lease property is not capitalized and the related lease expenses are charged to income in the period incurred, as per the statements issued by the Business Accounting Deliberation Council.

(6) Other Material matters for preparation of the consolidated financial statements

i) Consumption taxes

Amounts provided represent the net of national and local consumption taxes where applicable.

ii) Amortization of consolidated goodwill

Consolidated goodwill are amortized by the straight-line method over ten years. In case of insignificant amounts, however, the full amount is amortized in the year when it occurred.

5. Scope of funds in the consolidated statements of cash flows

Funds (cash and cash equivalent) in the consolidated interim statements of cash flows refer to cash on hand and bank deposits that can be withdrawn or converted to cash on demand and short-term investments with insignificant risk of changes in value and original maturities of three months or less at the date of acquisition.

Change of fundamental matters for preparation of the consolidated financial statements

Accounting standards for classification of net assets

Beginning with the reporting six-month period, the Company has adopted new accounting standards for classification of net assets (Business Accounting Standard No. 5, dated December 9, 2005) and related practical guidelines (Practical Guidelines for Business Accounting Standards No. 8, dated December 9, 2005). Amounts equivalent to shareholders' equity under the old standards came to ¥87,718 million as of the interim balance-sheet date.

Net assets are recorded in accordance with revisions in the regulations for preparation of consolidated financial statements.

Accounting standards for the payment of bonuses to directors and corporate auditors

Beginning with the reporting six-month period, the Company has adopted new accounting standards for the payment of bonuses to directors and corporate auditors (Business Accounting Standards No. 4, dated November 29, 2005).

The adoption of the new standards causes operating income, ordinary income, and income before income taxes and minority interests to be reduced by ¥32 million.

[Notes]

For Consolidated Balance Sheets

(Millions of Yen)

	FY 2006 1st-half	FY 2005 1st-half	FY 2005
1. Accumulated depreciation for Property, plant and equipment	¥85,489	¥79,123	¥82,277
2. Contingent liabilities			
Balance of debt guarantee (housing loan for employees)	9	20	14
Liabilities for guarantee associated with loans from Financial institutions	1,437 (\$12,189thousand) — (— thousands of RMB)	1,577 (\$13,931thousand) 10 (720 thousands of RMB)	1,534 (\$13,060 thousand) — (— thousands of RMB)
3. Trade notes reaching maturity on the interim balance-sheet date			
Trade notes reaching maturity on the interim balance-sheet date (including cash transactions on the same terms and conditions applied to trade notes) shall be cleared on the interim balance-sheet date. In the event of the interim balance-sheet date falling on a bank holiday, bill clearance shall be made on the first bill clearance date. This year, the interim balance-sheet date fell on a bank holiday, and therefore, the amounts of trade notes reaching maturity on the interim balance-sheet date are included in the amounts in the items listed below:			
Trade notes receivable: 191 Trade notes payable: 87			
Accounts receivable-trade: 2,791 Accounts payable-trade: 3,146			

For Consolidated Statements of Income

1. Main items and amount of Selling, General and Administration Expenses

(Millions of Yen)

	FY 2006 1st-half	FY 2005 1st-half	FY 2005
Freight and storage charge	2,472	2,330	4,703
Employees' salary	1,444	1,421	2,842
Employees' bonuses	458	398	796
Accrued severance indemnities	141	157	319
Welfare	435	400	811
Depreciation	249	268	529
Research and development expenses	2,308	2,175	4,317
Amortization of consolidated goodwill	89	89	178

Consolidated statements of shareholders' equity

Reporting six-month period (From April 1, 2006 to September 30, 2006)

1. Numbers of issued shares and shares in treasury

	As of the previous term-end (shares)	Increase during the period (shares)	Decrease during the period (shares)	As of interim balance-sheet date (shares)
Issued shares				
Common shares	117,673,760	—	—	117,673,760
Total	117,673,760	—	—	117,673,760
Treasury stock				
Common shares (Notes)	7,282,451	12,556	13,834	7,281,173
Total	7,282,451	12,556	13,834	7,281,173

Notes:

1. Increase due to purchase of shares less than one trading unit in an aggregate amount of 12,556 shares
2. Decrease due to exercise of stock options on 12,000 shares and selling shares less than one trading unit to shareholders in an aggregate amount of 1,834 shares

2. Dividend

(1) Cash dividend payment

Resolution	Type of shares	Total dividend payment	Dividend per share	Base date	Initial date for dividend payment
Regular general meeting of shareholders (held on June 23, 2006)	Common shares	¥827 million	¥7.50	March 31, 2006	June 26, 2006

(2) Dividends whose base dates fall within the reporting period and with initial dates for dividend payment falling on the day immediately after the end of the period

Resolution	Type of shares	Total dividend payment	Fund for dividend payment	Dividend per share	Base date	Initial date for dividend payment
Board of Directors meeting (held on October 31, 2006)	Common shares	¥827 million	Retained earnings	¥7.50	September 30, 2006	December 1, 2006

For Consolidated Interim Statements of Cash flows

1. Relationship between cash and cash equivalents at the end of the interim period (year end) and the amount of items shown on the consolidated interim balance sheet

(Millions of Yen)

	FY 2006 1st-half	FY 2005 1st-half	FY 2005
Cash and deposits at the end of the period	15,640	11,519	19,405
Term deposits over three months	—	—	(5,000)
Cash and cash equivalents at the end of the period	15,640	11,519	14,490

Leases

The comments are not provided here as they are disclosed by EDINET.

Per share information

(Yen)

	FY 2006 1st-half	FY 2005 1st-half	FY 2005
Net assets per share	794.61	760.59	790.38
Earnings per share (EPS)	15.43	12.18	27.95
Earnings per share after dilution (Diluted EPS)	14.28	—	27.76

Segment Information

1. Industry Segments

The Companies' main operations are manufacturing and distributing chemical products. The Companies' operations by business segment for the interim period are not disclosed since most of the products have common characteristics, manufacturing methods, and markets.

2. Geographic Segments

The Companies' operation by geographical segment for the interim period are not disclosed since the ratios of business outside Japan described above with respect to sales are not material, being less than 10%.

3. Sales to Foreign Customers For the interim period (From April 1, 2006 to September 30, 2006)

(Millions of Yen)

	Asia	(of which, China)	America	Other	Total
I. Overseas sales	9,459	(4,214)	3,814	4,530	17,803
II. Consolidated net sales	—	—	—	—	57,863
III. Overseas sales ratio to consolidated net sales	16.4%	(7.3%)	6.6%	7.8%	30.8%

For the interim period of the previous fiscal year (From April 1, 2005 to September 30, 2005)

(Millions of Yen)

	Asia	(of which, China)	America	Other	Total
I. Overseas sales	7,101	(2,473)	2,519	4,000	13,621
II. Consolidated net sales	—	—	—	—	51,434
III. Overseas sales ratio to consolidated net sales	13.8%	(4.8%)	4.9%	7.8%	26.5%

For the previous fiscal year (From April 1, 2005 to March 31, 2006)

(Millions of Yen)

	Asia	(of which, China)	America	Other	Total
I. Overseas sales	16,241	(6,627)	5,663	8,724	30,629
II. Consolidated net sales	—	—	—	—	108,413
III. Overseas sales ratio to consolidated net sales	15.0%	(6.1%)	5.2%	8.0%	28.2%

Notes:

- The term "overseas sales" refers to sales of the parent company and its consolidated subsidiaries registered in countries and regions outside of Japan. Previously, overseas sales on a non-consolidated basis represented sales posted by divisions engaged in overseas businesses only. From the reporting six-month period, however, the Company has adopted the new standard for overseas sales, under which sales to end-users located overseas are recognized as overseas sales. For comparison, restatement is made for the previous term using the new standard (see the table below for the original statement).
- Areas included in each country or region are determined based on their degree of proximity.
- Main countries or regions included in the areas other than Japan.
 - Asia: Korea, China, Indonesia, Thailand, and others
 - America: U.S.A., Mexico, Brazil, and others
 - Other: Australia, Europe, Middle East, and others

(Reference) Overseas sales under the old standard

For the interim period of the previous fiscal year (From April 1, 2005 to September 30, 2005)

(Millions of Yen)

	Asia	(of which, China)	America	Other	Total
I. Overseas sales	6,030	(1,938)	2,403	2,854	11,287
II. Consolidated net sales	—	—	—	—	51,434
III. Overseas sales ratio to consolidated net sales	11.7%	(3.8%)	4.7%	5.5%	21.9%

For the previous fiscal year (from April 1, 2005 to March 31, 2006)

(Millions of Yen)

	Asia	(of which, China)	America	Other	Total
I. Overseas sales	13,941	(5,432)	5,294	6,498	25,734
II. Consolidated net sales	—	—	—	—	108,413
III. Overseas sales ratio to consolidated net sales	12.9%	(5.0%)	4.8%	6.0%	23.7%

Securities holdings

(As of interim balance-sheet date) September 30, 2006

1. Held-to-maturity debt securities with market quotations:

not applicable

2. Available-for-sale securities with market quotations

(Millions of Yen)

	Acquisition cost	Book value	Difference
(1) Equity shares	8,759	20,269	11,509
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	8,759	20,269	11,509

3. Available-for-sale securities sold out during the reporting six-month period (April 1 to September 30, 2006)

Amounts sold	Gains on sale	Losses on sale
¥67 million	¥29 million	¥— million

4. Debt securities without market quotations

(1) Held-to-maturity debt securities: not applicable

(2) Available-for-sale securities

Non-listed equity shares: ¥5,836 million

Non-listed foreign bonds: None

(As of the previous interim balance-sheet date) September 30, 2005

1. Held-to-maturity debt securities with market quotations:

not applicable

2. Available-for-sale securities with market quotations

(Millions of Yen)

	Acquisition cost	Book value	Difference
(1) Equity shares	7,130	16,146	9,016
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	7,130	16,146	9,016

3. Debt securities without market quotations

(1) Held-to-maturity debt securities: not applicable

(2) Available-for-sale securities

Non-listed equity shares: ¥3,536 million

(excluding OTC shares)

Non-listed foreign bonds: None

Note:

During the previous first-half period, the Company posted a ¥3 million impairment loss on available-for-sale securities without market quotations

(As of previous term end) March 31, 2006

1. Held-to-maturity debt securities with market quotations:

not applicable

2. Available-for-sale securities with market quotations

(Millions of Yen)

	Acquisition cost	Book value	Difference
(1) Equity shares	8,048	20,061	12,013
(2) Bonds	—	—	—
(3) Others	—	—	—
Total	8,048	20,061	12,013

Note:

During the previous term, the Company did not apply the impairment accounting to available-for-sale securities with market quotations. The Company employs a policy for impairment of securities under which all securities whose fair value declines 30% or more compared with the acquisition cost are subject to impairment accounting.

3. Available-for-sale securities sold out during the previous term (April 1, 2005 to March 31, 2006)

Amounts sold	Gains on sale	Losses on sale
¥0 million	¥0 million	¥— million

4. Debt securities without market quotations

(1) Held-to-maturity debt securities: not applicable

(2) Available-for-sale securities

Non-listed equity shares: ¥3,847 million

Non-listed foreign bonds: None

Derivatives

Nothing to report