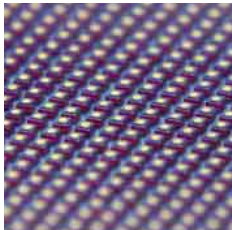


DOWA HOLDINGS Co., Ltd.



RIGHT ON TRACK

— A New Beginning

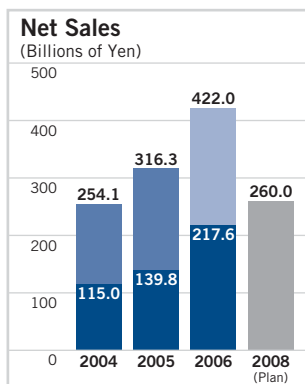


Semiannual Report 2006
For the period ended September 30, 2006

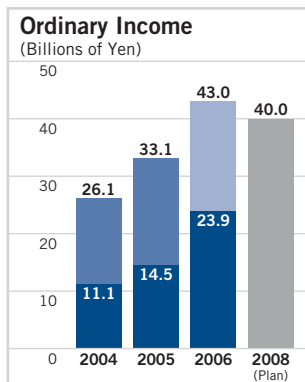
MESSAGE FROM THE MANAGEMENT



Masaki Kohno
President and Representative Director



■ Full-year net sales
■ Interim net sales
■ Fiscal 2006 forecast



■ Full-year ordinary income
■ Interim ordinary income
■ Fiscal 2006 forecast

Record Interim Ordinary Income for Third Straight Year

In the first half of fiscal 2006, the six-month period ended September 30, 2006, DOWA's business environment was generally favorable, benefiting from high metal prices and strong demand from the automobile industry and other sectors.

In the prevailing business environment, DOWA achieved record interim ordinary income for the third straight year thanks to substantial growth in both net sales and earnings. Consolidated net sales were ¥217.6 billion, up ¥77.8 billion year on year. Operating income rose ¥5.4 billion to ¥23.2 billion and ordinary income increased ¥9.3 billion to ¥23.9 billion.

By segment, the Nonferrous Metals segment posted large increases in both net sales and earnings in year-on-year terms, underpinned by an ongoing surge in the prices of major metals.

The Environmental Management & Recycling segment also achieved higher net sales and earnings. The main contributing factors were steady growth in the waste treatment and soil remediation businesses in line with plans, and a large increase in earnings in the recycling business, mainly driven by the acquisition of new recycling plants, better capacity utilization, and higher metal recycling volumes. Rising metal prices also contributed favorably to results.

The Electronic Materials segment also achieved net sales and earnings growth. Driving this growth were the mainstay metal powder category, where there was an increase in the share of new value-added product sales, and the silver powder category, where sales volume grew steadily. This segment result was achieved despite a partial slowdown in demand for products used in digital home appliances, mobile phones, PCs and home electric appliances.

The Metal Processing segment posted growth in both net sales and earnings, too, as it benefited from the shift to high-value-added products. Supported by demand from the buoyant automobile industry, the segment increased sales volumes of high-value-added products, primarily copper alloys and tin-plated products for use in automotive components.

In the Heat Treatment segment, significant sales growth came from orders for heat treatment services, reflecting strength in the automobile industry. The industrial furnace business also posted strong earnings on steady growth in maintenance work for automakers and other customers. The result was higher net sales and earnings in this segment.

Business Structure Reform Plan III (Fiscal 2006 to Fiscal 2008): “Jump up to the New Stage”

In April 2006, DOWA launched a new medium-term management plan called Business Structure Reform Plan III: “Jump up to the New Stage.” Under this plan, we will implement various initiatives to reach far more ambitious management goals than in phase II of our business structural reforms. These initiatives will be guided in each business field by the slogan “Embracing the Challenge of Uncharted Territory.”

Management Policies

- “Technology-oriented Company,” “Speed,” “Dismantle and Rebuild”
- Adhere to social norms and conduct business activities in a fair manner
- Take on the challenge of entering unexplored fields by leveraging the Company’s human resources

Basic Policies

- Build a highly efficient and profitable company by “Selection and Concentration”
- Make substantial investments in areas of concentration and take on the challenge of business expansion
- Create industry-leading businesses by leveraging technical expertise and excellence in product quality and management
- Maximize collective strengths by drawing on “centrifugal” (autonomy and progress by forming internal companies) forces and “centripetal” (sharing of corporate resources) forces

Slogan

“Jump up to the New Stage”: “Achieve Higher Reform Objectives and Embrace the Challenge of Uncharted Territory.”

Management Targets (Fiscal 2008)

Ordinary income	: ¥40.0 billion	Investment	: ¥80.0 billion (three years)
Operating cash flow	: ¥100.0 billion (three years)	R&D expenses	: ¥15.0 billion (three years)
ROA*	: 13%		

*ROA is ordinary income divided by total assets.

Main Assumptions

	Fiscal 2006 First-Half Results	Fiscal 2008 Plan
Exchange rates : ¥/\$	115	100
Copper : ¢/lb	338	120
Zinc : \$/t	3,328	1,000
Indium : \$/kg	784	700

Dowa Holdings is projecting effectively lower net sales and earnings for fiscal 2008 based on the above assumptions for exchange rates and metal prices.

FINANCIAL HIGHLIGHTS

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
For the six months ended September 30, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Net sales	217,683	139,878	1,846,336
Operating income	23,286	17,800	197,514
Net income	13,864	4,845	117,597
Total assets	351,667	270,048	2,982,759
Total net assets	127,356	102,548	1,080,207
Interest-bearing debt	128,406	100,485	1,089,110
	Yen		U.S. Dollars (Note)
Primary net income per share	46.23	16.16	0.39
Fully diluted net income per share	—	—	—
Total net assets per share	410.62	331.67	3.48

Note: ¥117.90=US\$1, the rate of exchange on September 29, 2006, is used.

CORE BUSINESS POLICIES

Nonferrous Metals : Become the leader in East Asia in the zinc business and increase specialization in recycling operations

Environmental Management & Recycling : Become a leading company in East Asia

Electronic Materials : Drive growth by aggressively investing in priority fields and developing new business

Metal Processing : Expand business and establish a stronger global presence through aggressive investments

Heat Treatment : Expand business through innovations in production technologies and aggressive investments

■ Nonferrous Metals

Zinc and rare metals:

Reinforce operating base through aggressive investments in areas ranging from raw materials to processing and sales, as well as operational improvements, with the aim of becoming the leader in East Asia in terms of collective capabilities

Copper and precious metals:

Develop unique business models linked to environmental businesses

Enhance recycling efficiency by building new processing facilities at Kosaka Smelting & Refining Co., Ltd. and taking other actions

■ Environmental Management & Recycling

Become a leading company in the waste treatment, soil remediation and recycling fields

Maintain business expansion at current pace by augmenting and reinforcing existing operating sites, while establishing and acquiring new sites in East Asia

■ Electronic Materials

Semiconductors:

Expand lineups of infrared and red LEDs, while aggressively investing in and developing new businesses (nitride semiconductors)

Advanced fine materials:

Concentrate resources on key products

Promote product differentiation and rapidly establish new businesses

■ Metal Processing

Metal processing:

Increase emphasis on high value-added products by expediting capital investments

Cement position as a top supplier of materials for use in automotive connectors

Electroplating:

Expand business by constructing new plating lines

Develop technologies in high-value-added fields

■ Heat Treatment

Become a leading company in the heat treatment industry

Industrial furnaces:

Drive overseas business expansion by making products more attractive

Heat treatment:

Improve earnings capabilities by reinforcing operating structure through productivity improvements and other measures

Increase domestic market share and accelerate overseas business expansion

Looking Ahead

In the first half of fiscal 2006, we made a strong start to our current business plan, as underlined by record ordinary income. However, we cannot be upbeat about the outlook for our business environment at this time. Business conditions are expected to become increasingly challenging, mainly due to prospects for a large deterioration in the terms upon which raw materials are purchased from overseas mining companies as the world's leading nonferrous metals companies continue to consolidate their control of mines. Metal prices are projected to decline from their current highs, and weakening demand from the IT and home appliance sectors is an additional concern. In response, we plan to rapidly implement well-balanced initiatives whereby we make continuous productivity improvements and reduce costs while making investments for the future. Faced with a challenging business environment, we are accelerating reforms to achieve our main consolidated medium-term management targets for fiscal 2008: ordinary income of ¥40.0 billion, ROA* of 13%, and operating cash flow of ¥100.0 billion over three years. Through these and other initiatives, we aim to make DOWA a truly excellent company.

*ROA is ordinary income divided by total assets.



Masaki Kohno
President and Representative Director

REVIEW OF OPERATIONS

The Group's business environment was mainly characterized by the following factors. In the Nonferrous Metals segment, prices of major metals remained high, buoyed mainly by strong demand from China. In the Metal Processing segment, production of automobile components, mainly for export, remained strong, and demand for flat-panel televisions and other digital electronics was robust. In the Environmental Management & Recycling segment, the Group continued to expand business by differentiating its technologies and marketing capabilities as competition intensified, reflecting the entry of players from other industries and other factors.

Fiscal 2006 marks the first year of the Group's new medium-term management plan, Business Structure Reform Plan III: "Jump up to the New Stage." The plan's slogan is "Achieve Higher Reform Objectives and Embrace the Challenge of Uncharted Territory." In the prevailing business environment, and guided by this plan, the Group aims to build on the accomplishments of previous business structure reforms to drive further growth and advancement.

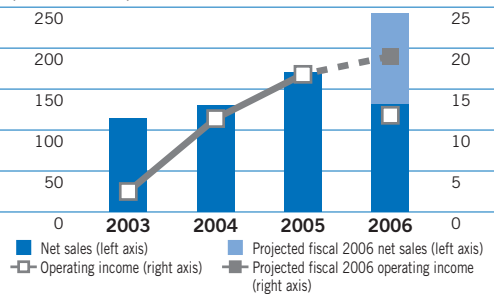
In the first half of fiscal 2006, the Group posted operating income of ¥23,286 million, up 31% year on year, on a 56% increase in net sales to ¥217,683 million.

Ordinary income climbed 64% year on year to ¥23,918 million. Net income rose substantially to ¥13,864 million, from ¥4,845 million in the previous fiscal year.

■ Nonferrous Metals DOWA METALS & MINING Co., Ltd.

Gold, silver, copper, zinc, lead, zinc alloy, platinum, palladium, indium, bismuth, tellurium, sulfuric acid and more

Net Sales and Operating Income
(Billions of Yen)



This segment reported steady growth in sales volumes of gold, silver, copper and platinum group metals and other products. Overall sales volume of zinc increased as the segment captured a higher share of this market in Japan.

The segment posted higher net sales due to further increases in overseas metal prices, reflecting ongoing tight supplies of major metals worldwide. On the earnings front, earnings from indium decreased due to deterioration in the quality of raw material ores and falling prices. However, overall segment earnings increased year on year as a result of high copper, zinc and other metal prices and far-reaching reductions in manufacturing, sales, and logistics costs.

Consequently, this segment reported net sales of ¥131,404 million, up 79% year on year, and operating income of ¥11,801 million, up 31% year on year.

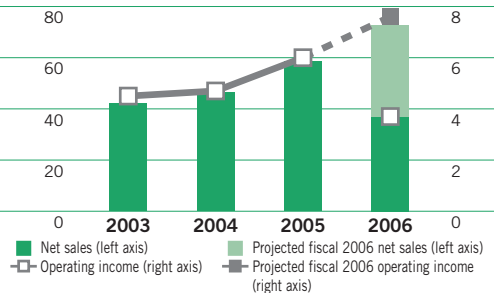
Key Fiscal 2006 Initiatives

- Improved residue treatment processes at Akita Zinc Co., Ltd. to reduce losses of valuable recyclable metals.
- Began construction of a new type of furnace that optimizes the treatment of recyclable materials at Kosaka Smelting & Refining Co., Ltd.

■ Environmental Management & Recycling DOWA ECO-SYSTEM Co., Ltd.

Waste treatment, metal recycling, soil remediation, consulting, landfill management, freight transport and other services

Net Sales and Operating Income
(Billions of Yen)



In the waste treatment sector, companies are processing more of their waste on their own. However, because the Group possesses technologies required to process waste that is difficult to treat, the segment received many inquiries from the chemicals, electrical machinery and other industries, resulting in higher consigned processing volume. In the soil remediation sector, the Group increased consigned processing volume amid intensifying competition, including from other industries, and an industry shakeout. It did so by leveraging competitive advantages such as the fact that it conducts everything from soil surveys and owns remediation equipment. Furthermore, in the recycling sector, the segment recycled a higher volume of raw materials into precious metals.

Consequently, the segment posted net sales of ¥36,944 million, 37% higher than the first half of the previous fiscal year. Operating income was ¥3,723 million, up 43% year on year.

Key Fiscal 2006 Initiatives

- Augmented lineup of soil remediation services with the roll-out of onsite soil remediation vehicles.
- Raised the recycling volume of Eco-system Okayama Co., Ltd. by 50%.

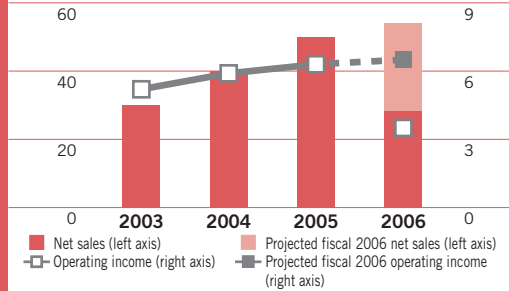
■ Electronic Materials

DOWA ELECTRONICS MATERIALS Co., Ltd.

Compound semiconductor wafers, LEDs, gallium, indium and other high-purity rare metals, conductive powder, silver powder, silver oxide powder, zinc powder, ceramic electronic components and materials, optical glass materials, metal powder, ferrite powder, carrier powder and other electronic materials

Net Sales and Operating Income

(Billions of Yen)



This segment grew sales of silver paste used in components for digital electronics such as plasma display panels (PDPs) and solar cells, and LEDs for mobile phones and PC components. Gallium arsenide wafers, metal powders and other products also achieved steady growth overall.

Meanwhile, the segment made aggressive investments in R&D to support future business growth in fields such as nitride semiconductors.

Consequently, net sales rose 23% year on year to ¥28,390 million, and operating income climbed 18% to ¥3,562 million.

Key Fiscal 2006 Initiatives

- Continued with construction of a nitride semiconductor plant at Dowa Semiconductor Akita Co., Ltd.
- Ramped up production capacity of indium oxide powder for LCDs

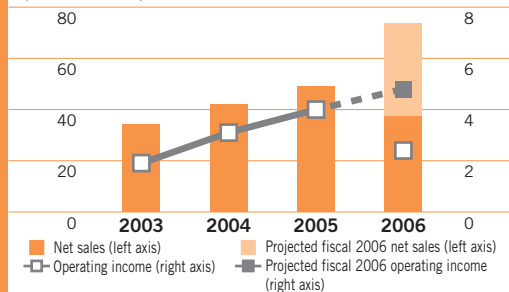
■ Metal Processing

DOWA METALTECH Co., Ltd.

Copper strips, brass strips, copper alloy strips, electroplated strips, brass bars, forged brass products, metal-ceramic substrates, electroplated products and more

Net Sales and Operating Income

(Billions of Yen)



This segment expanded sales volumes of copper alloy strips, precious metal plating, and ceramic substrates on the back of strong demand for use in automobile components. Furthermore, the segment strove to improve earnings through such measures as enhancing production yields for each product, reducing costs and launching products with higher added value. Other measures included aggressive capital investments to increase production of copper alloy strips and augment precious metal plating lines.

Consequently, this segment posted net sales of ¥37,255 million, up 67% year on year, and operating income of ¥2,498 million, up 43% year on year.

Key Fiscal 2006 Initiatives

- Built additional heating furnaces at Dowa Metal Co., Ltd. to satisfy demand for larger coils
- Constructed new precious metal plating plant for automotive products and mobile phones at Dowa Hightech Co., Ltd.

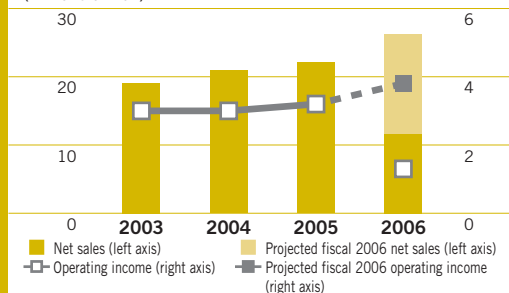
■ Heat Treatment

DOWA THERMOTECH Co., Ltd.

Heat treatment of metals, sales and maintenance of heat treatment furnaces and peripheral equipment, etc.

Net Sales and Operating Income

(Billions of Yen)



In heat treatment services, this segment increased orders for surface treatment of mechanical components such as gears, supported partly by steady growth in automobile and motorcycle component exports to North America. In the industrial furnace sector, the segment grew sales of industrial furnaces and revenues from maintenance work, as automotive component manufacturers continued to increase production capacity in Japan and overseas. In heat treatment services, efforts were focused on augmenting facilities while reducing costs. In the industrial furnace sector, the segment took initiatives such as shifting to high-value-added products, shortening and raising the efficiency of production processes, and reviewing unit procurement prices.

Consequently, this segment posted net sales of ¥11,658 million, up 12% year on year. Operating income rose 6% to ¥1,429 million.

Key Fiscal 2006 Initiatives

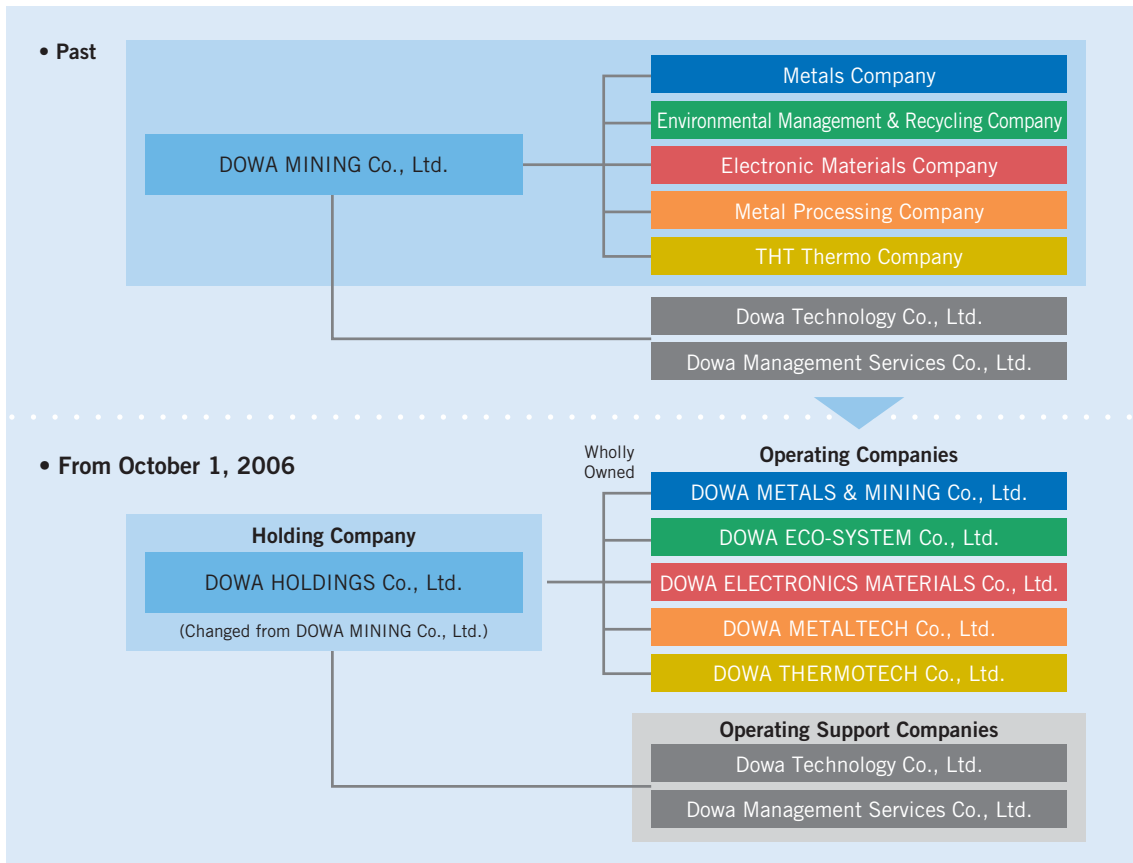
- Acquired CEMM Co., Ltd., a Nagoya-based provider of heat treatment services and manufacturer of industrial furnaces with a strong reputation chiefly in plasma and gas nitriding treatment.
- Developed and conducted trials of new industrial furnaces that realize improved productivity and lower energy costs.

HOLDING COMPANY SYSTEM LAUNCHED
—Moving to a New Stage of Reforms

On October 1, 2006, DOWA MINING Co., Ltd. spun off its five core business divisions and became a holding company called DOWA HOLDINGS Co., Ltd. This measure was taken as a means of achieving the goals of Business Structure Reform Plan III and expediting reforms. Under the holding company system, each former core business division will be able to make decisions more rapidly and have greater autonomy as an independent operating company by introducing management systems and delegating authority according to the characteristics of each business. The goal is to strive to expand and develop businesses further. Meanwhile, the holding company will leverage strategic business functions to flexibly utilize management resources such as personnel, technologies and funds across the entire Group. In this way, it will bring together the Group’s collective capabilities with the aim of maximizing corporate value for the Group as a whole.

■ **Reduce Central Control and Reinforce Group Cohesion as Necessary**

- Reduce central control** : Operating divisions will leverage their independence and specialization in their respective fields to become industry leaders
- Reinforce Group cohesion** : Share management resources across the Group
 Flexibly utilize personnel, assets, and funds according to business development stage



Maximize Group-wide earnings by reducing central control and reinforcing group cohesion as necessary.

CONSOLIDATED BALANCE SHEETS

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
SEPTEMBER 30, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Assets			
Current Assets:			
Cash and time deposits (Note 4)	¥ 4,507	¥ 2,284	\$ 38,235
Notes and accounts receivable:			
Trade	66,470	39,508	563,783
Non-consolidated subsidiaries and affiliates	3,133	3,402	26,574
Others	2,997	2,748	25,442
Subtotal	72,600	45,658	615,780
Inventories (Note 7)	94,989	59,640	805,675
Deferred tax assets	4,820	2,293	40,888
Other current assets	2,282	5,807	19,359
Less: Allowance for doubtful accounts	(170)	(173)	(1,443)
Total current assets	179,030	115,509	1,518,495
Property, Plant and Equipment, at Cost:			
Land	21,691	23,542	183,982
Buildings and structures	82,587	80,007	700,491
Machinery, equipment and others	148,577	145,722	1,260,203
Construction in progress	8,833	4,553	74,925
Subtotal	261,691	253,824	2,219,602
Less: Accumulated depreciation	(166,558)	(161,803)	(1,412,713)
Total property, plant and equipment	95,132	92,021	806,889
Investments and Other Assets:			
Investments in securities (Note 5)	45,791	33,835	388,394
Investments in and advances to non-consolidated subsidiaries and affiliates (Note 5)	24,112	21,114	204,520
Long-term loans	233	502	1,981
Deferred tax assets	2,838	3,113	24,073
Other assets	4,816	4,334	40,848
Less: Allowance for doubtful accounts	(288)	(380)	(2,443)
Total investments and other assets	77,504	62,518	657,374
Total Assets	¥351,667	¥270,048	\$2,982,759

* 1. The accompanying notes are an integral part of these financial statements.

2. ¥117.90=US\$1, the rate of exchange on September 29, 2006, is used.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Liabilities and Net Assets			
Current Liabilities:			
Short-term borrowings	¥ 46,646	¥ 34,051	\$ 395,648
Long-term debt due within one year	17,382	10,468	147,430
Commercial paper	10,000	—	84,817
Notes and accounts payable:			
Trade	41,005	22,215	347,796
Non-consolidated subsidiaries and affiliates	409	1,215	3,475
Others	5,377	5,578	45,613
Subtotal	46,792	29,008	396,885
Derivatives traded at market value	3,477	1,874	29,491
Accrued expenses	8,819	7,734	74,808
Accrued income taxes	8,089	7,103	68,610
Other current liabilities	3,824	1,565	32,439
Total current liabilities	145,032	91,803	1,230,131
Long-term Debt	54,377	55,967	461,214
Reserves for Employees' Retirement Benefits	12,195	12,014	103,439
Reserves for Directors' and Corporate Auditors' Retirement Benefits	856	878	7,262
Deferred Tax Liabilities	10,185	5,498	86,392
Other Long-term Liabilities	1,663	1,340	14,110
Total liabilities	224,310	167,500	1,902,551
Contingent Liabilities (Note 6)			
Net Assets			
Shareholders' Equity:			
Common stock:			
Authorized: 1,000,000 thousand shares in 2006 and 795,073 thousand shares in 2005			
Issued: 303,790 thousand shares at September 30, 2006 and 2005	36,436	36,436	309,046
Additional paid-in capital	26,368	26,369	223,654
Retained earnings	44,579	25,398	378,112
Treasury stock, at cost (3,874,074 shares in 2006 and 3,863,402 shares in 2005)	(2,240)	(2,229)	(19,006)
Subtotal	105,144	85,975	891,807
Adjustments for Valuation, Foreign Currency Translation and Others:			
Unrealized gain on available-for-sale securities	21,565	14,111	182,914
Net deferred hedge income	(3,106)	—	(26,346)
Foreign currency translation adjustments	(453)	(607)	(3,842)
Subtotal	18,006	13,504	152,725
Minority Interests	4,205	3,069	35,673
Total net assets	127,356	102,548	1,080,207
Total Liabilities and Net Assets	¥351,667	¥270,048	\$2,982,759

* 1. The accompanying notes are an integral part of these financial statements.

2. ¥117.90=US\$1, the rate of exchange on September 29, 2006, is used.

CONSOLIDATED STATEMENTS OF INCOME

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Net Sales	¥217,683	¥139,878	\$1,846,336
Cost of Sales	180,957	109,337	1,534,839
Gross profit	36,725	30,541	311,497
Selling, General and Administrative Expenses	13,438	12,741	113,982
Operating income	23,286	17,800	197,514
Other Income (Expenses):			
Interest and dividend income	755	475	6,411
Interest expenses	(788)	(663)	(6,691)
Equity in earnings (losses) of affiliates	1,589	(2,091)	13,480
Loss due to impairment of property, plant and equipment	(69)	(1,784)	(591)
Loss due to sale or disposal of property, plant and equipment, net	(1,757)	(505)	(14,909)
Other, net	(885)	(1,168)	(7,513)
	(1,157)	(5,736)	(9,814)
Income before income taxes and minority interests	22,129	12,064	187,700
Income Taxes:			
Current	7,778	7,070	65,973
Deferred	(39)	13	(336)
	7,738	7,083	65,636
Minority Interests in Income	(526)	(136)	(4,466)
Net income	¥ 13,864	¥ 4,845	\$ 117,597
Per Share (Note 3):			
	Yen		U.S. Dollars (Note 1)
Primary net income	¥46.23	¥16.16	\$0.39
Fully diluted net income	—	—	—
Cash dividends	—	—	—

* 1. The accompanying notes are an integral part of these financial statements.

2. ¥117.90=US\$1, the rate of exchange on September 29, 2006, is used.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND OTHERS

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Number of Shares of Common Stock (thousand)			
Balance at beginning of period	303,790	303,790	303,790
Net change during period	—	—	—
Balance at end of period	<u>303,790</u>	<u>303,790</u>	<u>303,790</u>
Common Stock			
Balance at beginning of period	¥ 36,436	¥ 36,436	\$309,046
Net change during period	—	—	—
Balance at end of period	<u>¥ 36,436</u>	<u>¥ 36,436</u>	<u>\$309,046</u>
Additional Paid-in Capital			
Balance at beginning of period	¥ 26,368	¥ 26,377	\$223,654
Disposal losses of treasury stock by an exchange of shares	—	(8)	—
Balance at end of period	<u>¥ 26,368</u>	<u>¥ 26,369</u>	<u>\$223,654</u>
Retained Earnings			
Balance at beginning of period	¥ 35,079	¥ 23,357	\$297,534
Net income	13,864	4,845	117,598
Cash dividends paid	(4,252)	(3,037)	(36,073)
Bonuses to directors	(108)	(75)	(918)
Change in equity of subsidiaries newly consolidated at beginning of the year	(3)	305	(28)
Change in equity of new affiliates accounted for by the equity method	—	3	—
Balance at end of period	<u>¥ 44,579</u>	<u>¥ 25,398</u>	<u>\$378,112</u>
Treasury Stock, at Cost			
Balance at beginning of period	¥ (2,249)	¥ (2,254)	\$ (19,082)
Net change of treasury stock held by affiliates during period	12	(1)	104
Purchase of treasury stock	(3)	(269)	(28)
Disposal of treasury stock by an exchange of shares	—	295	—
Balance at end of period	<u>¥ (2,240)</u>	<u>¥ (2,229)</u>	<u>\$ (19,006)</u>
Unrealized Gain (Loss) on Available-for-Sale Securities			
Balance at beginning of period	¥ 22,112	¥ 11,420	\$187,556
Net change during period	(547)	2,691	(4,641)
Balance at end of period	<u>¥ 21,565</u>	<u>¥ 14,111</u>	<u>\$182,914</u>
Net Deferred Hedge Income			
Balance at beginning of period	—	—	—
Net change during period	¥ (3,106)	—	\$ (26,346)
Balance at end of period	<u>¥ (3,106)</u>	<u>—</u>	<u>\$ (26,346)</u>
Foreign Currency Translation Adjustments			
Balance at beginning of period	¥ (426)	¥ (666)	\$ (3,619)
Net change during period	(26)	59	(223)
Balance at end of period	<u>¥ (453)</u>	<u>¥ (607)</u>	<u>\$ (3,842)</u>
Minority Interest			
Balance at beginning of period	¥ 3,833	¥ 4,769	\$ 32,515
Net change during period	372	(1,700)	3,158
Balance at end of period	<u>¥ 4,205</u>	<u>¥ 3,069</u>	<u>\$ 35,673</u>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥22,129	¥12,064	\$187,700
Adjustments for:			
Depreciation	4,388	4,505	37,224
Loss due to impairment of property, plant and equipment	69	1,784	591
Loss due to sale or disposal of property, plant and equipment, net	1,757	505	14,909
Amortization of excess of the purchase price over the underlying equity in net assets of businesses acquired	226	—	1,923
Change in liability for retirement benefits	(53)	457	(449)
Change in allowance for doubtful accounts	(77)	(19)	(657)
Equity in earnings (losses) of affiliates	(1,589)	2,091	(13,480)
Interest and dividend income	(755)	(475)	(6,411)
Interest expenses	788	663	6,691
Changes in trade receivables	(21,797)	5,621	(184,882)
Changes in inventories	(25,132)	(8,900)	(213,170)
Changes in trade payables	11,360	794	96,360
Changes in consumption tax payable	(1,485)	—	(12,596)
Other, net	1,230	(2,065)	10,437
Subtotal	(8,937)	17,025	(75,809)
Interest and dividend income received	849	552	7,202
Interest expenses paid	(738)	(669)	(6,262)
Income taxes paid	(8,394)	(9,314)	(71,197)
Net cash (used in) provided by operating activities	(17,221)	7,594	(146,067)
Cash Flows from Investing Activities:			
Acquisition of property, plant and equipment	(10,169)	(6,239)	(86,256)
Change in investments in securities	(4)	(504)	(34)
Change in investments in securities of subsidiaries and associates	(2,806)	(3,381)	(23,802)
Change in loans	792	27	6,723
Proceeds from disposal and sale of property, plant and equipment	4,629	21	39,268
Other, net	(14)	(173)	(120)
Net cash used in investing activities	(7,571)	(10,249)	(64,221)
Cash Flows from Financing Activities:			
Change in short-term bank loans, net	17,487	6,104	148,320
Change in commercial paper	10,000	—	84,817
Change in long-term debt	6,200	2,800	52,586
Repayment of long-term debt	(5,806)	(5,911)	(49,250)
Cash dividends paid	(4,394)	(3,194)	(37,275)
Purchases of treasury stock	(3)	(269)	(28)
Other, net	(7)	—	(59)
Net cash provided by (used in) financing activities	23,475	(470)	199,111
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(16)	10	(141)
Net Decrease in Cash and Cash Equivalents	(1,334)	(3,115)	(11,318)
Cash and Cash Equivalents at Beginning of Year	5,813	5,286	49,310
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	6	111	56
Cash and Cash Equivalents at End of Period (Note 4)	¥ 4,485	¥ 2,282	\$ 38,048

* 1. The accompanying notes are an integral part of these financial statements.

2. ¥117.90=US\$1, the rate of exchange on September 29, 2006, is used.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DOWA HOLDINGS CO., LTD. AND ITS CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of DOWA HOLDINGS CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements, from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Moreover, the Company changed its business name from "DOWA MINING CO., LTD." into "DOWA HOLDINGS CO., LTD." on October 1, 2006.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.90=US\$1, the rate of exchange on September 29, 2006 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

This semi-annual report should be read in conjunction with the Company's annual report for the year ended March 31, 2006.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in non-consolidated subsidiaries have not been accounted for by the equity method, but carried at cost, since the Company's equity in their combined earnings, in aggregate, does not have a material effect on the consolidated financial statements.

The excess of the purchase price over the underlying equity in the net assets of businesses acquired is amortized on a straight-line basis within 20 years.

Investments in major affiliated companies in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for by the equity method.

Note Regarding the Scope of Consolidation

The consolidated financial statements for the period ended September 30, 2005 include Akita Rare Metals Co., Ltd. and Akita Kouei Co., Ltd., which were unconsolidated subsidiaries in the consolidated financial statements for the year ended March 31, 2005 from the viewpoint of materiality.

The Company signed an agreement to buy 55% of the issued stock in Act-B Recycling Co., Ltd. during the year ended March 31, 2006. The results of this subsidiary are included in the consolidated financial statements from the date of the signing of the agreement.

The Company signed an agreement to sell half of the issued stock in Takeuchi Metal Foil and Powder Co., Ltd. during the year ended March 31, 2006. The results of this subsidiary are included in the consolidated financial statements up to the date of the signing of the agreement, and the company has been accounted for by the equity method from the date of the signing of the agreement.

The consolidated financial statements for the period ended September 30, 2006 include Dowa Technology Co., Ltd., which was an unconsolidated subsidiary in the consolidated financial statements for the year ended March 31, 2006 from the viewpoint of materiality.

The Company signed an agreement to buy all circulating stocks of Cemm Co., Ltd. during the period ended September 30, 2006. The results of this subsidiary are included in the consolidated financial statements from the date of the signing of the agreement.

Accounting Period of Foreign Subsidiary

In preparing the consolidated financial statements for the period ended September 30, 2006 and 2005, the financial statements of Dowa THT America, Inc. as of June 30, 2006 and 2005 were used, and significant transactions that occurred between July 1, 2006 and September 30, 2006 and July 1, 2005 and September 30, 2005 were included.

3. NET INCOME PER SHARE

Primary net income per share is based on the weighted average number of shares of common stock of the Company issued and outstanding during the respective periods. Fully diluted net income per share is not presented as there were no common shares which the Company could issue upon the exercise of warrants.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

Cash and cash equivalents at September 30, 2006 and 2005 consisted of:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Cash and time deposits	¥4,507	¥2,284	\$38,235
Time deposits with deposit terms of over three months	(22)	(2)	(186)
Cash and cash equivalents	¥4,485	¥2,282	\$38,048

5. MARKETABLE SECURITIES AND INVESTMENTS

Marketable securities and investments at September 30, 2006 and 2005 consisted of:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	FY2006 (September 30, 2006)	FY2005 (September 30, 2005)	FY2006 (September 30, 2006)
Investments in non-consolidated subsidiaries and affiliates	¥24,111	¥21,112	\$204,511
Advances to non-consolidated subsidiaries and affiliates	1	2	8
Available-for-sale securities with market quotations	42,540	30,613	360,816
Available-for-sale securities without market quotations			
Unlisted securities	3,169	3,162	26,881
Others	82	60	696
Subtotal	3,251	3,222	27,577
Total	¥69,904	¥54,949	\$592,914

6. CONTINGENT LIABILITIES

At September 30, 2006 and 2005, the Company and its consolidated subsidiaries were contingently liable as guarantor of loans incurred by affiliates in the amount of ¥220 million (US\$1,871 thousand) and ¥273 million.

During the period the Company sold notes and accounts receivable amounts to a finance company. As part of the finance agreement, under certain circumstances, the Company has the obligation to repurchase these amounts.

At September 30, 2006 and 2005, in connection with this structured finance agreement, the maximum repurchase commitment the Company has exposure to is ¥1,225 million (US\$10,395 thousand) and ¥889 million, respectively.

7. CHANGE OF ACCOUNTING POLICY

Accounting Standard for Impairment of Fixed Assets

The Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Impairment of Fixed Assets” which required that impairment losses should be measured as the excess of the book value over the higher of fair market value and net of disposition costs of the fixed assets, effective from the consolidated fiscal year beginning April 1, 2005.

As a result of this change, income before income taxes and minority interests decreased by ¥1,882 million.

Under the new accounting standard, the Company and its domestic consolidated subsidiaries have subtracted the accumulated impairment loss from the cost of property, plant and equipment.

Accounting Standard for Measurement of Inventories

The Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (“Business Accounting Standard No. 9, July 5, 2006”) from the consolidated fiscal year beginning April 1, 2006.

As a result of this change, “Gross profit,” “Operating income” and “Income before income taxes and minority interests,” respectively, decreased by ¥351 million (US\$2,980 thousand).

Accounting Standard for Directors’ Bonuses

The Company and its consolidated subsidiaries have adopted “Accounting Standard for Directors’ Bonuses” (“Business Accounting Standard No. 4, November 29, 2005”) from the consolidated fiscal year beginning April 1, 2006.

This change of accounting policy has little influence on profit and loss.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

The Company and its consolidated subsidiaries have adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance” (“Business Accounting Standard No. 5, December 9, 2005”) from the consolidated fiscal year beginning April 1, 2006.

This change of accounting policy has no influence on profit and loss.

If “Shareholders’ Equity” was calculated using the conventional method, “Shareholders’ Equity” of the consolidated balance sheets for the period ended September 30, 2006 would be ¥126,256 million (US\$1,070,879 thousand).

Moreover, “Net Assets in the Balance Sheet” has been calculated on the basis of the revised “Regulation for Semi Consolidated Financial Statements.”

Accounting Standard for Business Combinations and Divestitures

The Company and its consolidated subsidiaries have adopted “Accounting Standard for Business Combinations” (“Business Accounting Council, October 31, 2003”), “Accounting Standard for Business Divestitures” (“Business Accounting Standard No. 7, December 27, 2005”) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (“Implementation Guidance on Business Accounting Standard No. 10, December 27, 2005”) from the consolidated fiscal year beginning April 1, 2006.

This change of accounting policy has no influence on profit and loss.

Accounting Standard for Treasury Shares and Appropriation of Legal Reserve

The company and its consolidated subsidiaries have adopted “Accounting Standard for Treasury Shares and Appropriation of Legal Reserve and its Implementation Guidance” (“Business Accounting Standard No. 1, August 11, 2006”).

This change of accounting policy has no influence on profit and loss.

The following changes in the presentation of the “Semi Consolidated Financial Statements” have been made in accordance with the revised regulations on “Semi Consolidated Financial Statements.”

“Treasury stock, at cost” is presented in the end part of “Shareholders’ Equity” of “Net assets” from the consolidated fiscal year beginning April 1, 2006.

On the semi consolidated balance sheets for the period ended September 30, 2005, “Treasury stock, at cost” was presented in the end part of “Shareholders’ Equity.”

8. CHANGE OF PRESENTATION

The Company and its consolidated subsidiaries have rounded down figures less than ¥1 million from the consolidated fiscal year beginning April 1, 2006. Figures had been rounded off from April 1, 2005 to March 31, 2006.

As a result, if each figure is merely added up, it is not certain that the sum of the figures can be equal to the total figure.

The consolidated financial statements of the period ended September 30, 2006 are composed by rounding down.

The consolidated financial statements of the period ended September 30, 2005 are composed by rounding off.

9. ADDITIONAL INFORMATION

Allowance for Environmental Measures

Effective from the year ended March 31, 2006, the Company and its consolidated subsidiaries adopted the Law Concerning Special Measures against PCB Waste, and recorded the estimate cost for the disposal of polychlorinated biphenyl waste.

The Company and its consolidated subsidiaries recorded ¥319 million as the extraordinary loss for the cost disposal of polychlorinated biphenyl waste. As a result, income before income taxes and minority interests decreased by ¥319 million. However, this change of accounting policy had no influence on the segment information.

10. SUBSEQUENT EVENT

The Company's board of directors resolved to entrust the issuance of unsecured straight bonds and the decision on conditions of issuance to the representative director at a meeting held on November 13, 2006. The representative director decided on the conditions of the issuance of the unsecured straight bonds on December 1, 2006; they were issued on December 18, 2006 as follows based on the decision of the board of directors.

1. *Type*

Unsecured straight bonds

2. *Total amount of issuance of bonds*

¥10 billion (US\$84,817 thousand)

3. *Issue price of the bonds*

100% of the face value of the bonds

4. *Date of issuance*

December 18, 2006

5. *Date of payment*

December 18, 2009

6. *Interest rate*

1.21% per annum

7. *Intended use of proceeds*

To provide for payment for other bonds and for investment in property, plant and equipment in an effort to attain the targets of medium-term planning.

11. SEGMENT INFORMATION

The Company's business segments, which should be separately disclosed pursuant to regulations in Japan on consolidated financial statements, consist of the following:

- | | |
|---|--|
| (1) Nonferrous Metals: | Production and sale of gold, silver, copper, zinc, lead, zinc alloy, indium, platinum, and other nonferrous metals |
| (2) Environmental Management & Recycling: | Waste treatment, soil remediation, metal recycling, consulting, final waste treatment and disposal facilities, and freight transport |
| (3) Electronic Materials: | High-purity gallium for compound semiconductor manufacturing, compound semiconductors for electronic and optical devices, LEDs for transmission and medical sensors, metal powders for data storage tape, and other electronic materials |
| (4) Metal Processing: | Manufacture and sale of copper, brass, copper alloy strips and other copper strip products, strip platings, brass bars and forged parts, and metal-ceramic substrates for power modules |
| (5) Heat Treatment: | Heat treatment, surface treatment, surface modification treatment, and the design, manufacture, sale and maintenance of facilities for heat treatment |
| (6) Others: | Construction, rental, geothermal business and others |

From April 1, 2005, the Company began restructuring and the business scale was reduced due to sales of real estate. As a result, Construction and Real Estate information is now included in the Others segment.

From April 1, 2006, the Company divided "Electronic Materials and Metal Processing" into "Electronic Materials" and "Metal Processing."

This change was due to restructuring of business segments resulting in the establishment of independent operating companies.

The segment date of September 30, 2005 has been reclassified to reflect this change.

Segment information by business segment as of September 30, 2006 and 2005 is summarized as follows:

		Millions of Yen								
		Nonferrous metals	Environmental management & recycling	Electronic materials	Metal processing	Heat treatment	Others	Total	Eliminations	Consolidated
2006										
Net sales:										
Outside										
customers		¥114,552	¥21,089	¥27,873	¥37,239	¥11,658	¥5,270	¥217,683	¥ —	¥217,683
Intersegment		16,851	15,854	517	16	—	4,125	37,365	(37,365)	—
Total		131,404	36,944	28,390	37,255	11,658	9,396	255,048	(37,365)	217,683
Operating expenses										
		119,602	33,220	24,827	34,756	10,228	9,188	231,824	(37,428)	194,396
Operating income										
		¥ 11,801	¥ 3,723	¥ 3,562	¥ 2,498	¥ 1,429	¥ 207	¥ 23,224	¥ 62	¥ 23,286

		Millions of Yen								
		Nonferrous metals	Environmental management & recycling	Electronic materials	Metal processing	Heat treatment	Others	Total	Eliminations	Consolidated
2005										
Net sales:										
Outside										
customers		¥60,513	¥19,342	¥21,624	¥22,339	¥10,376	¥5,684	¥139,878	¥ —	¥139,878
Intersegment		12,961	7,596	1,548	10	—	4,046	26,161	(26,161)	—
Total		73,474	26,938	23,172	22,349	10,376	9,730	166,039	(26,161)	139,878
Operating expenses										
		64,472	24,328	20,143	20,595	9,022	9,585	148,145	(26,067)	122,078
Operating income										
		¥ 9,002	¥ 2,610	¥ 3,029	¥ 1,754	¥ 1,354	¥ 145	¥ 17,894	¥ (94)	¥ 17,800

		Thousands of U.S. Dollars (Note 1)								
		Nonferrous metals	Environmental management & recycling	Electronic materials	Metal processing	Heat treatment	Others	Total	Eliminations	Consolidated
2006										
Net sales:										
Outside										
customers		\$ 971,610	\$178,876	\$236,412	\$315,854	\$98,881	\$44,701	\$1,846,336	\$ —	\$1,846,336
Intersegment		142,930	134,474	4,389	138	—	34,994	316,927	(316,927)	—
Total		1,114,541	313,351	240,801	315,993	98,881	79,695	2,163,264	(316,927)	1,846,336
Operating expenses										
		1,014,442	281,766	210,581	294,798	86,757	77,935	1,966,280	(317,458)	1,648,822
Operating income										
		\$ 100,098	\$ 31,585	\$ 30,220	\$ 21,194	\$12,123	\$ 1,760	\$ 196,983	\$ 530	\$ 197,514

Segment information by geographic area is not disclosed pursuant to regulations on consolidated financial statements in Japan, since the net sales of the Company and its domestic consolidated subsidiaries, taken as a whole, were more than 90% of consolidated net sales.

Information on overseas sales is not disclosed pursuant to regulations in Japan on consolidated financial statements, since the aggregate overseas sales of the Company and its domestic subsidiaries and overseas consolidated subsidiaries were less than 10% of consolidated net sales.

*117.90=US\$1, the rate of exchange on September 29, 2006, is used.