



MURITA REPORT 2006

To Shareholders and Investors
Interim Business Report for the 74th Term

April 1, 2006 to September 30, 2006



MURITA
Securities Code : 6455

Morita Topics

Miracle CAFS :

Extinguishing fires using one 17th the amount of water

Morita has developed an entirely new fire fighting system known as Miracle CAFS which uses a new fire extinguishing agent with both superior fire fighting capabilities and environmental characteristics.

Miracle CAFS, a revolutionary new product with the tremendous potential to radically change conventional fire fighting operations, enables efficient fire fighting in situations where securing water resources for fighting fires is difficult such as during the aftermath of earthquakes, and helps minimise secondary damage caused by water when extinguishing fires such as those that occur in blocks of flats.

With Miracle CAFS the following have been achieved via fire fighting activities using foam emissions containing water mixed with a new fire extinguishing agent and compressed air.

1. Prevention of water damage and the efficient use of water for fighting fires have been made possible by enabling fires to be extinguished using one 17th the amount of water that would normally be required to put out a fire.
2. Fires can be extinguished quickly and efficiently.
3. Rooms on fire can be cooled using large quantities of air (compressed air) and the safety of fire fighters is ensured.
4. Reaction force by water discharge is small compared to when discharging water alone and fire fighting hoses are light. Loss of pressure is minimal and water can be supplied to high and distant locations.
5. The fire fighting agent uses a diluted concentrated solution the main ingredient of which is natural soap, and it is environmentally friendly, not to mention fire fighter-friendly.
6. Defoaming after extinguishing fires is fast and cleaning up is simple.



Miracle CAFS was exhibited at the 11th International Fire Protection Equipment, Technology Conference Exposition (China Fire 2006) held in Beijing from 26 to 29 October, 2006 and we are actively expanding sales throughout China, a country suffering from severe water shortages.

Using the catch copy 'two determining factors for the safety of your family' we commenced the sale of residential fire alarm detectors and fire fighting flowers

According to the Fire and Disaster Management Agency a record number of more than 1,200 people died in house fires throughout Japan in 2005 of which approximately 60% of deaths were due to failing to escape in time. Most of the victims were elderly.

At Morita we believe that the early discovery of fires and fire fighting in the early stages of a fire are essential to reduce damages caused by fires. Using the catch copy 'two determining factors for the safety of your family' we have instigated a mass PR campaign targeting 54 million households throughout the country.

1. Residential fire alarm detectors for the early discovering of fires

In accordance with revisions to the Fire Defence Law, from June 1, 2006 the installation of residential fire alarm detectors has become mandatory throughout Japan and Morita started to sell alarms in earnest. We expect the requirement to install alarms in existing households, which must be fulfilled by the end of May 2011, to contribute greatly to future sales since residential fire alarm detectors must be installed in kitchens, on staircases and in bedrooms.



2. Fire fighting flower for extinguishing fires before they get out of control



The most common cause of house fires is arson, followed in second place by cigarettes and in third place by oil for deep frying catching fire.

Most victims of house fires are elderly people, and our 'fire fighting flower' is the outcome of studies into something that, when necessary, can be used to put out fires without panicking.

A fire extinguishing agent has been inserted into the middle of the flower and acts as a fire fighting device when a fire breaks out, enabling the fire fighting flower to function as a kitchen accessory. A magnet allows the flower to be easily affixed onto refrigerators and ensures the flower is easily accessible when needed.



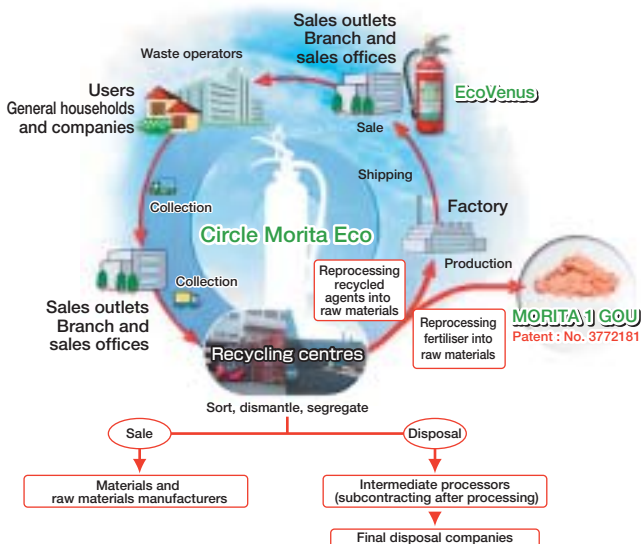
At Morita our mission is to 'save the lives of as many people as possible' and we aspire to contribute to the creation of 'a secure, comfortable and prosperous society'.

Waste fire extinguisher collection system – the start of ‘Circle Morita Eco’

Morita received certification for our ‘extensive recognition system’ from the Minister for the Environment on September 1, 2006. In the autumn we initiated “Circle Morita Eco”, a waste fire extinguisher collection system which utilises this certification.

In the past have been a number of cases in which we were unable to collect waste fire extinguishers as certification was required from each distribution channel local authority to transport and recycle such extinguishers due to the dangerous nature of such high pressure containers and the fact that the structural elements contain both domestic waste and industrial waste.

Under this new waste fire extinguisher collection system Morita will operate a network of Circle Morita Eco Registered Outlets, made up of roughly 1,000 certified companies throughout Japan. Up until now we have collected only extinguishers from businesses such as factories, offices and commercial establishments but in the future we will work on collecting fire extinguishers from general households from which collection had previously been somewhat complicated. Having dismantled and sorted collected waste fire extinguishers we shall work to 100% recycle the extinguishers by such means as recycling the main container, reusing fire extinguishing powder as the new fire fighting device ‘Eco Venus’ and recycling such powder as the fertiliser product ‘Morita 1 Gou’.



● To our shareholders

We at Morita are pleased to provide you with this Interim Business Report for the 74th Term and a report on the state of our business.

Overview of Operations

1. Overview of Interim Period

During the interim period, corporate earnings improved, capital investment increased, the employment environment improved and the Japanese economy slowly expanded. However, the financial situation of local authorities, our major clients, remained severe and the prices of crude oil and raw materials have continued to escalate.

Amidst such conditions, the various divisions within the Morita Group resolutely expanded operations and endeavoured to improve the collective strength of the group and to strengthen earning capacities by reducing costs and cutting operating expenses.

Sales during the interim period decreased 1,270 million yen (7.7%) year-on-year to 15,246 million yen. In terms of profits, operating profits decreased 467 million yen (86.7%) year-on-year to 71 million yen, largely due to the fall in sales of the Fire Fighting Vehicle Division's high performance vehicles. Ordinary profits decreased 405 million yen (68.9%) year-on-year to 183 million yen and interim net profits decreased 249 million yen (65.9%) year-on-year to 128 million yen.

2. Overview of Interim Period by Segment

■ Disaster Prevention Business

Disaster Prevention Business's sales decreased 1,123 million yen (11.7%) year-on-year to 8,497 million yen largely due to the decrease in the Fire Fighting Vehicle Division's sale of ladder trucks and water towers. Operating profits decreased 633 million yen from the previous interim period of 454 million yen resulting in operating losses of 179 million yen being recorded.

■ Environmental Business

Environmental Business's sales decreased 484 million yen (6.5%) year-on-year to 6,992 million yen. However, Morita Econos Corporation, a subsidiary company, continued to perform well and recorded operating profits of 247 million yen, a 164 million yen increase year-on-year.

Future Outlook

As can be seen from above, the business results for the Morita Group during the interim period were extremely severe. However, in the future we shall work to secure earnings by improving our market share, by further reducing costs, curbing sales and administrative expenses, and through the introduction onto the market of various new products such as the Compressed Air Foam System outlined in the Topics section, which we developed and which is capable of extinguishing fires with one 17th the amount of water currently required, a high performance ladder truck, and the new 'fire fighting ambulance', which has the combined capabilities of a fire engine and an ambulance.

Further, in the Fire Fighting Vehicle Division we are not only focusing our attention on the levelling out domestic Japanese market but are also actively expanding operations in SE Asia and the Middle East where the market is three times the size of the Japanese market, working to expand our agency network and to secure production bases (China, Vietnam). In the Disaster Prevention Equipment Division we are working towards improving business results by expanding the market following the mandatory installation of residential fire alarm detectors, and by promoting the recycling of waste fire extinguishers through the running of a waste fire extinguisher collection system known as 'Circle Morita Eco'.

I would like to take this opportunity to ask shareholders for your continuing support and encouragement.

November 2006

Masahiro Nakajima
President

Consolidated Summary

Consolidated Balance Sheets Morita Corporation and Consolidated Subsidiaries

	Millions of yen		
	FY2005 First half	FY2006 First half	FY2005 Full Year
Assets			
Current assets	¥ 23,344	¥ 21,981	¥ 22,384
Property, plant and equipment	26,830	26,642	26,887
Intangible assets	251	169	185
Investments and other assets	7,205	8,433	9,131
Total assets	57,631	57,226	58,590
Liabilities			
Current liabilities	17,061	20,550	18,884
Long-term liabilities	9,574	6,832	8,765
Total liabilities	26,636	27,382	27,650
Minority interests in consolidated subsidiaries	268	—	280
Shareholders' equity			
Common stock	4,746	—	4,746
Additional paid-in capital	4,346	—	4,346
Retained earnings	19,318	—	20,336
Unrealized gains(losses) on revaluation of land	1,463	—	(4)
Unrealized gains on available-for-sale securities	1,964	—	2,845
	31,839	—	32,269
Treasury stock, at cost	(1,112)	—	(1,610)
Total shareholders' equity	30,726	—	30,659
Total liabilities and shareholders' equity	¥ 57,631	—	¥ 58,590
Net assets			
Shareholders' equity			
Common stock		4,746	
Additional paid-in capital		4,359	
Retained earnings		20,135	
Treasury stock, at cost		(1,982)	
Total shareholders' equity		27,258	
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities		2,331	
Deferred gains(losses) on hedges		(12)	
Unrealized gains(losses) on revaluation of land		(4)	
Foreign currency translation adjustments		(3)	
Total Valuation and translation adjustments		2,311	
Minority interests in consolidated subsidiaries		274	
Total net assets		29,844	
Total liabilities and net assets		¥ 57,226	

Consolidated Statements of Income Morita Corporation and Consolidated Subsidiaries

	Millions of yen		
	FY2005 First half	FY2006 First half	FY2005 Full Year
Net sales	¥ 16,516	¥ 15,246	¥ 45,413
Cost of sales	11,931	11,079	33,691
Gross profit	4,585	4,167	11,722
Selling , general and administrative expenses	4,046	4,095	8,472
Operating income	538	71	3,249
Other income	251	319	640
Other expenses	130	167	318
Income before income taxes	659	223	3,571
Income taxes			
Current	294	96	1,062
Deferred	—	—	408
	294	96	1,470
Minority interests in earnings of consolidated subsidiaries	(12)	(1)	(0)
Net income	¥ 377	¥ 128	¥ 2,101

Consolidated Statements of Cash Flows Morita Corporation and Consolidated Subsidiaries

	Millions of yen		
	FY2005 First half	FY2006 First half	FY2005 Full Year
Cash Flows from operating activities	(¥ 654)	(¥ 493)	¥ 4,676
Cash Flows from investing activities	(1,169)	(506)	(2,250)
Cash Flows from financing activities	1,935	1,813	(3,045)
Net increase(decrease) in cash and cash equivalents	112	814	(619)
Cash and cash equivalents at beginning of term	2,947	2,366	2,947
Cash and cash equivalents of newly consolidated subsidiaries, net excluded subsidiaries from consolidation	39	—	39
Cash and cash equivalents at end of term	¥ 3,098	¥ 3,181	¥ 2,366

Consolidated Statements of Changes in Net Assets (in millions of yen)
Morita Corporation and Consolidated Subsidiaries

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2006	¥ 4,746	¥ 4,346	¥ 20,336	(¥ 1,610)	¥ 27,818
Amount of change in interim period					
Cash dividends			(240)		(240)
Bonuses to directors			(85)		(85)
Net income			128		128
Acquisition of treasury stock				(427)	(427)
Disposal of treasury stock		13		55	68
Decrease due to changes in scope of consolidation			(3)		(3)
Net changes other than shareholders' equity					
Total change in interim period	—	13	(200)	(372)	(559)
Balance at September 30, 2006	¥ 4,746	¥ 4,359	¥ 20,135	(¥ 1,982)	¥ 27,258

	Valuation and translation adjustments				Minority interests in consolidated subsidiaries	Total net assets
	Unrealized gains on available-for-sale securities	Deferred gains(losses) on hedges	Unrealized gains(losses) on revaluation of land	Foreign currency translation adjustments		
Balance at March 31, 2006	¥ 2,845	—	(¥ 4)	—	¥ 280	¥ 30,939
Amount of change in interim period						
Cash dividends						(240)
Bonuses to directors						(85)
Net income						128
Acquisition of treasury stock						(427)
Disposal of treasury stock						68
Decrease due to changes in scope of consolidation						(3)
Net changes other than shareholders' equity	(514)	(12)	—	(3)	(5)	(535)
Total change in interim period	(514)	(12)	—	(3)	(5)	(1,095)
Balance at September 30, 2006	¥ 2,331	(¥ 12)	(¥ 4)	(¥ 3)	¥ 274	¥ 29,844

● Nonconsolidated Summary

■ Nonconsolidated Balance Sheets

	Millions of yen		
	FY2005 First half	FY2006 First half	FY2005 Full Year
Assets			
Current assets	¥ 16,668	¥ 14,349	¥ 15,630
Property, plant and equipment	25,629	25,218	25,449
Intangible assets	205	144	162
Investments and other assets	8,615	10,210	10,928
Total assets	¥ 51,118	¥ 49,922	¥ 52,172
Liabilities			
Current liabilities	¥ 12,457	¥ 15,925	¥ 14,866
Long-term liabilities	8,799	6,101	8,015
Total liabilities	21,257	22,027	22,882
Shareholders' Equity			
Common stock	4,746	—	4,746
Additional paid-in capital	4,346	—	4,346
Retained earnings	18,517	—	19,026
Unrealized gains on revaluation of land	1,463	—	(4)
Unrealized gains on available-for-sale securities	1,900	—	2,785
Treasury stock, at cost	(1,112)	—	(1,610)
Total shareholders' equity	29,861	—	29,289
Total liabilities and shareholders' equity	¥ 51,118	—	¥ 52,172
Net assets			
Shareholders' equity			
Common stock		4,746	
Additional paid-in capital		4,359	
Retained earnings		18,508	
Treasury stock, at cost		(1,982)	
Total shareholders' equity		25,632	
Valuation and translation adjustments			
Unrealized gains on available-for-sale securities		2,280	
Deferred gains(losses) on hedges		(12)	
Unrealized gains(losses) on revaluation of land		(4)	
Total valuation and translation adjustments		2,263	
Total net assets		27,895	
Total liabilities and net assets		¥ 49,922	

■ Nonconsolidated Statements of Income

	Millions of yen		
	FY2005 First half	FY2006 First half	FY2005 Full Year
Net sales	¥ 9,228	¥ 7,531	¥ 30,065
Cost of sales	6,936	5,790	23,150
Gross profit	2,291	1,741	6,914
Selling, general and administrative expenses	2,296	2,354	5,032
Operating income	(4)	(613)	1,881
Other income	483	512	1,024
Other expenses	214	251	464
Income before income taxes	264	(352)	2,442
Income taxes			
Current	122	(134)	640
Deferred	—	—	444
Net income	¥ 142	(¥ 217)	¥ 1,357

CORPORATE DATA

(current as of September 30, 2006)

Overview

Founded : April 23, 1907

Established : July 23, 1932

Representative : President Masahiro Nakajima

Paid-in capital : JPY4,746mil

Osaka Head Office : 5-20, 5-Chome, Shojihigashi, Ikuno-ku,
Osaka City, Osaka, 544-8585

Tokyo Head Office : 25-31, 3-Chome, Nishishinbashi, Minato-ku,
Tokyo, 105-0003

Primary Products

Pump Division

Manufacture and sale of fire engines with ladders, chemical trucks, ordinary fire engines, other fire fighting vehicles and specialty vehicles.

Disaster Prevention Division

Manufacture and sale of disaster prevention equipment including dry chemical fire extinguishers and design, conservation and inspection of disaster prevention facilities.

Environment Business Division

Design of waste recycling facilities and other waste disposal facilities and manufacture and sale of large hydraulic equipment.

Group Companies

Morita Econos Corporation

Morita Technos Corporation

Morita Sogo Service Ltd

Morita Toukai Corporation

Ueno Morita Ltd.

Morita UG Ltd.

Morita Engineering Corporation

ALUVO.CO.,LTD.

Hokkaido Morita Corporation

Kagoshima Morita Pump Ltd.

Morita Toyo Corporation

Sichuan Morita Fire Safety Appliances Limited Company

Nanjing Chenguang Morita Environment Protection Science &
Technology Co.,Ltd.

Shareholder's Memo

Operating Year : April 1st to March 31st

Annual General Meeting of Shareholders : June

Schedule : Ordinary General Meeting of Shareholders – March 31st
Year-end Dividend – March 31st
Interim Dividend – September 30th
Other dates publicised in advance as necessary

Method of Publicity : Posted on company website.
<http://www.morita119.com/kohkoku/index.html>

Shareholder Register Administrator :
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<http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html>

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Stock Listing : Tokyo Stock Exchange, Osaka Securities Exchange

**Please visit our website
for the latest investor relations information.**



<http://www.morita119.com>



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