



SANIX INCORPORATED

Consolidated/Non-Consolidated Financial Summary

For the first quarter ended June 30, 2006

The financial figures in this document are based on Japanese Accounting Standards and accompanying laws . This document is an English translation of the Japanese-language original.

Consolidated Financial Statements

For the first quarter ended June 30, 2006

SANIX INCORPORATED

Stock Listed: Tokyo Stock Exchange First Section, Osaka Stock Exchange First Section,
Fukuoka Stock Exchange

Code No.: 4651

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Use of simplified accounting methods: None

Change in accounting methods from recent fiscal years:

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Change in application range of consolidation and equity method: None

Consolidated Financial Highlights for the first quarter ended June 30, 2006**(1) Consolidated Operating Results**

(Millions of Yen)

	First quarter				Fiscal year
	from April 1 to June 30				ended March 31
	FY2007	% change	FY2006	% change	FY2006
Net Sales	8,966	(22.9)	11,628	(1.0)	36,509
Operating Income	(114)	—	404	—	(3,382)
Recurring Profit	(137)	—	407	—	(3,479)
Net Income	11	(96.8)	357	—	(4,252)
Net Income per Share(¥)	¥0.28	—	¥9.00	—	(¥107.16)
Net Income per Share, Diluted(¥)	¥0.24	—	¥8.98	—	—

Note: Percentages indicate the increase and decrease compared with the previous first quarter ended June 30, 2005.

(2) Consolidated Financial Position

(Millions of Yen)

	As of June 30		As of March 31
	FY2007	FY2006	FY2006
	Total Assets	36,827	43,878
Net Assets	16,927	20,961	16,657
Owners' Equity Ratio (%)	45.9%	47.8%	44.2%
Net Assets per Share (¥)	¥415.45	¥527.81	¥416.08

(3) Consolidated Financial Cash Flows

(Millions of Yen)

	First quarter		Fiscal year
	from April 1 to June 30		ended March 31
	FY2007	FY2006	FY2006
Cash Flows from Operating Activities	11	1,594	(1,776)
Cash Flows from Investing Activities	(679)	(13)	1,598
Cash Flows from Financing Activities	188	(1,129)	(1,382)
Balance of Cash and Cash Equivalents at End of Period	919	3,410	1,398

(4) Forecasts for Consolidated Business Results

For the fiscal year ending March 31, 2007

(Millions of Yen)

	First Half	Full Year
	as of September 30	ending March 31
FY2007		
Net Sales	16,426	32,921
Recurring Profit	(472)	1,899
Net Income	(428)	1,863
Net Income per Share(¥)	(¥10.52)	¥45.73

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

Business Results

For the first quarter ended June 30, 2006

1. Earnings

During the first quarter ended June 30, 2006, the Japanese economy showed modest recovery, with improved corporate performance and expanded capital expenditure, as well as the sign of recovery in personal spending. However, there remained some anxiety for the future, such as prolonged rise in the crude oil price.

In the environmental sanitation industry, people's interest in the maintenance of houses and buildings remained very strong, but consumers have become severer in selecting a service provider. To be chosen by such selective customers, differentiated appealing and selling power of our products, enhanced ability of sales representatives to respond to customers' requests, and more customer-oriented marketing attitude were necessary.

Under these circumstances, the SANIX Group continued efforts to recover its businesses into profitable operation. We put focus on measures for productivity improvement and cost reduction to streamline the operation.

Consequently, sales decreased in all of the three divisions: the HS Division, the ERD division and the ES Division. Sales by the entire Group decreased 22.9% from the same period of the previous year to 8,966 million yen. The HS Division and the ES division recorded operating loss due to the significant drop in sales revenues. Operating loss by the ERD Division improved supported by the improvement in the repairs and maintenance expenses. As a result, SANIX reported recurring loss of 137 million yen on a consolidated basis (compared with recurring income of 407 million yen during the same period in the previous year). Because a profit from reversal of the bonus reserves of 187 million yen was recorded, consolidated net income totaling 11 million yen was reported (compared with net income of 357 million yen during the same period in the previous year).

We would like to express our sincere apologies for the confusions related to administrative punishments imposed on the HS Division. On July 7, 2006, the Ministry of Economy, Trade and Industry issued to SANIX, according to the provisions in Article 8, Paragraph 1 of Specific Commercial Transactions Law (hereinafter the "Law"), an order to suspend six sales offices of the HS Division from conducting certain home-call sales activities as defined in Article 2, Paragraph 1 of the Law, from July 8, 2006 to October 7, 2006; and directions in accordance with Article 7 of the Law. We express our deepest regret for causing distress and concern to SANIX's shareholders and other stakeholders and for lowering customers' confidence in SANIX as a result of this administrative punishment.

Earnings of individual divisions during the first quarter were as follows:

Earnings of individual divisions:

Home Sanitation Division

Business in the HS Division slowly started to pull out of recent downturn, which started during 2nd quarter last year; however, still a revenue drop in this 1st quarter is large compared to the same period last year. As a result, sales came to 5,251 million yen, which was 30.3% less than the same period prior year.

Operating profit decreased to 894 million yen from 1,690 million yen in the same period last year due to the significant decrease in revenues. The ratio of operating profit to sales declined to 17.0% (compared with 22.4 % in the same period of the previous year).

Establishment Sanitation Division

In the ES Division, revenues from "Water Activator Installation" business, targeted at new sales to commercial buildings and apartment houses, decreased significantly. As a result, total sales of the Division decreased 18.8% to 1,226 million yen from the same period of the previous year.

The Division recorded operating loss of 42 million yen (compared to 8 million yen of operating profit in the same period of the previous year) due to the significant decrease in sales revenues.

Environmental Resources Development Division

Revenues from the waste plastic processing business decreased 18.3%. This was because the processed volume of waste plastic decreased. The business accepted only waste plastic with higher quality, aiming at stable operation of the SANIX Energy Tomakomai Power Plant and sales expansion of waste plastic as fuel to customers outside the Group. Revenues from the incineration business increased 65.4% from the same period last year, although the operation was suspended temporarily during the regular repairs and maintenance in April. This significant increase was mainly because the plant had been closed for a rather long period during the first quarter last year due to the fire in May 2005. Revenues from the organic liquid waste processing business increased 30.2%, supported by steady growth in the volume of organic liquid waste accepted. Revenues from power sales increased 17.0%, supported by the stable operation of the SANIX Energy Tomakomai Power Plant. Consequently, total sales by the ERD Division decreased by 3.7% to 2,489 million yen from the same period in the previous year.

Operating loss improved to 223 million yen (compared with operating loss of 489 million yen in the same period last year), supported by cost reductions resulting from the stable operation of SANIX Energy Tomakomai Power Plant, while revenues from waste plastic processing decreased.

2.Consolidated Financial Conditions

Total assets as of June 30, 2006 amounted to 36,827 million yen, 890 million yen less than the previous year-end. This decrease was mainly due to decreased sales revenues and shrinkage of cash at hand resulting from scheduled repayment of long-term borrowings. Total liabilities totaled 19,900 million yen, which was 1,136 million yen less than the previous fiscal year-end. This decrease was mainly due to scheduled repayment of long-term borrowings and conversion of unsecured convertible bonds with warrants. There were no other significant changes in the assets/liabilities status from the end of the previous year. Net assets totaled 16,927 million yen.

Consequently, owners' equity ratio as of June 30, 2006 came to 45.9%, compared to 44.2% as of March 31, 2006.

3.Consolidated cash flow

Cash and cash equivalents as of June 30, 2006 totaled 919 million yen, a drop of 2,491 million yen from as of June 30, 2005. Net cash provided by operating activities totaled 11 million yen, a decrease of 1,583 million yen from the same period of the previous year. This decrease was mainly due to the significant sales slump in the HS Division, resulting in a significant decrease in its operating profit. Net cash used for investing activities totaled 679 million yen, a decrease of 665 million yen from the same period of the previous year. This decrease was mainly affected by the payments made in the previous year for contract prices for the construction of pre-treatment facilities at the Tomakomai Power Plant and other works, after the settlement of disputes with contractors. Net cash provided from financing activities totaled 188 million yen, an increase by 1,317 million yen from the same period of the previous year. Major factors contributing to this increase were proceeds received from borrowing and postponement of dividend payment at the end of the previous year.

4. Forecast of Operation Results

In the HS Division, as an enterprise that has established a leading and steadfast position in the environmental sanitation industry, SANIX will get back to its basic concept that value customers as the most important asset and educate all employees to make sure their strict compliancy with applicable laws and regulations, while pursuing fundamental reform and improvement of business management organization. We will endeavor to change critical situations we are now facing into opportunities for improvement, actively pursuing sales expansion. In addition, to satisfy customers' needs more extensively, sales of a new product, "Earthquake-Resistant Power Plus," will start in July 2006. It is an earthquake-proofing retrofit system designed for detached wooden housing, having excellent resisting function against shakes caused by earthquakes. In the ES Division, a 24-hour support management system will be introduced to quickly respond and process various troubles related to maintenance of buildings and apartment houses. By the introduction of this new system, we will aim at acquiring new customers and improving the satisfaction of the existing customers. Sales of a new product for prolonging the service life of water pipes, will also be started in September 2006. It is an electrolytic piping protection system whose performance has been proven by a public authority. In the Environmental Resource Development Division, regular repairs and maintenance of the Tomakomai Power Plant is scheduled in August. After completing this repairs and maintenance for ensuring the stable operation, the operating rate of the Plant will be raised to improve its profitability. In the waste plastic processing business, we will put emphasis on sales of waste plastic as fuel and recycled plastic to customers outside the SANIX group.

So far, HS division is making serious effort to regulate strictly sales activities for elder customers by holding regional meetings with regard to compliance of applicable laws and regulations in order to prevent such incidence from happening again. However, after receiving administrative punishment in July, revenues in HS reflected a weakness in recovery, and sales in July did not reach the forecast. Even though we can see sales after August might recover slowly: however still sales will be lower than the forecast. Consequently, Sanix announces a revision of consolidated interim and full year forecast.

As for profit, the Company will be able to cut fixed costs as it was announced in news titled "Announcement on "Business Streamlining Plan" and Revision of Operational Results Forecast", which was released on August 9, 2006. The Company will implement abolishment or merger of existing stores, pay cut, restructuring, and other overall cost cut before the end of September. Due to a revenue drop in HS, recurring profit and net profit in the first half will be lower than the previous forecast; however, the company's "streamlining plan" will start contributing on a full scale during the second half of this fiscal year. After implementing the plan, Sanix can lower break-even point by cutting personnel expenses and all the other related costs. Therefore, we expect recurring profit and net profit of full year will higher than the original forecast.

Consolidated Financial Statements

1. Consolidated Balance Sheet

(Thousands of Yen)

Assets:	As of June 30	As of March 31	Increase/Decrease		As of June 30
	FY2007	FY2006	Amount	Ratio %	FY2006
Current Assets:					
Cash and bank deposits	2,919,112	3,398,895	(479,783)		3,452,835
Notes and accounts receivable	2,635,003	2,536,692	98,310		3,247,892
Inventories	975,362	1,035,664	(60,301)		1,116,604
Deferred tax assets	21,610	22,742	(1,132)		19,270
Other current assets	309,226	356,424	(47,197)		701,508
Allowance for doubtful accounts	(47,295)	(42,451)	(4,844)		(37,873)
Total Current Assets:	6,813,019	7,307,968	(494,948)	(6.8)	8,500,237
Fixed Assets:					
Tangible Fixed Assets:					
Buildings and structures	5,915,602	6,042,867	(127,264)		7,867,727
Machinery, equipment and vehicles	5,521,765	5,665,895	(144,129)		6,219,695
Land	15,122,635	15,122,635	-		18,145,628
Construction in progress	6,847	6,523	323		-
Other tangible fixed assets	209,287	216,212	(6,924)		203,167
Total Tangible Fixed Assets:	26,776,138	27,054,133	(277,994)	(1.0)	32,436,218
Intangible Fixed Assets:					
Total Intangible Fixed Assets:	77,393	77,544	(150)	(0.2)	78,092
Investments and Other Assets:					
Investments in securities	1,197,662	1,311,354	(113,691)		1,059,995
Deposits and guaranty	1,464,041	1,469,398	(5,357)		1,393,323
Deferred tax assets	12,887	14,960	(2,073)		15,880
Other	883,523	879,614	3,908		796,804
Allowance for bad loans	(396,994)	(396,793)	(200)		(401,752)
Total Investments and Other Assets:	3,161,120	3,278,533	(117,413)	(3.6)	2,864,250
Total Fixed Assets:	30,014,652	30,410,211	(395,558)	(1.3)	35,378,561
Total Assets:	36,827,672	37,718,180	(890,507)	(2.4)	43,878,799

(Thousands of Yen)

Liabilities and Net Assets:	As of June 30	As of March 31	Increase/Decrease		As of June 30
	FY2007	FY2006	Amount	Ratio %	FY2006
Current Liabilities:					
Notes and accounts payable	802,262	801,006	1,255		1,168,998
Short-term loans	4,200,000	3,400,000	800,000		5,900,000
Long-term loans payable in 1 year	2,434,078	2,434,078	-		2,394,404
Corporate bond payable in 1 year	330,000	330,000	-		200,000
Amounts in arrears	1,305,815	2,110,280	(804,464)		2,632,968
Accrued expenses	1,195,322	1,168,380	26,942		1,972,600
Accrued income taxes	75,838	174,688	(98,850)		98,521
Consumption tax payable	213,315	5,271	208,043		320,189
Accrued bonuses	14,212	182,418	(168,205)		4,758
Allowance for resource-recycling expenses	778,296	904,914	(126,617)		398,937
Other current liabilities	182,226	160,105	22,120		279,348
Total Current Liabilities:	11,531,367	11,671,144	(139,776)	(1.2)	15,370,726
Non-Current Liabilities:					
Corporate Bond	3,305,000	3,605,000	(300,000)		500,000
Long-term debt	3,042,115	3,650,718	(608,603)		4,739,827
Deferred tax liabilities	102,448	139,827	(37,379)		45,553
Retirement benefit	1,625,470	1,677,102	(51,632)		1,668,904
Other non-current liabilities	294,044	293,358	686		575,763
Total Non-Current Liabilities:	8,369,078	9,366,007	(996,928)	(10.6)	7,530,048
Total Liabilities:	19,900,446	21,037,151	(1,136,704)	(5.4)	22,900,774
Minority Interests:					
Minority interests	-	23,417	-	-	16,115
Shareholders' Equity:					
Paid-in capital	-	12,616,253	-	-	12,533,820
Capital surplus	-	9,221,410	-	-	9,139,310
Earned surplus	-	(3,780,116)	-	-	829,629
Valuation difference on available-for-sale securities	-	210,174	-	-	68,490
Treasury stock	-	(1,610,111)	-	-	(1,609,342)
Total Shareholders' Equity:	-	16,657,611	-	-	20,961,909
Total Liabilities, Minority Interests and Shareholders' Equity:	-	37,718,180	-	-	43,878,799
Owners' Equity:					
Paid-in capital	12,766,834	-	-	-	-
Capital surplus	5,016,286	-	-	-	-
Earned surplus	575,563	-	-	-	-
Treasury stock	(1,610,223)	-	-	-	-
Total Owners' Equity:	16,748,462	-	-	-	-
Valuation and Translation Adjustments:					
Valuation difference on available-for-sale securities	154,074	-	-	-	-
Total Valuation and Translation Adjustments:	154,074	-	-	-	-
Minority Interests:					
Minority interests	24,689	-	-	-	-
Total Net Assets:	16,927,226	-	-	-	-
Total Liabilities and Net Assets:	36,827,672	-	-	-	-

2. Consolidated Statement of Income

(Thousands of Yen)

	First quarter		Increase/Decrease		Fiscal year
	from April 1 to June 30				ended March 31
	FY2007	FY2006	Amount	Ratio %	FY2006
Net sales	8,966,884	11,628,444	(2,261,560)	(22.9)	36,509,626
Cost of sales	4,515,380	5,622,606	(1,107,226)	(19.7)	20,048,118
Gross profit	4,451,504	6,005,838	(1,554,333)	(25.9)	16,461,508
Selling, general and administrative expenses	4,566,398	5,601,836	(1,035,438)	(18.5)	19,844,481
Operating income(loss)	(114,893)	404,001	(518,895)	-	(3,382,973)
Non-operating income:					
Interest income	1,937	2,069	(132)		8,607
Dividend income	6,255	3,783	2,472		29,849
Rent Revenue	6,645	79,268	(72,622)		172,252
Other non-operating income	16,471	16,153	318		78,053
Total non-operating income	31,310	101,274	(69,963)	(69.1)	288,764
Non-operating expenses:					
Interest expenses	50,985	61,757	(10,771)		236,420
Bond issue expenses	-	-	-		42,055
Stock issue expenses	-	1,850	(1,850)		1,850
Rent expenses	570	32,824	(32,254)		83,991
Other non-operating expenses	2,427	1,692	734		20,826
Total non-operating expenses	53,983	98,124	(44,141)	(45.0)	385,144
Recurring profit (loss)	(137,566)	407,151	(544,718)	-	3,479,354
Extraordinary income:					
Gain on sale of property, plant and equipment	-	-	-		373,331
Insurance money received	-	390,000	(390,000)		952,759
Gain on sale of investment securities	3,390	7,163	(3,772)		9,375
Transfer from reserve for possible loan losses	-	-	-		234
Transfer from reserve for bonuses	187,000	-	187,000		-
Total extraordinary income	190,390	397,163	(206,772)	(52.1)	1,335,700
Extraordinary losses:					
Loss on sale of property, plant and equipment	-	-	-		544,715
Loss on disposal of property, plant and equipment	506	156	350		14,876
Loss on cancellation of lease contract	1,258	4,120	(2,862)		9,206
Loss due to disaster	-	390,000	(390,000)		892,390
Loss on settlement of construction cost of Tomakomai Power Plant	-	-	-		225,372
Loss on sale of investment securities	-	-	-		306
Loss on valuation of membership rights	-	10,350	(10,350)		16,475
New provision for resource-recycling expenses	-	-	-		256,740
Total extraordinary losses	1,765	404,627	(402,861)	(99.6)	1,960,082
Income (loss) before income taxes and minority interests	51,059	399,688	(348,629)	(87.2)	(4,103,736)
Corporate income, local and enterprise taxes	34,730	44,447	(9,717)	(21.9)	146,216
Adjustment on corporate tax, etc	3,228	(4,139)	7,368	-	(6,888)
Minority interests in consolidated subsidiaries	1,662	1,943	(281)	(14.5)	9,570
Net income (loss)	11,437	357,436	(345,998)	(96.8)	(4,252,635)

3. Consolidated Statement of Retained Earnings

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

(Thousands of Yen)

	Owners' Equity					Valuation and Translation Adjustments	Minority Interests
	Paid-in Capital	Capital Surplus	Earned Surplus	Treasury Stock	Total Owners' Equity	Valuation Difference on Available-for-sale Securities	
Balance at the end of previous period	12,616,253	9,221,410	(3,780,116)	(1,610,111)	16,447,436	210,174	23,417
Changes of items during the period							
Issuance of new shares	150,581	149,418			300,000		
Reversal of profit from capital surplus		(4,354,542)	4,354,542				
Directors' bonus			(10,300)		(10,300)		
Net income			11,437		11,437		
Purchase of treasury stock				(111)	(111)		
Net changes of items other than owners' equity						(56,100)	1,272
Total changes of items during the period	150,581	(4,205,124)	4,355,680	(111)	301,025	(56,100)	1,272
Balance at the end of current period	12,766,834	5,016,286	575,563	(1,610,223)	16,748,462	154,074	24,689

4. Consolidated Statement of Retained Earnings

(Thousands of Yen)

	First Quarter	Fiscal Year
	from April 1 to June 30	from April 1 to March 31
	FY2006	
CAPITAL SURPLUS		
I. Capital Surplus at Beginning of Period	15,853,954	15,853,954
II. Increase in Capital Surplus		
Issuance of new shares by exercise of equity warrants	-	82,100
III. Decrease in Capital Surplus		
Dividend	397,148	397,148
Reversal of profit from capital surplus reduction	6,317,494	6,317,494
IV. Capital Surplus at End of Period	9,139,310	9,221,410
EARNED SURPLUS		
I. Earned Surplus at Beginning of Period	(5,844,676)	(5,844,676)
II. Increase in Earned Surplus		
Net Income	357,436	-
Reversal of profit from capital surplus reduction	6,317,494	6,317,494
III. Decrease in Earned Surplus		
Dividend	325	-
Directors' bonus	300	300
Net loss	-	4,252,635
IV. Earned Surplus at End of Period	829,629	(3,780,116)

5. Consolidated Statement of Cash Flows

(Thousands of yen)

	First Quarter		Full Year
	From April 1 to June 30		ended March 31
	FY2007	FY2006	FY2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	51,059	399,688	(4,103,736)
Depreciation and amortization	338,418	390,570	1,555,680
Loss due to disaster	-	-	892,390
Insurance commission income	-	-	(952,759)
Loss on settlement of construction cost of Tomakomai Power Plant	-	-	225,372
Allowance for retirement benefits	(51,632)	(7,357)	841
Allowance for resource-recycling expenses	(126,617)	26,157	532,134
Allowance for doubtful accounts	5,045	4,944	10,237
Interest and dividend income	(8,193)	(5,852)	(38,457)
Interest expense	50,985	61,757	236,420
Stock issue expense	-	-	1,850
Bond issue expense	-	-	42,055
Commission expense paid	2,417	1,319	8,508
Gain on sales of short-term investments in securities	(3,390)	(7,163)	(9,375)
Loss on sales of short-term investments in securities	-	-	306
Loss on valuation of membership rights	-	10,350	16,475
Gain on sales of property, plant and equipment	-	-	(373,331)
Loss on sales of property, plant and equipment	-	-	544,715
Loss on disposal of property, plant and equipment	506	156	14,876
Increase/decrease in notes and accounts receivable-trade	(98,310)	327,511	1,038,711
Increase/decrease in inventories	60,301	(79,595)	1,589
Increase/decrease in other current assets	(36,760)	(309,085)	88,032
Increase/decrease in notes and accounts payable-trade	134,500	206,448	(294,788)
Increase/decrease in consumption taxes payable	297,999	(48,313)	(435,588)
Increase/decrease in other current liabilities	(285,728)	922,588	(470,600)
Payment of bonuses to directors and auditors	(10,000)	-	(300)
Other	16,769	39,890	33,897
Net	337,371	1,934,014	(1,434,843)
Interest and dividend income received	8,946	7,058	39,379
Interest expense paid	(56,790)	(70,598)	(232,248)
Payment for damage repairing	(119,305)	-	(743,013)
Proceeds from damage insurance	-	-	952,759
Income taxes paid	(158,983)	(275,963)	(368,405)
Income taxes refunded	-	-	9,887
Net cash provided by operating activities:	11,238	1,594,510	(1,776,484)

(Thousands of Yen)

	First Quarter		Full Year
	Between April 1 and March 31		Ended March 31
	FY2007	FY2006	FY2006
Cash Flows from Investing Activities:			
Increase/decrease in time deposit	-	16,788	(40,586)
Increase in limited withdrawal deposit	-	-	(3,000,000)
Decrease in limited withdrawal deposit	-	-	1,000,000
Proceeds from sales of securities	23,579	37,163	103,998
Payment for purchases of securities	-	-	(79,924)
Proceeds from sales of property, plant and equipment	-	-	4,400,000
Payment for purchases of property, plant and equipment	(712,977)	(80,766)	(518,995)
Proceeds from refunds of deposits and guaranty	9,393	9,847	(72,197)
Payment for monetary deposits refunded	-	-	(194,635)
Other	926	3,056	764
Net cash provided by investing activities:	(679,079)	(13,910)	1,598,423
Cash Flows from Financing Activities:			
Increase/decrease in short-term loans	800,000	(80,000)	(2,580,000)
Proceeds from long-term loans from banks	-	-	1,020,000
Repayment of long-term loans from banks	(608,603)	(702,601)	(2,772,036)
Proceeds from issuance of stock	-	-	12,682
Proceeds from issuance of corporate bond	-	-	3,607,944
Payment for redemption of corporate bond	-	-	(265,000)
Increase/decrease in treasury stock	(111)	(244)	(1,013)
Dividends paid	(826)	(345,144)	(396,443)
Other	(2,400)	(1,319)	(8,508)
Net cash provided by financing activities:	188,057	(1,129,309)	(1,382,373)
Effect of exchange rate changes on cash and cash equivalents	0	0	0
Net increase/decrease in cash and cash equivalents	(479,783)	451,291	(1,560,434)
Cash and cash equivalents at beginning of the fiscal term	1,398,895	2,959,330	2,959,330
Cash and cash equivalents at the end of the fiscal term	919,112	3,410,621	1,398,895

Significant Accounting Policies

Relating to Financial Statements

1. Matters Pertaining to Consolidation

Number of consolidated subsidiaries: 6 companies

Names of consolidated subsidiaries: SUNAIM INCORPORATED / Energy Development Institute Co., Ltd. / Sanix Energy Incorporated / Sanix Software Design Incorporated / EDI Incorporated / Sanix Solution Incorporated

There is only one non-consolidated subsidiary, Qingdao Shan Yang Tai Chemical Resource Exploiture Co., Ltd. The Company excluded it from the consolidation because its business size is small, and none of the total assets, sales, net income (the portion corresponding to the shareholding by the Company) and retained earnings (the portion corresponding to the shareholding by the Company) of this subsidiary has any significant effect on the consolidated financial statements of the Company.

2. Matters Concerning the Application of Equity method Accounting

Qingdao Shan Yang Tai Chemical Resource Exploiture Co., Ltd. is the only non-consolidated subsidiary not reported by the equity method. This subsidiary was not reported by the equity method because its business size is small, and its total assets, sales, net income (the portion corresponding to the shareholding by the Company) and retained earnings of this subsidiary have minor effect and little significance on the consolidated financial statements of the Company.

3. Matters Pertaining to the Settlement Dates of Consolidated Subsidiaries

The settlement dates of consolidated subsidiaries are the same as those of the parent company

4. Accounting Treatment Standards

(1) Appraisal standards and appraisal methods for principal assets.

1) Short-term investments in securities:

Other marketable securities:

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

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

2) Inventories:

Half-finished products and material: Cost method computed by moving average method

Stored goods: The latest purchase cost method

(2) Depreciation methods for depreciable assets.

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

The useful lives of major assets are as follows:

Buildings and structures 8 years – 50 years

Machinery and vehicles 4 years – 17 years

Tools and furniture 2 years – 15 years

2) Intangible fixed assets: Straight-line method

However, software for internal use is depreciated by the straight-line method based on the assumed useful life for internal use (5 years).

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

(3) Accounting standards for allowances and reserves:

- 1) Allowance for doubtful accounts: Provision for losses on doubtful accounts is made up to the maximum allowable based on individual assessments and the actual percentage of bad loan write-offs, as prescribed in the Corporate Income Tax Law. If that amount is deemed to be insufficient, additional provision is made.
- 2) Provision for accrued bonuses: Provision for accrued bonuses to employees is made by appropriating an amount based on estimated total bonuses that will be paid during the year.
- 3) Allowance for retirement benefits for employees: In order to provide for retirement allowances the company accrues an amount equivalent to the amount that would be paid if the payment occurred at the end of the consolidated first quarter, based on the projected amount of retirement allowance liabilities and pension assets at the end of the current consolidated accounting period. Furthermore, the Company will treat the entire variance at the time the accounting standards were changed as a one-off expense during the next consolidated accounting period.
- 4) Allowance for resource-recycling expenses: The Company recognized transportation costs and storage costs expected to incur for the recycled waste plastic fuel stored by the end of this first quarter.

(4) Accounting treatment for lease transactions

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

(5) Hedging accounting

- 1) Method of hedging accounting: Interest rate swap arrangements were accounted for by the special treatment method of hedging accounting as they satisfy the requirements for the special treatment.
- 2) Hedging arrangements and transactions to be hedged
(Hedging arrangement) Interest rate swap contracts
(Transactions to be hedged) Interest on borrowings
- 3) Hedging policy: The Company concludes interest rate swap contracts for the purpose of hedging the risk of floating of interest rates of borrowings. Transactions to be hedged by an interest rate swap contract are specified for each contract.
- 4) Assessment of validity of hedging arrangements: The Company concludes only interest rate swap contracts that satisfy all of the following conditions, in accordance with its risk management policy

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

Accounting treatment of consumption tax: Excluding tax method

5. Valuation Method of Assets and Liabilities of Consolidated Subsidiaries

Market value method

6. Cash and Cash Equivalents on Consolidated Statements of Cash Flows

Cash and cash equivalents on the consolidated statements of cash flows include cash on hand, savings which can be withdrawn as required, and short-term investments which are easily converted into cash, having low risk of changing value, and which will be redeemed within 3 months from the acquisition date.

Change in accounting method

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

(Current First Quarter)

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

Equity section of balance sheet, which is calculated in a conventional way reaches 16,902,536 thousand yen.

Notes

Notes to Consolidated Balance Sheet

	First quarter		Fiscal year
	from April 1 to June 30		ended March 31
	FY2007	FY2006	FY2006
Total accumulated depreciation for tangible fixed assets (Thousands of yen) . .	17,374,873	16,616,540	17,038,432
Number of shares of issued (Shares)	-	40,920,752	41,224,736
Number of shares of treasury stock (Shares).	-	1,206,124	1,207,223

Notes to Consolidated Statement of Changes in Net Assets

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

1. Issues related to shares issued

	31-Mar-06	Increase	Decrease	30-Jun-06
Number of shares of issued (Shares)	41,224,736	727,448	-	41,952,184

(Reasons for changes)

The number of shares increased due to a following reason.

Conversion of unsecured convertible bonds with a share warrant: 727,448 shares

2. Numbers of Shares of Treasury Stock

	31-Mar-06	Increase	Decrease	30-Jun-06
Number of shares of treasury stock (Shares)	1,207,223	248	-	1,207,471

(Reasons for changes)

The number of shares increased due to a following reason

Purchase of odd stock: 248 shares

Notes to Consolidated Statement of Cash Flows

Relationship between balance of cash and cash equivalents at the end of period and value of items stated on the consolidated balance sheets. (Thousands of Yen)

	First quarter		Fiscal year
	from April 1 to June 30		ended March 31
	FY2007	FY2006	FY2006
Cash and bank deposits	2,919,112	3,452,835	3,398,895
Time deposits exceeding 3 months.	-	(42,213)	-
Limited withdrawal deposits.	(2,000,000)	-	(2,000,000)
Cash and cash equivalents	919,112	3,410,621	1,398,895

Segment Information

1. Segment Information by type of business

Current first quarter (From April 1, 2006 to June 30, 2006)

(Thousands of Yen)

Segments	HS	ES	ERD	Total	Elimination or Group	Consolidated
Sales, operating profit or loss						
Sales:						
(1)Sales to customers	5,251,140	1,226,282	2,489,461	8,966,884	-	8,966,884
(2)Internal sales among segments and transfer accounts.	-	-	272	272	(272)	-
Total	5,251,140	1,226,282	2,489,733	8,967,157	(272)	8,966,884
Operating expenses	4,356,726	1,269,009	2,712,861	8,338,597	743,181	9,081,778
Operating income(loss)	894,414	(42,727)	(223,127)	628,559	(743,453)	(114,893)

Previous first quarter (From April 1, 2005 to June 30, 2005)

(Thousands of Yen)

Segments	HS	ES	ERD	Total	Elimination or Group	Consolidated
Sales, operating profit or loss						
Sales:						
(1)Sales to customers	7,534,419	1,509,886	2,584,137	11,628,444	-	11,628,444
(2)Internal sales among segments and transfer accounts.	-	-	58	58	(58)	-
Total	7,534,419	1,509,886	2,584,196	11,628,503	(58)	11,628,444
Operating expenses	5,843,849	1,501,345	3,074,176	10,419,371	805,072	11,224,443
Operating income(loss)	1,690,570	8,541	(489,980)	1,209,131	(805,130)	404,001

Previous fiscal year (From April 1, 2005 to March 31, 2006)

(Thousands of Yen)

Segments	HS	ES	ERD	Total	Elimination or Group	Consolidated
Sales, operating profit or loss						
Sales:						
(1)Sales to customers	20,905,269	5,406,150	10,198,206	36,509,626	-	36,509,626
(2)Internal sales among segments and transfer accounts.	-	-	794	794	(794)	-
Total	20,905,269	5,406,150	10,199,001	36,510,421	(794)	36,509,626
Operating expenses	19,352,912	5,666,888	11,800,171	36,819,972	3,072,627	39,892,599
Operating income (loss).	1,552,357	(260,738)	(1,601,170)	(309,551)	(3,073,422)	(3,382,973)

Notes to segment information

1. Business divisions are those used for internal administrative purposes.

2. Principal services and products by business division

*HS Division: Home Reinforcement System, Termite Eradication Service, Under-Floor and Under-Roof Ventilation Systems

*ES Division: Fitting of water supply system for office and apartment buildings, maintenance services

*ERD Division: Waste plastic processing, incineration, waste organic liquid processing and power generation

3. Unabsorbed operating expenses listed under elimination or group is the administration cost of the general affairs department of the parent company.

Current first quarter ¥ 743,453 thousand

Previous first quarter ¥805,130 thousand

Previous fiscal year ¥3,073,422 thousand

2. Segment information by location

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

The Company does not report segment information by location total sales and total assets in Japan were above 90% of total sales and assets of all segments.

Previous first quarter (April 1, 2005 to June 30, 2005)

The Company does not report segment information by location total sales and total assets in Japan were above 90% of total sales and assets of all segments.

Previous fiscal year (April 1, 2005 to March 31, 2006)

The Company does not report segment information by location total sales and total assets in Japan were above 90% of total sales and assets of all segments.

3. Foreign sales

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

None

Previous first quarter (April 1, 2005 to June 30, 2005)

The Company does not report foreign sales because foreign sales were less than 10% of consolidated sales.

Previous fiscal year (April 1, 2005 to March 31, 2006)

The Company does not report foreign sales because foreign sales were less than 10% of consolidated sales.

Net Sales by Division

(Thousands of Yen)

	First quarter		Changes	Fiscal year
	from April 1 to June 30			ended March 31
	FY2007	FY2006		FY2006
Termite Eradication Service	2,557,924	3,003,224	(445,300)	8,842,095
Under-Roof/Floor Ventilation System	1,512,134	2,238,784	(726,650)	6,447,083
Home Reinforcement System	350,315	1,208,930	(858,614)	2,363,629
Other	830,766	1,083,480	(252,714)	3,252,461
Home Sanitation Division Total:	5,251,140	7,534,419	(2,283,279)	20,905,269
Water activator installation	371,357	545,636	(174,279)	1,731,055
Repair of building water-works	348,628	424,363	(75,735)	1,591,745
Waterproofing of building	205,280	224,342	(19,061)	910,746
Other	301,015	315,543	(14,527)	1,172,602
Establishment Sanitation Division Total:	1,226,282	1,509,886	(283,604)	5,406,150
Industrial Waste (Waste plastic processing)	1,128,774	1,381,544	(252,769)	5,309,801
Industrial waste (Organic Waste Water Recycle)	501,198	384,998	116,200	1,810,730
Generation of electricity	401,900	343,435	58,464	1,002,314
Industrial waste (Incineration)	301,409	182,209	119,200	1,005,792
Other	156,178	291,950	(135,771)	1,069,567
Environmental Resources Development Division Total:	2,489,461	2,584,137	(94,676)	10,198,206
Total Net Sales:	8,966,884	11,628,444	(2,661,560)	36,509,626