



SANIX INCORPORATED

Consolidated/Non-Consolidated

Financial Summary

For the 9 and 3 months ended December 31, 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 9 and 3 months ended December 31, 2006

SANIX INCORPORATED

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

Code No.: 4651

URL: <http://www.sanix.co.jp/>

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Use of simplified accounting methods: None

Change in accounting methods from recent fiscal years: None

Change in application range of consolidation and equity method: Number of newly consolidated company: None

Consolidated Financial Highlights for the 9 months ended December 31, 2006

(April 1, 2006 to December 31, 2006)

(1) Consolidated Operating Results

(Millions of Yen)

	3rd Quarter - 9 months				Full Year
	between April 1 and December 31				ended March 31, 2006
	FY2007	% change	FY2006	% change	FY2006
Net Sales	22,350	(22.6%)	28,892	(12.9%)	36,509
Operating Income	(1,606)	-	(2,051)	-	(3,382)
Recurring Profit	(1,684)	-	(2,097)	-	(3,479)
Net Income	(1,864)	-	(2,568)	-	(4,252)
Net Income per Share(¥)	(¥42.36)	-	(¥64.66)	-	(¥107.16)
Net Income per Share, Diluted(¥)	-	-	-	-	-

Note: Percentages indicate the increase and decrease compared with the previous third quarter.

(2) Consolidated Financial Position

(Millions of Yen)

	3rd Quarter		Full Year
	between April 1 and December 31		ended March 31, 2006
	FY2007	FY2006	FY2006
Total Assets	33,491	39,595	37,718
Net Assets	17,606	18,183	16,657
Owners' Equity Ratio (%)	52.5%	45.9%	44.2%
Net Assets per Share (¥)	¥368.55	¥457.65	¥416.08

(3) Consolidated Financial Cash Flows

(Millions of Yen)

	3rd Quarter		Full Year
	between April 1 and December 31		ended March 31, 2006
	FY2007	FY2006	FY2006
Cash Flows from Operating Activities	(1,132)	(1,230)	(1,776)
Cash Flows from Investing Activities	1,480	1,606	1,598
Cash Flows from Financing Activities	(1,064)	(1,187)	(1,382)
Balance of Cash and Cash Equivalents at End of Period	682	2,148	1,398

(4) Forecasts for Consolidated Business Results

For the fiscal year ending March 31, 2007

	(Millions of Yen)
	Full Year
	ending March 31
	FY2007
Net Sales	29,250
Recurring Profit	(1,794)
Net Income	(2,014)
Net Income per Share(¥)	(¥42.22)

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 third quarter ended December 31, 2006

1. Earnings

During the third quarter ended December 31, 2006, the Japanese economy expanded modestly. Companies continued to report high level of earnings, and investments in the private sector continued growing. Employers' income also continued modest expansion. Personal consumption stayed in the upward tendency although the growing speed slowed down a little.

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 HS Division of the SANIX Group was imposed administrative punishments by the Ministry of Economy, Trade and Industry, according to the Specific Commercial Transactions Law, for its improper operation. The punishments included the suspension of the operation of six sales offices of the HS Division for three months from July 8, 2006 to October 7, 2006, and instructions for improving operating procedures. To prevent recurrence of similar improper practices, in accordance with these administrative punishments, the SANIX Group put focus on reinforcing its compliance system and restructuring the control organization. At the same time, it also concentrated in efforts for productivity improvement and cost reduction to achieve profitable operations. However, during the third quarter ended December 31, 2006, the HS Division and the ES Division of the Group continued suffering from the negative impact of these administrative punishments.

Consequently, sales decreased in all of the three divisions: the HS Division, the ES Division and the ERD Division, although they were recovering steadily. Sales by the entire Group for the nine months ended December 31, 2006 decreased 22.6% from the same period of the previous year to 22,350 million yen. SANIX implemented the Business Streamlining Plan, as announced on August 9, 2006, and as a result of this initiative, cost reduction was promoted group-wide and the break-even point was lowered. However, the sales decline was greater than as we expected in HS Division and ES Division where the marginal profit ratio is high. Consequently, recurring loss of the SANIX Group was 1,684 million yen (2,097 million yen in the same period of the previous year) and net loss was 1,864 million yen (2,568 million yen in the previous year).

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

Earnings of individual divisions:

Home Sanitation Division

After the administrative punishments in the second quarter, the HS Division implemented measures to recover consumers' confidence in the Company. Recognizing the improvement of its compliance system is the most important issue, it voluntarily set stricter rules for sales representatives, and implemented education and training of sales representatives. In the third quarter, employees' consciousness of compliance has increased, and the quality of sales representatives has improved. The voluntarily set stricter rules were well observed. Although sales have been recovering steadily as a result of these efforts, they did not reach the level before the administrative punishments. Consequently, sales decreased 30.9% to 11,727 million yen, compared with the same period of the previously year.

Operating profit of the HS Division decreased to 1,211 million yen (compared with 1,685 million yen in the same period of the previous year) due to a significant drop in sales revenues, although selling, general and administrative expenses and other costs decreased.

Establishment Sanitation Division

In the ES Division, the sales operation was adversely affected by the administrative punishments imposed on the HS Division. Sales 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 24.0% to 3,154 million yen from the same period of the previous year.

The Division recorded operating loss of 219 million yen (compared to 161 million yen of operating profit in the same period of the previous year) due to a significant drop in sales revenues, although selling, general and administrative expenses and other costs decreased.

Environmental Resources Development Division

In the ERD Division, revenues from the waste plastic processing business decreased 14.2% from the same period of the previous year. 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 45.9% partly because the operation was limited by the fire in the same period last year. Revenues from the organic liquid waste processing business increased 6.0%. Revenues from power sales increased 50.7% from the same period of the previous year as a result of the stable operation of the Tomakomai Power Plant that was mainly supported by the improved quality of the recycled plastic fuel. Consequently, sales by the ERD Division decreased by 4.0% to 7,469 million yen from the same period in the previous year.

Despite the decline in sales revenues, operating profit significantly improved to 52 million yen during this 3 months between October and December (compared with operating loss of 302 million yen in the same period of the previous year), supported by the cost reduction achieved. As a result, operating loss improved to 660 million yen (compared with operating loss of 1,270 million yen in the same period of the previous year)

2.Consolidated Financial Conditions

Total assets as of December 31, 2006 amounted to 33,491 million yen, 4,226 million yen less than the previous year-end. This decrease was mainly due to significant decline in sales revenues and shrinkage of cash at hand resulting from scheduled repayment of long-term borrowings. Total liabilities totaled 15,885 million yen, which was 5,152 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. Net assets totaled 17,606 million yen.

The ratio of owners' equity to total assets as of December 31, 2006 was 52.5%, compared to 44.2% as of March 31, 2006.

As of December 31, 2006, cash and cash equivalents totaled 682 million yen on a consolidated basis, a decrease of 716 million yen over the previous year-end.

Net cash used for operating activities totaled 1,132 million yen, a decrease of 97 million yen from the same period of the previous year. This decrease was mainly due to the sales slump in the HS Division, resulting in a significant decrease in its operating profit. Net cash provided by investing activities totaled 1,480 million yen, a decrease of 126 million yen from the same period of the previous year. The increase was mainly due to the decrease in compulsory deposits required by lenders. Net cash used for financing activities totaled 1,064 million yen, a decrease of 123 million yen from the same period of the previous year. Here, accelerating the repayment of debt was responsible.

3.Forecast of Operation Results

In the HS Division, as a business division of an enterprise that has established a leading and steadfast position in the environmental sanitation industry, it will get back to its basic concept that values 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. It will endeavor to change critical situations we are now facing into opportunities for improvement, actively pursuing sales expansion. Moreover, it will practice the communication-oriented sales approach that promotes more frequent contacts with existing customers (to increase the number of inspections), aiming at further improvement of customer satisfaction and recovery of consumers' confidence in the Company. New sales activities will be also carried out, including referral of prospective customers to acquire more customers in the busy season that will start in April 2007. Moreover, offering of SANIX Foundation Repairing Treatment, a new service to meet the repairing needs for cracking in the foundation supporting a house, will be started in the middle of February 2007. In the Environmental Resource Development Division, a fire occurred on January 15, 2007 at the plastic fuel pneumatic conveying facility for Boiler No.1 in the SANIX Energy Tomakomai Power Plant (Tomakomai, Hokkaido). Although operation systems of Boiler No. 2 were not affected by the fire, the Plant had to shut down part of its operation temporarily. As a result, it had temporary and negative impact on the operating result of the Division. Reflecting the accident, further reinforcement of the disaster prevention system will be implemented at the Plant, and we will strive for the earliest recovering to the full-scale operation of the Plant.

Since the administrative punishments in July 2006, the HS Division has established internal rules to restrict sales activities to senior customers, conducted a compliance education meeting in each district in which all employees of the HS Division participated, and implemented other measures to ensure strict compliance and to prevent recurrence of similar misconducts. However, the impact of the administrative punishments still lingered during the third quarter. Thus, sales by the HS Division remained weak, and was lower than the planned level. As for the prospect for the fourth quarter, it is expected that sales recovery will continue. However, considering the conditions to date, we judged that the consolidated sales forecast for the full year announced last time needed modifications.

As for the operating profit, we implemented sales offices closing and consolidation, personnel reduction and radical cost reduction measures, as scheduled in the Announcement of Business Streamlining Plan released on August 9, 2006. As a result, fixed costs significantly decreased in the third quarter of the year. However, the decrease in sales during the nine months was greater than we expected, and the recovery in the fourth quarter is expected to be modest. Considering these facts and forecasts, we expect that the recurring profit and net income for the full year will not reach the level forecasted in the last announcement. Accordingly, the consolidated net income forecast for the full year announced last time is modified.

Consolidated Financial Statements

1. Consolidated Balance Sheet

(Thousands of Yen)

	As of Dec. 31	As of Mar. 31	Increase/Decrease		As of Dec. 31
Assets:	FY2007	FY2006	Amount	Ratio %	FY2006
Current Assets:					
Cash and bank deposits	682,169	3,398,895	(2,716,726)		4,159,926
Notes and accounts receivable	2,143,315	2,536,692	(393,377)		2,505,564
Inventories	813,861	1,035,664	(221,802)		1,158,203
Deferred tax assets	6,590	22,742	(16,152)		18,857
Other current assets	898,022	356,424	541,598		956,724
Allowance for doubtful accounts	(61,397)	(42,451)	(18,946)		(44,664)
Total Current Assets:	4,482,561	7,307,968	(2,825,406)	(38.7)	8,754,611
Fixed Assets:					
Tangible Fixed Assets:					
Buildings and structures	5,583,876	6,042,867	(458,990)		6,176,956
Machinery, equipment and vehicles	5,193,189	5,665,895	(472,705)		5,850,101
Land	15,123,935	15,122,635	1,300		15,122,635
Construction in progress	13,220	6,523	6,696		75,488
Other tangible fixed assets	193,840	216,212	(22,371)		193,084
Total Tangible Fixed Assets:	26,108,062	27,054,133	(946,070)	(3.5)	27,418,265
Intangible Fixed Assets:					
Total Intangible Fixed Assets:	70,637	77,544	(6,906)	(8.9)	77,765
Investments and Other Assets:					
Investments in securities	1,170,591	1,311,354	(140,762)		1,347,335
Deposits and guaranty	1,343,362	1,469,398	(126,036)		1,484,293
Deferred tax assets	1,676	14,960	(13,283)		18,399
Other	711,673	879,614	(167,941)		895,232
Allowance for bad loans	(397,296)	(396,793)	(502)		(399,973)
Total Investments and Other Assets:	2,830,007	3,278,533	(448,526)	(13.7)	3,345,287
Total Fixed Assets:	29,008,708	30,410,211	(1,401,503)	(4.6)	30,841,318
Total Assets:	33,491,270	37,718,180	(4,226,909)	(11.2)	39,595,930

(Thousands of Yen)

	As of Dec. 31	As of Mar. 31	Increase/Decrease		As of Dec. 31
	FY2007	FY2006	Amount	Ratio %	FY2006
Liabilities and Net Assets:					
Current Liabilities:					
Notes and accounts payable	905,039	801,006	104,033		891,338
Short-term loans	2,870,000	3,400,000	(530,000)		5,800,000
Long-term loans payable in 1 year	2,138,412	2,434,078	(295,666)		2,434,412
Corporate bond payable in 1 year	330,000	330,000	-		330,000
Amounts in arrears	1,366,610	2,110,280	(743,670)		2,075,949
Accrued expenses	814,493	1,168,380	(353,887)		1,224,862
Accrued income taxes	112,927	174,688	(61,761)		135,396
Consumption tax payable	194,882	5,271	189,611		71,452
Accrued bonuses	5,116	182,418	(177,302)		5,274
Allowance for resource-recycling expenses	625,288	904,914	(279,625)		921,236
Other current liabilities	1,684,278	160,105	1,524,173		224,496
Total Current Liabilities:	11,047,048	11,671,144	(624,095)	(5.3)	14,114,419
Non-Current Liabilities:					
Corporate Bond	590,000	3,605,000	(3,015,000)		920,000
Long-term debt	2,488,909	3,650,718	(1,161,809)		4,259,321
Deferred tax liabilities	105,333	139,827	(34,494)		134,554
Retirement benefit	1,449,202	1,677,102	(227,899)		1,669,872
Other non-current liabilities	204,638	293,358	(88,719)		293,598
Total Non-Current Liabilities:	4,838,083	9,366,007	(4,527,923)	(48.3)	7,277,345
Total Liabilities:	15,885,132	21,037,151	(5,152,018)	(24.5)	21,391,765
Minority Interests:					
Minority interests	-	23,417	-	-	20,228
Shareholders' Equity:					
Paid-in capital	-	12,616,253	-	-	12,541,096
Capital surplus	-	9,221,410	-	-	9,146,567
Earned surplus	-	(3,780,116)	-	-	(2,096,056)
Valuation difference on available-for-sale securities	-	210,174	-	-	202,138
Treasury stock	-	(1,610,111)	-	-	(1,609,808)
Total Shareholders' Equity:	-	16,657,611	-	-	18,183,936
Total Liabilities, Minority Interests and Shareholders' Equity:	-	37,718,180	-	-	39,595,930
Owners' Equity:					
Paid-in capital	14,041,834	-	-	-	-
Capital surplus	6,291,287	-	-	-	-
Earned surplus	(1,296,754)	-	-	-	-
Treasury stock	(1,610,518)	-	-	-	-
Total Owners' Equity:	17,425,849	-	-	-	-
Valuation and Translation Adjustments:					
Valuation difference on available-for-sale securities	157,960	-	-	-	-
Total Valuation and Translation Adjustments:	157,960	-	-	-	-
Minority Interests:					
Minority interests	22,327	-	-	-	-
Total Net Assets:	17,606,137	-	-	-	-
Total Liabilities and Net Assets:	33,491,270	-	-	-	-

2. Consolidated Statement of Income

(Thousands of Yen)

	Third quarter		Increase/Decrease		Fiscal year
	from April 1 to Dec. 31				ended March 31
	FY2007	FY2006	Amount	Ratio %	FY2006
Net sales	22,350,111	28,892,761	(6,542,650)	(22.6)	36,509,626
Cost of sales	12,494,614	15,614,955	(3,120,341)	(20.0)	20,048,118
Gross profit	9,855,497	13,277,806	(3,422,308)	(25.8)	16,461,508
Selling, general and administrative expenses	11,461,829	15,329,431	(3,867,601)	(25.2)	19,844,481
Operating income(loss)	(1,606,331)	(2,051,624)	445,292	-	(3,382,973)
Non-operating income:					
Interest income	6,204	6,237	(33)		8,607
Dividend income	19,140	18,367	773		29,849
Rent Revenue	20,603	165,607	(145,003)		172,252
Other non-operating income	41,186	51,760	(10,573)		78,053
Total non-operating income	87,135	241,972	(154,836)	(64.0)	288,764
Non-operating expenses:					
Interest expenses	147,578	184,034	(36,456)		236,420
Bond issue expenses	-	24,050	(24,050)		42,055
Stock issue expenses	-	1,850	(1,850)		1,850
Rent expenses	1,708	72,425	(70,717)		83,991
Other non-operating expenses	16,008	5,789	10,218		20,826
Total non-operating expenses	165,294	288,149	(122,855)	(42.6)	385,144
Recurring profit (loss)	(1,684,490)	(2,097,802)	413,311	-	(3,479,354)
Extraordinary income:					
Gain on sale of property, plant and equipment	3	373,331	(373,327)		373,331
Insurance money received	41,635	988,463	(946,827)		952,759
Gain on sale of investment securities	3,390	8,811	(5,420)		9,375
Transfer from reserve for possible loan losses	-	-	-		234
Transfer from reserve for bonuses	188,165	-	188,165		-
Total extraordinary income	233,195	1,370,605	(1,137,409)	(83.0)	1,335,700
Extraordinary losses:					
Loss on sale of property, plant and equipment	6,001	544,679	(538,678)		544,715
Loss on disposal of property, plant and equipment	84,032	4,674	79,358		14,876
Loss on cancellation of lease contract	9,114	7,755	1,358		9,206
Loss due to disaster	31,780	893,530	(861,750)		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 investment securities	28,552	-	28,552		-
Loss on valuation of membership rights	805	12,025	(11,220)		16,475
Director's retirement bonus	11,603	-	11,603		-
New provision for resource-recycling expenses	-	256,740	(256,740)		256,740
Reorganization of offices expense	125,391	-	125,391		-
Total extraordinary losses	297,281	1,719,406	(1,422,124)	(82.7)	1,960,082
Income (loss) before income taxes and minority interests	(1,748,576)	(2,446,602)	698,026	-	(4,103,736)
Corporate income, local and enterprise taxes	83,253	121,943	(38,689)	(31.7)	146,216
Adjustment on corporate tax, etc	29,750	(6,352)	36,102	-	(6,888)
Minority interests in consolidated subsidiaries	2,550	6,381	(3,831)	(60.0)	9,570
Net income (loss)	(1,864,129)	(2,568,575)	704,445	-	(4,252,635)

3. Consolidated Statement of Changes in Net Asset for the Third Quarter

Current Third Quarter (April 1, 2006 to December 31, 2006)

(Thousands of Yen)

	Owners' Equity				
	Paid-in Capital	Capital Surplus	Earned Surplus	Treasury Stock	Total Owners' Equity
Balance at the end of previous period	12,616,253	9,221,410	(3,780,116)	(1,610,111)	16,447,436
Changes of items during the period					
Issuance of new shares	1,425,581	1,424,418			2,850,000
Directors' bonus			(7,050)		(7,050)
Net income			(1,864,129)		(1,864,129)
Purchase of treasury stock				(407)	(407)
Reversal of profit from capital surplus		(4,354,542)	4,354,542		-
Total changes of items during the period	1,425,581	(2,930,123)	2,483,362	(407)	978,412
Balance at the end of current period	14,041,834	6,291,287	(1,296,754)	(1,610,518)	17,425,849

	Valuation and Translation Adjustments		Minority Interests	Net Assets Total
	Valuation Difference on Available-for-sale Securities	Total		
Balance at the end of previous period	210,174	210,174	23,417	16,681,028
Changes of items during the period				
Issuance of new shares				2,850,000
Directors' bonus				(7,050)
Net income				(1,864,129)
Purchase of treasury stock				(407)
Reversal of profit from capital surplus				-
Net changes of items other than owners' equity	(52,214)	(52,214)	(1,089)	(53,304)
Total changes of items during the period	(52,214)	(52,214)	(1,089)	925,108
Balance at the end of current period	157,960	157,960	22,327	17,606,137

4. Consolidated Statement of Retained Earnings for the Third Quarter

(Thousands of Yen)

	Third quarter	Fiscal year
	from April 1 to December 31	from April 1 to March 31
FY2006		
CAPITAL RESERVE		
I. Capital Reserve at Beginning of Period	15,853,954	15,853,954
II. Increase in Capital Reserve		
Issuance of new shares by exercise of equity warrants	7,256	82,100
III. Decrease in Capital Reserve		
Dividend	397,148	397,148
Reversal of profit from capital reserve reduction	6,317,494	6,317,494
IV. Capital Reserve at End of Period	9,146,567	9,221,410
RETAINED EARNINGS		
I. Retained Earnings at Beginning of Period	(5,844,676)	(5,844,676)
II. Increase in Retained Earnings		
Reversal of profit from capital reserve reduction	6,317,494	6,317,494
III. Decrease in Retained Earnings		
Directors' bonus	300	300
Net loss	2,568,575	4,252,635
IV. Retained Earnings at End of Period	(2,096,056)	(3,780,116)

5. Consolidated Statement of Cash Flows

(Thousands of yen)

	Third quarter		Full year
	From April 1to December 31		ended March 31
	FY2007	FY2006	FY2006
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	(1,748,576)	(2,446,602)	(4,103,736)
Depreciation and amortization	1,037,501	1,161,608	1,555,680
Loss due to disaster	31,780	893,530	892,390
Insurance commission income	(41,635)	(988,463)	(952,759)
Loss on settlement of construction cost of Tomakomai Power Plant	-	-	225,372
Allowance for retirement benefits	(227,899)	(6,388)	841
Allowance for resource-recycling expenses	(279,625)	548,456	532,134
Allowance for doubtful accounts	19,448	12,580	10,237
Interest and dividend income	(25,345)	(24,604)	(38,457)
Interest expense	147,578	184,034	236,420
Stock issue expense	-	1,850	1,850
Bond issue expense	-	24,050	42,055
Commission expense paid	10,131	5,609	8,508
Gain on sales of short-term investments in securities	(3,390)	(8,811)	(9,375)
Loss on sales of short-term investments in securities	-	-	306
Loss on valuation of short-term investments in securities	28,552	-	-
Loss on valuation of membership rights	805	12,025	16,475
Gain on sales of property, plant and equipment	(3)	(373,331)	(373,331)
Loss on sales of property, plant and equipment	6,001	544,679	544,715
Loss on disposal of property, plant and equipment	84,032	4,674	14,876
Reorganization of offices expense	125,391	-	-
Increase/decrease in notes and accounts receivable-trade	393,377	1,069,839	1,038,711
Increase/decrease in inventories	221,802	(121,194)	1,589
Decrease in refunded consumption taxes payable	94,791	-	-
Increase/decrease in other current assets	(636,720)	(21,044)	88,032
Increase/decrease in notes and accounts payable-trade	237,278	(182,841)	(294,788)
Increase/decrease in consumption taxes payable	189,611	(297,050)	(435,588)
Increase/decrease in other current liabilities	(339,879)	(540,722)	(470,600)
Payment of bonuses to directors and auditors	(7,050)	(300)	(300)
Minority Shareholders' Payment of bonuses to directors	(3,250)	-	-
Other	(84,510)	(8,320)	33,897
Net	(769,802)	(556,736)	(1,434,843)
Interest and dividend income received	26,855	25,816	39,379
Interest expense paid	(144,018)	(188,382)	(232,248)
Payment for damage repairing	(151,086)	(589,595)	(743,013)
Proceeds from damage insurance	41,635	434,463	952,759
Income taxes paid	(146,895)	(366,160)	(368,405)
Income taxes refunded	10,456	9,887	9,887
Net cash provided by operating activities:	(1,132,855)	(1,230,708)	(1,776,484)

(Thousands of Yen)

	Third quarter		Full year
	Between April 1 and December 31		Ended March 31
	FY2007	FY2006	FY2006
Cash Flows from Investing Activities:			
Increase/decrease in time deposit	-	(52,370)	(40,586)
Increase in limited withdrawal deposit	-	(3,000,000)	(3,000,000)
Decrease in limited withdrawal deposit	2,000,000	1,000,000	1,000,000
Payment for purchases of securities	-	(79,924)	(79,924)
Proceeds from sales of securities	23,579	54,148	103,998
Proceeds from redemption of securities	5,448	-	-
Payment for purchases of property, plant and equipment	(823,069)	(437,964)	(518,995)
Proceeds from sales of property, plant and equipment	280	4,400,000	4,400,000
Proceeds from refunds of deposits and guaranty	125,662	(82,425)	(72,197)
Payment for monetary deposits refunded	-	(194,635)	(194,635)
Proceeds from cancellation of insurance reserve	147,755	-	-
Other	476	-	764
Net cash provided by investing activities:	1,480,133	1,606,829	1,598,423
Cash Flows from Financing Activities:			
Increase/decrease in short-term loans	(530,000)	(180,000)	(2,580,000)
Proceeds from long-term loans from banks	1,200,000	1,020,000	1,020,000
Repayment of long-term loans from banks	(2,657,475)	(2,163,099)	(2,772,036)
Proceeds from issuance of stock	-	12,682	12,682
Proceeds from issuance of corporate bond	-	625,950	3,607,944
Payment for redemption of corporate bond	(165,000)	(100,000)	(265,000)
Increase/decrease in treasury stock	(407)	(710)	(1,013)
Dividends paid	(1,039)	(396,271)	(396,443)
Other	1,089,918	(5,609)	(8,508)
Net cash provided by financing activities:	(1,064,003)	(1,187,057)	(1,382,373)
Effect of exchange rate changes on cash and cash equivalents	-	0	0
Net increase/decrease in cash and cash equivalents	(716,726)	(810,936)	(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 this period	682,169	2,148,393	1,398,895

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

9 months ended December 31, 2006 (April 1, 2006 to December 31, 2006)

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

Moreover, during the third quarter of the current year, the HS Division, the core business of the SANIX Group, was imposed administrative punishments by the Ministry of Economy, Trade and Industry for its improper operation, including suspension of six sales offices' operation for three months from July 7, 2006. Due to the impact of these punishments, sales of the HS Division decreased significantly. As a result, for the first half of the current year, the SANIX Group posted again operating loss of 1,606 million yen, net loss of 1,864 million yen and negative operating cash flow of 1,132 million yen.

These circumstances may raise a serious doubt regarding the assumption of a going concern.

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

(1) Closing and consolidation of sales offices

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

(2) Personnel reduction

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

As of December 31, 2006, the Company had 1,953 employees, compared to 2,803 employees as of June 30, 2006.

(3) Other cost reduction measures

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

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

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

Furthermore, the Department will establish a "Compliance Committee" comprising the president and other executive officers, which will meet periodically to report on the activities of the Compliance Department and the present status of compliance of SANIX, to provide a companywide compliance system.

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

Significant Accounting Policies

Relating to Financial Statements

1. 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 2 years – 17 years

Tools and furniture 2 years – 15 years

2) Intangible fixed assets: Straight-line method

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

(3) Accounting standards for allowances and reserves:

- 1) Allowance for doubtful accounts: Provision for losses on doubtful accounts is made up to the maximum allowable based on individual assessments and the actual percentage of bad loan write-offs, as prescribed in the Corporate Income Tax Law. If that amount is deemed to be insufficient, additional provision is made.
- 2) Provision for accrued bonuses: Provision for accrued bonuses to employees is made by appropriating an amount based on estimated total bonuses that will be paid during the year.
- 3) Allowance for retirement benefits for employees: In order to provide for retirement allowances the company accrues an amount equivalent to the amount that would be paid if the payment occurred at the end of the consolidated first quarter, based on the projected amount of retirement allowance liabilities and pension assets at the end of the 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 third quarter ended December 31, 2006)

During this third 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.

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

Equity section of balance sheet, which is calculated in a conventional way reaches 17,583,809 thousand yen.

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

(Current third quarter ended December 31, 2006)

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

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

Notes

Notes to Consolidated Balance Sheet

	Third quarter		Fiscal year
	from April 1 to Dec. 31		ended March 31
	FY2007	FY2006	FY2006
Total accumulated depreciation for tangible fixed assets (Thousands of yen) . .	17,963,673	16,700,850	17,038,432
Number of shares of issued (Shares)	-	40,940,052	41,224,736
Number of shares of treasury stock (Shares).	-	1,206,749	1,207,223

Notes to Consolidated Statement of Income

Loss on settlement of construction cost of Tomakomai Power Plant

(Prior accounting period ended March 31, 2006)

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

Notes to Consolidated Statement of Changes in Net Assets

Current third quarter (April 1, 2006 to December 31, 2006)

1. Issues related to shares issued

	31-Mar-06	Increase	Decrease	31-Dec-06
Number of shares of issued (Shares)	41,224,736	7,694,660	-	48,919,396

(Reasons for changes)

The number of shares increased due to a following reason.

Conversion of unsecured convertible bonds with a share warrant: 7,694,660 shares

2. Numbers of Shares of Treasury Stock

	31-Mar-06	Increase	Decrease	31-Dec-06
Number of shares of treasury stock (Shares)	1,207,223	1,160	-	1,208,383

(Reasons for changes)

The number of shares increased due to a following reason

Purchase of odd stock: 1,160 shares

3. Numbers of Shares of Stock option

No applicable matter.

4. Regarding dividends

No applicable matter.

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)

	Third quarter		Fiscal year
	from April 1 to Dec. 31		ended March 31
	FY2007	FY2006	FY2006
Cash and bank deposits	682,169	4,159,926	3,398,895
Time deposits exceeding 3 months.	-	(11,532)	-
Limited withdrawal deposits.	-	(2,000,000)	(2,000,000)
Cash and cash equivalents	682,169	2,148,393	1,398,895

Segment Information

1. Segment Information by type of business

Current third quarter (From April 1, 2006 to December 31, 2006)

(Thousands of Yen)

Segments	HS	ES	ERD	Total	Elimination or Group	Consolidated
Sales, operating profit or loss						
Sales:						
(1)Sales to customers	11,727,861	3,154,033	7,468,216	22,350,111	-	22,350,111
(2)Internal sales among segments and transfer accounts.	-	-	1,057	1,057	(1,057)	-
Total	11,727,861	3,154,033	7,469,273	22,351,169	(1,057)	22,350,111
Operating expenses	10,515,876	3,373,650	8,129,962	22,019,489	1,936,953	23,956,443
Operating income(loss)	1,211,985	(219,616)	(660,688)	331,679	(1,938,011)	(1,606,331)

Prior third quarter (From April 1, 2005 to December 31, 2005)

(Thousands of Yen)

Segments	HS	ES	ERD	Total	Elimination or Group	Consolidated
Sales, operating profit or loss						
Sales:						
(1)Sales to customers	16,969,032	4,147,452	7,776,277	28,892,761	-	28,892,761
(2)Internal sales among segments and transfer accounts.	-	-	554	554	(554)	-
Total	16,969,032	4,147,452	7,776,831	28,893,316	(554)	28,892,761
Operating expenses	15,283,793	4,308,741	9,046,921	28,639,456	2,304,930	30,944,386
Operating income(loss)	1,685,239	(161,288)	(1,270,090)	253,860	(2,305,484)	(2,051,624)

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 third quarter ¥ 1,938,011 thousand

Previous third quarter ¥2,305,484 thousand

Previous fiscal year ¥3,073,422 thousand

2. Segment information by location

Current third quarter (April 1, 2006 to December 31, 2006)

The Company does not report segment information by location because the Company does not have any consolidated subsidiaries or important offices located in countries or regions outside of Japan.

Previous third quarter (April 1, 2005 to December 31, 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 third quarter (April 1, 2006 to December 31, 2006)

None

Previous third quarter (April 1, 2005 to December 31, 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)

	Third quarter		Changes	Fiscal year
	from April 1 to Dec. 31			ended March 31
	FY2007	FY2006		FY2006
Termite Eradication Service	5,686,758	7,097,686	(1,410,927)	8,842,095
Under-Roof/Floor Ventilation System	3,427,808	5,214,966	(1,787,158)	6,447,083
Home Reinforcement System	710,973	2,007,368	(1,296,395)	2,363,629
Other	1,902,321	2,649,010	(746,689)	3,252,461
Home Sanitation Division Total:	11,727,861	16,969,032	(5,241,170)	20,905,269
Water activator installation	733,507	1,361,492	(627,984)	1,731,055
Repair of building water-works	1,076,245	1,203,250	(127,004)	1,591,745
Waterproofing of building	535,204	686,951	(151,747)	910,746
Other	809,075	895,758	(86,682)	1,172,602
Establishment Sanitation Division Total:	3,154,033	4,147,452	(993,418)	5,406,150
Industrial Waste (Waste plastic processing)	3,605,741	4,201,623	(595,882)	5,309,801
Industrial waste (Organic Waste Water Recycle)	1,405,354	1,325,364	79,989	1,810,730
Generation of electricity	1,051,925	698,187	353,738	1,002,314
Industrial waste (Incineration)	1,004,052	688,038	316,014	1,005,792
Other	401,142	863,062	(461,920)	1,069,567
Environmental Resources Development Division Total:	7,468,216	7,776,277	(308,061)	10,198,206
Total Net Sales:	22,350,111	28,892,761	(6,542,650)	36,509,626