

QUARTERLY BUSINESS REPORT for the 1<sup>st</sup> quarter of the year ending March 2006 (Consolidated)

August 12, 2005

Listed company name Nichii Gakkan Company

Code number: 9792

Listed on: Tokyo Stock Exchange 1st Section

(URL: <http://www.nichiigakkan.co.jp>)

Representative Title: President &amp; CEO

Name: Takashi Mori

Contact

Title: Director, Vice President of Accounting Division and General Manager of Accounting Department

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## 1. Notes on quarterly financial statements

## (1) Concise methods for accounting procedures: Adopted

Physical stocktaking is omitted for some of the inventory assets.

## (2) Change in accounting method since the latest consolidated fiscal year: None

## (3) Scope of consolidation and application of equity method

Number of consolidated subsidiaries	8	Number of non-consolidated subsidiaries covered by equity method	—	Number of related companies covered by equity method	—
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2. Operating performance highlights for the 1<sup>st</sup> quarter of the year ending March 2006

(April 1, 2005 through June 30, 2005)

## (1) Progress of consolidated operating results (Amounts are rounded to the nearest million yen.)

	Net sales		Operating income		Ordinary income		Quarterly net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
1 <sup>st</sup> quarter FY 2006	51,390	3.2	1,353	1.8	1,418	0.3	703	30.9
1 <sup>st</sup> quarter FY 2005	49,781	5.9	1,329	△63.2	1,414	△62.0	537	△72.9
(Reference) FY 2005	201,590		5,284		5,472		2,029	

[Note] 1. The percentages shown in net sales, operating income, etc. represent the rates of change on a year-on-year basis.

2. The figures shown above have not been audited by the auditing firm.

## [Qualitative information on the progress of consolidated operating results]

Japan's economy showed a gradual upturn in this quarter; the business investment increased moderately with the improved corporate profit, and the employment market saw the unemployment rate remaining high but on a declining trend. The consumer spending had visible signs of a recovery with the income becoming firmer.

In the medical and welfare industry we are engaged, fundamental structural reforms are now taking place along with the rapid progress of aging, in order to build a sustainable social security system for pension and medical/nursing care services. The health insurance reform aims to realize new insurance system in 2008, and discussions are now fully in progress, featuring the establishment of new "Public Medical Insurance for the Elderly" as well as "Insurance Restructuring" which will shift the management of insurance to prefectures. As for the long-term care insurance system, the revised long-term care insurance law to be enforced in April 2006 passed in the Upper House plenary session on June 23, after which details of the revision are announced in stages, including outline of the new preventive benefit and the revision of nursing-care benefits at long-term care insurance facilities (increase in the self-pay burden of the housing expense and abolition of meals provision expense) to be implemented in coming October, ahead of the law enforcement.

To rebuild a solid corporate entity capable of quick and flexible response to this changing market environment and realizing ever-lasting growth, Nichii Gakkan group has carried forward its operational improvement and structural reforms since 2003. Under the new management setup with Mr. Takashi Mori who succeeded presidency on June 24, 2005, our efforts for even higher corporate value are continuing, promoting the management system and business strategy reflecting the local input.

As a result, first quarter net sales increased to 51,390 million yen (up 3.2% year on year), ordinary income to 1,418 million yen (up 0.3% year on year), and net income to 703 million yen (up 30.9% year on year).

Shown below is the segment information of net sales and operating income by business category.

In **Medical Support Business**, we have strived to gain more intensive sales force by thorough increase of sales personnel and holding sales strategic meetings on a regular basis since early this period, aiming to acquire new clients from hospitals and clinics and to negotiate expansion of contracted operations and improvement of contracts with the existing clients. As operation assistance services to medical institutions, we are actively engaged in hospital PFI business and consulting and proposals for health service management as well, trying to provide comprehensive services to clients. As we have just started our attempt to intensify the sales structure, we still see only small effects in the first quarter of the year, staying at 2.8% sales increase over the same period last year.

On the operating cost, we see marked effects of the operational improvement project we have worked on since 2 years ago, and have succeeded in achieving greater efficiencies of the field service and higher cost-consciousness. As the new employment system implemented last year resulted in a greater cost than expected, we are running an improved employment system starting this period.

As a result, net sales increased to 26,680 million yen (up 2.8% year on year) and operating income to 2,747 million yen (up 51.9% year on year).

In the rest of the business year, we will commit ourselves to improve the sales structure and promote acquisition of new users, aiming to conduct aggressive business operations.

In the **Heal Care Business**, we are advancing the establishment of multi-functional care centers with preventive care function, preparing for the introduction of new preventive benefit for the amendment of long-term care insurance system in April 2006. We have established 20 multi-functional care centers (18 newly established centers and 2 existing centers renovated) by the end of first quarter, and developed the project as planned while watching the trends of local governments. Last year, we expanded and increased facilities and professional staff for home-visit nursing care service, and worked aggressively to increase new users. We have seen users increasing, but not enough effects yet. However, the welfare equipment rental service and the nursing-care worker dispatching service are selling steadily, which boosted the net sales by 7.5 % compared to the same period last year.

As for the operating cost, establishment of the multi-functional care centers temporarily caused overhead costs and recruiting cost of nursing-care workers.

As a result, net sales increased to 19,303 million yen (up 7.5% year on year) and operating income to 535 million yen (up 20.2% year on year).

As a measure to increase new users of home-visit nursing care service, we will enhance the sales promotion activities with a coalition of the branch office sales force and the facilities to further raise the service level for greater sales, asking medial institutions and home-care support centers as well as home-care support organizations to actively introduce our services.

In the **Education Business**, we made a quick start of the “preventive exercise instructor course” in late May 2005 while the preventive care service is attracting attention, which is catching on as an upskilling program for field staff. The home helper training course as our flagship program, however, is still suffering a severe market situation because of the unclear outlook working as a brake against the program demand, for the positioning of the home helper qualification is not yet made clear by the government.

In respect of the operating cost, we expect to take the cost reduction measures in or after the second quarter, as we are currently examining the integration and closing of unprofitable classes to improve efficiency of class management.

As a result, net sales fell to 3,606 million yen (down 20.7% year on year) and operating income to minus 308 million yen (was 476 million yen in the same period last year).

For the rest of the business year, we intend to improve and expand the favorable “preventive care project instructor training course” and promote group participation for companies with large sales size. Besides, we plan to create an environment where potential students can have easy access to us by diversifying the sales channels making positive use of the web site, and to develop an advertising strategy to gain recognition.

In **Other Businesses**, the net sales increased to 1,800 million yen (up 34.8% year on year) and operating income fell to 59 million yen (down 34.6% year on year).

As one of our efforts for cost reduction, we cut down the facilities of the manpower service company “Power Bank Co., Ltd.” by reviewing the employment system early in the period. (The Power Bank Co., Ltd. changed its name from Nichii Power Bank Co., Ltd. as of July 20, 2005, and became a consolidated subsidiary of our group from the semiannual settlement of accounts for the year ended March 2005.)

## (2) Changes in the consolidated financial state

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of Yen	Millions of Yen	%	Yen
1 <sup>st</sup> quarter FY 2006	88,844	51,019	57.4	1,448.18
1 <sup>st</sup> quarter FY 2005	83,700	51,658	61.7	1,443.67
(Reference) FY 2005	85,240	51,241	60.1	1,451.60

[Note] The figures shown above have not been audited by the auditing firm.

## [Qualitative information on changes in consolidated financial state]

The total assets for this first quarter increased by 3,604 million yen to 88,844 million yen over the previous fiscal year-end, mainly due to the increase in notes and accounts receivable as well as buildings and structures.

The liabilities increased by 3,819 million yen to 37,681 million yen over the previous fiscal year-end, due to the increase in short-term loans payable, accrued expenses and allowance for employee bonuses.

The shareholders' equity decreased by 222 million yen to 51,019 million yen from the previous fiscal year-end for acquisition of treasury stock, etc.

## [Reference] Non-consolidated data

## (1) Progress of non-consolidated operating results

(Amounts are rounded to the nearest million yen.)

	Net sales		Operating income		Ordinary income		Quarterly net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
1 <sup>st</sup> quarter FY 2006	48,756	2.4	1,385	12.6	1,477	10.3	822	34.4
1 <sup>st</sup> quarter FY 2005	47,591	6.2	1,229	△65.6	1,338	△63.9	611	△70.1
(Reference) FY 2005	190,638		6,188		6,438		3,407	

[Note] 1. The percentages shown in net sales, operating income, etc. represent the rates of change on a year-on-year basis.

2. The figures shown above have not been audited by the auditing firm.

## (2) Change in non-consolidated financial state

	Total assets	Shareholders' equity
	Millions of Yen	Millions of Yen
1 <sup>st</sup> quarter FY 2006	84,716	50,282
1 <sup>st</sup> quarter FY 2005	78,332	48,982
(Reference) FY 2005	80,204	50,385

[Note] The figures shown above have not been audited by the auditing firm.

## 3. Forecast of consolidated operating performance for the year ending March 2006

(April 1, 2005 through June 30, 2005)

The six months and full year forecasts of operating performance for the year ending March 2006 remain the same as published in the "Annual Report for the year ended March 2005 (consolidated)" on May 23, 2005.

Please note, however, the above forecast is based on the available information as of the release date of this report. The actual results of operating performance could be different from this forecast, depending on various factors.

## Quarterly Consolidated Financial Statements (summary)

### 1. Quarterly Consolidated Balance Sheet (summary)

(Thousands of Yen)

Item \ Period	Current Quarter (1 <sup>st</sup> quarter FY 2006)	Corresponding Quarter of Previous Year (1 <sup>st</sup> quarter FY 2005)	Change		(Reference) FY 2005
	Amount	Amount	Amount	RC	Amount
<b>ASSETS</b>				%	
<b>I. Current assets</b>					
1. Cash and deposits	4,278,692	4,943,249	△ 664,557	△ 13.4	4,058,021
2. Notes and accounts receivable	25,845,698	24,796,717	1,048,981	4.2	24,801,790
3. Inventories	4,621,284	4,496,113	125,170	2.8	4,698,454
4. Short-term loans receivable	59,892	441,980	△ 382,087	△ 86.4	38,066
5. Deferred tax assets	2,686,542	2,934,385	△ 247,843	△ 8.4	1,847,149
6. Other current assets	3,549,562	2,664,984	884,577	33.2	3,133,566
7. Allowance for doubtful accounts	△ 100,622	△ 22,089	△ 78,532	355.5	△ 74,974
<b>Total current assets</b>	40,941,050	40,255,341	685,708	1.7	38,502,074
<b>II. Fixed assets</b>					
<b>(1) Tangible fixed assets</b>					
1. Buildings and structures	20,124,568	15,468,651	4,655,917	30.1	18,853,855
2. Land	8,002,867	8,002,867	—	—	8,002,867
3. Other tangible fixed assets	1,622,641	2,670,785	△ 1,048,144	△ 39.2	1,758,022
<b>Total tangible fixed assets</b>	29,750,077	26,142,304	3,607,773	13.8	28,614,744
<b>(2) Intangible fixed assets</b>					
1. Consolidated adjustment account	3,058,569	3,264,341	△ 205,772	△ 6.3	3,112,075
2. Other intangible fixed assets	909,334	382,384	526,950	137.8	798,842
<b>Total intangible fixed assets</b>	3,967,904	3,646,726	321,178	8.8	3,910,917
<b>(3) Investments and other assets</b>					
1. Investment securities	1,649,315	2,887,220	△ 1,237,905	△ 42.9	1,831,087
2. Guarantee money deposited	5,113,922	4,581,746	532,175	11.6	5,022,467
3. Long-term loans receivable	5,114,573	4,309,693	804,880	18.7	5,089,519
4. Deferred tax assets	1,022,723	932,712	90,011	9.7	976,169
5. Other investments	1,345,490	1,015,547	329,943	32.5	1,361,414
6. Allowance for doubtful accounts	△ 60,726	△ 70,322	9,596	△ 13.6	△ 68,257
<b>Total investments and other assets</b>	14,185,299	13,656,597	528,701	3.9	14,212,400
<b>Total fixed assets</b>	47,903,281	43,445,628	4,457,653	10.3	46,738,062
<b>Total Assets</b>	88,844,331	83,700,969	5,143,362	6.1	85,240,136

(Thousands of Yen)

<div>Period</div> <div>Item</div>		Current Quarter (1 <sup>st</sup> quarter FY 2006)	Corresponding Quarter of Previous Year (1 <sup>st</sup> quarter FY 2005)	Change		(Reference) FY 2005
		Amount	Amount	Amount	RC	Amount
LIABILITIES					%	
I. Current liabilities						
1. Notes and accounts payable		2,623,323	2,020,986	602,337	29.8	2,391,017
2. Short-term loans payable		5,405,000	1,025,839	4,379,160	426.9	4,717,000
3. Current installments of long-term debt		74,307	63,783	10,524	16.5	78,734
4. Income taxes payable		1,755,459	2,151,621	△ 396,162	△ 18.4	978,119
5. Consumption taxes payable		1,230,712	949,494	281,217	29.6	1,205,357
6. Accrued expenses		14,923,153	11,716,682	3,206,471	27.4	13,866,697
7. Allowance for employee bonuses		5,561,663	5,740,155	△ 178,492	△ 3.1	3,681,227
8. Other current liabilities		3,320,118	5,889,427	△ 2,569,309	△ 43.6	4,254,868
Total current liabilities		34,893,738	29,557,991	5,335,746	18.1	31,173,021
II. Long-term liabilities						
1. Long-term loans payable		61,289	66,116	△ 4,827	△ 7.3	57,822
2. Allowance for employee retirement benefits		2,506,793	2,106,880	399,912	19.0	2,414,372
3. Allowance for directors' and auditors' retirement benefits		129,339	130,609	△ 1,270	△ 1.0	128,281
4. Other long-term liabilities		90,145	65,315	24,829	38.0	87,950
Total long-term liabilities		2,787,567	2,368,922	418,645	17.7	2,688,427
Total Liabilities		37,681,306	31,926,914	5,754,391	18.0	33,861,449
MINORITY INTERESTS						
Minority interests		143,747	115,481	28,266	24.5	137,380
SHAREHOLDERS' EQUITY						
I. Common stock		11,933,790	11,933,790	—	—	11,933,790
II. Capital surplus		17,354,214	17,354,214	—	—	17,354,214
III. Retained earnings		27,452,893	26,587,776	865,117	3.3	27,562,047
IV. Gain or loss from revaluation of marketable securities		193,700	39,605	154,095	389.1	182,888
V. Treasury stock		△ 5,915,321	△ 4,256,812	△ 1,658,508	39.0	△ 5,791,633
Total shareholders' equity		51,019,278	51,658,574	△ 639,295	△ 1.2	51,241,307
Total liabilities, minority interests, and shareholders' equity		88,844,331	83,700,969	5,143,362	6.1	85,240,136

## 2. Quarterly Consolidated Statements of Income (summary)

(Thousands of Yen)

Item	Period	Current Quarter (1 <sup>st</sup> quarter FY 2006)	Corresponding Quarter of Previous Year (1 <sup>st</sup> quarter FY 2005)	Change		(Reference) FY 2005
		Amount	Amount	Amount	RC	Amount
I. Net sales		51,390,295	49,781,087	1,609,208	% 3.2	201,590,179
II. Cost of sales		40,808,058	39,755,948	1,052,110	2.6	160,854,542
Gross profit		10,582,237	10,025,139	557,098	5.6	40,735,636
III. Selling, general and administrative expenses		9,228,553	8,695,527	533,026	6.1	35,450,954
Operating income		1,353,683	1,329,612	24,071	1.8	5,284,682
IV. Non-operating income						
1. Interest income		20,255	23,630	△ 3,374	△ 14.3	90,424
2. Dividend income		19,605	16,880	2,725	16.1	27,391
3. Commission on consignment for office work		19,857	18,714	1,142	6.1	77,809
4. Income from lease of fixed assets		6,525	9,326	△ 2,801	△ 30.0	25,215
5. Others		18,524	38,293	△ 19,769	△ 51.6	82,995
Total non-operating income		84,767	106,845	△ 22,078	△ 20.7	303,835
V. Non-operating expenses						
1. Interest expenses		10,744	5,816	4,927	84.7	44,036
2. Compensation for damages		2,032	4,423	△ 2,390	△ 54.0	42,960
3. Loss on disengagement of guarantee money deposited		2,784	10,995	△ 8,211	△ 74.7	21,473
4. Others		4,268	1,108	3,160	285.0	7,367
Total non-operating expenses		19,830	22,344	△ 2,513	△ 11.3	115,838
Ordinary income		1,418,620	1,414,113	4,507	0.3	5,472,679
VI. Extraordinary income						
1. Gain on sale of fixed assets		—	1,596	△ 1,596	—	1,596
2. Others		—	2,217	△ 2,217	—	3,981
Total extraordinary income		—	3,814	△ 3,814	—	5,577
VII. Extraordinary losses						
1. Loss on sale of fixed assets		—	244,706	△ 244,706	—	244,706
2. Loss on retirement of fixed assets		5,100	22,332	△ 17,232	△ 77.2	71,812
3. Loss on revaluation of golf club membership		—	—	—	—	4,849
4. Loss on closedown of offices		—	112,048	△ 112,048	—	112,048
5. Others		—	—	—	—	1,750
Total extraordinary losses		5,100	379,087	△ 373,986	△ 98.7	435,167
Quarterly income before income taxes		1,413,520	1,038,839	374,680	36.1	5,043,089
Income, inhabitants and business taxes		1,594,371	1,895,381	△ 301,010	△ 15.9	3,440,687
Adjustments for income and other taxes		△ 893,146	△ 1,399,678	506,531	△ 36.2	△ 454,261
Minority interest		8,767	5,745	3,021	52.6	27,644
Quarterly net income		703,528	537,391	166,137	30.9	2,029,019