QUARTERLY BUSINESS REPORT for the 3rd quarter of the year ending March 2006 (Consolidated)

February 16, 2006

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 & CEO Name: Takashi Mori
Contact Title: Director, Vice President of Accounting Division and General Manager of Accounting Department
Name: Koichi Terada Tel: 03-3291-2121

1. Notes on quarterly financial statements
   (1) Concise methods for accounting procedures: Adopted
       Physical inventory 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: 7
       Number of non-consolidated subsidiaries covered by equity method: None
       Number of related companies covered by equity method: None

2. Operating performance highlights for the 3rd quarter of the year ending March 2006
   (October 1, 2005 through December 31, 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	%
3rd quarter FY 2006	154,967	2.9	4,058	5.5	4,235	5.8	8	△99.2
3rd quarter FY2005	150,616	6.4	3,848	△62.7	4,004	△61.8	1,097	△80.8
(Reference) FY 2005	201,590		5,284		5,472		2,029	

[Note] 1. The percentages shown for 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 an auditing company.

[Qualitative information on the progress of consolidated operating results]

During the 3rd quarter under review, the Japanese economy faced a few bearish factors, such as rising oil prices and uncertain U.S. economy. In general, however, the Japanese economy made a gradual recovery, aided by an increase in capital investment, growth in personal consumption, and improvement in employment as corporate profits continued to improve.

The medical and welfare industry in which we operate, is approaching a major crossroads, where medical service fees and nursing care insurance system will be simultaneously revised in April 2006. Medical service fees are expected to be cut by 3.16%, while nursing care compensation is expected to be reduced by 2.40%. As medical institutions and nursing care businesses can expect a severe business environment, they must run their businesses more efficiently. In addition, as the basic objectives of the nursing care insurance system revision are to improve support for in-home patients that are in moderate to serious condition, promote services to prevent nursing, and to improve collaboration between medical care and nursing care, it is important for nursing care businesses to expand into new business domains and develop total support systems with medical institutions.

Against such a backdrop, Nichii Gakkan group has striven to adapt to changing systems promptly and properly. To this end, we have converged and collaborated the business resources held by Medical Support Business, Health Care Business, and Education Business to build a service provision system that can fully achieve a synergetic effect. In addition, with "user-orientation" as our business concept, we have developed and provided high-quality, high-value services that satisfy customers.

As a result, during the 3rd quarter under review, net sales were ¥154,967 million (up 2.9% year-on-year), operating income ¥4,235 million (up 5.8%), and net income ¥8 million (down 99.2%).

Net income for the quarter fell 99.2% year-on-year as additional special losses were posted to allowance for doubtful accounts and product valuation loss for welfare equipment.

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

In **Medical Support Business,** we launched the development and provision of management consulting services using a new medical management analysis support system in addition to the contracting service to provide total support for the management of medical institutions. To prepare for the revision of medical service fees in April 2006, we have aggressively promoted support services for medical institutions, such as seminars on the revision of medical service fees and input services for the new medical service fee points and codes. As a result, net sales increased 3.3% year-on-year.

We have successfully reduced operating expenses, and thus improved our profit margin, by improving the shift management of field staff and continuing our efforts to improve the efficiency of operations. As a result, net sales were ¥80,766 million (up 3.3% year-on-year) and operating income ¥8,351 million (up 37.9%).

In **Health Care Business**, we are advancing the establishment of multi-functional care centers with preventative care function (composite care facilities with day care centers as their core) to prepare for the introduction of new preventative benefits and local support businesses pursuant to the revision of the nursing care insurance system in April 2006. By the third quarter, we have opened 77 centers that can provide preventative care and 224 locations that can provide day care services (up 34 location year-on-year). We are also working to open the second group home (group living and care facility that caters to dementia, scheduled to open in Yokohama, Kanagawa in January 2006), revise menus for food service to further expand our total nursing care services. Such conventional services as home-visit care services and day care services have only seen limited increases in use.

Operation cost has increased from investment as we aggressively advanced the multi-functional care center plan during the quarter under review.

As a result, net sales increased to ¥59,505 million (up 7.3% year-on-year) and operating income decreased to ¥1,762 million (down 7.6%).

We will continue to strive to provide high value-added services and efficiently operate our centers by catering to the needs of users.

In **Education Business**, we are currently thoroughly reviewing our sales promotion strategy and improving the efficiency of class operations. Our principal class, medical administration course, has captured students at a pace exceeding that in the last fiscal year. Our efforts to revamp the home helper course has had limited effect, as we have not been able to overcome the difficulties in the market environment. We have held a preventative care project instructor training course, a new class designated to train specialists in preventative care, from late May 2005. This class has seen its student body grow as it helps field staff to brush up on their skills.

As a result, net sales fell to ¥10,174 million (down 15.1% year-on-year) and operating loss amounted to ¥1,642 million (¥167 million in the same quarter last fiscal year).

As for sales promotion strategy, we will strive to maximize the cost-benefit effect by aggressively and yet efficiently integrating and selecting sales channels that are best suited to the needs of the times.

In **Other Businesses,** as stock of Sun Medic Co., Ltd. has been assigned, the company's financial results were removed from the consolidated results as of October 1, 2005.

Other service businesses have achieved consistent sales, and profits are also on the rise.

As a result, net sales amounted to ¥4,520 million (down 10.2% year-on-year) and operating income ¥180 million (operating loss of ¥188 million in the same quarter last fiscal year).

(2)Changes in consolidated financial status

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of yen	Millions of yen	%	Yen
3rd quarter FY 2006	91,770	50,569	55.1	1,435.60
3rd quarter FY 2005	83,098	50,325	60.6	1,426.60
(Reference) FY 2005	85,240	51,241	60.1	1,451.60

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

［Qualitative information on changes in consolidated financial status］

During the 3rd quarter under review, total assets increased by ¥6,530 million to ¥91,770 million from the end of the last fiscal year primarily due to increases in cash and deposits, and buildings and structures.

Liabilities increased by ¥7,179 million to ¥41,041 million from the end of the last fiscal year primarily due to increases in short-term loans payable and accrued expenses.

As for shareholders' equity, capital surplus fell ¥671 million to ¥50,569 million from the end of the last fiscal year

[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	%
3rd quarter FY 2006	147,890	3.4	3,889	△24.6	4,082	△23.4	△873	△131.6
3rd quarter FY 2005	143,008	6.3	5,163	△48.7	5,333	△48.0	2,760	△51.5
(Reference) FY 2005	190,638		6,188		6,438		3,407	

[Note]
1. The percentages shown for 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 an auditing company.

(2)Changes in non-consolidated financial status

	Total assets	Shareholders' equity
	Millions of yen	Millions of yen
3rd quarter FY 2006	88,010	48,833
3rd quarter FY 2005	78,338	49,754
(Reference) FY 2005	80,204	50,385

[Note] The figures shown above have not been audited by an auditing company.

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

(1)Correction of forecast of consolidated operating performance for the year ending March 2006 (April 1, 2005 through March 31, 2006)

(Millions of yen)

	Previous forecast (A)	New forecast (B)	Change (B - A)	RC	Actual performance last fiscal year (year ended March 2005)
Net sales	208,700	205,800	△ 2,900	△ 1.4%	201,590
Ordinary income	6,410	4,840	△ 1,570	△ 24.5%	5,472
Net income	3,390	690	△ 2,700	△ 79.6%	2,029

[Qualitative information on performance forecast]

The forecasts of both consolidated and non-consolidated operating performance for the year ending March 2006 announced on November 21, 2005 will be corrected based on the performance trends, and due to additional extraordinary losses such as amount transferred to allowance for doubtful accounts, and revaluation loss on merchandise, until the 3rd quarter. For details, please refer to the "Notice on Corrections to Forecasts for Operating Performance for the Year Ending March 2006" released on February 16.

In addition, as the revision of nursing care insurance system in April 2006 include major changes to the leases and sales of welfare equipment, it is extremely difficult to forecast the future demand for welfare equipment at this point. Therefore, depending on the upcoming demand forecasts and operation of the nursing care insurance system, the revaluation loss on merchandise might increase.

[Reference] Correction of forecast of non-consolidated operating performance for the year ending March 2006 (April 1, 2005 through March 31, 2006)

(Millions of yen)

	Previous forecast (A)	New forecast (B)	Change (B - A)	RC	Actual performance last fiscal year (year ended March 2005)
Net sales	200,000	197,200	△ 2,800	△ 1.4%	190,638
Ordinary income	6,300	4,780	△ 1,520	△ 24.1%	6,438
Net income	2,420	△ 240	—	—	3,407

[Note] The forecast is based on information that is currently available, and actual results are subject to change depending on numerous factors such as the economic environment and business environment.

(Quarterly Consolidated Financial Statements (Summary)

1. Quarterly Consolidated Balance Sheet (Summary)

(Thousands of yen)

	Current Quarter (3rd quarter FY 2006)	Corresponding Quarter of Previous Year (3rd quarter FY 2005)	Change		(Reference) FY 2005
	Amount	Amount	Amount	RC	Amount
ASSETS				%	
Ⅰ Current assets					
1.Cash and deposits	10,094,126	3,497,689	6,596,436	188.6	4,058,021
2.Notes and accounts receivable	25,524,784	24,709,410	815,373	3.3	24,801,790
3.Inventories	3,359,628	4,674,306	△1,314,678	△ 28.1	4,698,454
4.Short-term loans receivable	33,170	160,746	△ 127,576	△ 79.4	38,066
5.Deferred tax assets	1,407,442	951,551	455,890	47.9	1,847,149
6.Other current assets	3,396,644	3,651,048	△ 254,403	△ 7.0	3,133,566
7.Allowance for doubtful accounts	△ 236,588	△ 21,641	△ 214,946	993.2	△ 74,974
Total current assets	43,579,207	37,623,112	5,956,095	15.8	38,502,074
Ⅱ Fixed assets					
(1)Tangible fixed assets					
1.Buildings and structures	22,592,307	19,070,157	3,522,149	18.5	18,853,855
2.Land	7,958,054	8,002,867	△ 44,813	△ 0.6	8,002,867
3.Other tangible fixed assets	1,829,292	742,527	1,086,764	146.4	1,758,022
Total tangible fixed assets	32,379,654	27,815,552	4,564,101	16.4	28,614,744
(2)Intangible fixed assets					
1.Consolidated adjustment account	2,951,558	3,165,580	△ 214,022	△ 6.8	3,112,075
2.Other intangible fixed assets	893,553	745,797	147,755	19.8	798,842
Total intangible fixed assets	3,845,111	3,911,378	△ 66,266	△ 1.7	3,910,917
(3)Investments and other assets					
1.Investment securities	1,995,563	1,848,088	147,475	8.0	1,831,087
2.Guarantee money deposited	4,988,140	5,001,869	△ 13,729	△ 0.3	5,022,467
3.Long-term loans receivable	4,978,187	4,933,537	44,650	0.9	5,089,519
4.Deferred tax assets	1,063,051	951,802	111,248	11.7	976,169
5.Other investments	1,422,318	1,138,610	283,707	24.9	1,361,414
6.Allowance for doubtful accounts	△ 2,480,451	△ 125,063	△2,355,388	1883.4	△ 68,257
Total investments and other assets	11,966,809	13,748,844	△1,782,035	△ 13.0	14,212,400
Total fixed assets	48,191,574	45,475,775	2,715,799	6.0	46,738,062
Total Assets	91,770,782	83,098,888	8,671,894	10.4	85,240,136

(Thousands of yen)

	Current Quarter (3rd quarter FY 2006)	Corresponding Quarter of Previous Year (3rd quarter FY 2005)	Change		(Reference) FY 2005
	Amount	Amount	Amount	RC	Amount
LIABILITIES				%	
Ⅰ Current liabilities					
1.Notes and accounts payable	1,935,995	2,441,231	△505,235	△ 20.7	2,391,017
2.Short-term loans payable	11,405,000	5,155,839	6,249,160	121.2	4,717,000
3.Current installments of long-term debt	63,283	76,431	△ 13,147	△ 17.2	78,734
4.Income taxes payable	252,713	502,155	△249,442	△ 49.7	978,119
5.Consumption taxes payable	1,716,011	1,105,405	610,606	55.2	1,205,357
6.Accrued expenses	16,209,078	14,718,530	1,490,548	10.1	13,866,697
7.Allowance for employee bonuses	1,667,676	1,728,653	△ 60,976	△ 3.5	3,681,227
8.Other current liabilities	4,822,873	4,305,255	517,618	12.0	4,254,868
Total current liabilities	38,072,633	30,033,501	8,039,131	26.8	31,173,021
Ⅱ Long-term liabilities					
1.Long-term loans payable	42,431	68,323	△ 25,891	△ 37.9	57,822
2.Allowance for employee retirement benefits	2,703,468	2,327,099	376,368	16.2	2,414,372
3.Allowance for directors' and auditors' retirement benefits	127,308	132,121	△ 4,813	△ 3.6	128,281
4.Other long-term liabilities	95,583	84,427	11,156	13.2	87,950
Total long-term liabilities	2,968,792	2,611,971	356,820	13.7	2,688,427
Total Liabilities	41,041,425	32,645,473	8,395,951	25.7	33,861,449
(Minority interest)					
Minority interests	159,917	127,652	32,265	25.3	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	26,757,810	26,630,808	127,001	0.5	27,562,047
Ⅳ Gain or loss from revaluation of marketable securities	451,426	192,972	258,453	133.9	182,888
Ⅴ Treasury stock	△ 5,927,802	△ 5,786,024	△141,777	2.5	△ 5,791,633
Total shareholders' equity	50,569,439	50,325,761	243,677	0.5	51,241,307
Total liabilities, minority interests, and shareholders' equity	91,770,782	83,098,888	8,671,894	10.4	85,240,136

2. Quarterly Consolidated Statement of Income (Summary)

(Thousands of Yen)

	Current Quarter (3rd quarterFY 2006)	Corresponding Quarter of Previous Year (3rd quarter FY 2005)	Change		(Reference) FY 2005
	Amount	Amount	Amount	RC	Amount
				%	
Ⅰ Net sales	154,967,301	150,616,404	4,350,897	2.9	201,590,179
Ⅱ Cost of sales	123,844,697	119,926,654	3,918,043	3.3	160,854,542
Gross profit	31,122,603	30,689,749	432,853	1.4	40,735,636
Ⅲ Selling, general and administrative expenses	27,063,972	26,841,516	222,456	0.8	35,450,954
Operating income	4,058,631	3,848,233	210,397	5.5	5,284,682
Ⅳ Non-operating income					
1.Interest income	61,261	69,596	△ 8,335	△ 12.0	90,424
2.Dividend income	27,911	27,391	520	1.9	27,391
3.Commission on consignment for office work	68,380	62,904	5,476	8.7	77,809
4.Income from lease of fixed assets	20,036	25,920	△ 5,884	△ 22.7	25,215
5.Others	59,148	65,125	△ 5,976	△ 9.2	82,995
Total non-operating income	236,739	250,938	△ 14.198	△ 5.7	303,835
Ⅴ Non-operating expenses					
1.Interest expenses	39,399	29,478	9,921	33.7	44,036
2.Compensation for damages	5,052	38,880	△ 33,827	△ 87.0	42,960
3.Loss on disengagement of guarantee money deposited	854	17,210	△ 16,355	△ 95.0	21,473
4.Others	14,431	8,624	5,806	67.3	7,367
Total non-operating expenses	59,738	94,194	△ 34,455	△ 36.6	115,838
Ordinary income	4,235,631	4,004,977	230,654	5.8	5,472,679
Ⅵ Extraordinary income					
1.Gain on sale of fixed assets	4	1,596	△ 1,592	△ 99.7	1,596
2.Gain on sale of stock of affiliated companies	1,489,112	-	1,489,112	-	-
3.Others	-	3,981	△ 3,981	-	3,981
Total extraordinary income	1,489,116	5,577	1,483,539	26596.9	5,577
Ⅶ Extraordinary losses					
1.Los on sale of fixed assets	-	244,706	△244,706	-	244,706
2.Loss on retirement of fixed assets	65,402	60,627	4,775	7.9	71,812
3.Loss on revaluation of golf club membership	-	3,499	△ 3,499	-	4,849
4.Loss on closing of offices	7,552	112,048	△104,495	△ 93.3	112,048
5.Loss on revaluation of stock of affiliated companies	97,493	-	97,493	-	-
6.Loss on revaluation of merchandise	1,174,757	-	1,174,757	-	-
7.Impairment loss	131,098	-	131,098	-	-
8.Transfer to allowance for doubtful accounts	2,528,000	-	2,528,000	-	-
9.Loss on disposal of merchandise	31,382	-	31,382	-	-
10.Others	-	3,894	△ 3,894	-	1,750
Total extraordinary losses	4,035,686	424,776	3,610,909	850.1	435,167
Quarterly income before income taxes net income	1,689,062	3,585,778	△1,896,716	△ 52.9	5,043,089
Income tax, inhabitant tax, and business tax	1,487,245	2,011,341	△ 524,096	△ 26.1	3,440,687
Adjustments for income tax and other taxes	168,030	458,762	△ 290,732	△ 63.4	△ 454,261
Minority interest	24,937	17,917	7,020	39.2	27,644
Quarterly net income	8,848	1,097,756	△1,088,908	△ 99.2	2,029,019