

FINANCIAL RESULTS for the 1st Quarter of the Year Ending March 2007 (Consolidated)

August 11, 2006

Listed company name: Nichii Gakkan Company

Code number: 9792

Listed on: Tokyo Stock Exchange 1st Section

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

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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) Changes in scope of consolidation and application of equity method: None

2. Operating performance highlights for the 1st quarter of the year ending March 2007 (April 1, 2006 through June 30, 2006)

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

	Net Sales		Operating income		Ordinary income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
1st quarter FY 2007	51,096	(0.6)	260	(80.8)	308	(78.3)	49	(93.0)
1st quarter FY 2006	51,390	3.2	1,353	1.8	1,418	0.3	703	30.9
(Reference) FY 2006	206,222		4,990		5,185		1,974	

- [Notes] 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 reflected in this first quarter that business was steadily progressing due to improved corporate profitability, increased capital investments, and moderately increased consumer spending, but the outlook was recently clouded by various changes such as soaring crude oil prices, depressed stock prices, and concern over rising interest rates.

In the current medical and long-term care services environment surrounding our group, the first full-scale revision of the long-term care insurance system since the enforcement of the system was conducted in April this year in order to establish a sustainable social security system. The revision of medical service fees and long-term care benefits concurrently conducted will cause the business environment for medical institutions and long-term service providers to undergo significant changes.

Under such a situation, our group has followed through on our attempts to develop a new service menu and improve the infrastructure, and in addition has executed sales promotions and sales activities making full use of our "Nationwide network," "High quality service abilities," and "Brand power," in order to promptly respond to the changing market environment. We are also earnestly introducing strategic investments and "Improvements in Organization, Human Resources, and IT introduction" as mid- and long-term business strategies.

Net sales on our non-consolidated (parent company) base continue to increase, but net sales on the consolidated base decreased because of the sale of consolidated subsidiaries due to our group rearrangement. The influence from the revision of long-term care benefits and the effect of aggressive investment into advertising and promotion toward profits will appear in the second quarter or later, and therefore the profitability for this first quarter was severely affected due to the prior investments. As a result, first quarter net sales fell to 51,096 million yen (down 0.6% on a year-to-year basis), ordinary income to 308 million yen (down 78.3% on a year-to-year basis), and net income to 49 million yen (down 93.0% on a year-to-year basis).

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

In the **Medical Support Business**, we have strived to promote medical operation consignment services to hospitals and clinics and support DPC (Diagnosis Procedure Combination) –intended hospitals or DPC–prepared hospitals. Also, we are aggressively promoting our sales to regional medical coordination rooms and home care support clinics, and thus we have already begun to improve regional medical cooperation (such as cooperation between the medical field and the care service field).

The profitability for this first quarter is steadily progressing, almost as planned, although the acquisition of contracts with medical institutions as consigner is severe. As a result, net sales increased to 27,614 million yen (up 3.5% on a year-to-year basis) and operating income fell to 2,424 million yen (down 11.7% on a year-to-year basis).

In the **Health Care Business**, the revision of long-term care benefits and newly established “community support business” and “new preventive benefits” associated with the long-term care insurance system reform (executed in April 2006) were conducted, but the availability of “local comprehensive support centers” managed by respective local governments is moderately progressing, as are the preventive care services. As a result, in our multi-functional care centers, which made a quick start in providing preventive care services, the number of new users is increasing, but the present effect on sales is limited. As for the welfare equipment rental service, the increase in new users has tended to slow due to the influence of the system revisions. However, the number of contracts for dispatching services to facilities, which is not influenced by the long-term care insurance system, has steadily increased.

The effect of the revised long-term care benefits and the limited investment results for multi-functional care centers established last year caused profitability for this first quarter to be below that of last year. As a result, net sales increased to 19,671 million yen (up 1.9% on a year-to-year basis) but operating income fell to 265 million yen (down 50.5% on a year-to-year basis).

In the **Education Business**, we aggressively started promotion activities with a new advertisement strategy in the middle of June 2006. Raising awareness of our company brand through TV commercials and other appealing advertisement linked with consistent images in newspapers, magazines, and our Web sites, has gradually begun to have an effect. We have revised the curriculum to improve availability and worked on service expansion. However, the home helper training course, our flagship program, is still suffering from a severe market situation because of the unclear outlook on the possibility that home helpers might be unified into care workers, but the number of students recovered to above last year’s level.

As for profitability, we are aiming at early profit gains from efficient class management, but this improvement has not yet had a big effect. As a result, net sales fell to 3,462 million yen (down 4.0% on a year-to-year basis) and operating income fell to 315 million yen (down 308 million yen in the same period last year).

In **Other Businesses**, net sales fell to 348 million yen (down 80.7% on a year-to-year basis) and operating income fell to 39 million yen (down 33.7% on a year-to-year basis).

Our group is promoting a growth strategy focusing on business enforcement and promotion of new business and services, and organizational reform such as rearrangement of the group companies, and thus decided to liquidate “The Power Bank Co., Ltd.” this year.

(2) Changes in consolidated financial state

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	Millions of Yen	Millions of Yen	%	Yen
1st quarter FY 2007	90,165	51,526	57.0	1,462.83
1st quarter FY 2006	88,844	51,019	57.4	1,448.18
(Reference) FY 2006	97,898	52,159	53.3	1,479.74

[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 decreased by 7,732 million yen to 90,165 million yen over the previous fiscal year-end, mainly due to the increase in notes and accounts receivable, as well as buildings and structures, and the decrease in cash and deposits.

Liabilities decreased by 6,967 million yen to 38,638 million yen over the previous fiscal year-end, due to the decrease in short-term loans payable, income taxes payable and allowance for employee bonuses.

Net assets decreased by 632 million yen to 51,526 million yen over the previous fiscal year-end.

[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		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
1st quarter FY 2007	49,955	2.5	273	(80.2)	358	(75.8)	144	(82.5)
1st quarter FY 2006	48,756	2.4	1,385	12.6	1,477	10.3	822	34.4
(Reference) FY 2006	197,635		4,956		5,257		(978)	

[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
1st quarter FY 2007	86,070	47,675
1st quarter FY 2006	84,716	50,282
(Reference) FY 2006	92,666	48,350

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

3. Forecast of consolidated operating performance for the year ending March 2007 (April 1, 2006 through March 31, 2007)

The six months and full year forecasts of operating performance for the year ending March 2007 remain the same as published in the "Consolidated Financial Statements for the Fiscal Year Ended March 31, 2006" on May 23, 2006.

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 may be different from this forecast due to, depending on various factors.

Quarterly Consolidated Financial Statements (Summary)

1. Quarterly Consolidated Balance Sheet (Summary)

(Thousands of Yen)

Item	Period	Current Quarter (1 st quarter FY 2007)	Corresponding Quarter of Previous Year (1 st quarter FY 2006)	Change		(Reference) FY 2006
		Amount	Amount	Amount	RC	Amount
ASSETS						
I. Current assets						
1. Cash and deposits		4,699,538	4,278,692	420,846	9.8	12,557,413
2. Notes and accounts receivable		25,906,397	25,845,698	60,698	0.2	25,343,630
3. Inventories		2,006,277	4,621,284	(2,615,006)	(56.6)	1,943,892
4. Short-term loans receivable		-	59,892	(59,892)	-	-
5. Deferred tax assets		2,756,611	2,686,542	70,069	2.6	2,882,923
6. Other current assets		2,554,736	3,549,562	(994,826)	(28.0)	2,650,723
7. Allowance for doubtful accounts		(125,435)	(100,622)	(24,813)	24.7	(135,756)
Total current assets		37,798,125	40,941,050	(3,142,924)	(7.7)	45,242,826
II. Fixed assets						
(1) Tangible fixed assets						
1. Buildings and structures		25,929,134	20,124,568	5,804,565	28.8	24,699,677
2. Land		7,844,328	8,002,867	(158,539)	(2.0)	7,844,328
3. Other tangible fixed assets		1,456,954	1,622,641	(165,687)	(10.2)	2,571,600
Total tangible fixed assets		35,230,416	29,750,077	5,480,339	18.4	35,115,605
(2) Intangible fixed assets						
1. Consolidated adjustment account		2,829,247	3,058,569	(229,322)	(7.5)	2,881,157
2. Other intangible fixed assets		1,080,900	909,334	171,565	18.9	1,114,903
Total intangible fixed assets		3,910,147	3,967,904	57,757	(1.5)	3,996,060
(3) Investments and other assets						
1. Investment securities		907,563	1,649,315	(741,751)	(45.0)	1,219,031
2. Guarantee money deposited		4,970,301	5,113,922	(143,620)	(2.8)	4,977,231
3. Long-term loans receivable		2,539,671	5,114,573	(2,574,902)	(50.3)	2,557,397
4. Deferred tax assets		3,337,776	1,022,723	2,315,053	226.4	3,307,304
5. Other investments		4,010,841	1,345,490	2,665,350	198.1	4,020,965
6. Allowance for doubtful accounts		(2,539,143)	(60,726)	(2,478,417)	-	(2,538,361)
Total investments and other assets		13,227,012	14,185,299	(958,287)	(6.8)	13,543,570
Total fixed assets		52,367,575	47,903,281	4,464,294	9.3	52,655,236
Total Assets		90,165,701	88,844,331	1,321,370	1.5	97,898,062

(Thousands of Yen)

Item	Period	Current Quarter (1 st quarter for FY 2007)	Corresponding Quarter of Previous Year (1 st quarter for FY 2006)	Change		(Reference) FY 2006
		Amount	Amount	Amount	RC	Amount
LIABILITIES						
I. Current liabilities						
1. Notes and accounts payable		1,451,827	2,623,323	(1,171,496)	(44.7)	1,736,727
2. Short-term loans payable		10,590,000	5,405,000	5,185,000	95.9	13,063,000
3. Current installments of long-term debt		51,266	74,307	(23,040)	(31.0)	55,171
4. Income taxes payable		401,384	1,755,459	(1,354,075)	(77.1)	2,074,565
5. Consumption taxes payable		1,241,686	1,230,712	10,974	0.9	1,742,666
6. Accrued expenses		15,802,198	14,923,153	879,044	5.9	15,402,527
7. Allowance for employee bonuses		1,632,919	5,561,663	(3,928,744)	(70.6)	3,475,893
8. Other current liabilities		4,348,472	3,320,118	1,028,353	31.0	5,017,256
Total current liabilities		35,519,754	34,893,738	626,015	1.8	42,567,807
II Long-term liabilities						
1. Long-term loans payable		34,197	61,289	(27,091)	(44.2)	39,345
2. Allowance for employee retirement benefits		2,837,224	2,506,793	330,430	13.2	2,767,862
3. Allowance for directors' and auditors' retirement benefits		131,102	129,339	1,762	1.4	129,209
4. Other long-term liabilities		116,633	90,145	26,488	29.4	102,333
Total long-term liabilities		3,119,157	2,787,567	331,590	11.9	3,038,751
Total Liabilities		38,638,911	37,681,306	957,605	2.5	45,606,559
(Minority interest)						
Minority interests		-	143,747	-	-	132,488
SHAREHOLDERS' EQUITY						
I. Common stock						
II. Capital surplus						
III. Retained earnings						
IV. Gain or loss from revaluation of marketable securities						
V. Treasury stock						
Total shareholders' equity		-	51,019,278	-	-	52,159,014
Total liabilities, minority interests, and shareholders' equity		-	88,844,331	-	-	97,898,062
NET ASSETS						
I. Shareholders' Equity						
1. Common stock		11,933,790	-	-	-	-
2. Capital surplus		17,354,214	-	-	-	-
3. Retained earnings		27,962,329	-	-	-	-
4. Treasury stock		(5,931,124)	-	-	-	-
Total shareholders' equity		51,319,209	-	-	-	-
II. Effects of revaluation and exchange rate changes						
Gain or loss from revaluation of marketable securities		70,827	-	-	-	-
Total effects of revaluation and exchange rate changes		70,827	-	-	-	-
III. Minority interests						
Total net assets		51,526,790	-	-	-	-
Total liabilities and net assets		90,165,701	-	-	-	-

2. Quarterly Consolidated Statements of Income (Summary)

(Thousands of Yen)

Item	Period	Current Quarter	Corresponding	Change		(Reference)
		(1 st quarter FY 2007)	Quarter of Previous Year (1 st quarter FY 2006)	Amount	RC	FY March 2006
		Amount	Amount	Amount	%	Amount
I. Net sales		51,096,916	51,390,295	(293,379)	(0.6)	206,222,324
II. Cost of sales		41,372,554	40,808,058	564,496	1.4	165,174,725
Gross profit		9,724,361	10,582,237	(857,875)	(8.1)	41,047,599
III. Selling, general and administrative expenses		9,463,982	9,228,553	235,428	2.6	36,057,561
Operating income		260,379	1,353,683	(1,093,304)	(80.8)	4,990,037
IV. Non-operating income						
1. Interest income		8,229	20,255	(12,026)	(59.4)	36,152
2. Dividend income		12,333	19,605	(7,271)	(37.1)	27,911
3. Commission on consignment for office work		21,809	19,857	1,952	9.8	91,952
4. Income from lease of fixed assets		7,873	6,525	1,347	20.7	27,065
5. Others		18,028	18,524	(495)	(2.7)	98,693
Total non-operating income		68,274	84,767	(16,492)	(19.5)	281,775
V. Non-operating expenses						
1. Interest expenses		17,404	10,744	6,660	62.0	57,430
2. Compensation for damages		2,057	2,032	24	1.2	11,931
3. Loss on disengagement of guarantee money deposited		56	2,784	(2,728)	(98.0)	931
4. Others		985	4,268	(3,283)	(76.9)	16,169
Total non-operating expenses		20,503	19,830	672	3.4	86,463
Ordinary income		308,150	1,418,620	(1,110,470)	(78.3)	5,185,349
VI. Extraordinary income						
1. Gain on sale of fixed assets		-	-	-	-	4
2. Gain on sale of related company stocks		-	-	-	-	1,489,112
3. Gain on sale of investment in securities		-	-	-	-	552,837
Total extraordinary income		-	-	-	-	2,041,954
VII. Extraordinary losses						
1. Loss on sale of fixed assets		-	-	-	-	55,325
2. Loss on retirement of fixed assets		8,719	5,100	3,618	70.9	74,997
3. Loss on revaluation of related company stocks		-	-	-	-	118,492
4. Loss on revaluation of inventories		-	-	-	-	2,422,614
5. Transfer to allowance for doubtful accounts		-	-	-	-	2,455,000
6. Loss on closedown of offices		-	-	-	-	7,552
7. Impairment loss		-	-	-	-	131,098
8. Others		-	-	-	-	3,503
Total extraordinary losses		8,719	5,100	3,618	70.9	5,268,583
Income before income taxes		299,431	1,413,520	(1,114,088)	(78.8)	1,958,719
Income, inhabitants and business taxes		140,452	1,594,371	(1,453,918)	(91.2)	3,243,944
Adjustments for income and other taxes		100,619	(893,146)	993,765	-	(3,295,144)
Minority interest		8,764	8,767	(3)	0.0	34,984
Net income		49,595	703,528	(653,932)	(93.0)	1,974,934