

QUARTERLY BUSINESS REPORT for the 3rd quarter of the year ending March 2007 (Consolidated)

February 16, 2007

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

2. Operating performance highlights for the 3rd quarter of the year ending March 2007 (April 1, 2006 through December 31, 2006)

(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	%
3 rd quarter FY2007	153,165	△1.2	2,091	△48.5	2,159	△49.0	901	—
3 rd quarter FY2006	154,967	2.9	4,058	5.5	4,235	5.8	8	△99.2
(Reference) FY2006	206,222		4,990		5,185		1,974	

[Notes] 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]

Japan's economy continues to show a gradual upturn in the current third quarter with an increase in capital investment accompanied by a growth in corporate earnings and improvement of the unemployment rate. However, uncertainty remains in consumer spending.

In the medical and long-term care business, the market environment is expected to change significantly in the future through revisions of the medical service fee system and the long-term care insurance system, aimed at establishing sustainable systems.

Against such a backdrop, our group executed organizational reforms by enhancing existing businesses, developing new services, and establishing an "Information Strategy Department" to promote realization of the medium range business strategy, in order to respond to system revisions and business trends. In addition, we have launched active advertising campaigns incorporating a media mix centered on TV commercials.

As a result, during the 3rd quarter under review, net sales were ¥153,165 million (down 1.2% year-on-year), operating income ¥2,159 million (down 49.0% year-on-year), and net income ¥901 million (¥8 million in the same quarter last fiscal year).

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

Medical Support Business

In the Medical Support Business, competition is becoming stiffer as the management environment of medical institutions becomes more severe due to decreases in medical service fee compensation, etc. In order to achieve both enhancement of sales and improvement of profit ratio, we have enforced reviewing of contract negotiations and contractual coverage, and promoted strategies to increase sales for each medical institution, which enables efficient labor time shift operation. Although investment cost for personnel has increased due to measures such as the introduction and execution of the "career improvement system," which enables us to secure employees with rich field experience and good skills, we have improved our profit ratio by increasing business efficiency.

As a result, net sales were ¥83,258 million (up 3.1% year-on-year) and operating income ¥7,827 million (down 6.3% year-on-year).

Health Care Business

In the Health Care Business, we have actively promoted establishment of complex "multi-functional care centers," care facilities with preventive care services, throughout Japan, and development of our service infrastructure, in order to accommodate the long-term care insurance system revisions executed in April 2006. The ratios for the revisions of the long-term care insurance system are said to be minus 0.5% as a whole and minus 1.0% for home care. However, the numbers in the market are declining. For the third quarter, net sales and operating income fell below those of the previous fiscal year and are in a severe state. They were affected by discontinuation of health insurance coverage, beginning October 2006, for welfare equipment leasing for those who are under support and care level 1.

As a result, net sales were ¥59,280 million (down 0.4% year-on-year) and operating income ¥1,597 million (down 9.4% year-on-year).

Education Business

In the Education Business, the number of students saw sluggish growth. One reason for this is because uncertainty continues to remain regarding home-helper certification for the second-grade home-helper training course, which is our flagship program. Another reason is, for other courses, as the economy improves, the demand for obtaining certifications has temporarily decreased. In such an environment, we have continued to launch active advertising campaigns including TV commercials, which were started in the first half of the fiscal year, in order to obtain students and also to obtain human resources that can provide our services. However, the effect of the advertising campaigns remains small at present.

As a result, net sales were ¥9,733 million (down 4.3% year-on-year) and operating loss ¥1,245 million (¥1,642 million in the same quarter last fiscal year).

Other Businesses

In Other Businesses, we promoted organizational reform by reorganization of group businesses, and dedicated our efforts to centralize our business by liquidation of subsidiaries and affiliates.

As a result, net sales were ¥893 million (down 80.2% year-on-year), operating income ¥215 million (up 19.0% year-on-year).

(2) Changes in consolidated financial status

	Total assets		Net assets		Equity ratio		Net assets per share	
	Millions of yen		Millions of yen		%		Yen	
3 rd quarter FY2007	92,789		52,375		56.3		1,482.89	
3 rd quarter FY2006	91,770		50,569		55.1		1,435.60	
(Reference) FY2006	97,898		52,159		53.3		1,479.74	

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

[Qualitative information on changes in consolidated financial status]

The total assets for the current third quarter were ¥92,789 million (down 5,109 million from the end of the last fiscal year). This is mainly due to the increase in buildings and structures and decrease in the cash and deposits and others.

Total liabilities was ¥40,413 million (down 5,193 million from the end of the last fiscal year) due to the increase in current redemption of bonds and bonds, and the decrease in the short-term loans payable, income taxes payable, and allowance for employee bonuses. Net assets were ¥52,375 million (up ¥216 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	
3 rd quarter FY2007	149,766	1.3	1,928	△50.4	2,038	△50.1	876	—
3 rd quarter FY2006	147,890	3.4	3,889	△24.7	4,082	△23.4	△873	△131.6
(Reference) FY2006	197,635		4,956		5,257		△978	

[Notes] 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		Net assets	
	Millions of yen		Millions of yen	
3 rd quarter FY2007	88,579		48,398	
3 rd quarter FY2006	88,010		48,833	
(Reference) FY2006	92,666		48,350	

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

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

No change was made to the adjusted projection for the First Half of the fiscal year ending March 31, 2007 (released on November 22, 2006).

The above projections are based on information available as of time of this announcement. Actual results may differ due to various factors.

Quarterly Consolidated Financial Statements (Summary)

1. Quarterly Consolidated Balance Sheet (Summary)

(Thousands of yen)

	Current Quarter (3rd quarter FY2007)	Corresponding Quarter of Previous Year (3rd quarter FY2006)	Change		(Reference) FY2006
	Amount	Amount	Amount	RC	Amount
ASSETS				%	
I Current assets					
1. Cash and deposits	8,661,719	10,094,126	△ 1,432,407	△ 14.2	12,557,413
2. Notes and accounts receivable	24,736,187	25,524,784	△ 788,597	△ 3.1	25,343,630
3. Inventories	1,857,721	3,359,628	△ 1,501,906	△ 44.7	1,943,892
4. Short-term loans receivable	—	33,170	△ 33,170	—	—
5. Deferred tax assets	2,152,684	1,407,442	745,241	53.0	2,882,923
6. Other current assets	3,647,467	3,396,644	250,822	7.4	2,650,723
7. Allowance for doubtful accounts	△ 104,595	△ 236,588	131,992	△ 55.8	△ 135,756
Total current assets	40,951,184	43,579,207	△ 2,628,023	△ 6.0	45,242,826
II Fixed assets					
(1) Tangible fixed assets					
1. Buildings and structures	26,467,280	22,592,307	3,874,973	17.2	24,699,677
2. Land	7,733,496	7,958,054	△ 224,557	△ 2.8	7,844,328
3. Other tangible fixed assets	744,755	1,829,292	△ 1,084,537	△ 59.3	2,571,600
Total tangible fixed assets	34,945,532	32,379,654	2,565,878	7.9	35,115,605
(2) Intangible fixed assets					
1. Consolidated adjustment account	—	2,951,558	△ 2,951,558	—	2,881,157
2. Goodwill	2,723,046	—	2,723,046	—	—
3. Other intangible fixed assets	1,193,247	893,553	299,694	33.5	1,114,903
Total intangible fixed assets	3,916,294	3,845,111	71,182	1.9	3,996,060
(3) Investments and other assets					
1. Investment securities	912,603	1,995,563	△ 1,082,960	△ 54.3	1,219,031
2. Guarantee money deposited	4,756,563	4,988,140	△ 231,576	△ 4.6	4,977,231
3. Long-term loans receivable	2,449,850	4,978,187	△ 2,528,337	△ 50.8	2,557,397
4. Deferred tax assets	3,401,867	1,063,051	2,338,816	220.0	3,307,304
5. Other investments and other assets	4,049,660	1,422,318	2,627,342	184.7	4,020,965
6. Allowance for doubtful accounts	△ 2,594,547	△ 2,480,451	△ 114,095	4.6	△ 2,538,361
Total investments and other assets	12,975,998	11,966,809	1,009,189	8.4	13,543,570
Total fixed assets	51,837,825	48,191,574	3,646,250	7.6	52,655,236
Total Assets	92,789,009	91,770,782	1,018,226	1.1	97,898,062

(Thousands of yen)

	Current Quarter (3rd quarter FY2007)	Corresponding Quarter of Previous Year (3rd quarter FY2006)	Change		(Reference) FY2006
	Amount	Amount	Amount	RC	Amount
				%	
LIABILITIES					
I Current liabilities					
1. Notes and accounts payable	1,530,574	1,935,995	△ 405,420	△ 20.9	1,736,727
2. Short-term loans payable	600,000	11,405,000	△ 10,805,000	△ 94.7	13,063,000
3. Current installments of long-term debt	38,352	63,283	△ 24,930	△ 39.4	55,171
4. Current redemption of bonds	3,808,000	—	3,808,000	—	—
5. Income taxes payable	142,755	252,713	△ 109,958	△ 43.5	2,074,565
6. Consumption tax payable	1,464,838	1,716,011	△ 251,173	△ 14.6	1,742,666
7. Accrued expenses	16,442,918	16,209,078	233,839	1.4	15,402,527
8. Allowance for employee bonuses	1,572,873	1,667,676	△ 94,802	△ 5.7	3,475,893
9. Other current liabilities	4,995,377	4,822,873	172,504	3.6	5,017,256
Total current liabilities	30,595,691	38,072,633	△ 7,476,941	△ 19.6	42,567,807
II Long-term liabilities					
1. Bonds	6,590,000	—	6,590,000	—	—
2. Long-term loans payable	22,037	42,431	△ 20,394	△ 48.1	39,345
3. Allowance for employee retirement benefits	2,950,328	2,703,468	246,860	9.1	2,767,862
4. Allowance for directors' and auditors' retirement benefits	130,147	127,308	2,838	2.2	129,209
5. Other long-term liabilities	125,083	95,583	29,500	30.9	102,333
Total long-term liabilities	9,817,597	2,968,792	6,848,804	230.7	3,038,751
Total Liabilities	40,413,289	41,041,425	△ 628,136	△ 1.5	45,606,559
MINORITY INTEREST					
Minority interest	—	159,917	—	—	132,488
SHAREHOLDERS' EQUITY					
I Common stock					
Common stock	—	11,933,790	—	—	11,933,790
II Capital surplus					
Capital surplus	—	17,354,214	—	—	17,354,214
III Retained earnings					
Retained earnings	—	26,757,810	—	—	28,723,606
IV Gain or loss from revaluation of marketable securities					
Gain or loss from revaluation of marketable securities	—	451,426	—	—	77,628
V Treasury stock					
Treasury stock	—	△ 5,927,802	—	—	△ 5,930,226
Total shareholders' equity	—	50,569,439	—	—	52,159,014
Total liabilities, minority interests and shareholders' equity	—	91,770,782	—	—	97,898,062
NET ASSETS					
I Shareholders' equity					
1. Common stock	11,933,790	—	—	—	—
2. Capital surplus	17,354,214	—	—	—	—
3. Retained earnings	28,813,219	—	—	—	—
4. Treasury stock	△ 5,933,206	—	—	—	—
Total shareholders' equity	52,168,018	—	—	—	—
II Unrealized gains and adjustments					
Unrealized gains on other securities	63,228	—	—	—	—
Total unrealized gains and adjustments	63,228	—	—	—	—
III Minority interest					
Minority interest	144,473	—	—	—	—
Total net assets	52,375,720	—	—	—	—
Total liabilities and net assets	92,789,009	—	—	—	—

2. Quarterly Consolidated Statements of Income (Summary)

(Thousands of yen)

	Current Quarter (3rd quarter FY2007)	Corresponding Quarter of Previous Year (3rd quarter FY2006)	Change		(Reference) FY2006
	Amount	Amount	Amount	RC	Amount
I Net sales	153,165,394	154,967,301	△ 1,801,907	△ 1.2	206,222,324
II Cost of sales	123,298,712	123,844,697	△ 545,985	△ 0.4	165,174,725
Gross profit	29,866,681	31,122,603	△ 1,255,921	△ 4.0	41,047,599
III Selling, general and administrative expenses	27,775,548	27,063,972	711,575	2.6	36,057,561
Operating income	2,091,133	4,058,631	△ 1,967,497	△ 48.5	4,990,037
IV Non-operating income					
1. Interest income	19,512	61,261	△ 41,749	△ 68.1	36,152
2. Dividend income	12,838	27,911	△ 15,072	△ 54.0	27,911
3. Commission on consignment for office work	67,857	68,380	△ 523	△ 0.8	91,952
4. Income from lease of fixed assets	23,424	20,036	3,388	16.9	27,065
5. Others	74,499	59,148	15,350	26.0	98,693
Total non-operating income	198,132	236,739	△ 38,606	△ 16.3	281,775
V Non-operating expenses					
1. Interest expenses	33,644	39,399	△ 5,755	△ 14.6	57,430
2. Bond interest	37,178	—	37,178	—	—
3. Compensation for damages	10,966	5,052	5,913	117.0	11,931
4. Bond issue cost	32,940	—	32,940	—	—
5. Others	14,787	15,285	△ 498	△ 3.3	17,101
Total non-operating expenses	129,516	59,738	69,778	116.8	86,463
Ordinary income	2,159,749	4,235,631	△ 2,075,882	△ 49.0	5,185,349
VI Extraordinary income					
1. Gain on sale of fixed assets	29,320	4	29,315	—	4
2. Gain on sale of shares of related company	—	1,489,112	△ 1,489,112	—	1,489,112
3. Gain on sale of investment in securities	2,850	—	2,850	—	552,837
4. Others	634	—	634	—	—
Total extraordinary income	32,804	1,489,116	△ 1,456,312	△ 97.8	2,041,954
VII Extraordinary losses					
1. Loss on sale of fixed assets	—	—	—	—	55,325
2. Loss on retirement of fixed assets	35,633	65,402	△ 29,769	△ 45.5	74,997
3. Loss on revaluation of shares of related company	—	97,493	△ 97,493	—	118,492
4. Loss on revaluation of inventories	—	1,174,757	△ 1,174,757	—	2,422,614
5. Transfer to allowance for doubtful accounts	—	2,528,000	△ 2,528,000	—	2,455,000
6. Loss on closedown of offices	—	7,552	△ 7,552	—	7,552
7. Loss on impairment	52,560	131,098	△ 78,537	△ 59.9	131,098
8. Loss on disengagement of lease	103,395	—	103,395	—	—
9. Loss on disposal of merchandise	—	31,382	△ 31,382	—	—
10. Others	—	—	—	—	3,503
Total extraordinary losses	191,589	4,035,686	△ 3,844,097	△ 95.3	5,268,583
Income before income taxes	2,000,964	1,689,062	311,902	18.5	1,958,719
Income, inhabitants and business taxes	429,322	1,487,245	△ 1,057,922	△ 71.1	3,243,944
Adjustments for income and other taxes	645,314	168,030	477,283	284.0	△ 3,295,144
Minority interest	24,990	24,937	52	0.2	34,984
Net income	901,337	8,848	892,488	—	1,974,934