

Consolidated Financial Statements for the Nine Months Ended December 31, 2007

February 15, 2008

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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*Amounts under one million yen have been rounded down.

1. Consolidated Results for the Nine Months of FY2008 (April 1, 2007-December 31, 2007)

(1) Business results (Percentage figures indicate the rate of change from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine Months ended December 31, 2007	147,323	(3.8)	1,796	(14.1)	1,931	(10.6)	276	(69.3)
Nine Months ended December 31, 2006	153,165	(1.2)	2,091	(48.5)	2,159	(49.0)	901	—
For the year ended March 31, 2007	202,549		2,635		2,709		774	

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine Months ended December 31, 2007	7.86	—
Nine Months ended December 31, 2006	25.59	—
For the year ended March 31, 2007	22.00	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
Nine Months ended December 31, 2007	120,646	51,748	42.8	1,464.46
Nine Months ended December 31, 2006	92,789	52,375	56.3	1,482.89
For the year ended March 31, 2007	92,115	52,247	56.6	1,479.10

2. Dividends

	Dividends per share
Nine Months ended December 31, 2007	—
Nine Months ended December 31, 2006	—

3. Consolidated Financial Results Forecasts for FY 2008 (April 1, 2007-March 31, 2008)

There is no change in the full-year forecast of operating performance for FY2008, as presented in the “Notification about revision of full-year forecast of FY2008” published November 22, 2007.

4. Others

- (1) Significant transfers to subsidiaries during the term (transfers of specific subsidiaries with changes in the range of consolidation): None
- (2) Adoption of simplified method in the accounting method: Yes
- (3) Difference in the accounting method from the one applied for the recent fiscal year: Yes

* Disclaimer regarding Forward-looking Statements and Other Remarks

Consolidated Financial Results Forecasts for FY 2008 has been prepared based on data as of the announcement date. Actual results may differ from the forecasted figures due to various factors.

(Reference) Overview of the Non-Consolidated Business Results

*Amounts under one million yen have been rounded down.

Non-Consolidated Results for the Nine Months of FY2008 (April 1, 2007-December 31, 2007)

(1) Non-Consolidated Operating Results

(Percentage figures represent changes from the same period of the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine Months ended December 31, 2007	140,244	(6.4)	1,795	(6.9)	2,044	0.3	829	(5.5)
Nine Months ended December 31, 2006	149,766	1.3	1,928	(50.4)	2,038	(50.1)	876	—
For the year ended March 31, 2007	198,099		2,506		2,682		856	

	Net Income per Share
	Yen
Nine Months ended December 31, 2007	23.54
Nine Months ended December 31, 2006	24.89
For the year ended March 31, 2007	24.30

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
Nine Months ended December 31, 2007	110,078	48,404	44.0	1,374.32
Nine Months ended December 31, 2006	88,579	48,398	54.6	1,374.08
For the year ended March 31, 2007	86,811	48,369	55.7	1,373.29

[Qualitative information and financial statements]

1. Qualitative information on consolidated operating results

In the 3rd quarter operating results for the current year, the sales result was severely affected due to the drop in home care service fees and the reduction in income from the Medical office administrative work course and the Home helper training course in the Education Business section, even though the conversion in September of “the Nichii Care Palace Company” (the old Japan-Silver Inc.), that operates a pay nursing home, into a wholly-owned subsidiary contributed to our sales.

In addition, the profit results were severely affected due to decreasing sales in the Health Care Business and Education Business and the influence of temporary cost increases for smoothly transferring the COMSN long-term care business during the period of November to December, even though we worked to reduce labor costs by efficiently allocating human resources in the Medical Support Business, and reducing operating costs by reducing company-wide advertising and promotion expenses.

As a result of these activities, net sales during the 3rd quarter of the year ending March 31, 2008 were ¥147,323 million (down 3.8% year on year), operating income was ¥1,796 million (down 14.1% year on year), ordinary income was ¥1,931 million (down 10.6% year on year), and net income was ¥276 million (down 69.3% year on year).

By converting the Nichii Care Palace Company into a wholly-owned subsidiary and inheriting the COMSN nursing care business, the Nichii Gakkan Group has realized “total long-term care service” that covers preventive care, home care, and facility care.

The financial results of Nichii-no Hohoemi Co., Ltd., Nichii-no Kirameki Co., Ltd., and Nichii Home Co., Ltd., our inherited facility care services, are to be included in the consolidated statements for the fiscal year ending March 31, 2008.

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

Segment	Net Sales (Millions of Yen)	YoY (%)	Operating Income (Millions of Yen)	YoY (%)
Medical Support Business	82,327	(1.1)	7,741	(1.1)
Health Care Business	56,560	(4.6)	442	(72.3)
Education Business	7,833	(19.5)	(1,192)	(4.2)
Other Businesses	601	(32.7)	185	(13.7)

2. Qualitative information on consolidated financial position

Total assets were ¥120,646 million, having increased ¥28,530 million compared with the figure at the end of the previous fiscal year, mainly due to accounts due increased ¥1,823 million, short-term loans increased ¥23,196 million, buildings and structures increased ¥2,617 million, goodwill increased ¥3,382 million, and cash and deposit decreased ¥5,412 million.

Liabilities were ¥68,897 million, having increased ¥29,029 million compared with the figure at the end of the previous fiscal year, mainly due to short-term borrowings increased ¥28,068 million, long-term advance received increased ¥4,332 million, reserve for bonuses decreased ¥1,614 million and bonds decreased ¥2,506 million yen.

Net assets were ¥51,748 million, having decreased ¥498 million compared with the figure at the end of the previous fiscal year.

3. Others

(1) Significant changes to subsidiaries during the term (transfers in specified subsidiaries with changes in the range of consolidation): None

(2) Adoption of simplified method in the accounting method:

The physical inventory check is omitted for some of the inventory assets.

(3) Difference in the accounting method from the method applied for the recent fiscal year:

In line with amendments to the Corporation Tax Law, and effective as of the current consolidated fiscal year, Nichii Gakkan group has changed the depreciation method applied to tangible fixed assets acquired on or after April 1, 2007, according to the change in the depreciation method stipulated by the revised Corporation Tax Law. This change has had only a slight influence on profit and loss.

And, Nichii Gakkan group records the assets acquired on and before March 31, 2007, in such a way that the difference between an amount equivalent to 5% of the acquisition price and the memorandum value is depreciated equally over five years from the fiscal year following the year in which the remaining value reached 5% of the acquisition price calculated based on the depreciation method under the previous Corporation Tax Law. The resulting depreciation amount is included in the Allowance for depreciation account. This change has had only a slight influence on profit and loss.

Quarterly Consolidated Financial Statements (Summary)

1. Quarterly Consolidated Balance Sheet (Summary)

(Thousands of yen)

	Nine Months ended December 31, 2006	Nine Months ended December 31, 2007	Change		(Reference) FY2007
	Amount	Amount	Amount	RC	Amount
ASSETS				%	
I Current assets					
1. Cash and deposits	8,661,719	4,459,893	(4,201,825)	(48.5)	9,872,547
2. Notes and accounts receivable	24,736,187	24,272,094	(464,093)	(1.9)	24,124,838
3. Inventories	1,857,721	1,151,253	(706,468)	(38.0)	1,475,298
4. Short-term loans	—	23,197,100	23,197,100	—	900
5. Deferred tax assets	2,152,684	2,958,564	805,880	37.4	3,766,302
6. Others	3,647,467	5,809,539	2,162,072	59.3	3,329,580
7. Allowance for doubtful accounts	(104,595)	(85,979)	18,615	(17.8)	(105,039)
Total current assets	40,951,184	61,762,465	20,811,280	50.8	42,464,428
II Fixed assets					
(1) Tangible fixed assets					
1. Buildings and structures	26,467,280	28,969,227	2,501,947	9.5	26,351,745
2. Land	7,733,496	8,205,304	471,807	6.1	7,681,997
3. Others	744,755	721,608	(23,146)	(3.1)	440,157
Total tangible fixed assets	34,945,532	37,896,140	2,950,608	8.4	34,473,899
(2) Intangible fixed assets					
1. Goodwill	2,723,046	6,053,299	3,330,252	122.3	2,670,896
2. Others	1,193,247	1,067,808	(125,439)	(10.5)	1,133,609
Total intangible fixed assets	3,916,294	7,121,107	3,204,813	81.8	3,804,505
(3) Investments and other assets					
1. Investment securities	912,603	1,229,002	386,399	42.3	1,201,807
2. Long-term loans receivable	2,449,850	3,061,653	611,802	25.0	2,444,542
3. Guarantee money deposited	4,756,563	5,515,496	758,932	16.0	4,763,833
4. Deferred tax assets	3,401,867	1,541,610	(1,860,257)	(54.7)	1,525,228
5. Others	4,049,660	3,147,991	(901,669)	(22.3)	2,169,636
6. Allowance for doubtful accounts	(2,594,547)	(699,390)	1,895,156	(73.0)	(732,681)
Total investments and other assets	12,975,998	13,866,364	890,365	6.9	11,372,368
Total fixed assets	51,837,825	58,883,612	7,045,787	13.6	49,650,772
Total assets	92,789,009	120,646,078	27,857,068	30.0	92,115,200

	Nine Months ended December 31, 2006	Nine Months ended December 31, 2007	Change		(Reference) FY2007
	Amount	Amount	Amount	RC	Amount
LIABILITIES					
I Current liabilities				%	
1. Notes and accounts payable	1,530,574	1,006,139	(524,435)	(34.3)	1,144,987
2. Short-term loans payable	600,000	28,470,000	27,870,000	—	402,000
3. Current installments of long-term debt	38,352	21,085	(17,267)	(45.0)	33,178
4. Current redemption of bonds	3,808,000	3,808,000	—	—	3,808,000
5. Accrued expenses	16,442,918	16,519,267	76,349	0.5	16,011,429
6. Consumption tax payable	1,464,838	1,236,696	(228,142)	(15.6)	1,574,166
7. Income taxes payable	142,755	451,549	308,793	216.3	154,193
8. Allowance for employee bonuses	1,572,873	1,706,229	133,356	8.5	3,320,330
9. Allowance for directors' and auditors' bonuses	—	1,780	1,780	—	36,000
10. Others	4,995,377	4,896,871	(98,505)	(2.0)	4,891,422
Total current liabilities	30,595,691	58,117,620	27,521,928	90.0	31,375,708
II Long-term liabilities					
1. Bonds	6,590,000	2,782,000	(3,808,000)	(57.8)	5,288,000
2. Long-term loans payable	22,037	20,867	(1,169)	(5.3)	19,118
3. Long-term advance received	—	4,332,549	4,332,549	—	—
4. Allowance for employee retirement benefits	2,953,328	3,356,846	406,518	13.8	2,941,991
5. Allowance for directors' and auditors' retirement benefits	130,427	138,397	8,250	6.3	132,243
6. Others	125,083	149,185	24,101	19.3	110,927
Total long-term liabilities	9,817,597	10,779,846	962,249	9.8	8,492,282
Total Liabilities	40,413,289	68,897,467	28,484,178	70.5	39,867,990
NET ASSETS					
I Shareholders' equity					
1. Common stock	11,933,790	11,933,790	—	—	11,933,790
2. Capital surplus	17,354,214	17,354,214	—	—	17,354,214
3. Retained earnings	28,813,219	28,187,346	(625,873)	(2.2)	28,686,400
4. Treasury stock	(5,933,206)	(5,935,858)	(2,652)	0.0	(5,934,751)
Total shareholders' equity	52,168,018	51,539,492	(628,525)	(1.2)	52,039,654
II Unrealized gains and adjustments					
Unrealized gains on other securities	63,228	39,416	(23,812)	(37.7)	56,826
Total unrealized gains and adjustments	63,228	39,416	(23,812)	(37.7)	56,826
III Minority interest	144,473	169,701	25,227	17.5	150,729
Total net assets	52,375,720	51,748,610	(627,109)	(1.2)	52,247,210
Total liabilities and net assets	92,789,009	120,646,078	27,857,068	30.0	92,115,200

2. Quarterly Consolidated Statements of Income (Summary)

(Thousands of yen)

	Nine Months ended December 31, 2006	Nine Months ended December 31, 2007	Change		(Reference) FY2007
	Amount	Amount	Amount	RC	Amount
I Net sales	153,165,394	147,323,129	(5,842,265)	(3.8)	202,549,097
II Cost of sales	123,298,712	118,192,599	(5,106,113)	(4.1)	163,310,893
Gross profit	29,866,681	29,130,530	(736,151)	(2.5)	39,238,203
III Selling, general and administrative expenses	27,775,548	27,333,534	(442,014)	(1.6)	36,602,387
Operating income	2,091,133	1,796,996	(294,137)	(14.1)	2,635,815
IV Non-operating income					
1. Interest income	19,512	129,372	109,859	563.0	26,342
2. Dividend income	12,838	5,730	(7,108)	(55.4)	12,838
3. Commission on consignment for office work	67,857	66,571	(1,285)	(1.9)	90,904
4. Income from lease of fixed assets	23,424	21,803	(1,621)	(6.9)	30,985
5. Interest on refund of income taxes and other	—	30,230	30,230	—	—
6. Income from lease of facilities	—	37,340	37,340	—	—
7. Others	74,499	49,778	(24,720)	(33.2)	137,690
Total non-operating income	198,132	340,827	142,694	72.0	298,762
V Non-operating expenses					
1. Interest expenses	33,644	100,928	67,284	200.0	40,451
2. Bond interest	37,178	57,209	20,031	53.9	57,409
3. Compensation for damages	10,966	7,805	(3,160)	(28.8)	27,262
4. Bond issue cost	32,940	—	(32,940)	—	32,940
5. Loss on disengagement of guarantee money deposited	702	33,583	32,880	—	41,063
6. Others	14,084	6,421	(7,663)	(54.4)	25,500
Total non-operating expenses	129,516	205,948	76,431	59.0	224,627
Ordinary income	2,159,749	1,931,874	(227,874)	(10.6)	2,709,950
VI Extraordinary income					
1. Gain on sale of fixed assets	29,320	489	(28,830)	(98.3)	29,320
2. Gain on sale of investment in securities	2,850	21,000	18,149	636.8	2,850
3. Gain on sale of stock of affiliated company	—	20,999	20,999	—	—
4. Reversal of allowance for doubtful receivables	—	68,758	68,758	—	—
5. Others	634	—	(634)	—	634
Total extraordinary income	32,804	111,247	78,442	239.1	32,804
VII Extraordinary losses					
1. Loss on sale of fixed assets	—	—	—	—	22,147
2. Loss on retirement of fixed assets	35,633	41,510	5,877	16.5	59,472
3. Loss on revaluation of inventories	—	216,258	216,258	—	274,665
4. Loss on impairment	52,560	—	(52,560)	—	52,560
5. Loss on disengagement of lease	103,395	—	(103,395)	—	103,395
6. Settlement payments	—	180,000	180,000	—	—
7. Expense for change of brands	—	123,591	123,591	—	—
Total extraordinary losses	191,589	561,360	369,771	193.0	512,242
Income before income taxes	2,000,964	1,481,761	(519,203)	(26.0)	2,230,512
Income, inhabitants and business taxes	429,322	378,020	(51,301)	(12.0)	510,409
Adjustments for income and other taxes	645,314	803,298	157,984	24.5	912,722
Minority interest	24,990	23,471	(1,518)	(6.1)	32,612
Net income	901,337	276,970	(624,366)	(69.3)	774,768