



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2012 (J-GAAP)

August 5, 2011

Name of listed company: Nichii Gakkan Company

Listed on: Tokyo Stock Exchange 1st Section

Securities code: 9792

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

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Scheduled date of filing quarterly financial report: August 11, 2011

Scheduled date to start dividends distribution: —

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: None

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the first quarter ended June 30, 2011 (April 1, 2011 – June 30, 2011)

(1) Consolidated operating results

(Percentage figures represent changes 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	%
Three months ended June 30, 2011	61,132	2.8	2,225	29.3	2,277	24.2	1,038	98.3
Three months ended June 30, 2010	59,468	5.9	1,721	64.5	1,834	85.4	523	380.4

Note: Comprehensive income: Three months ended June 30, 2011: 1,084 million yen (131.3%) Three months ended June 30, 2010: 468 million yen (-%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended June 30, 2011	15.04	—
Three months ended June 30, 2010	7.58	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2011	125,289	52,796	41.9
As of March 31, 2011	125,781	52,200	41.3

Reference: Shareholders' equity: As of June 30, 2011: 52,539 million yen As of March 31, 2011: 51,944 million yen

2. Dividends

	Annual Dividends (Yen)				
	First Quarter-End	Second Quarter-End	Third Quarter-End	Year-End	Annual
Year ended March 31, 2011	—	7.00	—	7.00	14.00
Year ending March 31, 2012	—				
Year ending March 31, 2012 (Forecast)		8.00	—	8.00	16.00

Note: Revisions since the most recently announced dividend forecast: None

3. Consolidated financial result forecasts for the year ending March 31, 2012 (April 1, 2011 – March 31, 2012)

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First six months	123,700	3.4	3,600	5.8	3,500	(6.1)	1,400	5.3	20.27
Full year	250,000	3.8	9,000	14.4	9,300	(3.7)	4,500	29.4	65.16

Note: Revisions since the most recently announced financial result forecast: None

4. Others

- (1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): None
- (2) Application of the specific accounting for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting estimates and restatement of revisions
- | | |
|---|------|
| 1) Changes in accounting policies due to the revision of accounting standard, etc.: | None |
| 2) Changes in accounting policies other than 1): | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatement of revisions: | None |

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)	As of June 30, 2011	73,017,952 shares	As of March 31, 2011	73,017,952 shares
2) Number of treasury stock	As of June 30, 2011	3,956,561 shares	As of March 31, 2011	3,956,331 shares
3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)	Three months ended June 30, 2011	69,061,526 shares	Three months ended June 30, 2010	69,062,442 shares

* **Presentation of implementation status for quarterly review procedure**

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to the quarterly consolidated financial results and the procedure based on this Act was not complete as of the release of these Consolidated Financial Results.

* **Explanation concerning the appropriate use of financial forecasts and other special notes**

(Notes on forward-looking statements, etc.)

The above forecasts are based on information Nichii Gakkan had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Various factors may cause actual results to differ significantly from forecasts. Please refer to the disclaimers, provided under “Qualitative information on consolidated financial result forecasts” on page 3 of the quarterly consolidated financial results (appendix materials), regarding assumptions upon which forecasts are based and the use of forecasts.

Contents of the appendix materials

1. Qualitative information on quarterly consolidated financial results.....	2
(1) Qualitative information on consolidated operating results.....	2
(2) Qualitative information on consolidated financial position.....	3
(3) Qualitative information on consolidated financial result forecasts.....	3
2. Summary (other) information.....	4
(1) Significant changes to subsidiaries during the period.....	4
(2) Application of the specific accounting for preparing the quarterly consolidated financial statements.....	4
(3) Changes in accounting policies, accounting estimates and restatement.....	4
3. Quarterly consolidated financial statements.....	5
(1) Quarterly consolidated balance sheets.....	5
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.....	7
(Quarterly consolidated statements of income).....	7
(Quarterly consolidated statements of comprehensive income).....	8
(3) Notes on premise of a going concern.....	9
(4) Notes on significant fluctuation in amounts of shareholders' equity.....	9
(5) Significant subsequent events.....	9

1. Qualitative information on quarterly consolidated financial results

(1) Qualitative information on consolidated operating results

During the first three months of the fiscal year ending March 31, 2012, the Japanese economy saw improvement in production activities, etc. as progress was made in restoring supply chains, though it continued to suffer from the severe impact of the Great East Japan Earthquake. The future, however, remains clouded by obstacles like electric power shortages brought on by the nuclear accident and problems stemming from the rising yen.

As for the business conditions affecting the Nichii Group, a proposal for an integrated reform of the country's social security and tax systems was agreed on by the government and ruling party on June 30, 2011. The proposal calls for the establishment of a medium-scale, high-performance social security system, and emphasizes the strengthening of child care support, and medical and long-term care services, while focusing government attention on employment-promotion and other aspects of inter-generational fairness and cooperation. It also includes a phased increase of the consumption tax, to 10%, by the middle of the current decade to provide a stable source of funding for social security programs.

With these social and business conditions, the Nichii Group worked to expand and enhance its business portfolio to strengthen synergies among its businesses and reinforce its earnings base.

We also took advantage of the overall capabilities of our Group to minimize the impacts of the earthquake and tsunami. In stricken areas, our frontline staff rose to the occasion, did everything they could be expected to, and maintained the performance of nearly all services in our various businesses.

As for business results, we achieved steady gains in operational efficiency and service users in our Medical Support and Health Care businesses, and, with limited impacts from the earthquake and tsunami, saw increases in both net sales and income.

As a result, net sales during the first three months ended June 30, 2011 were 61,132 million yen (59,468 million yen in the same period of the previous year), operating income was 2,225 million yen (1,721 million yen in the same period of the previous year), ordinary income was 2,277 million yen (1,834 million yen in the same period of the previous year) and net income was 1,038 million yen (523 million yen in the same period of the previous year).

Operating results by segment were as follows.

<Medical Support Business>

In our Medical Support Business, we continued to pursue our contract revision strategy, in the fourth year of a five-year plan, and undertake business activities aimed at expanding our contract-based services. As a result, we succeeded in increasing net sales per hospital and in further promoting a virtuous cycle of staff compensation improvements, lower staff turnover, greater operational efficiency, and higher customer satisfaction. Operating income substantially increased by 46.2% compared to the same period last year, with a profit margin of 7.6%, the second highest over the past five years.

To add energy to the development of our management support services, we established the Medical Management Support Division in April 2011 to expand our line of management support products and enhance our comprehensive support system for medical institutions.

As a result, sales of this segment during the first three months ended June 30, 2011 were 25,694 million yen (25,500 million yen in the same period of the previous year), and operating income was 1,962 million yen (1,342 million yen in the same period of the previous year).

<Health Care Business>

The Health Care Business saw its user total surpass the 130,000 mark as the number of users of the home-visit care services and welfare services for the handicapped we offer as part of our home-care services continued to grow steadily. Meanwhile, in facility-care services, gradual increases in the numbers of service users for the Nichii Homes operated by Nichii Care Palace Co., Ltd. and other services, as well, helped to boost net sales and income performance on the way to achieving profitability, prospectively at the end of the current fiscal year.

During the quarter under review, we opened 13 new home-care support facilities (bringing the total to 707), 12 new home-visit care facilities (bringing the total to 1,034), 5 new day-care facilities (bringing the total to 299), and 1 new welfare equipment leasing facility (bringing the total to 133) in our home-care services. At the same time, we also opened 7 new Nichii no Hohoemi facilities (bringing the total to 224) and 2 new Nichii no Kirameki facilities (bringing the total to 36) in our facility-care services.

To strengthen ties to medical care, we opened 8 new home-nursing facilities (bringing the total to 10). As part of our full-scale effort to develop this business, we also embarked on the nationwide development of our "Return-to-Nursing Support Program" as one step toward securing the required nursing professionals.

As a result, sales of this segment during the first three months ended June 30, 2011 were 32,329 million yen (30,040 million yen in the same period of the previous year) and operating income was 2,090 million yen (1,249 million yen in the same period of the previous year).

<Education Business>

In the Education Business, enrollment in the mainstay Home Helper Level 2 and Medical Office Work courses declined, relative to the same quarter last year, with a scale-back in advertising following the earthquake and tsunami. Student numbers, however, are now climbing, with a return to more normal performance in sight.

In our Web College operations, we added 13 new courses (bringing the total to 59) including English language usage courses for hospital reception and for young children as a response to globalization-related foreign language needs, in an effort to attract a broader cross-section of students and enhance corporate sales.

Therefore, sales of the segment during the first three months ended June 30, 2011, were 3,026 million yen (3,823 million yen in the same period of the previous year) and operating income amounted to 309 million yen (871 million yen in the same period of the previous year).

To reinforce the earnings base of the Education Business and expand its language education operations, the Company, in accordance with its August 5, 2011 announcement, initiated a tender offer for the shares of Gaba Corporation, a provider of one-on-one English conversation instruction.

Going forward, we aim to further enhance our course offerings across a wide spectrum extending beyond the medical and long-term care fields to include languages, IT, and other areas of education, and develop our operations targeting the development of human resources leading the globalization of existing businesses.

<Other Businesses>

In Other Businesses, we moved ahead with preparations for the provision of services that will help to further strengthen the core operations of Lakewoods Garden Himeharu no Sato (Mobara City, Chiba Prefecture), which held its grand opening on April 2011. The core operations of that business consist of the use of dogs and plants raised at Lakewoods Garden Himeharu no Sato to provide dog therapy and gardening therapy services in the fields of long-term and medical care.

To provide “joy” and “healing,” the key operational themes of Lakewoods Garden Himeharu no Sato, to earthquake and tsunami victims, we implemented services, including the dispatch of Australian Labradoodles, which are particularly well-suited for work as therapy dogs, to help people in need.

Sales of the Other Businesses during the first three months ended June 30, 2011, were 82 million yen (104 million yen in the same period of the previous year) and operating loss was 144 million yen (60 million yen of operating income in the same period of the previous year).

(2) Qualitative information on consolidated financial position

Total assets at the end of the first three months ended June 30, 2011 decreased by 491 million yen compared with the figure at the end of the previous fiscal year to 125,289 million yen. This is mainly because current assets decreased by 2,015 million yen due to a decrease of deferred tax assets etc., while fixed assets increased by 1,524 million yen due to increases in tangible fixed assets, etc.

Total liabilities decreased by 1,087 million yen compared with the figure at the end of the previous fiscal year to 72,493 million yen. This is mainly because current liabilities decreased by 1,709 million yen due to a decrease of income taxes payable, etc.

Total net assets increased compared with the figure at the end of the previous fiscal year by 596 million yen to 52,796 million yen.

(3) Qualitative information on consolidated financial result forecasts

Business results for the first three months of the fiscal year ending March 31, 2012 were basically in line with the consolidated performance forecast announced on May 16, 2011.

At present, analyses are being performed to identify the possible impacts of the tender offer for Gaba Corporation on business performance for the current fiscal year. If it becomes necessary to issue a revised performance forecast or there are matters requiring announcement, one will be announced without delay.

2. Summary (other) information

(1) Significant changes to subsidiaries during the period

There is no related information.

(2) Application of the specific accounting for preparing the quarterly consolidated financial statements

There is no related information.

(3) Changes in accounting policies, accounting estimates and restatement

There is no related information.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2011	As of June 30, 2011
Assets		
Current assets		
Cash and deposits	3,912,556	3,982,921
Notes and accounts receivable	29,891,605	30,322,304
Merchandise and finished goods	404,983	395,722
Work in process	4,283	4,813
Raw materials and supplies	278,660	251,347
Others	9,728,268	7,244,516
Allowance for doubtful accounts	(56,829)	(53,993)
Total current assets	44,163,528	42,147,631
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	26,596,675	26,278,003
Others (net)	13,730,227	15,913,792
Total tangible fixed assets	40,326,903	42,191,795
Intangible fixed assets		
Goodwill	13,564,666	13,322,655
Others	5,453,793	5,209,038
Total intangible fixed assets	19,018,460	18,531,694
Investments and other assets		
Others	23,331,685	23,457,952
Allowance for doubtful accounts	(1,059,406)	(1,039,303)
Total investments and other assets	22,272,279	22,418,649
Total fixed assets	81,617,643	83,142,139
Total assets	125,781,172	125,289,770
Liabilities		
Current liabilities		
Notes and accounts payable	979,919	849,935
Short-term loans payable	1,318,002	4,020,000
Income taxes payable	3,538,277	371,495
Other accrued expenses	14,457,396	15,178,583
Allowance for employees' bonuses	4,223,744	2,525,021
Allowance for directors' bonuses	35,100	22,950
Others	15,003,932	14,878,742
Total current liabilities	39,556,372	37,846,728
Long-term liabilities		
Long-term loans payable	18,991,565	17,808,710
Allowance for employees' retirement benefits	4,428,149	4,553,975
Allowance for directors' retirement benefits	157,921	158,338
Asset retirement obligations	1,233,067	1,240,026
Others	9,213,699	10,885,278
Total long-term liabilities	34,024,403	34,646,329
Total liabilities	73,580,776	72,493,058

(Thousands of yen)

	As of March 31, 2011	As of June 30, 2011
Net assets		
Shareholders' equity		
Common stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,354,214
Retained earnings	29,492,922	30,047,865
Treasury stock	(6,789,290)	(6,789,360)
Total shareholders' equity	51,991,637	52,546,511
Accumulated other comprehensive income		
Unrealized gains (losses) on other securities	(46,849)	(6,890)
Total accumulated other comprehensive income	(46,849)	(6,890)
Minority interests	255,608	257,091
Total net assets	52,200,395	52,796,712
Total liabilities and net assets	125,781,172	125,289,770

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(Three months ended June 30)

(Thousands of yen)

	Three months ended June 30, 2010	Three months ended June 30, 2011
Net sales	59,468,184	61,132,509
Cost of sales	47,652,530	48,660,507
Gross profit	11,815,654	12,472,002
Selling, general and administrative expenses	10,093,737	10,246,307
Operating income	1,721,916	2,225,694
Non-operating income		
Interest income	27,541	32,389
Commission on consignment for office work	28,342	28,409
Rent income	36,651	58,495
Commission on consignment for job creation businesses	122,417	36,552
Subsidy income	29,475	79,256
Others	64,277	38,137
Total non-operating income	308,705	273,240
Non-operating expenses		
Interest expenses	138,625	196,874
Rent expenses	12,344	14,152
Others	45,507	10,797
Total non-operating expenses	196,477	221,824
Ordinary income	1,834,144	2,277,110
Extraordinary income		
Reversal of allowance for employees' bonuses	116,832	—
Total extraordinary income	116,832	—
Extraordinary losses		
Loss on retirement of fixed assets	1,297	3,640
Loss on disaster	—	39,649
Loss on adjustment for changes of accounting standards for asset retirement obligations	504,813	—
Others	5,716	—
Total extraordinary losses	511,826	43,289
Income before income taxes and minority interests	1,439,151	2,233,821
Income taxes	132,582	98,156
Income taxes—deferred	774,633	1,091,219
Total income and other taxes	907,216	1,189,376
Income before minority interests	531,934	1,044,445
Minority interests in income	8,158	5,983
Net income	523,775	1,038,462

(Quarterly consolidated statements of comprehensive income)

(Three months ended June 30)

(Thousands of yen)

	Three months ended June 30, 2010	Three months ended June 30, 2011
Income before minority interests	531,934	1,044,445
Other comprehensive income		
Unrealized gains (losses) on other securities	(63,023)	39,959
Total other comprehensive income	(63,023)	39,959
Comprehensive income	468,911	1,084,405
(Breakdown of comprehensive income)		
Parent company portion of comprehensive income	460,752	1,078,421
Minority interest portion of comprehensive income	8,158	5,983

(3) Notes on premise of a going concern

There is no related information.

(4) Notes on significant fluctuation in amounts of shareholders' equity

There is no related information.

(5) Significant subsequent events

(Tender offer for the shares of Gaba Corporation)

In a Board of Directors meeting held August 5, 2011, the Company passed a resolution authorizing a tender offer for Gaba Corporation (Tokyo Stock Exchange Mothers market, Code: 2133, referred to below as "Gaba") common shares and stock acquisition rights (referred to below as the "Tender Offer"). This Tender Offer was initiated on August 8, 2011.

1. Purpose of the Tender Offer

The Group, under its management philosophy of helping people live happier and healthier lives through its business activities, strives to fulfill its mission, which consists of: 1) Supporting educational activities to encourage self-improvement; 2) Assisting the stable management of healthcare institutions in healthcare related fields; and 3) Creating an environment where people can live a full life through nursing care without worries. We do this by striving to be the first to identify changes in social conditions, needs of the times, and conditions in medical and long-term care settings in our three core businesses: Education, Medical Support, and Health Care.

We believe that the advance of globalization and unprecedented societal aging make long-term and medical care, and the development of human resources, the most important needs to be met in Japan. We are working to expand and enhance our course development channels by vigorously pushing the development of our course offerings beyond the medical and long-term care fields to address education needs in areas like languages and IT, and by applying e-learning and other systems.

Gaba originated with the July 1995 establishment of a business the purpose of which was to create a database of foreign language conversation instructors and use this database to match instructors with students in locations throughout Japan. That predecessor to Gaba took the form of a limited liability company in April 1996. And that company, after M&A-based restructurings, began in March 2001 to operate English conversation schools specializing in one-on-one instruction under the name "Gaba One-to-One English."

Gaba was established in June 2004 as part of an MBO in which the business was taken over from the founders. Under new management, quite a lot was accomplished as efforts were made to improve management efficiency and strengthen the business base, and the company was successfully listed on the Tokyo Stock Exchange's Mothers market in December 2006. Gaba earned high customer satisfaction marks with its high-quality instructors, counselors (school staff) to support clients in their efforts to learn to converse in English, and English conversation lessons based on the "Gaba method," which is founded on know-how beyond the reach of competitors. Gaba has established a solid brand presence as a leading company in the market for one-on-one English instruction.

The language learning market in Japan is seeing language study demand grow day by day. This demand, which is driven by requirements or personal interests is manifested in the increased usage of foreign languages in business, including cases in which companies have made English the official language for internal use, growing interest among university students preparing for future careers and business people in their 20s and 30s trying to build careers, rising interest in globalization-driven early English instruction for children as young as preschoolers, the inclusion of English as a required subject for upper primary school students due to the revision of the curriculum guidelines, and interest among middle-aged and older people who have extra time in education for self-improvement.

Against that background, the Company, around February of this year, received an invitation from Daiwa Corporate Investment Co., Ltd., Gaba's main shareholder, to participate in the process for selecting candidates for purchasing Daiwa Corporate Investment's stake in Gaba. We then proceeded to analyze and consider matters concerning the possible acquisition of Gaba shares. This work was based on information provided by Daiwa Corporate Investment and Gaba as part of the selection process and addressed areas like Gaba's management direction for increasing corporate value over the medium-to-long term and the types of synergies that could be gained by acquiring Gaba shares.

In planning the further expansion of our Education Business, we believe that social changes currently underway indicate the necessity of further development and expansion of the language learning operations we have built to date. It is our judgment that the addition of Gaba, which has built a solid brand presence in the industry and boasts outstanding reliability and performance, as a Group member and partner will further differentiate our Education Business and enable future growth for both the Company and Gaba.

In more specific terms, the Company and Gaba complement one another to a high degree in areas like the establishment of new classrooms, and the combination of the Company and Gaba can be expected to give rise to

significant synergies in terms of earnings expansion and efficiency, mutual application of brands and expertise, and other areas as described below.

1) Opening of New Learning Studios (school facilities)

- The Company would like to promote the opening of more Gaba Learning Studios. Gaba is engaged in the business of offering one-on-one English instruction in metropolitan Tokyo and the Kansai and Chubu regions of Japan, and it has established a solid brand presence in the one-on-one English instruction market. The Company's Education Business, on the other hand, has established classrooms on the massive scale of approximately 500 locations throughout the country, and we believe that application of the Company's resources would enable the efficient opening of new classrooms under Gaba's brand.
- Regarding Gaba's operations, we anticipate that combining its know-how with the Company's resources will give rise to synergies for expanding Gaba's business territory to places it has yet to enter, such as urban and suburban areas of regional core cities and the Company's branches and offices in other suburban and outlying regions, while efforts to expand its operations primarily in the three major metro areas it already serves continue. This, we believe, will work to support Gaba's brand value and strategy.

2) Development of courses combining Gaba's brand and the Company's e-learning system (Web College)

- For these synergies, we believe there are possibilities for applying Gaba's brand in the development of the Company's existing Web College courses and possibilities for exercising Gaba's language instruction know-how through the Web College.

3) Other

In addition, it is expected that customer bases will be shared between Gaba and the Company, that cross-selling will take place, and that the resources of the Company and its business partners will be used to move forward with the development and enhancement of teaching materials. Furthermore, a broad range of synergies, including job-finding support for Gaba's clients (e.g. job referrals of English-capable Gaba clients to the Company's medical corporation customers), are conceivable for the future.

Based on its analysis of the transaction, the Company determined that planning on Gaba's further business expansion as a member of the Group, and for the purpose of swiftly realizing the synergies discussed above, would be in the best interests of the stakeholders of both companies and decided to proceed with its tender offer.

2. Basic Information on Gaba Corporation

(1) Corporate name:	Gaba Corporation
(2) Head Office:	4F Round-Cross Motoyoyogi, 30-13 Motoyoyogicho, Shibuya-ku, Tokyo
(3) Representative:	Representative Director, President, Kenji Kamiyama
(4) Principal Business:	English conversation school operation
(5) Paid-in Capital:	¥598,146 thousand (As of March 31, 2011)
(6) Date of Establishment:	June 16, 2004

3. Basic Information on the Prospective Acquisition

(1) Offer Price	¥200,000 per common share ¥258,000 per Series 1 Stock Acquisition Right ¥258,000 per Series 2 Stock Acquisition Right ¥250,000 per Series 3 Stock Acquisition Right ¥250,000 per Series 4 Stock Acquisition Right ¥250,000 per Series 5 Stock Acquisition Right ¥1 per Series 6 Stock Acquisition Right
(2) Shares expected to be acquired:	50,497 shares
(3) Minimum number of shares expected to be acquired:	26,390 shares
(4) Maximum number of shares expected to be acquired:	—
(5) Acquisition price:	¥10,099,400 thousand
(6) Tender offer period:	From August 8, 2011 to September 21, 2011(32 business days)
(7) Settlement start date:	September 29, 2011

4. Procurement of Funds Required for the Tender Offer

Funds for the tender will be provided from paid-in capital and from borrowings.

5. Organizational Restructuring following Acquisition

The Company plans to make Gaba into a wholly owned subsidiary and to acquire all of Gaba's issued and outstanding shares via the tender offer discussed herein and the exercise of later procedures based on the Company Act.