

## Summary of 1st Quarter Results for FYE June 2007 (Consolidated)



October 31, 2006

Company: The Goodwill Group, Inc.

(Code No. 4723, TSE 1<sup>st</sup> Section)(URL: <http://www.goodwill.com>)

Representative Title Representative Director, Chairman and CEO

Name Masahiro Origuchi

Contact Title Managing Director and CFO

Name Akira Kanezaki

Tel: 03-3405-9228

## 1. Notes on the presentation of quarterly financial information

- |   |     |                                   |                             |
|---|-----|-----------------------------------|-----------------------------|
| 1) Use of simplified methods of accounting treatment:                             | No  |                                   |                             |
| 2) Change of accounting methods from the most recent consolidated financial year: | No  |                                   |                             |
| 3) Changes in the scope of consolidation and equity-method application:           | Yes | Consolidation (new)<br>(excluded) | 5 companies<br>-- companies |

2. Summary of financial status and results for the 1st quarter of FYE June 2007  
(July 1, 2006 to September 30, 2006)

(1) Progress in (consolidated) management results (rounded down to the nearest 1 million yen)

	Revenues		Operating profits		Recurring profits		Quarterly net income	
	¥1 million	%	¥1 million	%	¥1 million	%	¥1 million	%
1st quarter FYE June 2007	60,359	(47.9)	1,787	(36.7)	1,515	(50.8)	312	(353.9)
1st quarter FYE June 2006	40,803	(29.1)	1,307	(-14.0)	1,004	(-16.9)	68	-
(Reference) FYE June 2006	185,948	(30.8)	7,895	(40.5)	6,704	(55.2)	3,429	(134.4)

	Quarterly net income per share		Quarterly net income per share adjusted for latent shares	
	yen	sen	yen	sen
1st quarter FYE June 2007	150	23	-	-
1st quarter FYE June 2006	-	-	-	-
(Reference) FYE June 2006	1,743	22	-	-

Notes: 1. Percentages under "Revenues," "Operating profits," "Recurring profits" and "Quarterly net income" represent rate of change from the same quarter the previous year.

2. The company did not announce quarterly net income for the first quarter of FYE June 2006, but we have posted an estimate in this presentation.

Year-on-year change is not presented because the company did not calculate quarterly net income for the first quarter of FYE June 2005.

(2) Changes in (consolidated) financial status (rounded down to the nearest 1 million yen)

	Total assets	Net assets	Capital ratio	Net assets per share	
	¥1 million	¥1 million	%	yen	sen
1st quarter FYE June 2007	183,672	49,737	26.4	23,356	17
1st quarter FYE June 2006	161,557	35,629	22.1	57,523	55
(Reference) FYE June 2006	139,541	50,733	35.4	23,783	09

Notes: Net assets per share in the same quarter last year adjusted for the share split etc. on March 1, 2006 were 19,174.51 yen.

[Consolidated cash flow] (rounded down to the nearest 1 million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Term-end balance of cash and cash equivalents
	¥1 million	¥1 million	¥1 million	¥1 million
1st quarter FYE June 2007	-4,196	-10,650	24,251	25,729
1st quarter FYE June 2006	-	-	-	-
(Reference) FYE June 2006	7,138	-13,526	-1,124	16,315

Notes: Consolidated cash flow was not calculated for the first quarter of FYE June 2006 and is therefore not presented here.

[Reference] FYE June 2007 (July 1, 2006-June 30, 2007) consolidated results forecast

	Forecast revenues	Forecast recurring profits	Forecast net income	Forecast net income per share	
	¥1 million	¥1 million	¥1 million	yen	sen
Full year	240,000	9,000	4,000	1,926	07

Notes: Results forecasts have not changed from the forecast published on August 23, 2006 in the "FYE June 2006 Financial Statements (Consolidated)."  
 Note that the forecasts presented above are based on the information available on the date of publication. Actual results may differ significantly from forecasts due to a variety of factors.

## **Business results and financial status**

Consolidated results for the first quarter of FYE June 2007 recorded a 47.9% increase in revenues and a 50.8% increase in recurring profits. Both core businesses perform strongly and aggressive M&A enabled the company to achieve substantial gains in both revenues and profits.

### **1. Business results**

#### **First-Quarter Consolidated Results Highlights**

Current 1st quarter: July 1, 2006 to September 30, 2006 / Previous 1st quarter: July 1, 2005 to September 30, 2005  
 (Unit: ¥1 million)

	Current 1st quarter	Previous 1st quarter	Rate of change
Revenues	60,359	40,803	47.9%
Cost of sales	41,021	27,696	48.1%
Gross profits	19,337	13,107	47.5%
Notes Depreciation of goodwill	579	446	29.8%
Operating profits	1,787	1,307	36.7%
Interest expenses	354	297	19.3%
Recurring profits	1,515	1,004	50.8%
Quarterly net income	312	68	353.9%

Notes: Increase in depreciation of goodwill

Depreciation of goodwill increased by 132 million yen compared to the same quarter last year to reach 579 million yen.

<Breakdown>

Depreciation of goodwill	COMSN, Inc.	...	338 million yen
	HU-MANAGEMENT JAPAN CO., LTD	...	72 million yen
	Others	...	168 million yen

(rounded down to the nearest 1 million yen)

## &lt; Outline of current quarter &gt;

During the first quarter, the economy continued to recover, backed by strong corporate results, particularly among larger enterprises. A weakening trend for the yen on foreign exchange markets enabled generally solid performance, led by export-related companies. Nonetheless, there were some factors for uncertainty, including rising oil prices.

Within this environment, there was strong demand throughout the human resources referral market as companies endeavored to make up for staffing shortfalls. The Goodwill Group's "human resources services" business, one of its core units, recorded steady growth as a result. In the nursing care market, revisions to the Nursing Care Insurance system in April 2006 resulted in overhauls to both systems and fees. These changes require greater adaptability and stronger management from this unit, but our strong presence in the market, high name recognition, brand power and marketing power enabled Goodwill's nursing and health care support business to perform solidly.

The "human resources services" business continues to grow steadily. Economic recovery is increasing corporate staffing needs, while programs to cut costs and improve efficiency are raising the demand for temporary staff. The Goodwill Inc. in particular has responded to this by recruiting more registered staff and increasing its database while exploiting its inter-branch network to enhance its supply capacity. The "designated referrals" and engineering referral sector is experiencing particularly rapid growth. This sector involves the referral of highly-skilled mechanical, electrical and information-processing etc. engineers, and M&A during this quarter enabled the Group to acquire a company in the sector and emerge as the No. 4 player in terms of size in the "designated referral" industry. Economic recovery is also leading to an increase in large, corporate-sponsored commercial events. The Group was able to land orders for planning, installation and operations during the quarter, resulting in solid performance for the sales promotions unit.

In "other human resources," reemployment support services are not growing with the same pace as seen in the past, but the strong economy is producing signs of a recovery in this sector. As the jobs market becomes more liquid, personnel referrals are performing solidly. Counseling services are also strong as companies seek to help employees manage their stress and improve their productivity. The Goodwill Group is seeking to develop a full lineup of human resources services and is also moving forward with the restructuring of its business model.

The "nursing and health care support" market is in an expansion phase, but there are also more players entering the market and competition is growing more intense. The Group views the significant changes brought by the recent revisions to the Nursing Care Insurance system as an opportunity and is using the high name recognition, brand power and nationwide community-oriented marketing skills of COMSN Inc. to furnish a wide variety of both home and institutional care services to the elderly. These efforts have begun to produce significant differentiation from the competition. In institutional care services, the Group acquired a long-established firm in the nursing home sector during the quarter, which has enabled it to emerge as the largest player in institutional care services as well as home care services.

In the "senior residences and restaurants business," "Barrington House Baji Koen" opened in May 2006 and has received wide acclaim for the innovative ways in which it addresses the needs of senior citizens. The facility has received large numbers of applications and results are growing steadily. In the restaurants business, restaurant operations themselves are growing, but the Group is also exploiting synergies with the institutional care services of COMSN by having the restaurant unit provide food services for institutions, which has in turn helped to increase their occupancy rates. Meanwhile, in the restaurants business we have acquired a company operating restaurants in prime locations in the greater Tokyo area, and this unit's results continue to grow.

In "other businesses," we are seeing steady expansion in the size of our operations in the day care services market. Japan's declining birth rate has become a social issue of great concern, leading to stronger demand for infrastructure and facilities that facilitate childrearing. The pet services market is also expected to expand as a growing number of singles and seniors begin to keep pets.

The continued strong performance from human resources services and nursing and health care support services, together with the contributions from aggressive M&A programs, resulted in a sharp year-on-year increase of 19,555 million yen in first-quarter revenues, bringing the quarterly total to 60,359 million yen. Recurring profits likewise increased by 510 million yen year-on-year to reach 1,515 million yen for the quarter. Quarterly (this term) net income increased by 243 million yen year-on-year to 312 million yen.

Below are segment results for this quarter.

## 4. Consolidated financial statements for the 1st quarter

## 1) (Summary) Consolidated Balance Sheet for the First Quarter

(Unit: ¥1 million)

Account	Term	1st quarter FYE June 2007 As at September 30, 2006 (A)		1st quarter FYE June 2006 As at September 30, 2005 (B)		Year-on-year Change		(Reference) FYE June 2006
		Amount	Percentage	Amount	Percentage	Amount (A)-(B)	Rate of change	Amount
<b>(Assets)</b>								
<b>I Current assets</b>								
1. Cash and deposits		26,329		52,344		-26,015	-49.7%	16,315
2. Trade notes and accounts receivable		36,399		25,779		10,619	41.2%	28,428
3. Inventories		1,219		661		558	84.5%	599
4. Others		5,353		5,137		216	4.2%	4,431
Total current assets		69,302	37.7%	83,922	52.0%	-14,620	-17.4%	49,775
<b>II Fixed assets</b>								
1. Tangible fixed assets		55,210		34,295		20,914	61.0%	45,479
2. Intangible fixed assets		42,536		32,394		10,141	31.3%	33,540
3. Investments and other assets		16,622		10,944		5,678	51.9%	10,746
Total fixed assets		114,370	62.3%	77,635	48.0%	36,735	47.3%	89,766
Total assets		183,672	100.0%	161,557	100.0%	22,115	13.7%	139,541
<b>(Liabilities)</b>								
<b>I Current liabilities</b>								
1. Bills payable and accounts payable		1,398		1,278		120	9.4%	483
2. Short-term borrowings		46,994		25,700		21,294	82.9%	19,532
3. Others		22,858		1,784		6,981	44.0%	22,762
Total current liabilities		71,251	38.8%	42,855	26.5%	28,396	66.3%	42,778
<b>II Non-current liabilities</b>								
1. Bonds		2,104		25,000		-22,896	-91.6%	-
2. Long-term borrowings		47,108		55,042		-7,933	-14.4%	40,274
3. Others		13,471		1,784		11,686	654.9%	5,755
Total non-current liabilities		62,683	34.1%	81,826	50.6%	-19,142	-23.4%	46,029
Total liabilities		133,935	72.9%	124,681	77.1%	9,253	7.4%	88,808
<b>(Net assets)</b>								
<b>I Shareholders' equity</b>								
1. Capital		26,618	14.5%	14,118	8.8%	12,500	88.5%	26,618
2. Capital surplus		35,620	19.4%	36,047	22.3%	-426	-1.2%	35,620
3. Retained earnings		-9,556	-5.2%	-10,651	-6.6%	1,095	-10.3%	-8,830
4. Treasury shares		-3,978	-2.2%	-3,885	-2.4%	-92	2.4%	-3,978
Total shareholders equity		48,704	26.5%	35,628	22.1%	13,075	36.7%	49,431
<b>II Valuation/translation variance</b>								
1. Net unrealized gain on other securities		6	0.0%	0	0.0%	6	-	6
2. Deferred profit/loss on hedges		-54	-0.0%	-	0.0%	-54	-	-59
3. Foreign currency translation adjustment account		-151	-0.1%	-	0.0%	-151	-	14
Total valuation/translation variance		-199	-0.1%	0	0.0%	-199	-	-39
Minority shareholder equity		1,232	0.7%	1,246	0.8%	-14	-1.2%	1,341
Total net assets		49,737	27.1%	36,875	22.9%	12,861	34.9%	50,733
Total net assets and liabilities		183,672	100.0%	161,557	100.0%	22,115	13.7%	139,541

## 2) (Summary) Consolidated Profit and Loss Statement for the 1st Quarter

(Unit: ¥1 million)

Term Account	1st quarter FYE June 2007 From July 1, 2006 To September 30, 2006 (A)		1st quarter FYE June 2006 From July 1, 2005 To September 30, 2005 (B)		Year-on-year Change		(Reference) FYE June 2006
	Amount	Percentage	Amount	Percentage	Amount (A)-(B)	Rate of change	Amount
I Revenues	60,359	100.0%	40,803	100.0%	19,555	47.9%	185,948
II Cost of sales	41,021	68.0%	27,696	67.9%	13,324	48.1%	123,779
Gross profits	19,337	32.0%	13,107	32.1%	6,230	47.5%	62,168
III Selling, general and administrative expenses	17,550	29.0%	11,799	28.9%	5,751	48.7%	54,273
(Of which, depreciation of goodwill)	(579)	(1.0%)	(446)	(1.0%)	(132)	(29.8%)	(1,838)
Operating profits	1,787	3.0%	1,307	3.2%	479	36.7%	7,895
IV Non-operating revenues	158	0.3%	107	0.3%	51	47.6%	480
V Non-operating expenses	430	0.8%	410	1.0%	20	4.9%	1,671
Recurring profits	1,515	2.5%	1,004	2.5%	510	50.8%	6,704
VI Extraordinary profits	0	0.0%	1	0.0%	-1	-73.6%	256
VII Extraordinary losses	12	0.0%	53	0.2%	-40	-76.0%	330
Net quarterly income before taxes etc.	1,502	2.5%	953	2.3%	549	57.7%	6,630
Corporate tax etc.	1,210	2.0%	943	2.3%	267	28.3%	3,325
Minority shareholder losses	19	0.0%	58	0.2%	-39	-67.2%	124
Quarterly net income	312	0.5%	68	0.2%	243	353.9%	3,429

## 3) (Summary) Consolidated Cash Flow Statement for the First Quarter

(Unit: ¥1 million)

Item	1st quarter FYE June 2007 From July 1, 2006 To September 30, 2006
<b>I <u>Cash flows from operating activities</u></b>	
1. Net quarterly income before taxes etc.	1,502
2. Depreciation and amortization	906
3. Increase in sales credits	-3,485
4. Increase in inventories	-163
5. Decrease in purchasing liabilities	577
6. Increase in deposits received	1,802
7. Others	-1,874
Subtotal	-732
1. Interest and dividends received	33
2. Interest paid	-325
3. Corporate tax etc. paid	-3,171
Total	-4,196
<b>II <u>Cash flows from investing activities</u></b>	
1. Expenditures for acquisition of investment securities	-50
2. Expenditures for additional acquisition of consolidated subsidiary equity	-443
3. Net expenditures from the acquisition of subsidiary equity in conjunction with changes in the scope of consolidation	-6,263
4. Expenditures for acquisition of tangible fixed assets	-3,760
5. Expenditures for loans	-109
6. Others	-23
Total	-10,650
<b>III <u>Cash flows from financing activities</u></b>	
1. Net change in short-term borrowings	22,106
2. Proceeds from long-term borrowings	10,600
3. Expenditures for repayment of long-term borrowings	-7,182
4. Expenditures for redemption of bonds	-223
5. Dividend payments	-1,027
6. Dividend payments to minority shareholders	-22
Total	24,251
<b>IV Cash and cash equivalents translation discrepancy</b>	9
<b>V Net change in cash and cash equivalents</b>	9,413
<b>VI Balance of cash and cash equivalents at beginning of term</b>	16,315
<b>VII Balance of cash and cash equivalents at end of term</b>	25,729

## 5. Segment information

Current 1st quarter

(Unit: ¥1 million)

	Human resources services	Other human resources	Nursing and health care support	Senior residences and restaurants	Others	Total	Eliminated or company wide	Consolidated
Revenues from outside customers	36,522	546	20,282	2,662	344	60,359	—	60,359
Internal revenues and transfers between segments	100	2	0	202	1	307	-307	—
Total	36,623	549	20,283	2,864	346	60,666	-307	60,359
Operating expenses	34,301	639	20,800	3,145	353	59,240	-668	58,572
Operating profit (or loss)	2,321	-90	-517	-280	-6	1,426	360	1,787
Operating profit prior to depreciation of goodwill	2,368	-18	-148	-228	0	1,974	386	2,361

Notes: The “other human resources” segment was presented as the “human resources” segment up until the previous first quarter.

Previous 1st quarter

(Unit: ¥1 million)

	Human resources services	Other human resources	Nursing and health care support	Others	Total	Eliminated or company wide	Consolidated
Revenues from outside customers	24,899	691	14,965	246	40,803	—	40,803
Internal revenues and transfers between segments	137	—	—	—	137	-137	—
Total	25,037	691	14,965	246	40,941	-137	40,803
Operating expenses	23,259	850	15,205	300	39,616	-120	39,496
Operating profit (or loss)	1,777	-158	-239	-54	1,324	-17	1,307
Operating profit prior to depreciation of goodwill	1,784	-86	117	-45	1,770	-17	1,753