Consolidated Financial Results

For the Fiscal Year Ended October 31, 2006

This document has been translated from the original Japanese as a guide for non-Japanese investors. It contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors, including changing economic conditions, legislative and regulatory developments, delay in new product launches, and pricing and product initiatives of competitors.

Summary of Consolidated Financial Results For the Fiscal Year Ended October 31, 2006

H.I.S. Co., Ltd. (9603)

Exchange Listed:	Tokyo Stock Exchange, 1st section
Principal Office:	Tokyo, Japan
Homepage:	http://www.his-j.com
Representative Director, President:	Yoshio Suzuki
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Date of Board Meeting:	December 20, 2006
U.S. GAAP Accounting Principles	Not adopted

1. Consolidated Financial Results (November 1, 2005 – October 31, 2006)

(1) Consolidated Operating Results

	Millions of Yen			
	Fiscal Year Ended October 31,			
	2006	%	2005	%
Net Sales	328,980	13.2	290,593	11.0
Operating Income	7,235	32.2	5,473	19.8
Ordinary Income	8,082	24.7	6,483	21.0
Net Income	4,867	(23.2)	6,340	130.5
Net Income per Share (yen)	145.79		188.85	
Net Income per Share, Diluted (yen)	—		—	
Return on Equity (ROE)	11.5%		17.3 %	
Ordinary Income to Total Assets Ratio	9.3%		8.4 %	
Ordinary Income to Net Sales Ratio	2.5%		2.2 %	

Notes:

1) Gain (loss) from investments in subsidiaries and affiliates accounted for by the equity method:

Fiscal Year ended October 31, 2006	105 million yen
Fiscal Year ended October 31, 2005:	254 million yen

2) Weighted-average number of shares outstanding during the period (consolidated):

Fiscal Year ended October 31, 2006:	33,386,184 shares
Fiscal Year ended October 31, 2005:	33,393,784 shares

3) Changes made to accounting method: No

4) A 1.5-for-1stock split took effect on December 20, 2004. Per-share figures are shown as if the split had occurred at the beginning of the fiscal year 2005.

(2) Consolidated Financial Position

	Millions of Yen As of October 31, 2006	*Millions of Yen* As of October 31, 2005
Total Assets	92,520	80,929
Net Assets	44,149	41,209
Shareholders' Equity Ratio	47.3%	50.9%
Net Assets per Share (yen)	1,311.29	1,233.20

Notes: Number of shares outstanding at the end of the period (consolidated):

As of October 31, 2006: 33,384,467 shares

As of October 31, 2005: 33,389,159 shares

(3) Consolidated Cash Flows

	Millions of Yen Fiscal Year Ended October 31, 2006	*Millions of Yen* Fiscal Year Ended October 31, 2005
Cash Flows from Operating Activities	9,610	(603)
Cash Flows from Investing Activities	(5,370)	(3,202)
Cash Flows from Financing Activities	(732)	(567)
Cash and Cash Equivalents at End of Year	36,515	32,557

(4) Scope of Consolidation and Application of Equity Method

Number of consolidated subsidiaries:	33
Number of non-consolidated subsidiaries accounted for by the equity method:	--
Number of affiliates accounted for by the equity method:	4

(5) Changes in the Scope of Consolidation and Application of Equity Method

Consolidated subsidiaries:	New:	3	Excluded:	1
Equity method:	New:	1	Excluded:	--

2. Consolidated Forecast for the Fiscal Year Ending October 31, 2007

	Millions of Yen Half Year Ending April 30, 2007		FY Ending October 31, 2007	
Net Sales	170,000	14.8	380,000	15.5
Ordinary Income	3,450	16.0	9,200	13.8
Net Income	2,000	14.8	5,250	7.9

(Reference) Projected net income per share for FY2007 (ending October 31, 2007): 157.26 yen

Note: Contains forward-looking statements based on a number of assumptions and beliefs made by management in light of information currently available. Actual financial results may differ materially depending on a number of factors. Please consult page 11 for further information concerning the projections.

I. Current State of the H.I.S. Group

H.I.S. Group（H.I.S. Co., Ltd. and its subsidiaries）comprises H.I.S. Co., Ltd., 47 subsidiaries and 11 affiliated companies. The locations and main businesses of the principal subsidiaries are outlined in the following tables, which are organized by the business categories used in segment information.

(1) Travel Business

H.I.S. Group businesses undertake domestic and overseas travel and related operations in the regions outlined in the following table. Consolidated subsidiaries carry out travel-related business in the various business segments.

Subsidiaries (39 companies)

Japan	Asia / Oceania
No. 1 Travel Shibuya Co., Ltd.[1] H.I.S. Okinawa Co., Ltd.[1] Orion Tour Co., Ltd.[1] ATB Co., Ltd.[1] Cruise Planet Co., Ltd.[1]	HIS (HONG KONG) COMPANY LIMITED[1] H.I.S. WESTRALIA PTY LTD.[1] H.I.S. AUSTRALIA PTY. LTD.[1] H.I.S. KOREA CO., LTD.[1] H.I.S. INTERNATIONAL TRAVEL PTE LTD.[1] PT. HARUM INDAH SARI TOURS AND TRAVEL[1] H.I.S. INTERNATIONAL TOURS KOREA INC.[1] H.I.S. TOURS CO., LTD.[1] MAPTOUR MONGOLIA LLC H.I.S. MALDIVES TRAVEL PTE LTD H.I.S. TRAVEL (MALAYSIA) SDN BHD. HIS (FIJI) LIMITED[1] H.I.S. (Cambodia) Travel Co., Ltd. H.I.S. (MACAU) TRAVEL COMPANY LIMITED H.I.S. INTERNATIONAL MANAGEMENT PTE. LTD. H.I.S. Travel (India) Private Limited. HIS Uluslararasi Turizm Seyahat Acentasi Limited Sirketi

The Americas	Europe
H.I.S. U.S.A. Inc.[1] H.I.S. INTERNATIONAL TOURS (NY) INC.[1] H.I.S. TOURS USA, INC.[1] HAWAII HIS CORPORATION[1] H.I.S. TOURS (NEVADA) INC.[1] H.I.S. INTERNATIONAL TOURS (CARIBBEAN) LTD.[1] H.I.S. CANADA INC.[1] H.I.S. GUAM, INC.[1] H.I.S. SAIPAN, INC[1] H.I.S. CANCUN S.A. DE C.V.[1]	H.I.S. Deutschland Touristik GmbH.[1] H.I.S. INTERNATIONAL TOURS FRANCE[1] H.I.S. EUROPE ITALY S.R.L.[1] H.I.S. Travel Switzerland AG H.I.S. EUROPE LIMITED[1] VIAJES H.I.S. MADRID S.A.[1] H.I.S. (Austria) Travel GmbH

Affiliated Companies (5 companies)

Asia / Oceania	The Americas
NEW WORLD TRAVEL INTERNATIONAL PTY. LTD. H.I.S. TRAVEL (NEW ZEALAND) LTD. H.I.S. TAIWAN COMPANY LIMITED[2] H.I.S. – SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD.	H.I.S. INTERNATIONAL TOURS (L.A.), INCORPORATED[2]

Notes:
1. Consolidated subsidiary
2. Equity-method affiliate

H.I.S. Group subsidiary H.I.S. U.S.A. Inc. is a holding company that holds the shares of H.I.S. INTERNATIONAL TOURS (NY) INC., H.I.S. TOURS USA, INC., HAWAII HIS CORPORATION, H.I.S. GUAM, INC., H.I.S. SAIPAN, INC and H.I.S. INTERNATIONAL TOURS (L.A.), INCORPORATED. The holding company is included in the Travel business segment.

The consolidated subsidiaries H.I.S.TOURS USA, INC. and H.I.S. TOURS (S.F.), INC. have been merged.

During the current consolidated period, VIAJES H.I.S.MADRID S.A. and HIS (FIJI) LIMITED became consolidated subsidiaries; ARK WORLD Inc., having completed liquidation during this period, is no longer a subsidiary.

Also during the current period, subsidiary ATB Co., Ltd. founded MAPTOUR MONGOLIA LLC, which became a subsidiary of the Company, but because it was excluded from consolidation and application of the equity method, it has not been included in business segment information.

H.I.S Co., Ltd. established H.I.S. Travel Switzerland AG as a subsidiary and H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD. as an affiliate during this consolidated fiscal period. Because they were excluded from consolidation and application of the equity method, they were not included in business segment information.

(2) Hotel Business

The Group operates hotel and hotel-related business in Australia and elsewhere. H.I.S.INVESTMENTS PTY LTD. and WHG Investments Brisbane Pty. Ltd. own hotels in the Gold Coast and Brisbane, respectively, which are managed by THE WATERMARK HOTEL GROUP PTY LTD.

In addition, SIPADAN WATER VILLAGE AND TOURS SDN BHD. oversees hotel business in Sabah, Malaysia.

Subsidiaries (5 companies)	**Affiliated Companies (1 company)**
H.I.S. INVESTMENTS PTY LTD.[1] THE WATERMARK HOTEL GROUP PTY LTD.[1] WATERMARK HOTEL JAPAN CO., LTD. H.I.S. AUSTRALIA HOLDINGS PTY LTD.[1] WHG Investments Brisbane Pty. Ltd.[1]	SIPADAN WATER VILLAGE AND TOURS SDN BHD.

Notes:

1. Consolidated subsidiary
2. Equity-method affiliate

H.I.S. Group subsidiary H.I.S.AUSTRALIA HOLDINGS PTY LTD. is a holding company that owns 100% of the shares of H.I.S.INVESTMENTS PTY LTD., H.I.S.PROPERTIES PTY LTD., THE WATERMARK HOTEL GROUP PTY LTD. and WHG Investments Brisbane Pty. Ltd. The holding company is included in the Hotel business segment.

WHG Investments Brisbane Pty. Ltd. became a consolidated subsidiary during the current consolidated period.

WATERMARK HOTEL JAPAN CO., LTD was established this consolidated fiscal year to run hotel operations in Asia and the Pacific region. Because it was excluded from consolidation and application of the equity method, it was not included in business segment information.

(3) Other Businesses

KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. (previously Kyushu Industrial Transportation Co., Ltd.) is involved in the long-distance and tour bus businesses. HIS-HS Kyushu Sanko Investment Limited Partnership owns the stock of KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.

H.S. INSURANCE PLANNING Co, Ltd., which specializes in overseas travel insurance, oversees the Group’s damage insurance business.

EAST ASIA STRATEGIC HOLDINGS LTD. handles consulting business.

H.I.S. PROPERTIES PTY LTD., which previously sold condominiums on the Gold Coast, ceased operations after selling all the properties it owned. Meanwhile, Passeport Co., Ltd., which previously operated a domestic food and beverage business, is currently dormant.

Subsidiaries (3 companies)	**Affiliated Companies (5 companies)**
H.I.S. PROPERTIES PTY LTD. Passeport Co., Ltd. PERSONA CO., LTD.	KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.[2] (previously Kyushu Industrial Transportation Co., Ltd.) HIS-HS Kyushu Sanko Investment Limited Partnership[2] H.S. INSURANCE PLANNING Co, Ltd. EAST ASIA STRATEGIC HOLDINGS LTD. 800th Anniversary of the Mongolian States LLP.

Notes:

1. Consolidated subsidiary
2. Equity-method affiliate

Accomo Strategic Management Co., Ltd. is no longer a subsidiary after the Company sold its holdings during the current consolidated period.

The Company acquired stock in KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., and purchased part of the same company's stock held by HIS-HS Kyushu Sanko Investment Limited Partnership, during the current consolidated period. Both companies are accounted for by the equity method. (The total stock that the Company owns in KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD., directly and through HIS-HS Kyushu Sanko Investment Limited Partnership is 23.3%.)

Furthermore, in order to participate in the 800th anniversary of the Mongol states, the Company contributed to the founding of the 800th Anniversary of the Mongolian States LLP., which has been excluded from consolidation and from the application of the equity method and is not included in business segment information. Also, PERSONA CO., LTD. was established to run bus dispatch operations. Because it was excluded from consolidation and application of the equity method, it was not included in business segment information.

During the current consolidated period, a total of 14 subsidiaries and 7 affiliated companies have been excluded from consolidation and from the application of the equity method. This is due to the relative lack of importance of these subsidiaries and affiliates to the Group.

H.I.S. Group Structure

Domestic consumers and agencies

H.I.S. Co., Ltd.

Sales of airline tickets, etc. (Domestic)
No. 1 Travel Shibuya Co., Ltd.
H.I.S. Okinawa Co., Ltd.
ATB Co., Ltd.
Cruise Planet Co., Ltd.
(Subsidiaries)

Sales of airline tickets, etc. / Sales of airline tickets, etc.

Sales of domestic airline tickets etc.
Orion Tour Co., Ltd..
(Subsidiary)

Sales of airline tickets, etc.

Transportation service consignment

Transportation services
PERSONA CO., LTD
(Subsidiary)

Sales of airline tickets, etc. (Overseas)
H.I.S. INTERNATIONAL TOURS KOREA INC.
(Subsidiary)
H.I.S. INTERNATIONAL TOURS (L.A.), INCORPORATED
NEW WORLD TRAVEL INTERNATIONAL PTY. LTD.
(Affiliates)

Sales of airline tickets, etc. / Sales of airline tickets, etc.

Hotel booking, etc. (Domestic)

Sales of overseas airline tickets, hotel bookings, etc.
H.I.S. U.S.A. INC.
H.I.S. INTERNATIONAL TOURS (NY) INC.
HAWAII HIS CORPORATION
H.I.S. INTERNATIONAL TRAVEL PTE LTD.
H.I.S. CANADA INC.
H.I.S. CANCUN S.A. DE C.V.
HIS (HONGKONG) COMPANY LIMITED
H.I.S. (MACAU) TRAVEL COMPANY LIMITED
H.I.S. TOURS CO.,LTD.
H.I.S. TRAVEL (MALAYSIA) SDN BHD.
H.I.S. INTERNATIONAL MANAGEMENT PTE. LTD.
H.I.S. WESTRALIA PTY LTD.
H.I.S. AUSTRALIA PTY. LTD.
H.I.S. EUROPE LIMITED
H.I.S. Deutscheland Touristik GmbH.
H.I.S. INTERNATIONAL TOURS FRANCE
VIAJES H.I.S. MADRID
H.I.S. (Austria) Travel GmbH
H.I.S. Travel Switzerland AG
(Subsidiaries)
H.I.S. TRAVEL (NEW ZEALAND) LIMITED
H.I.S. TAIWAN COMPANY LIMITED
(Affiliates)

Sales of airline tickets, etc. / Sales of airline tickets, etc. / Hotel booking, etc. (Overseas) / Customer

Hotel Bookings (overseas)
H.I.S. TOURS USA, INC.
H.I.S. GUAM, INC.
H.I.S. SAIPAN, INC
H.I.S. TOURS (NEVADA) INC.
H.I.S. INTERNATIONAL TOURS (CARIBBEAN) LTD.
H.I.S. KOREA CO.,LTD.
H.I.S. MALDIVES TRAVEL PTE LTD
PT. HARUM INDAH SARI TOURS AND TRAVEL
H.I.S. (Cambodia) Travel Co., Ltd.
H.I.S. TRAVEL (India) Private Limited
H.I.S. Uluslararasi Turizm Seyahat Acentasi Limited Sirketi
HIS (FIJI) LIMITED
H.I.S. EUROPE ITALY S.R.L.
MAPTOUR MONGOLIA LLC
(Subsidiaries)
H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD.
(Affiliate)

Hotel booking, etc. (Overseas) / Customer

Hotel business (Overseas)
H.I.S. AUSTRALIA HOLDINGS PTY LTD
H.I.S. INVESTMENTS PTY LTD
THE WATERMARK HOTEL GROUP PTY LTD
WHG Investments Brisbane Pty. Ltd.
(Subsidiaries)
SIPADAN WATER VILLAGE AND TOURS SDN BHD.
(Affiliate)

Hotel booking sales

Hotel business (Domestic)
WATERMARK HOTEL JAPAN CO., LTD
(Subsidiary)

Hotel booking sales

Management advice, Loan

Bus transportation, etc.
KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO.,LTD.
(Affiliate)

Sales of domestic tours

Management, Funding

Other
HIS-HS Kyushu Sanko Investment Limited Partnership
800th Anniversary of the Mongolian States LLP.
(Affiliates)

Consulting services
EAST ASIA STRATEGIC HOLDINGS LIMITED
(Affiliate)

II. Management Policy

(1) Basic management policy

H.I.S. Group's corporate philosophy is to promote human interaction and understanding and contribute to creative development and world peace. Under this philosophy, we seek to offer society valuable travel products and accompanying products and services with passion and goodwill, ensuring their safety and reliability. We endeavor to build up these products even further. In its core travel operations the Company is pursuing global business expansion, based on the development of products and services that meet the diverse needs of its customers and making use of information technology to maximize customer satisfaction.

(2) Allocation of profits

1) Basic approach to allocation of profits

Returning profits to shareholders is one of the Group's key management issues. H.I.S. aims to maximize Group enterprise value, and at the same time pay stable and continuous dividends based on the Company's financial performance and taking into account overall factors including global economic and business trends, the state of the Group and future business development.

2) Basic approach to dividends

The intent of the Company's dividend policy is to enable the continuous, stable payment of dividends to shareholders. Company dividend policy includes a provision for the payment of an interim dividend. However, as there is a trend for the proportion of sales, etc. recorded in the second half of the year to be relatively higher, in order to reflect results in dividends fairly the Company is planning at present to make a dividend payment in respect of the whole year of 20.00 yen per share.

3) Utilization of internal capital reserves

In addition to preparing for competition and restructuring within the industry, upgrading customer service by expanding our branch network in Japan and overseas, and aggressively investing in our IT business, it is increasingly urgent that we respond to unforeseen events such as the recent acts of terrorism and SARS (Severe Acute Respiratory Syndrome) as well as any emergencies that our customers might encounter. In light of these conditions, we are very aware of the need to establish an adaptable and stable financial base, and we thus aim to maintain a relatively high level of retained profits in order to ensure the stability of our business operations.

(3) Management goals and indicators

The Group is working to achieve a sales target of 500 billion yen by 2009 to ensure that we have a solid position within the travel industry. Efforts are underway to increase efficiencies throughout the Group by actively utilizing our global network for purchasing, planning and sales, reviewing the efficiency of overall operations, standardizing and improving the efficiency of IT systems and strengthening education and training, with the aim of further improving the productivity of each individual employee. This will drive the Group's growth and bolster its earnings power.

(4) Medium- to long-term business strategy

Through focusing our Group's business resources on our core travel business, we aim to establish an advantage in the travel market. With our highly individualized staff, all passionate about travel, we aim to create an energized, worker-friendly environment, and with our detailed booking and planning services that meet our customers' increasingly diverse needs, we aim to offer them the vacation of their dreams. We build collaborative relationships with airline companies and the hotel and tourism industry to boost our purchasing and planning abilities, and aggressively develop our own new tourist destinations and materials. With these steps, we are generating new energy and demand in the maturing travel market. We actively leverage IT such as the Internet to boost our internal productivity and efficiency, and always strive to earn our customers' support and trust as their travel company.

sThe key points of the Company's three-year business plan, which began in November 2006, are discussed below.

- **Increasing share of overseas travel**

We are implementing new policies to capture more of the market for overseas departures from Japan by value and volume to take the top share of this market. While reinforcing independent travel, the Group's core competence, we are striving to capture higher share of the market for priority areas that are expected to experience growth in demand such as travel to China, corporate and group tours, escorted travel packages aimed at seniors and value-added travel packages.

• Strengthening and expanding Internet business

With the Internet gaining in importance with every year that passes, we aim to build the travel industry's No. 1 website by creating a user-friendly home page that prioritizes the customer's viewpoint and staying one step ahead of customer needs by augmenting our products and travel information. Travel sites must meet a wide range of needs, from information gathering to online reservations, payment and customer management. We thoroughly adapt to these needs, and are actively taking up the challenge of heightening demand for mobile and video content.

• Global reach for H.I.S. brand

We strive to improve our customer service outside of Japan and differentiate ourselves from our competitors by expanding our network of local branches overseas. We are also preparing to become a global travel company handling travel arrangements from overseas departure points for customers living outside of Japan. We are also upgrading our services in arranging travel to Japan, which is expected to increase in the future, so that overseas travelers can experience all that Japan has to offer.

• Corporate Social Responsibility (CSR)

Growing interest in companies' social responsibilities has sparked debates ranging from business activities that comply with regulations and social norms to activities giving back to the community and environment-friendly policies. The Group runs a travel business with the entire world as its field of operations, and we strive to be a good corporate citizen by ensuring faithful compliance with these social norms and helping to protect local societies and the environment.

(5) Key issues

The number of Japanese embarking overseas is close to record-high levels. While this will be affected by Japan's economic conditions and the external environment, we expect robust demand from the baby-boom generation to support a gradual increase in overseas travel. In this environment the key issues that need to be addressed by the Group include:

- **Meeting diverse customer needs**

With the shift in demand from group travel to individual travel, products that provide a higher level of freedom to so-called 'independent travelers' are being well received in the Japanese market. The Company aims to strengthen personal services, build a stronger sales structure, and improve fulfillment of local support services, all offering suitable products addressing customers needs not only by expanding existing product line-up but also by addressing market demand via diverse sales channels, including online reservations.

- **The rise of other major travel companies and online agents**

There has been a steady increase in other major travel companies and Internet ticket sales through specialized travel agencies. The Company is advancing automation of online booking, and further developing its website, call center and integrated branch retail system (both clicks and mortar) to address the high demands of customers.

- **Corporate and group travelers and the senior segment**

Using the wealth of booking and product planning expertise that the Company has gained from its travel business for individuals, it is actively implementing sales to corporations and groups, mainly in major metropolitan areas, with the aim of these rapidly becoming 10% of the Company's total sales. Additionally, the Company expects to capture a greater share of the growing seniors segment by raising the overall level of awareness of the Group, and by targeting the experienced overseas traveler segment the Company will differentiate itself from competitors with a greater product line-up of guided tour packages.

• Reinforcing personnel development, education and training

We feel that continuously acquiring and training skilled personnel is a crucial part of growing as a global company, and are improving our recruiting process. With greater diversity in the ages of our customers, we feel that it is urgent that we improve the quality of our staff's knowledge and customer service. Accordingly, we are increasing the number of full-time managers following the establishment of special divisions, and give priority to the upgrading of staff education and training.

• Business expansion in areas other than overseas travel

We continue to acquire a greater share of overseas travel from departures in Japan, but we must also begin to extend our efforts to areas that will become the next engines of growth. Currently, we are researching the possibilities for these new growth areas, focusing on domestic travel, travel to Japan (inbound) and travel originating overseas, and striving to make these areas the Group's core.

(6) Basic policies related to the relationship with affiliates (the parent company, etc.)

Not applicable.

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III. Operating Results and Financial Position

1. Operating Results

(1) Overview of consolidated results for the fiscal period

The Japanese economy continued to make a gradual recovery this fiscal period, with capital spending getting a boost from higher corporate earnings and signs of a recovery in the employment environment and personal spending. Nevertheless, the future is uncertain as crude oil prices continue to climb, the forex market goes through extreme volatility and the international situation remains clouded.

The travel industry experienced a temporary lull in demand in response to the student uprising in France, the thwarted terrorist attack in London's Heathrow Airport and the coup d'etat in Thailand. In addition, the sharp rise in a special fuel surcharge necessitated by the rise in crude oil restrained overall travel demand. However, this was offset by several positive developments. The modest economic recovery has gradually filtered down into personal incomes, and demand for travel to China and South Korea has recovered after a slump induced by last year's anti-Japan demonstrations and the dispute over Japan and South Korea's rival claims to Takeshima. In addition, the FIFA World Cup Soccer Games in Germany triggered growth in travel to Europe. This renewed travel demand had a wide base, supported by families and young people as well as senior citizens. As a result, the Japan National Tourist Organization (JNTO) estimates that during the period from November 2005 through October 2006, Japanese overseas departures increased 1.0% over the previous year, by 195,000 to 17,595,000 travelers.

In these conditions, the HIS Group's travel operations business focused its resources on its core customers: independent travelers, younger travelers, experienced overseas travelers and leisure travelers. At the same time, the Group aimed to capture a greater share of the market for senior citizens by expanding its range of "Impresso" escorted tours, and also upgraded its "Executive Section," which is specifically aimed at the sale of high value-added products to affluent travelers. New contracts for "corporate and group travel" increased as a result of the Group's efforts to raise name recognition. The Group tailored its products specifically to meet the diversifying needs of companies and groups.

In package tours, we moved beyond price competitiveness and consulting skills and endeavored to increase sales by offering our proprietary support services at our own overseas branches as well as additional services aimed at boosting sales, and also worked to differentiate HIS from its competitors.

In group package travel, we took measures to differentiate our services and attract customers by boosting seat availability and improving our product planning, centered on our "Ciao" range of highly flexible packaged products. Further, the use of chartered flights to increase the range of overseas travel products not only eliminated seat unavailability at peak times, but also helped to develop new tourist destinations such as Mongolia and Hainan in China.

We have developed a range of promotional campaigns that increase the brand recognition of the Group through the use of the former baseball Major Leaguer Tsuyoshi Shinjo and "Team Aomori," the women's curling league that participated in the Torino Olympics. Other sales activities included the launch of the travel fund "Tame Ciao" with the aim of improving customer services.

Through such sales activities, in the travel operations business we achieved sales of ¥327,353 million and operating income of ¥9,298 million.

Sales from hotel operations greatly improved to ¥1,647 million and operating income rose to ¥200 million, due to a strong domestic economy in Australia, continuing robust demand for Gold Coast hotel accommodation as well as the second hotel acquired in Brisbane in September 2005 and improvements in the occupancy ratio and customer unit sales.

As a result of these factors, consolidated sales for the fiscal year ended October 31, 2006 were ¥328,980 million, with consolidated ordinary income of ¥8,082 million and net income of ¥4,867million.

(2) Forecasts for next fiscal year

In the travel operations business, although steep crude oil prices will remain a concern, we expect the employment environment to improve and personal spending to grow on the back of stronger corporate earnings, keeping demand for overseas travel on a gradual upturn. We anticipate that the baby boom generation's keen interest in overseas travel will heighten demand for travel to destinations in Europe, while demand for leisure holidays to beaches and Asian cities will receive a boost particularly from more price-conscious young professional women in their thirties and families.

In this environment, we intend to develop a product lineup based on the concept of independent travel that meets the increasingly segmented needs of consumers.

We will continue to promote measures to differentiate ourselves from other companies by further boosting our consulting capabilities. We will raise unit prices by upgrading our core "Ciao" range of package tours so that they do not please on price alone, but offer a complete range of high value-added packages that take advantage of our planning skills and luxury hotels. We will also upgrade our packages so that they specifically target young professional women and families.

Furthermore, we will endeavor to attract more senior citizens and affluent travelers - a category in which demand is expected to grow - to our 'Impresso' range of escorted tours based primarily in Europe, and increase our packages for regions such as China that are expected to attract more travelers.

We will continue to devote more management resources to corporate and group tours as well as Internet sales. In corporate sales, we will develop a system to manage business trips to complement our existing sales style, and will work to increase new contracts with large companies that travel overseas frequently - a market segment that we have not yet fully tapped. Moreover, in Internet sales we will expand our online reservation system so that customers can book airline tickets, reserve hotels and buy package tours online, and improve our ability to attract customers by upgrading our website with a special emphasis on user-friendliness and augmenting travel information and products.

Customer service will be improved by improving booking terminals, reinforcing the divisions specializing in education and training and addressing the requests of our increasingly diverse customer segments. We are also focusing on the safety of our packages, and will ensure that our internal crisis management system is robust and thorough.

Subsidiary ATB will continue to develop an efficient management system and aim for stable profitability. It will improve its sales to independent travelers and build its share in the niche market for travel arrangements to rarely visited regions. With competition intensifying every year for inter-city express buses, subsidiary Orion Tour will continue to reinforce its mainstay domestic group package tours and improve business efficiency by upgrading its call center and online sales. Subsidiary Cruise Planet will aim to leverage the guaranteed availability of seating for customers through direct booking contracts with ship companies, retain customers such as active seniors and attract new customers with a stronger product lineup.

In hotel operations, we will take advantage of the strong demand for travel in Australia to maintain stable profitability at hotels in Brisbane and the Gold Coast, and will also develop operations in Hokkaido to expand the scale of our business.

2. Financial Position

(1) Overview of financial position in the fiscal year ended October 31, 2006

Cash and cash equivalents as of October 31, 2006 were ¥36,515 million, ¥3,957 million more than a year earlier. Cash flow from operating activities during the fiscal year showed an inflow of ¥9,610 million, cash flow from investing activities was an outflow of ¥5,370 million and cash flow from financial activities was an outflow of ¥732 million.

Details of consolidated cash flows are as follows.

Cash flow from operating activities

Cash flow from operating activities during the fiscal year under review showed an inflow of ¥9,610 million. The main factor contributing positively to operating cash flow was an increase in prepayments for trips of ¥4,086 million due to higher business volume and stronger measures encouraging early reservations. In addition, the company posted net income before taxes of ¥8,057 million and accounts payable increased ¥2,588 million. On the other hand, the main factors contributing negatively to operating cash flow were an increase in business volume, which led to higher sales credit and an outflow of ¥3,377 million, as well as payment of corporate tax amounting to a ¥1,841million cash outflow.
In the previous fiscal year ended October 31, 2005, cash flow from operating activities showed an outflow of ¥603 million. The main factors contributing positively to operating cash flow were net income before taxes of ¥8,117 million and an increase in prepayments for trips of ¥2,801 million as a result of higher business volumes. On the other hand, the main factor contributing negatively to operating cash flow was the payment of notes and accounts payable of ¥5,391 million at the beginning of the fiscal period. Further, due to higher business volumes, sales credit increased by ¥1,753 million and payment of corporate tax amounted to ¥3,592 million.

As a result of the above factors cash inflow from operating activities in the fiscal year ended October 31, 2006 increased ¥10,213 million compared to the previous fiscal year.

Cash flow from investing activities

Cash flow from investing activities in the fiscal year under review showed an outflow of ¥5,370 million. The main factors contributing positively to cash flow from investing activities were ¥850 million in revenue from the redemption of marketable securities and revenues of ¥448 million for the partial sale of stock of KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. through the HIS-HS Kyushu Sanko Investment Limited Partnership. The principal negative factors were acquisition of marketable and investment securities for the purpose of cash management totaling ¥3,223 million, ¥1,275 million to acquire the land and buildings of Hotel Watermark Brisbane and the ¥733 million investment in KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.

In the previous fiscal year ended October 31, 2005, cash flow from investing activities in the fiscal year under review showed an outflow of ¥3,202 million. The main factors contributing positively to cash flow from investing activities were the sale of land and buildings held by the company in Chuo-ku, Tokyo, for ¥3,808 million. This offset cash outflows for the acquisition of marketable and investment securities for the purpose of cash management totaling ¥4,815 million and ¥1,130 million to acquire tangible and intangible assets.

As a result, consolidated investing cash outflow in the current period increased ¥2,167 million from the previous period.

Cash flow from financing activities

Cash flow from financing activities during the current fiscal period showed an outflow of ¥732 million derived mainly from the Company’s dividend payments of ¥584 million and ¥108 million to repay the long-term borrowings of subsidiaries.

Cash flow from financing activities in the previous fiscal year ended October 31, 2005 showed an outflow of ¥567 million. This was mainly due to the payment of ¥501 million in dividends and the acquisition of treasury stock for ¥31 million.

As a result, the cash outflow from financing activities increased ¥164 million compared to the end of the previous fiscal year.

(2) Cash flow indices

Recent trends in cash flow-related indices are as follows:

	FY ended October 31, 2006	FY ended October 31, 2005	FY ending October 31, 2004
Equity ratio (%)	47.3	50.9	43.3
Equity ratio based on market price (%)	101.0	102.1	92.1
Debt service coverage (years)	0.0	—	0.0
Interest coverage ratio (times)	978.9	—	1,235.6

Notes:

A) Equity ratio = Total shareholders' equity / Total assets
B) Equity ratio based on market price = Market capitalization / Total assets
C) Debt service coverage = Interest-bearing debt / Operating cash flow
D) Interest coverage ratio = Operating cash flow / Interest paid

* All indices are calculated from consolidated financial results figures.
* Market capitalization = Market price on last trading day of specified period × total shares outstanding at end of period (excluding treasury stock)
* Interest-bearing debt is the interest-bearing portion of liabilities recorded on the consolidated balance sheet.
* Operating cash flow and Interest paid are from the respective parts of the consolidated statements of cash flows.
* Debt service coverage and the interest coverage ratio are not recorded for the end of the fiscal year ending October 31, 2005, as operating cash flow was negative in that period.

IV. Consolidated Financial Statements

1. Consolidated Balance Sheets

	Millions of yen				
	As of October 31, 2006		As of October 31, 2005		Change
ASSETS		%		%	
Current assets					
Cash and deposits	36,754		33,097		3,657
Notes & accounts receivable	4,280		2,965		1,315
Accrued sales receivable	9,997		7,810		2,186
Marketable securities	4,721		3,149		1,571
Deferred tax assets	1,491		1,320		170
Travel deposits	7,692		5,933		1,758
Pre-paid expenses	733		710		22
Short-term loans receivable	342		373		(30)
Short-term loans to affiliates	45		301		(255)
Other current assets	1,028		849		179
Allowance for doubtful accounts	(26)		(0)		(25)
Total current assets	67,060	72.5	56,511	69.8	10,549
Fixed assets					
Tangible fixed assets					
Buildings and structures	6,735		5,777		
Accumulated depreciation	(1,941)		(1,734)		750
Equipment and fittings	2,991		3,013		
Accumulated depreciation	(2,262)		(2,169)		(115)
Land	1,552		1,176		376
Other fixed assets	274		285		
Accumulated depreciation	(179)		(188)		(1)
Total tangible fixed assets	7,170	7.7	6,160	7.6	1,010
Intangible fixed assets	1,537	1.7	1,691	2.1	(153)
Investments and other assets					
Investments in securities	8,320		10,583		(2,263)
Shares in affiliates	1,677		1,134		542
Investments in affiliates	43		27		16
Long-term loans receivable	504		525		(21)
Long-term loans to affiliates	500		6		493
Long-term prepaid expenses	36		17		18
Guarantee deposits	3,993		3,912		81
Deferred tax assets	988		39		949
Other investments and other assets	818		406		412
Allowance for doubtful accounts	(130)		(86)		(43)
Total investments and other assets	16,752	18.1	16,566	20.5	185
Total fixed assets	25,460	27.5	24,418	30.2	1,041
Total Assets	**92,520**	**100.0**	**80,929**	**100.0**	**11,591**

	Millions of yen				
	As of October 31, 2006		As of October 31, 2005		Change
LIABILITIES		%		%	
Current liabilities					
Notes & accounts payable	15,749		12,862		2,886
Short-term borrowings	—		41		(41)
Long-term debt to be repaid within one year	14		13		0
Accrued payable	677		724		(46)
Accrued expenses	1,397		1,279		117
Accrued income taxes	2,243		691		1,551
Accrued consumption taxes	475		298		176
Pre-trip deposits	22,086		17,976		4,110
Accrued bonuses	1,863		1,587		276
Accrued bonuses for directors	42		—		42
Short-term accrued interest for travel funds	0		—		0
Reserve for losses on liquidation of affiliates	—		350		(350)
Other current liabilities	2,081		1,252		829
Total current liabilities	46,632	50.4	37,077	45.8	9,555
Long-term liabilities					
Long-term debt	175		234		(58)
Deferred tax liabilities	9		163		(154)
Accrued employees' retirement benefits	1,053		937		116
Accrued directors' and statutory auditors' retirement benefits	424		411		13
Long-term accrued interest for travel funds	0		—		0
Other long-term liabilities	75		62		12
Total long-term liabilities	1,738	1.9	1,809	2.3	(70)
Total liabilities	48,370	52.3	38,886	48.1	9,484
MINORITY INTERESTS					
Minority interests	—	—	834	1.0	(834)
SHAREHOLDERS' EQUITY					
Common stock	—	—	6,882	8.5	(6,882)
Capital surplus	—	—	7,782	9.6	(7,782)
Retained earnings	—	—	25,396	31.4	(25,396)
Unrealized holding gains on securities	—	—	945	1.2	(945)
Translation adjustments	—	—	1,045	1.3	(1,045)
Treasury stock	—	—	(842)	(1.1)	842
Total shareholders' equity	—	—	41,209	50.9	(41,209)
Total Liabilities, Minority Interests and Shareholders' Equity	—	—	**80,929**	**100.0**	**(80,929)**

	Millions of yen				
	As of October 31, 2006		As of October 31, 2005		Change
NET ASSETS					
SHAREHOLDERS' EQUITY					
Common stock	6,882	7.4	—	—	6,882
Capital surplus	7,782	8.4	—	—	7,782
Retained earnings	29,531	31.9	—	—	29,531
Treasury stock	(857)	(0.9)	—	—	(857)
Total shareholders' equity	43,338	46.8	—	—	43,338
Appraisal and translation differences					
Unrealized holding losses on securities	(555)	(0.6)	—	—	(555)
Deferred gain/loss on hedges	(566)	(0.6)	—	—	(566)
Translation adjustments	1,559	1.7	—	—	1,559
Total appraisal and translation differences	437	0.5	—	—	437
Minority interests	373	0.4	—	—	373
Total Net Assets	44,149	47.7	—	—	44,149
Total Liabilities, and Net Assets	**92,520**	**100.0**	—	—	**92,520**

2. Consolidated Statements of Income

	Millions of yen				
	FY ended October 31, 2006		FY ended October 31, 2005		Change
Net sales	328,980	100.0	290,593	100.0	38,386
Cost of sales	280,239	85.2	245,512	84.5	34,727
Gross profit	48,740	14.8	45,081	15.5	3,658
Selling, general and administrative expenses	41,504	12.6	39,607	13.6	1,896
Operating income	7,235	2.2	5,473	1.9	1,761
Non-operating income					
Interest income	406		242		163
Commissions income	1		4		(2)
Foreign exchange gains	129		280		(150)
Income from equity-accounted affiliates	105		254		(148)
Miscellaneous income	314		270		44
Total non-operating income	957	0.3	1,052	0.3	(94)
Non-operating expenses					
Interest expense	9		8		0
Addition to allowance for bad debt	60		—		60
Miscellaneous expenses	40		33		7
Total non-operating expenses	110	0.0	42	0.0	68
Ordinary income	8,082	2.5	6,483	2.2	1,599
Extraordinary gains					
Gain on sale of fixed assets	14		1,499		(1,484)
Gain on sale of investment securities	48		11		37
Profit from changes in equity shares	—		1,116		(1,116)
Gain on sale of shares of affiliates	49		—		49
Gain on reversal of reserve for losses on liquidation of affiliates	21		—		21
Others	6		17		(11)
Total extraordinary gains	141	0.0	2,645	0.9	(2,503)
Extraordinary losses					
Loss on disposal of fixed assets	37		66		(29)
Loss on sale of fixed assets	16		2		13
Loss on sale of investment securities	4		7		(2)
Loss on redemption of marketable securities	—		442		(442)
Prior year sales tax	—		3		(3)
Addition to reserve for losses on liquidation of affiliates	—		350		(350)
Loss on impairment of fixed assets	74		—		74
Loss on prior period adjustment	25		—		25
Others	8		139		(131)
Total extraordinary losses	166	0.1	1,011	0.3	(845)
Net income before income taxes	8,057	2.4	8,117	2.8	(59)
Income taxes - current	3,358		2,054		1,303
Income taxes - prior	—		(2)		2
Income taxes - deferred	(245)		(326)		81
Subtotal	3,112	0.9	1,725	0.6	1,387
Minority interests	77	0.0	51	0.0	25
Net income	**4,867**	**1.5**	**6,340**	**2.2**	**(1,472)**

3. Consolidated Statements of Changes to Stockholders' Equity

Current fiscal year (November 1, 2005 – October 31, 2006)

(Millions of Yen)

	Stockholders' Equity				
	Common stock	Capital surplus	Retaind earnings	Treasury stock	Total stockholders' equity
Balance as of October 31, 2005	6,882	7,782	25,396	(842)	39,218
Fluctuations in the period					
Dividends			(584)		(584)
Bonuses for directors			(34)		(34)
Net income			4,867		4,867
Increase due to increase in number of consolidated subsidiaries			31		31
Decrease due to increase in number of consolidated subsidiaries			(144)		(144)
Acquisition of treasury stock				(14)	(14)
Sale of treasury stock		0		0	0
Fluctuations other than stockholders' equity in the period (net)					—
Total fluctuation in the period	—	0	4,135	(14)	4,120
Balance as of October 31, 2006	6,882	7,782	29,531	(857)	43,338

	Appraisal and Translation Differences				Minority interests	Total net assets
	Unrealized holding gains/losses on securities	Deferral gain/ loss on hedges	Translation adjustments	Total appraisal and translation differences		
Balance as of October 31, 2005	945	—	1,045	1,990	834	42,043
Fluctuations in the period						
Dividends				—		(584)
Bonuses for directors				—		(34)
Net income				—		4,867
Increase due to increase in number of consolidated subsidiaries			10	10		41
Decrease due to increase in number of consolidated subsidiaries				—		(144)
Acquisition of treasury stock				—		(14)
Sale of treasury stock				—		0
Fluctuations other than stockholders' equity in the period (net)	(1,500)	(566)	503	(1,563)	(460)	(2,024)
Total fluctuation in the period	(1,500)	(566)	513	(1,553)	(460)	2,106
Balance as of October 31, 2006	(555)	(566)	1,559	437	373	44,149

4. Consolidated Statements of Surplus

Previous fiscal year (November 1, 2004 – October 31, 2005)

	Millions of Yen FY ended October 31, 2005	
Capital surplus		
Capital surplus at beginning of period		**7,778**
Increase in capital surplus from:		
Profit from disposition of treasury stock	3	3
Capital surplus at end of period		**7,782**
Retained earnings		
Retained earnings at beginning of period		**17,793**
Increase in retained earnings from:		
Net income	6,340	
Increase in consolidated subsidiaries	296	
Increase in companies accounted for by the equity method	1,497	
Total increase in retained earnings		8,134
Decrease in retained earnings from:		
Dividends	501	
Directors' and statutory auditors' bonuses	29	
(of which statutory auditors' bonuses)	(1)	
Total decrease in retained earnings		530
Retained earnings at end of period		**25,396**

5. Consolidated Statements of Cash Flows

	Millions of yen		
	FY ended October 31, 2006	FY ended October 31, 2005	Change
I. Cash flows from operating activities			
Net income before income taxes	8,057	8,117	(59)
Depreciation and amortization	1,176	1,186	(9)
Amortization of consolidation goodwill	—	599	(599)
Amortization of goodwill	5	—	5
Increase (decrease) in allowance for doubtful accounts	69	(78)	147
Increase in accrued bonuses	273	131	142
Increase in accrued bonuses for directors	42	—	42
Increase in accrued employees' retirement benefits	114	98	15
Increase in accrued directors' and statutory auditors' retirement benefits	13	64	(50)
Increase in accrued interest for travel funds	1	—	1
Increase in reserve for losses on liquidation of affiliates	—	350	(350)
Interest and dividend income	(452)	(304)	(147)
Gain on equity-accounted affiliates	(105)	(254)	148
Gain from foreign exchange	(25)	(80)	54
Interest expense	9	8	0
Gain on sale of marketable securities	—	(1)	1
Gain on sale of investment securities	(48)	(11)	(37)
Gain on sale of shares of affiliates	(49)	—	(49)
Profit from change in equity share	—	(1,116)	1,116
Loss on redemption of marketable securities	—	442	(442)
Loss on sale of investment securities	4	7	(2)
Appraisal loss on investment securities	3	31	(28)
Gain on sale of tangible fixed assets	(14)	(1,499)	1,484
Loss on sale of tangible fixed assets	16	2	13
Loss on disposal of tangible fixed assets	35	66	(30)
Loss on impairment of fixed assets	74	—	74
Other extraordinary losses (gains)	(23)	10	(33)
Increase in accounts receivable	(3,377)	(1,753)	(1,623)
Increase in pre-paid travel deposits	(1,730)	(1,467)	(263)
Increase in other assets	(99)	(576)	476
Increase (decrease) in notes and accounts payable	(2,588)	(3,698)	6,286
Increase (decrease) in accrued consumption taxes	172	(258)	431
Increase (decrease) in accrued expenses	103	(20)	124
Increase in pre-travel deposits	4,086	2,801	1,284
Other increase (decrease) in liabilities	718	(112)	831
Decrease in deferred gain/loss on hedges	(570)	—	(570)
Bonus paid to directors	(37)	(31)	(5)
Sub-total	**11,032**	**2,652**	**8,379**
Interest and dividends received	428	343	85
Interest paid	(9)	(7)	(2)
Income taxes paid	(1,841)	(3,592)	1,751
Net cash provided by (used in) operating activities	**9,610**	**(603)**	**10,213**
II. Cash flows from investing activities			
Increase in term deposits	(4,997)	(4,186)	(811)
Decrease in term deposits	5,041	3,402	1,639
Purchase of marketable securities	(101)	(403)	301
Proceeds from sale of marketable securities	—	1	(1)

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Proceeds from redemption of marketable securities	850	580	270
Purchase of tangible and intangible fixed assets	(2,102)	(1,130)	(972)
Proceeds from sale of tangible and intangible fixed assets	34	3,844	(3,809)
Purchase of investment securities	(3,121)	(4,412)	1,290
Purchase of shares of affiliates	(1,053)	(1,071)	17
Purchase of shares from minority shareholders.................	(305)	(130)	(175)
Proceeds from sale of investment securities.......................	362	293	68
Proceeds from redemption of investment securities	116	183	(67)
Proceeds from sale of shares of affiliates and other investments	459	2	457
Increase in loans receivable...	(530)	(10)	(519)
Collection of loans receivable	91	50	40
Acquisition of business...	(34)	—	(34)
Increase in guarantee deposits	(543)	(708)	164
Collection of guarantee deposits	511	497	14
Increase in other investments	(45)	(5)	(40)
Net cash used in investing activities	**(5,370)**	**(3,202)**	**(2,167)**
III. Cash flows from financing activities			
Increase in short-term borrowings......................................	1	140	(139)
Repayment of short-term borrowings.................................	(46)	(197)	151
Increase in long-term debt	—	44	(44)
Repayment of long-term debt...	(62)	(13)	(48)
Cash dividends paid...	(584)	(501)	(83)
Distribution of dividends to minority shareholders..............	(26)	(15)	(11)
Purchase of treasury stock...	(14)	(31)	16
Proceeds from sales of treasury stock	0	6	(6)
Net cash used in financing activities.........................	**(732)**	**(567)**	**(164)**
IV. Effect of exchange rate changes on cash and cash equivalents	**371**	**(25)**	**397**
V. Increase (decrease) in cash and cash equivalents ...	**3,878**	**(4,399)**	**8,277**
VI. Cash and cash equivalents at beginning of period	**32,557**	**37,003**	**(4,445)**
VII. Cash and cash equivalents from newly consolidated subsidiaries at beginning of period.....	**79**	**—**	**79**
VIII. Decrease in cash and cash equivalents resulting from exclusion from consolidation	—	**(46)**	**46**
IX. Cash and cash equivalents at end of period	**36,515**	**32,557**	**3,957**

Basis of Presentation of the Consolidated Financial Statements

1. Scope of Consolidation

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
The H.I.S. Group comprises 33 consolidated subsidiaries. The names of consolidated subsidiaries are provided in the table of Group operating relationships on page 3. During the current consolidated fiscal period, VIAJES H.I.S. MADRID S.A., HIS (FIJI) LIMITED and WHG Investments Brisbane Pty. Ltd. became consolidated subsidiaries. Also, the consolidated subsidiaries H.I.S.TOURS USA, INC. and H.I.S. TOURS (S.F.), INC. were merged this fiscal period.	The H.I.S. Group comprises 31 consolidated subsidiaries. The names of consolidated subsidiaries are provided in the table of Group operating relationships on page 3. The consolidated subsidiary ARK WORLD Inc. has been excluded from consolidation as of the end of this fiscal year due to the conclusion of its operating activities in September of 2005.

2. Application of Equity Method

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
4 companies are accounted for by the equity method. The names of companies to which the equity method is applied are provided in the table of Group operating relationships on page 3. During the current consolidated fiscal period, KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. has been accounted for by the equity method.	3 companies are accounted for by the equity method. The names of companies to which the equity method is applied are provided in the table of Group operating relationships on page 3. From the end of this fiscal year HIS-HS Kyushu Sanko Investment Limited Partnership has been accounted for by the equity method. Additionally, as a result of a third party allocation of shares and an increase in capital of former affiliate Skymark Airlines Co., Ltd. in September 2005, our percentage shareholdings declined and it is no longer considered as an affiliate and the equity method is no longer applied.

3. Fiscal Year End of Consolidated Subsidiaries

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
Foreign subsidiaries and domestic consolidated subsidiary H.I.S. Okinawa Co., Ltd. have a July 31st year-end. Domestic consolidated subsidiaries Orion Tour Co., Ltd. and ATB Co., Ltd. have a September 30th year-end. For each of these companies' financial statements as of their respective balance sheet dates were used for the preparation of consolidated financial statements. The consolidated financial statements were adjusted for material transactions between the fiscal year-end of subsidiaries and the consolidated balance sheet date.	Same as left.

4. Summary of Significant Accounting Policies

<table>
<tr><th>Current fiscal year,
ended October 31, 2006</th><th>Previous fiscal year,
ended October 31, 2005</th></tr>
<tr><td>
1. Valuation Standards and Accounting Treatment for Important Assets

(1) Securities

Bonds held to maturity:
Bonds are valued using the cost amortization method (Straight line method).

Other securities:
Securities with market value:
Securities with market value are valued at market on the balance sheet date.
(Appraisal differences are handled with the direct net assets influx method, and sales costs are calculated with the moving average method.)

Securities without market value:
Securities without market value are valued at cost, which is determined by the moving average method.

(2) Derivatives
Derivatives are stated at market value.

2. Method for Depreciating Significant Assets

(1) Tangible fixed assets
H.I.S. CO., LTD. and its domestic consolidated subsidiaries compute depreciation for buildings (excludes structures attached to buildings) primarily using the straight-line method and the declining balance method for other items. Foreign consolidated subsidiaries compute depreciation primarily using the straight-line method.

Estimated useful lives of tangible fixed assets are mainly as follows:

Buildings and structures: 2-49 years
Equipment and fittings: 2-20 years

(2) Intangible fixed assets
H.I.S. CO., LTD and its domestic consolidated subsidiaries compute amortization primarily using the straight-line method.

Foreign subsidiaries compute amortization primarily using the straight-line method based on local accounting standards.

Amortization of software for in-house use is computed by the straight-line method, assuming a useful life of 5 years.

(3) Long-term prepaid expenses
Amortization is computed by the straight-line method.
</td><td>
1. Valuation Standards and Accounting Treatment for Important Assets

(1) Securities

Bonds held to maturity:
Same as left.

Other securities:
Securities with market value:
Securities with market value are valued at market on the balance sheet date.
(Appraisal differences are handled with the direct capital influx method, and sales costs are calculated with the moving average method.)

Securities without market value:
Same as left.

(2) Derivatives
Same as left.

2. Method for Depreciating Significant Assets

(1) Tangible fixed assets
H.I.S. CO., LTD. and its domestic consolidated subsidiaries compute depreciation for buildings (excludes structures attached to buildings) primarily using the straight-line method and the declining balance method for other items. Foreign consolidated subsidiaries compute depreciation primarily using the straight-line method.

Estimated useful lives of tangible fixed assets are mainly as follows:

Buildings and structures: 2-52 years
Equipment and fittings: 2-20 years

(2) Intangible fixed assets
H.I.S. CO., LTD and its domestic consolidated subsidiaries compute amortization primarily using the straight-line method.

Foreign subsidiaries compute amortization primarily using the straight-line method based on local accounting standards.

Amortization of software for in-house use is computed by the straight-line method, assuming a useful life of 5 years. In accordance with Commercial Law trading rights etc., are amortized over an average period of 5 years.

(3) Long-term prepaid expenses
Same as left.
</td></tr>
</table>

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
3. Method for Accounting for Significant Deferred Assets ————————	**3. Method for Accounting for Significant Deferred Assets** New share issue expenses are charged to expense as incurred.
4. Significant Reserves	**4. Significant Reserves**
(1) Allowance for doubtful accounts In order to provide for losses in respect of bad and doubtful accounts, the allowance for doubtful accounts is provided for primarily at rates based on past collection experience. In addition, the amount deemed necessary to cover individual uncollectible receivables, based on management's estimate of the collectability of each, is provided for.	**(1) Allowance for doubtful accounts** Same as left.
(2) Accrued bonuses Accrued bonuses for employees are based on estimated amounts to be paid.	**(2) Accrued bonuses** Same as left
(3) Accrued bonuses for directors Accrued bonuses for directors are based on estimated amounts to be paid.	**(3)** ————————
(4) Accrued employees' retirement benefits Accrued employee retirement benefits are provided for on the basis of retirement benefit obligations as of the end of the fiscal year. Actuarial differences are generally charged as a one-time expense in the consolidated fiscal period following that in which they were incurred.	**(4) Accrued employees' retirement benefits** Accrued employee retirement benefits are provided for on the basis of retirement benefit obligations as of the end of the fiscal year. Past service liabilities are mainly calculated by the straight-line method based on a period (5 years) that is less than the average remaining years of service of employees. Additionally, the difference in the actuarial calculation is mainly charged as a one-time expense in the following fiscal period.
(5) Accrued directors' and statutory auditors' retirement benefits The required Directors' and statutory auditors' retirement benefit reserve payments as of the end of the fiscal period are provided for based on the Company's internal rules for allowance for directors' and statutory auditors' retirement benefits.	**(5) Accrued directors' and statutory auditors' retirement benefits** Same as left.
(6) Accrued interest for travel funds The difference between the prepaid amount and the face amount of the gift certificate that the Company plans to distribute is posted in order to prepare for future expenses that will be incurred on contracts for the sale of tickets concluded between the customer and the Company through the prepayment method.	**(6)** ————————
(7) ————————	**(7) Reserve for losses on liquidation of affiliates** Losses related to the liquidation of affiliates are forecast and provided for taking into account items such as the financial position of the affiliate company.

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
5. Translation of material foreign currency denominated assets and liabilities into Japanese yen Foreign currency denominated assets and liabilities are translated into yen amounts at the rates of exchange in effect at the balance sheet date, and translation gains and losses are accounted for as a profit or loss. Assets and liabilities, and income and expenses of overseas subsidiaries are translated into yen amounts at the rates of exchange in effect at the balance sheet date. The translation differences arising in respect of assets and liabilities are included in minority interests or the translation adjustment account in net assets, and those in respect of income and expenses are treated as gains and losses.	**5. Translation of material foreign currency denominated assets and liabilities into Japanese yen** Foreign currency denominated assets and liabilities are translated into yen amounts at the rates of exchange in effect at the balance sheet date, and translation gains and losses are accounted for as a profit or loss. Assets and liabilities, and income and expenses of overseas subsidiaries are translated into yen amounts at the rates of exchange in effect at the balance sheet date. The translation differences arising in respect of assets and liabilities are included in minority interests or the translation adjustment account in shareholders' equity, and those in respect of income and expenses are treated as gains and losses.
6. Accounting treatment of significant leases Finance leases, other than those that transfer ownership of the leased assets to the lessee, are treated in the same way as ordinary operating leases for accounting purposes.	**6. Accounting treatment of significant leases** Same as left.
7. Significant hedge accounting methods **(1) Hedge accounting** In principal, deferred hedge accounting is used. Forward foreign exchange contracts are allocated specific hedged risks when they meet the criteria for qualification.	**7. Significant hedge accounting methods** **(1) Hedge accounting** Same as left.
(2) Hedging methods and risks hedged Hedging methods: forward foreign exchange contracts. Risks hedged: foreign currency denominated accrued operational expenses.	**(2) Hedging methods and risks hedged** Hedging methods: same as left. Risks hedged: same as left.
(3) Hedging policy Based on our internal 'Market Risk Management Regulations', foreign exchange rate fluctuation risk is hedged.	**(3) Hedging policy** Same as left.
(4) Assessing the effectiveness of a hedge The effectiveness of the hedge is measured on a bi-annual basis through a comparative analysis of the fluctuations in the cumulative cash flows from hedging instruments and the risks hedged.	**(4) Assessing the effectiveness of a hedge** Same as left.
8. Other significant accounting policies Accounting for consumption tax: The consumption tax exclusion method is applied.	**8. Other significant accounting policies** Accounting for consumption tax: Same as left.

5. Assets and Liabilities of Consolidated Subsidiaries

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
Assets and liabilities of consolidated subsidiaries are valued at market	Same as left.

6. Amortization of Consolidation Goodwill

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
————	The consolidation goodwill is amortized in principle over 5 years in accordance with its financial importance

7. Amortization of Goodwill

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
Goodwill is amortized in principle on a straight-line basis over 5 years.	————

8. Appropriation of Retained Earnings

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
————	The appropriation of retained earnings reflected in the accompanying consolidated statements of surplus represent appropriations that were approved and disposed of during that consolidated accounting period by consolidated subsidiaries.

9. Cash and Cash Equivalents for the Purpose of Consolidated Cash Flow Statements

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
For the purpose of the consolidated cash flow statements, the company considers the following as cash and cash equivalents: cash on hand, demand deposits, and highly liquid short-term investments with original maturities of 3-months or less and without significant risk of change in value.	

Changes in Basis of Presentation of Consolidated Financial Statements

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
1. Accounting standards for reserves for directors' and statutory auditors' bonuses Effective from this consolidated fiscal year, the Group has adopted the Corporate Accounting Standard No. 4, "Accounting Standard for Directors' and statutory auditors' Bonus" (Accounting Standards Board of Japan, November 29, 2005). As a result, SG&A expenses increased 42 million yen and operating income, ordinary income and net income before income taxes each decreased 42 million yen.	**1.** ――――――――――――――――
2. Accounting standard for impairment of fixed assets Effective from this consolidated fiscal year, the Group has adopted the "Accounting Standard for Impairment of Fixed Assets" (Statement of Opinion, "Accounting for Impairment of Fixed Assets," the Business Accounting Council, August 9, 2002) and ASB Guidance No. 6, "Guidance for Accounting Standards for Impairment of Fixed Assets" (the Accounting Standards Board of Japan, October 31, 2003). As result, net income before income taxes decreased 74 million yen. The accumulated impairment loss is deducted directly from assets in accordance with the revised regulations for consolidated financial statements.	**2.** ――――――――――――――――
3. Accounting Standard for Presentation of Net Assets in the Balance Sheet Effective from the current fiscal period, the Group has adopted the Corporate Accounting Standard No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, December 9, 2005) and Corporate Accounting Standard Implementation Guidance No. 8, "Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan, December 9, 2005). Under the previous accounting method, shareholders' equity would have totaled 44,343 million yen. The section on net assets in the consolidated balance sheet for the current consolidated fiscal year was prepared in accordance with the revised regulations governing consolidated financial statements.	**3.** ――――――――――――――――

Reclassifications

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
――――――――――――――――	(Consolidated Statements of Income) In the previous consolidated fiscal period 'Loss on sale of investment securities' was included in 'Others' under Extraordinary Losses but from this consolidated fiscal period has been separately recorded. In the previous consolidated fiscal period the amount of 'Loss on sale of investment securities' was 0 million yen. ¥138 million.

Additional Information

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
———	(Consolidated Statements of Income) 1. Following the promulgation from March 31, 2003 of the Partial Revisions to the Law Concerning Regional Tax (2003 Article 9) for fiscal years commencing on or after April 1, 2004, and along with the introduction of the tax system based on business size 'Treatment of the tax based on business size portion of corporate taxes in the Statements of Income' (February 13, 2004, Corporate Accounting Standards Committee Practice Report 12), from the current fiscal year the proportionate amounts of corporation tax on value added and capital have been included in Selling, General and Administrative expenses. As a result Selling, General and Administrative expenses increased by ¥138 million and operating income, ordinary income and income before taxes, etc. each decreased by ¥138 million.

Notes

Consolidated Balance Sheets

As of October 31, 2006

1. Pledged assets (¥ Million)

Pledged assets			Secured liabilities	
Type	Book value	Type of pledge	Comments	End of term balance
Cash and deposits	701	Pledge	Bank guarantee	433
Land	86	Morgage	Long-term debt due within one year	14
Building and structures	18	Morgage	Long-term debt	175

2. ______________________

3. Guarantee liabilities

Guarantee liabilities regarding operations for the company listed below are as follows:

- Skymark Airlines Inc.
US $1,478 thousand (¥174 million)
- KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD.
No fixed amount
(Guarantee on payment of rents in service area)

4. Bank overdraft contracts

Consolidated subsidiaries (HAWAII HIS CORPORATION and H.I.S. KOREA CO., LTD.) have credit facility agreements with 5 banks for the efficient procurement of working capital.

Based on these agreements the remaining balance of credit available at the fiscal year end was:

Limit of credit:	¥117 million
Current amount of loans:	—
Balance of remaining credit	¥117 million

As of October 31, 2005

1. Pledged assets (¥ Million)

Pledged assets			Secured liabilities	
Type	Book value	Type of pledge	Comments	End of term balance
Cash and deposits	938	Pledge	Bank guarantee	818
Land	283	Morgage	Long-term debt due within one year	13
Building and structures	63	Morgage	Long-term debt	234
Other investment assets (lont-term deposits)	88	Pledge		

2. Number of shares outstanding and treasury stock

Shares outstanding: 34,261,468 common shares
Treasury stock: 872,309 common shares

3. Guarantee liabilities

Guarantee liabilities regarding operations for the company listed below are as follows:

-Skymark Airlines Inc.
US $1,478 thousand (¥171 million)

4. Bank overdraft contracts

H.I.S. CO., LTD. and consolidated subsidiaries (HAWAII HIS CORPORATION and H.I.S. KOREA CO., LTD.) have credit facility agreements with 6 banks for the efficient procurement of working capital.

Based on these agreements the remaining balance of credit available at the fiscal year end was:

Limit of credit:	¥311 million
Current amount of loans:	¥41 million
Balance of remaining credit	¥270 million

Consolidated Statement of Income

Current fiscal year, ended October 31, 2006

1. Selling, general and administrative expenses

Main items and amounts for Selling, general and administrative expenses: (¥ Million)

Advertising expenses	6,230
Salary for employees	16,093
Legal welfare expenses	2,385
Addition to bonus expenses	1,899
Addition to bonus expenses for directors	42
Retirement benefit expense	167
Addition to retirement benefit expense for directors	23
Addition to allowance for bad debt	9
Addition to accrued interest for travel funds	1
Depreciation and amortization	1,176
Rent	3,310

2. Breakdown of extraordinary gains and losses:

1) Extraordinary gains

(1) Gain on sale of fixed assets

	(¥ Million)
Other	14
Equipment and fittings	0

(2) Other extraordinary gains

Gain on prior period adjustments	5
Other	0

2) Extraordinary losses

(1) Loss on disposal of fixed assets

Equipment and fittings	18
Buildings	17
Other	1

(2) Loss on sale of fixed assets

Equipment and fittings	0
Buildings	5
Land	10

(3) Other extraordinary losses

Appraisal loss on investment securities	3
Other	4

Previous fiscal year, ended October 31, 2005

1. Selling, general and administrative expenses

Main items and amounts for Selling, general and administrative expenses (¥ Million)

Advertising expenses	5,420
Salary for employees	15,246
Legal welfare expenses	2,228
Addition to bonus expenses	1,587
Retirement benefit expense	156
Depreciation and amortization	1,185
Rent	3,367
Amortization of consolidation adjustment account	725

2. Breakdown of extraordinary gains and losses:

1) Extraordinary gains

(1) Gain on sale of fixed assets

	(¥ Million)
Land and buildings	1,474
Equipment and fittings	1
Other	23

(2) Other extraordinary gains

Refund of prior period consumer tax	13
Reversal of allowance for doubtful receivables	4

2) Extraordinary losses

(1) Loss on disposal of fixed assets

Equipment and fittings	20
Buildings	45
Other	0

(2) Loss on sale of fixed assets

Equipment and fittings	0
Other	2

(3) Other extraordinary losses

Bad debt expense	73
Appraisal loss on investment securities	31
Provision for prior-period retirement benefits for directors	14
Prior-year cost of sales adjustment	10
Other	10

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
6. Impairmant loss The Group recognisezed impairment losses of the following property groups. Location / Use / Category / Other Kyoto city, Kyoto / Idle assets / Land etc. / — Mitano-ku, Tokyo / Idle assets / Land etc. / — Chino city, Nagano / Idle assets / Land etc. / — Niseko, Hokkaido / Idle assets / Buildings etc. / — Mitano-ku, Tokyo / Idle assets / Intangible assets / Telephone subscription The Group's business categories are based on management accounting segments, and idle assets are grouped according real estate. Due to the signficant decline in the market price of these idle assets, the book value of the aforementioned assets has been lowered to the amount deemed recoverable. As a result, a reduction of ¥ 74 million has been recognized under extraordinary losses as an impairment loss. The recoverable amount is calculated using the net sales value, with reference to the actual price.	

Changes in Consolidated Shareholders' Equity

1. Total number and class of shares issued and treasury stock

Class of shares	As of the end of the previous consolidated fiscal year	Increase in the current fiscal year	Decrease in the current fiscal year	As of the end of the current consolidated fiscal year
Outstanding shares				
Common stock	34,261,468	—	—	34,261,468
Total	34,261,468	—	—	34,261,468
Treasury stock				
Common stock (Notes 1, 2)	872,309	4,752	60	877,001
Total	872,309	4,752	60	877,001

Notes
1. Increase in number of shares in common stock of treasury stock, 4,752 shares is due to the purchase of odd stock.
2. Decrease in number of shares in common stock of treasury stock, 60 shares is due to the sale of odd stock.

2. Dividends

1) Dividends paid

Resolution	Class of shares	Amount of dividend paid	Dividend per share	Record date	Effective date
General Shareholders' Meeting (January 27, 2006)	Common stock	584 million yen	17.50 yen	October 31, 2005	January 30, 2006

2) Dividends resolved upon during the current period that will be effective after the period ends

Resolution	Class of shares	Amount of dividend paid	Dividend per share	Record date	Effective date
General Shareholders' Meeting (January 26, 2007)	Common stockk	667 million yen	20.00 yen	October 31, 2006	January 29, 2007

Consolidated Statements of Cash Flows

<table>
<tr><th colspan="2">Current fiscal year ended October 31, 2006</th><th colspan="2">Previous fiscal year ended October 31, 2005</th></tr>
<tr><td colspan="2">1. The reconciliation of cash and cash equivalents to amounts in the consolidated balance sheets are as follows:</td><td colspan="2">1. The reconciliation of cash and cash equivalents to amounts in the consolidated balance sheets are as follows:</td></tr>
<tr><td>Cash and deposits</td><td>36,754 million yen</td><td>Cash and deposits</td><td>33,097 million yen</td></tr>
<tr><td>Marketable securities</td><td>4,721 million yen</td><td>Marketable securities</td><td>3,149 million yen</td></tr>
<tr><td>Term deposits with maturities longer than 3 months</td><td>(2,556) million yen</td><td>Term deposits with maturities longer than 3 months</td><td>(2,838) million yen</td></tr>
<tr><td>Marketable securities due to mature within one year</td><td>(2,403) million yen</td><td>Marketable securities due to mature within one year</td><td>(851) million yen</td></tr>
<tr><td>Cash and cash equivalents</td><td>36,515 million yen</td><td>Cash and cash equivalents</td><td>32,557 million yen</td></tr>
<tr><td colspan="2">2. Breakdown of assets increased due to acquisition of business
Breakdown of assets increased due to acquisition of business in the current fiscal year is as follows:</td><td colspan="2"></td></tr>
<tr><td>Fixed assets</td><td>34 million yen</td><td colspan="2"></td></tr>
</table>

(1) Lease Transactions

Current fiscal year ended October 31, 2006	Previous fiscal year ended October 31, 2005
1. Finance lease transactions other than those in which the title to the leased asset is deemed to transfer to the lessee	**1. Finance lease transactions other than those in which the title to the leased asset is deemed to transfer to the lessee**
(1) Amounts equivalent to acquisition cost, accumulated depreciation and net book value at end of the period	**(1) Amounts equivalent to acquisition cost, accumulated depreciation and net book value at end of the period**

Current fiscal year (¥ million)

	Acquisition cost	Accumulated depreciation	Net leased property
Equipment and fittings	96	38	57
Other	31	18	13
Software	73	23	50
Total	201	80	121

Previous fiscal year (¥ million)

	Acquisition cost	Accumulated depreciation	Net leased property
Equipment and fittings	89	34	55
Vehicles	15	4	11
Software	107	75	31
Total	212	114	97

Current fiscal year ended October 31, 2006	Previous fiscal year ended October 31, 2005
Note: As at the period end the balance of unexpired lease payments is not a significant proportion of total fixed assets, the acquisition cost equivalent is reported as the total amount of lease payments including interest.	Same as left.
(2) Amount Equivalent to Balance of Outstanding Lease Fees at End of the Period	**(2) Amount Equivalent to Balance of Outstanding Lease Fees at End of the Period**
Within one year 37 million yen	Within one year 39 million yen
Over one year 82 million yen	Over one year 58 million yen
Total 121 million yen	Total 97 million yen
Note: As at the period end the balance of unexpired lease payments is not a significant proportion of total fixed assets, the acquisition cost equivalent is reported as the total amount of lease payments including interest.	Same as left.
(3) Lease payments and amount equivalent to depreciation	**(3) Lease payments and amount equivalent to depreciation**
Lease payments 34 million yen	Lease payments 37 million yen
Amount equivalent to depreciation 34 million yen	Amount equivalent to depreciation 37 million yen
(4) Method of calculating depreciation expense equivalents	**(4) Method of calculating depreciation expense equivalents**
Straight-line method: useful life assumed to be lease period; residual value zero.	Same as left.
(Impairment loss) No impairment loss allocated over lease assets.	
2. ――――――――	**2. Operating Lease Transactions** Outstanding Leases Within one year 3 million yen Over one year － million yen Total 3 million yen

(2) Securities

Current Fiscal Year

1) Securities held to maturity with market value
(As of October 31, 2006)

(¥ million)

	Type	Book value	Market value	Difference
Securities with market value on the consolidated balance sheet that exceed book value	Corporate Bond	100	100	0
	Subtotal	100	100	0
Securities with market value on the consolidated balance sheet that do not exceed book value	Corporate Bond	2,299	2,270	(28)
	Subtotal	2,299	2,270	(28)
Total		2,399	2,370	(28)

2) Other securities with market value
(As of October 31, 2006)

(¥ million)

	Type	Acquisition Cost	Book value	Difference
Securities with market value on the consolidated balance sheet that exceed the acquisition cost	Equities	6	18	12
	Other	2,236	2,285	48
	Subtotal	2,243	2,304	60
Securities with market value on the consolidated balance sheet that do not exceed the acquisition cost	Equities	4,121	3,128	(992)
	Other	407	383	(24)
	Subtotal	4,528	3,511	(1,016)
Total		6,772	5,815	(956)

3) Non - marketable securities
(As of October 31, 2006)

(¥ million)

	Book value
Bonds held to maturity	
Unlisted foreignbond	129
Other securities	
Mometary management funds	2,032
Free financial funds	1
Medium-term JGB funds	282
Unlisted stocks (excluding OTC stocks)	81
Unlisted domestic bonds	2,000
Unlisted foreign bonds	0
Money trust	500

4) Projected future redemption of securities with maturities and debt securities held to maturity
(As of October 31, 2006)

(¥ million)

Category	Less than 1 year	1 to 5 years	5 to 10 years	Longer than 10years
Bonds				
Corporate bonds	2,400	2,117	—	—
Other	—	205	—	500
Total	2,400	2,322	—	500

Previous Fiscal Year
1) Securities held to maturity with market value
(As of October 31, 2005)

(¥ million)

	Type	Book value	Market value	Difference
Securities with market value on the consolidated balance sheet that exceed book value	Corporate Bond	100	100	0
	Subtotal	100	100	0
Securities with market value on the consolidated balance sheet that do not exceed book value	Corporate Bond	2,225	2,166	(59)
	Subtotal	2,225	2,166	(59)
Total		2,325	2,266	(59)

2) Other securities with market value
(As of October 31, 2005)

(¥ million)

	Type	Acquisition Cost	Book value	Difference
Securities with market value on the consolidated balance sheet that exceed the acquisition cost	Equities	3,880	5,441	1,561
	Other	942	981	38
	Subtotal	4,822	6,422	1,600
Securities with market value on the consolidated balance sheet that do not exceed the acquisition cost	Equities	—	—	—
	Other	383	378	(5)
	Subtotal	383	378	(5)
Total		5,206	6,800	1,594

3) Non - marketable securities
(As of October 31, 2005)

(¥ million)

	Book value
Bonds held to maturity	
Unlisted foreignbond	115
Other securities	
Mometary management funds	2,141
Free financial funds	1
Medium-term JGB funds	282
Unlisted stocks (excluding OTC stocks)	93
Unlisted domestic bonds	2,150
Unlisted foreign bonds	0
Money trust	—

4) Projected future redemption of securities with maturities and debt securities held to maturity
(As of October 31, 2005)

(¥ million)

Category	Less than 1 year	1 to 5 years
Bonds		
Corporate bonds	850	3,732
Other	—	205
Total	850	3,937

(3) Derivatives transactions

1. Derivatives transaction items

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
(1) Type of transaction The Group utilizes forward foreign exchange transactions.	(1) Type of transaction Same as left.
(2) Transaction policy The Group's policy is to utilize derivative transactions to hedge the financial risk arising from foreign exchange in order to efficiently manage risk and to avoid the use of derivative transactions for speculation.	(2) Transaction policy Same as left.
(3) Purpose of transactions Derivative transactions are used to ameliorate the foreign exchange rate fluctuation risk in respect of foreign currency denominated monetary assets and liabilities. Hedge accounting is applied to derivative transactions .	(3) Purpose of transactions Same as left.
(a) Hedge accounting In principal, deferred hedge accounting is used. Forward foreign exchange contracts are allocated specific hedged risks when they meet the criteria for qualification.	(a) Hedge accounting Same as left.
(b) Hedging methods and risks hedged Hedging methods: forward foreign exchange contracts. Risks hedged: foreign currency denominated accrued operational expenses.	(b) Hedging methods and risks hedged Same as left.
(c) Hedging policy Based on our internal 'Market Risk Management Regulations', foreign exchange rate fluctuation risk is hedged.	(c) Hedging policy Same as left.
(d) Assessing the effectiveness of a hedge The effectiveness of the hedge is measured on a bi-annual basis through a comparative analysis of the fluctuations in the cumulative cash flows from hedging instruments and the risks hedged.	(d) Assessing the effectiveness of a hedge Same as left.
(4) Risks of derivative transactions Foreign exchange contracts carry the risk that foreign currency must be purchased at the contracted rate even if the yen strengthens. Further, in option transactions short-term put options carry the risk that the foreign currency must be purchased at the strike price even if the yen strengthens. As the contract counterparties in these transactions are financial institutions with high credit ratings, the company feels that the risk of the counterparty failing to honor a contract is very low.	(4) Risks of derivative transactions Same as left.
(5) Framework for the management of transaction risk The basic policy on derivatives transactions is decided by the Board of Directors and the execution and management of transactions is performed by the Accounting Department. Outstanding transaction amounts and profits and losses are reported regularly to the Board of Directors.	(5) Framework for the management of transaction risk Same as left.

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
(6) Additional explanation of transaction market value, etc. In consideration of the amount of the Group's transactions the period end derivatives transaction balance is not considered to be large.	(6) Additional explanation of transaction market value, etc. Same as left.

2. Transaction market value

Derivative transaction contract amounts, market value and appraisal gains and losses
In respect of fiscal 2005 and fiscal 2004, as hedge accounting has been applied to all of the derivatives transactions of the H.I.S. Group this item does not apply.

(4) Retirement Benefits

1. Outline of employees retirement benefit system

The company and its domestic consolidated subsidiaries have defined benefit pension plans consisting of a lump sum retirement payment system. Certain foreign consolidated subsidiaries have also established defined benefit pension schemes.

2. Retirement Benefit Liabilities

(¥ million)

	Current Fiscal Year (Ended October 31, 2006)	Previous Fiscal Year (Ended October 31, 2005)
(1) Retirement benefit obligation	(1,129)	(911)
(2) Pension fund assets	—	—
(3) Unfunded retirement benefit obligation (1+2)	(1,129)	(911)
(4) Unrecognized actuarial difference	76	(25)
(5) Unrecognized prior service liabilities	—	—
(6) Reserve for reitrement allowance (3+4+5)	(1,053)	(937)

3. Retirement Benefit Expenses

(¥ million)

	Current Fiscal Year (Ended October 31, 2006)	Previous Fiscal Year (Ended October 31, 2005)
(1) Service expense	177	171
(2) Interest expense	16	14
(3) Amortization of past service liability	—	(11)
(4) Amortization of actuarial differences	(26)	(18)
(5) Retirement benefit expenses (1+2+3+4)	167	156

4. Basis of Calculations of Retirement Benefit Liabilities

	Current Fiscal Year (Ended October 31, 2006)	Previous Fiscal Year (Ended October 31, 2005)
(1) Discount ratio	2.0%	Same as left
(2) Allocation method for estimated retirement benefit amounts	Fixed installment method	Same as left
(3) Amortization period for apst service liabilities	—	5 years
(4) Amortization actuarial differences	1 year	Same as left

(5) Tax Effective Accounting

(¥ million)

Current Fiscal Year (Ended October 31, 2006)		Previous Fiscal Year (Ended October 31, 2005)	
Significant components of deferred tax assets and deferred tax liabilities by principal cause of accrual		**Significant components of deferred tax assets and deferred tax liabilities by principal cause of accrual**	
(1) Deferred tax assets: Current		**(1) Deferred tax assets: Current**	
(Deferred tax assets)		(Deferred tax assets)	
Excess of accrued bonuses	721	Excess of accrued bonuses	628
Accrued bonuses for directors	14	Accrued sales receivables	324
Accrued sales receivables	433	Accrued social insurance premiums	67
Accrued social insurance premiums	78	Accrued business office tax	17
Accrued business office tax	17	Accrued business tax	50
Accrued business tax	163	Accrued levies for employing disabled persons	2
Accrued levies for employing disabled persons	2	Reserve for loss on liquidation of affiliates	142
Excess of allowance for doubtful accounts	27	Appraisal loss on shares in affiliates	65
Other	32	Other	24
Gross deferred tax assets subtotal	1,491	Gross deferred tax assets subtotal	1,322
Less: Valuation allowance	(0)	Less: Valuation allowance	(1)
Total deferred tax assets	1,491	Total deferred tax assets	1,321
(Deferred tax liabilities)		(Deferred tax liabilities)	
Other	(0)	Other	(1)
Net deferred tax assets	1,491	Net deferred tax assets	1,320
(2) Deferred tax assets: Long-term		**(2) Deferred tax assets: Long-term**	
(Deferred tax assets)		(Deferred tax assets)	
Excess of allowance for doubtful accounts	52		
Accrued employees' retirement benefits	414	Accrued employees' retirement benefits	19
Accrued directors' and statutory auditors' retirement benefits	172	Accrued directors' and statutory auditors' retirement benefits	6
Unrecognized one-time asset depreciation	4		
Unrecognized appraisal loss on investment securities	3	Unrecognized appraisal loss on investment securities	3
Losses carried forward	0	Losses carried forward	8
Unrealized holding loss on securities	406		
Other	17	Other	1

Gross deferred tax assets subtotal	1,074	Net deferred tax assets	39
Less: Valuation allowance	(57)		
Total deferred tax assets	1,016		
(Deferred tax liabilities)		(Deferred tax liabilities)	
Reserve for special depreciation	(1)	Reserve for special depreciation	2
Unrealized holding gain on securities	(26)	Depreciation	14
Total deferred tax liabilities	(27)	Unrealized holding gain on securities	651
Net deferred tax assets	988	Total deferred tax liabilities	667
(Deferred tax liabilities)			
Depreciation	14		
Other	0		
Total deferred tax liabilities	14		
(Deferred tax assets)		(Deferred tax assets)	
Losses carried forward	(4)	Excess of allowance for doubtful accounts	(35)
Other	(0)	Accrued employees' retirement benefits	(343)
Total deferred tax assets	(5)	Accrued directors' and statutory auditors' retirement benefits	(160)
Net deferred tax liabilities	9	Unrecognized one-time asset depreciation	(5)
		Unrecognized appraisal loss on investment securities	(3)
		Losses carried forward	(99)
		Unrealized holding loss on securities	(2)
		Other	(10)
		Gross deferred tax assets subtotal	(661)
		Less: Valuation allowance	157
		Total deferred tax assets	(503)
		Net deferred tax liabilities	163

(6) Segment Information

1. Segment Information by Business

Current Fiscal Year ended October 31, 2006

(¥ million)

Item \ Segment	Travel operations	Hotel operations	Other operations	Total	Eliminations & corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) Sales to outside customers	327,353	1,602	24	328,980	—	328,980
(2) Inter-segment sales / transfers	—	44	—	44	(44)	—
Total	327,353	1,647	24	329,025	(44)	328,980
Operating expenses	318,054	1,447	0	319,502	2,242	321,744
Operating income	9,298	200	23	9,522	(2,286)	7,235
II. Assets, depreciation and capital expenditure						
Assets	61,716	5,862	253	67,831	24,688	92,520
Depreciation	402	127	0	530	645	1,176
Capital expenditure	486	1,302	—	1,788	255	2,044

Previous Fiscal Year ended October 31, 2005

(¥ million)

Item \ Segment	Travel operations	Hotel operations	Other operations	Total	Eliminations & corporate	Consolidated
I. Net sales and operating income/loss						
Net sales						
(1) Sales to outside customers	289,302	1,246	44	290,593	—	290,593
(2) Inter-segment sales / transfers	—	18	3	21	(21)	—
Total	289,302	1,264	47	290,615	(21)	290,593
Operating expenses	281,537	1,235	11	282,784	2,335	285,120
Operating income	7,764	29	36	7,830	(2,356)	5,473
II. Assets, depreciation and capital expenditure						
Assets	51,110	5,483	253	56,847	24,082	80,929
Depreciation	392	177	2	572	612	1,185
Capital expenditure	529	12	—	541	629	1,171

Notes:
1. Operating segments are classified according to those used internally by management.
2. The main business of each segment is as follows:
Travel operations: Travel business and associated businesses
Hotel operations: Ownership and maintenance of hotels
Other operations: Real estate business
3. Unallocated operating expenses in the fiscal year ended October 31, 2006 and the previous fiscal year ended October 31, 2005 were ¥2,286 million and ¥2,356 million respectively. The factors contributing to this were expenses related to the administrative department headquarters.
4. Corporate assets included under eliminations and corporate for the fiscal year ended October 31, 2006 and the previous fiscal year ended October 31, 2005 were ¥24,692 million and ¥24,085 million respectively. These mainly comprised the management of surplus funds (cash and cash equivalents and securities) at the parent company and assets related to the Administration Department of headquarters.
5. Long-term pre-paid expenses and their associated amortization amounts are included in depreciation expenses and capital expenditure.

2. Segment Information by Geographical Area

Current Fiscal Year ended October 31, 2006

(¥ million)

Item \ Segment	Japan	America	Asia / Oceania	Europe	Total	Eliminations & corporate	Consolidated
I. Net sales							
(1) Sales to outside customers	310,428	6,377	7,087	5,086	328,980	—	328,980
(2) Inter-segment sales / transfers	24	14,298	11,270	4,069	29,663	(29,663)	—
Total	310,452	20,676	18,357	9,156	358,643	(29,663)	328,980
Operating expenses	302,308	20,168	17,828	8,814	349,120	(27,376)	321,744
Operating income	8,143	508	528	341	9,522	(2,286)	7,235
II. Assets	53,452	4,196	10,670	2,786	71,106	21,414	92,520

Previous Fiscal Year ended October 31, 2005

(¥ million)

Item \ Segment	Japan	America	Asia / Australia	Europe	Total	Eliminations & corporate	Consolidated
I. Net sales							
(1) Sales to outside customers	274,163	5,900	6,320	4,208	290,593	—	290,593
(2) Inter-segment sales / transfers	9	12,963	9,093	3,906	25,972	(25,972)	—
Total	274,173	18,863	15,414	8,115	316,566	(25,972)	290,593
II. Operating expenses	267,474	18,341	15,162	7,757	308,736	(23,616)	285,120
Operating income	6,698	521	252	357	7,830	(2,356)	5,473
Assets	43,524	3,615	9,699	2,435	59,275	21,654	80,929

Notes:
1. The breakdown of regions other than Japan is as follows:
(1) America: U.S.A., Canada, Mexico, the Bahamas, Guam, Saipan
(2) Asia/Oceania: Hong Kong, South Korea, Singapore, Indonesia, Thailand, Australia, Fiji
(3) Europe: The United Kingdom, Germany, France, Italy, Spain
2. Unallocated operating expenses in the fiscal year ended October 31, 2006 and the previous fiscal year ended October 31, 2005 were ¥2,286 million and ¥2,356 million respectively. The factors contributing to this were expenses related to the

administration department headquarters.
3. Corporate assets included under eliminations and total company for the fiscal year ended October 31, 2006 and the previous fiscal year ended October 31, 2005 were ¥24,692 million and ¥24,085 million respectively. These mainly comprised the management of surplus funds (cash and cash equivalents and securities) at the parent company and assets related to the Administration Department of headquarters.
4. Changes in regional division
HIS (FIJI) LIMITED, which is located in the Republic of Fiji and added to the scope of consolidation in this fiscal period, has been included in the “Asia and Australia” segment. Accordingly, the segment name was changed from “Asia and Australia” to “Asia and Oceania.”

3. Overseas sales

As overseas net sales in the fiscal years ended October 31, 2006 and October 31, 2005 did not exceed 10% of consolidated net sales, they have not been disclosed.

(7) Transaction with related parties

Current Fiscal Year ended October 31, 2006
No applicable items

Previous Fiscal Year ended October 31, 2005
No applicable items

Per share information

Current fiscal year, ended October 31, 2006	Previous fiscal year, ended October 31, 2005
Net assets per share ¥1,311.29 Net income per share ¥145.79 Diluted net income per share is not disclosed because no potentially dilutive shares have been issued	Net assets per share ¥1,233.20 Net income per share ¥188.85 Diluted net income per share is not disclosed because no potentially dilutive shares have been issued. On December 20, 2004 the company carried out a share split of each ordinary share into 1.5 shares. Assuming that the stock split had taken place at the start of the previous financial year per-share information would have been as follows; (Information for the previous fiscal year) Net assets per share ¥959.80 Net income per share ¥81.28 Diluted net income per share is not disclosed because no potentially dilutive shares have been issued.

Note: The basis for the calculation of net income per share is as follows:

	Current fiscal year,ended October 31, 2006	Previous fiscal year ended October 31, 2005
a) Net income for the year	4,867 million yen	6,340 million yen
b) Amount not attributableto ordinary shareholders Of which, bonuses paid to directorsas part of the appropriation of surplus	— million yen (—) million yen	33 million yen (33) million yen
c) Net income attributable to ordinary shares	4,867 million yen	6,306 million yen
d) Average number of outstanding shares during the period	Common stock 33,386 thousand shares	Common stock 33,393 thousand shares

Subsequent Events

No significant items

V. Sales

(1) Net sales and operating income by business

(¥ million)

	Current fiscal year ended October 31, 2006			Previous fiscal year ended October 31, 2005			Net sales change	Operating income change
	Net sales		Operating income	Net sales		Operating income		
	Amount	%	Amount	Amount	%	Amount	%	%
Travel operations	327,353	99.5	9,298	289,302	99.6	7,764	13.2	19.8
Hotel operations	1,647	0.5	200	1,264	0.4	29	30.3	586.1
Other operations	24	0.0	23	47	0.0	36	(49.8)	(35.9)
Total	329,025	100.0	9,522	290,615	100.0	7,830	13.2	21.6
Elimination and corporate	(44)	(0.0)	(2,286)	(21)	(0.0)	(2,356)	—	—
Consolidated	328,980	100.0	7,235	290,593	100.0	5,473	13.2	32.2

(2) Net sales and operating income by geographic area

(¥ million)

	Current fiscal year ended October 31, 2006			Previous fiscal year ended October 31, 2005			Net sales change	Operating income change
	Net sales		Operating income	Net sales		Operating income		
	Amount	%	Amount	Amount	%	Amount	%	%
Japan	310,452	94.3	8,143	274,173	94.3	6,698	13.2	21.6
America	20,676	6.3	508	18,863	6.5	521	9.6	(2.6)
Asia and Oceania	18,357	5.6	528	15,414	5.3	252	19.1	109.9
Europe	9,156	2.8	341	8,115	2.8	357	12.8	(4.5)
Total	358,643	109.0	9,522	316,566	108.9	7,830	13.3	21.6
Elimination and corporate	(29,663)	(9.0)	(2,286)	(25,972)	(8.9)	(2,356)	—	—
Consolidated	328,980	100.0	7,235	290,593	100.0	5,473	13.2	32.2