



## **Consolidated Financial Results**

### **For the First Half Ended April 30, 2007**

*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 First Half Ended April 30, 2007

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

Exchange Listed:	Tokyo Stock Exchange, 1 <sup>st</sup> section
Principal Office:	Tokyo, Japan
Homepage:	<a href="http://www.his-j.com">http://www.his-j.com</a>
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Scheduled date of filing interim report:	July 27, 2007

#### I. Consolidated Interim Financial Results (November 1, 2006 – April 30, 2007)

##### (1) Consolidated Operating Results

	Millions of Yen - Except Per Share Data and Percents				
	First Half Ended April 30,		FY Ended October 31,		
	2007	%	2006	%	2006
Net Sales .....	168,621	13.9	148,020	12.9	328,980
Operating Income .....	2,942	9.6	2,685	45.5	7,235
Ordinary Income .....	3,347	12.6	2,973	23.8	8,082
Net Income .....	2,030	16.6	1,741	(32.3)	4,867
Net Income per Share (Yen) .....	60.82		52.17		145.79
Net Income per Share, diluted (Yen).....	—		—		—

Notes:

Income (loss) from equity-accounted affiliates:

First half ended April 30, 2007	206 million yen
First half ended April 30, 2006:	(26) million yen
Fiscal year ended October 31, 2006:	105 million yen

## (2) Consolidated Financial Position

	Millions of Yen - Except Per Share Data		
	As of April 30,		As of Oct. 31,
	2007	2006	2006
Total Assets.....	96,344	87,458	92,520
Net Assets .....	46,301	43,075	44,149
Shareholders' Equity Ratio (%).....	47.6	49.3	47.3
Shareholders' Equity per Share (Yen) .....	1,374.93	1,290.24	1,311.29

## (3) Consolidated Cash Flows

	Millions of Yen		
	First Half Ended April 30,		FY Ended Oct. 31,
	2007	2006	2006
Cash Flows from Operating Activities .....	1,511	1,006	9,610
Cash Flows from Investing Activities .....	(583)	(2,820)	(5,370)
Cash Flows from Financing Activities.....	(671)	(721)	(732)
Cash and Cash Equivalents at End of Period .....	37,139	30,468	36,515

## 2. Dividends

	FY Ended Oct. 31,		
	2006	2007	2007(Forecast)
Dividends per Share			
Interim (yen)	—	—	—
End of Term (yen)	20.00	—	20.00
Annual Dividends (yen)	20.00		20.00

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

	Millions of Yen	
	FY Ending October 31, 2007	
Net Sales .....	374,000	13.7%
Operating income .....	8,250	14.0%
Ordinary Income .....	9,200	13.8%
Net Income .....	5,400	10.9%
Net Income per Share (Yen) .....	161.76	

*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 page4 for further information concerning the projections.*

#### **4. Additional Notes**

(1) Changes of important subsidiaries during the fiscal period (Changes of specific subsidiary due to change in scope of consolidation): None

(2) Changes in principles, procedures and presentation of accounting treatment in preparing consolidated financial statements:

(i) Changes resulting from revisions to accounting standards, etc.: Yes

(ii) Changes other than (i): Yes

(3) Number of shares issued (common shares)

(i) Number of shares issued end of fiscal period (including treasury stock):

As of April 30, 2007 34,261,468 shares

As of April 30, 2006 34,261,468 shares

As of October 31, 2006 31,261,468 shares

(ii) Number of treasury stock at end of fiscal period

As of April 30, 2007 878,194 shares

As of April 30, 2006 875,867 shares

As of October 31, 2006 877,001 shares

## II. Operating Results and Financial Position

### 1. Operating Results

#### (1) Overview of consolidated results for the interim period

The Japanese economy continued its recovery during the interim under review, with capital expenditure and consumer spending following the steady improvement in corporate earnings. Uncertainties remained, however, with respect to oil and other prices, foreign exchange fluctuations, and other international factors.

The H.I.S. Group had projected a gradual upswing in overseas travelers for the travel industry, boosted by the rebounding economy in Japan; however, conditions remain somewhat stagnant due to the combined effects of increased fuel surcharges accompanying the rise in crude oil prices and the trend toward a weaker yen. According to the Japan National Tourist Organization (JNTO), the (estimated) number of Japanese departing the country from November 2006 through April 2007 rose very slightly by 0.6% on the previous year to around 8,553,000 people, an increase of approximately 51,000 people.

The Group has been engaged in active marketing to our key client segments - individuals, young people, and seasoned overseas travelers - to secure steady travel demand for our travel business amid these conditions. We stepped up early attraction of customers by announcing travel products for year-end and New Year's holidays, student travel, and spring break travel earlier than in normal years and were also able to attract customers by holding a campaign focusing on price appeal for the popular and customary "First Dream Fair" and other events.

- The Group continued to make more improvements in travel accessory products such as hotel and rental car reservations and insurance sales for arranged travel, while continuing to improve on our strengths in price competitiveness and consulting capabilities even further.
- We were able to improve the unit price per customer for packaged tours by launching products incorporating luxury hotels and staging a "Let's stay in a good hotel" campaign, while also improving our ability to make arrangements and provide seating, particularly for our core product, Ciao.
- We have put the infrastructure in place to respond in a more finely-tuned fashion to the increasingly diverse purposes of travel for each and every individual by renovating the regional flagship branches for the Travel Wonderland Shinjuku sales branch and the Travel Wonderland Nagoya sales branch, adding specialty sections.

Such marketing measures resulted in a 13.9% increase in interim sales for the travel business to JPY 167,580 million and a 9.1% increase in operating income to JPY 3,995 million.

The strong Australian economy continued to boost the hotel business and the hotels on both the Gold Coast and in Brisbane continued to maintain high occupancy rates, leading to strong sales. We also set the goal of improving service even more and made investments in training targeted at adding more employees and training.

These measures resulted in a 19.7% increase in interim sales for the hotel business to JPY 1,057 million and an 13.9% decrease in operating income to JPY 140 million.

In consequence, consolidated interim operating results for the current period improved solidly, with sales of JPY 168,621 million, an increase of 13.9% on the previous interim, operating income of JPY 2,942 million, an increase of 9.6%, ordinary income of JPY 3,347 million, an increase of 12.6%, and net income of JPY 2,030 million, an increase of 16.6%.

#### (2) Forecasts for the full year

While the trend in oil prices, fluctuation in exchange rates, and other factors persist as sources of concern for the travel business, personal consumption has risen and the employment market has improved with improving corporate profits. We therefore project a gradual rise in demand for overseas travel.

In particular, we expect demand to rise among families and young female office workers for travel to the beaches and to Europe as summer, the best season, approaches. Further rise in demand for corporate travel bookings to China and various Asian cities is also projected.

The H.I.S. Group will continue to focus on the concept of free travel and on improving brand recognition for the various products amid this environment in order to encourage greater demand for overseas travel in general. We will improve our ability to provide seats as we also create products to respond to the ever greater diversification of customer needs and will further expand our marketing power through the Internet and call centers. We will also strive to improve our consulting capabilities so that we will be able to provide our customers with optimal travel plans.

- The Group has put a support structure in place for arranged travel which includes not only the price appeal of the airline

ticket, but also the ability to feel safe in the locale when traveling and intend to secure a lead position in the market by combining the unique value-added services offered by our group to appeal to customers.

- We will strive to offer of full range of high value-added products using luxury hotels and to improve our capabilities in arranging travel, in addition to introducing products with price appeal such as our core product, the package tour, Ciao. We will also work to respond to individual needs through product planning that clearly specifies the target customers.
- We plan to improve our product line-up for regions such as China that are projected to experience an increase in travelers as well as work to attract senior and affluent customers, segments for which growth is projected, for our Impresso escorted tour to Europe and other locales.
- The Group continues to see Internet business and group/corporate sales as important markets and intends to expand sales to these segments, where the most growth is expected. The Internet business is particularly important from the perspective of a channel for marketing and communication as well, so we will further improve this business. To be specific, we will work on improving the overall convenience of our home page by strengthening the online reservations site for airline tickets, hotels, and optional tours; developing a community through the use of a blog; and transmitting travel videos, among other things.

The H.I.S. Group intends to build a stable business base for the hotel business by working to ensure profitability through maintaining a high occupancy ratio for the two hotels in Australia currently in operation.

## **2. Financial Position**

### **(1) Overview of Assets, Liabilities, and Net Assets**

Total assets as of the end of the interim consolidated fiscal period increased by JPY 3,823 million from the end of the previous consolidated fiscal year to JPY 96,344 million. This resulted mainly from an increase in trade accounts receivable, which rose by JPY 1,963 million over the end of the previous fiscal year, and an increase in short term loans, which increased by JPY 1,881 million over the end of the fiscal year.

Liabilities at the end of the current consolidated interim period rose JPY 1,672 million compared with the end of the previous consolidated fiscal year to JPY 50,042 million. This resulted mainly from an increase of JPY 5,008 million in trade accounts payable, a decline of JPY 1,085 million in unpaid corporate and other taxes, and a decline in trip prepayments of JPY 1,958 million from the end of the previous fiscal year.

Net assets as of the end of the current consolidated interim fiscal period increased by JPY 2,151 million over the end of the previous consolidated fiscal year to JPY 46,301 million. This resulted mainly from JPY 2,030 million in interim net income booked.

### **(2) Overview of Consolidated Cash Flows in the Interim Period Ended April 30, 2007**

The balance of cash and cash equivalents as of the end of the current consolidated interim period rose by JPY 624 million over the end of the previous consolidated fiscal period to JPY 37,139 million. Cash inflow from operating activities was JPY 1,511 million, cash outflow from investment activities was JPY 583 million, and cash outflow from financing activities was JPY 671 million.

The specifics for each category of cash flow for the current consolidated interim fiscal period are as follows:

#### Cash flow from operating activities

Cash inflow from operating activities for the current consolidated interim fiscal period was JPY 1,511 million. The primary factors behind the increase were the booking of JPY 3,330 million in interim net income before taxes and other adjustments and an increase of JPY 4,683 million in trade accounts payable. This increase in trade accounts payable includes JPY 3,549 million in trade accounts payable that were paid in the next month since the settlement date for the end of the current consolidated interim fiscal period fell on a bank holiday. The main factors responsible for decreases were an increase in trade accounts receivable (representing an outflow of JPY 1,729 million), a decrease in trip prepayments (an outflow of JPY 1,994 million), and payment of corporate and other taxes (an outflow of JPY 2,361 million).

The cash inflow from operating activities for the previous consolidated interim fiscal period was JPY 1,006 million. The main reasons for this were the booking of JPY 2,967 million in interim net income before taxes and other adjustments, an increase of JPY 2,215 million in trade accounts payable for purchases, and an increase in trade accounts receivable, which represented an outflow of JPY 3,059 million.

Cash inflow from operating activities for the current consolidated interim period therefore rose by JPY 505 million compared with the previous consolidated interim period.

#### Cash flow from investing activities

Cash outflow from investment activities for the current consolidated interim period was JPY 583 million. The main reason for cash inflow was the redemption of JPY 2,000 million worth of corporate debt by Sanko Soflan Co., Inc. The main reasons for cash outflow were the acquisition of securities for investment purposes (an outflow of JPY 742 million) and a loan to Kyushu Industrial Transportation Holdings Co., Ltd., an affiliated company (an outflow of JPY 2,000 million).

Cash outflow from investment activities for the previous consolidated interim period was JPY 2,820 million. This was mainly due to the acquisition of land and buildings for the commencement of business for Hotel Watermark in Brisbane (an outflow of JPY 1,268 million), and an investment in Kyushu Industrial Transportation Holdings Co., Ltd., (an outflow of JPY 733 million).

Cash flow from investment activities for the current consolidated interim period therefore improved by JPY 2,237 million compared with the previous consolidated interim period.

#### Cash flow from financing activities

Cash outflow from financing activities for the current consolidated interim period was JPY 671 million, primarily due to payment of dividends (an outflow of JPY 667 million).

Cash outflow from financing activities for the previous consolidated interim period was JPY 721 million. This resulted primarily from the payment of dividends (an outflow of JPY 584 million) and repayment of long-term debt at a subsidiary (an outflow of JPY 55 million).

Cash outflow from financing activities for the current consolidated interim period therefore rose by JPY 50 million compared with the previous consolidated interim period.

#### **Cash flow indices**

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

	2007 Interim	2006	2005	2004	2003
Equity ratio (%)	47.6	47.3	50.9	43.3	51.1
Equity ratio based on market price (%)	128.9	101.0	102.1	92.1	86.9
Debt service coverage (%)	6.9	2.0	—	2.7	14.0
Interest coverage ratio (times)	266.8	978.9	—	1,235.6	174.6

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 fiscal year ending October 31, 2005, as operating cash flow was negative in that period.

### **3. Basic Approach to Allocation of Profits**

Returning profits to shareholders is one of the Company's key management issues. The H.I.S. Group 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.

### **4. Business and Other Types of Risk**

The following types of events have the potential to affect the operating results, financial status, the stock price and other factors for the corporate group:

Having recognized the potential for such risks, the Group intends to make every effort to avoid them and to address them in the event such risks should occur.

The matters pertaining to the future noted in this section were those determined by the Group as of the announcement date for the interim financial statements (June 22, 2007). Business and other risks are not limited to these risks.

#### **(1) Specific Management Policies Adopted by the Company**

The travel business comprises 99.4% of group sales by segment; sales by region are also concentrated in Japan, at 92.1%. Changes in the environment for the travel business in Japan therefore have the potential to affect the Group's financial status, operating results, etc.

#### **(2) Risk of External Factors Surrounding the Travel Business**

- Changes in the world situation such as terrorism, war, and other events
- Occurrence of infectious diseases, etc.
- Damage to the tourism infrastructure resulting from natural disasters
- Upheaval in the world situation caused by abrupt fluctuations in exchange rates

#### **(3) Share of Travel to Asia Handled**

Asia comprises the greatest share of the number of overseas travelers from Japan handled by the Group according to destination, at 57.3% (comprising 42.5% of sales). This percentage is nearly the same as the number of travelers by destination for Japanese people overall. Operating results could be affected by changes in the external environment for the destinations in question (terrorism, infectious diseases, natural disasters, etc.).

#### **(4) Competition with Other Competitors**

The travel business for the Group is subject to stiff competition from various other competitors, but the Group's financial status, operating results, and other factors could be affected if stiffer competition on prices were to occur.

#### **(5) Fluctuations in the Valuation of Owned Assets such as Securities**

The Group holds both listed and unlisted shares and also holds debt and other instruments. Hence, the Group's financial status and operating results could be affected by movements in stock and bond prices for securities possessing a market value, and by the occurrence of losses on sale and valuation losses for securities without a market price due to changes in the financial status of companies in which we have invested.

#### **(6) Exchange Rate Fluctuations**

The Group conducts business in foreign currencies and therefore incurs income and expenses as well as assets and liabilities in foreign currencies as a result. While the Group hedges risk through forward exchange contracts and other instruments to mitigate the impact of exchange rate fluctuations, the Group's financial status, operating results, and other factors could be affected should a rapid fluctuation in exchange rates occur.

The Group also translates the financial statements of overseas consolidated subsidiaries into Japanese Yen when producing the consolidated financial statements. This could affect the Group's financial status, operating results, and other factors should there be fluctuation in exchange rates.

#### **(7) Debt Guarantees, etc.**

The Group concludes debt guarantee contracts with trading partners for business transactions involving payment. While the Group believes that the possibility of having debt guarantees called in is extremely low, the Group's financial status, operating results, and other factors could be affected if debt guarantees were called in, in the future.



### III. 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., 49 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

Japan	Asia / Oceania
No. 1 Travel Shibuya Co., Ltd. <sup>1</sup> H.I.S. Okinawa Co., Ltd. <sup>1</sup> Orion Tour Co., Ltd. <sup>1</sup> ATB Co., Ltd. <sup>1</sup> Cruise Planet Co., Ltd. <sup>1</sup> H.I.S Experience Japan CO., LTD.	HIS (HONG KONG) COMPANY LIMITED <sup>1</sup> H.I.S. WESTRALIA PTY LTD. <sup>1</sup> H.I.S. AUSTRALIA PTY. LTD. <sup>1</sup> H.I.S. KOREA CO., LTD. <sup>1</sup> H.I.S. INTERNATIONAL TRAVEL PTE LTD. <sup>1</sup> PT. HARUM INDAH SARI TOURS AND TRAVEL <sup>1</sup> H.I.S. INTERNATIONAL TOURS KOREA INC. <sup>1</sup> H.I.S. TOURS CO., LTD. <sup>1</sup> MAPTOUR MONGOLIA LLC Japan H.I.S.Tours Pty Ltd H.I.S. MALDIVES TRAVEL PTE LTD H.I.S. TRAVEL (MALAYSIA) SDN BHD. HIS (FIJI) LIMITED <sup>1</sup> 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 Uluslararası Turizm Seyahat Acentasi Limited Sirketi

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

#### Affiliated Companies

Japan	Asia/ Oceania
	NEW WORLD TRAVEL INTERNATIONAL PTY. LTD. H.I.S. TRAVEL (NEW ZEALAND) LTD. H.I.S. TAIWAN COMPANY LIMITED <sup>2</sup> H.I.S.-SONGHAN VIETNAM TOURIST JOINT VENTURE COMPANY LTD.

United States	Europe
H.I.S. INTERNATIONAL TOURS (L.A.), INCORPORATED <sup>2</sup>	

Notes:

1. Consolidated subsidiary
2. Equity-method affiliate

The subsidiary, H.I.S. U.S.A., Inc. is an equity affiliate that holds shares in 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. This subsidiary is included in the results by segment under the travel

business.

H.I.S. MALDIVES TRAVEL PTE. LTD., one of our subsidiaries, acquired shares in Japan H.I.S. Tours Pty. Ltd. during the current interim fiscal period, making Japan H.I.S. Tours Pty. Ltd. one of our subsidiaries. The Company is excluded from consolidation and from inclusion under the equity method and is therefore not included in business results by segment.

The Company established H.I.S. Experience Japan CO., LTD. as a subsidiary during the current interim consolidated fiscal period. The Company is excluded from consolidation and from inclusion under the equity method and is therefore not included in business results by segment.

## **(2) Hotel Business**

The Group operates a hotel business and other ancillary businesses in Australia and other countries.

H.I.S. Investments Pty. Ltd. and WHG Investments Brisbane Pty. Ltd. in Australia own hotels on the Gold Coast and in the city of Brisbane; the management of those hotels has been consigned to The Watermark Hotel Group Pty. Ltd.

SIPADAN WATER VILLAGE AND TOURS SDN. BHD. in Malaysia also engages in the hotel business in Sabah Province.

WATERMARK HOTEL JAPAN CO., LTD. is preparing to operate hotels on consignment in Hokkaido.

<b>Subsidiaries</b>	<b>Affiliated Companies</b>
H.I.S. INVESTMENTS PTY LTD. <sup>1</sup> THE WATERMARK HOTEL GROUP PTY LTD. <sup>1</sup> WATERMARK HOTEL JAPAN CO., LTD. H.I.S. AUSTRALIA HOLDINGS PTY LTD. <sup>1</sup> WHG Investments Brisbane Pty. Ltd. <sup>1</sup>	SIPADAN WATER VILLAGE AND TOURS SDN BHD.

Note:

1. Consolidated subsidiary

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.

## **(3) Other Businesses**

KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. operates long-distance and tour bus businesses. HIS-HS Kyushu Sanko Investment Limited Liability Partnership hold shares in KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD..

HS Insurance Planning Co., Ltd. is preparing to operate a non-life insurance business focused on overseas trip insurance. East Asia Strategic Holdings Ltd. operates a consulting business.

800th Anniversary of the Mongolian States LLP. is engaged in the planning and management of the memorial events for holding 800th anniversary.

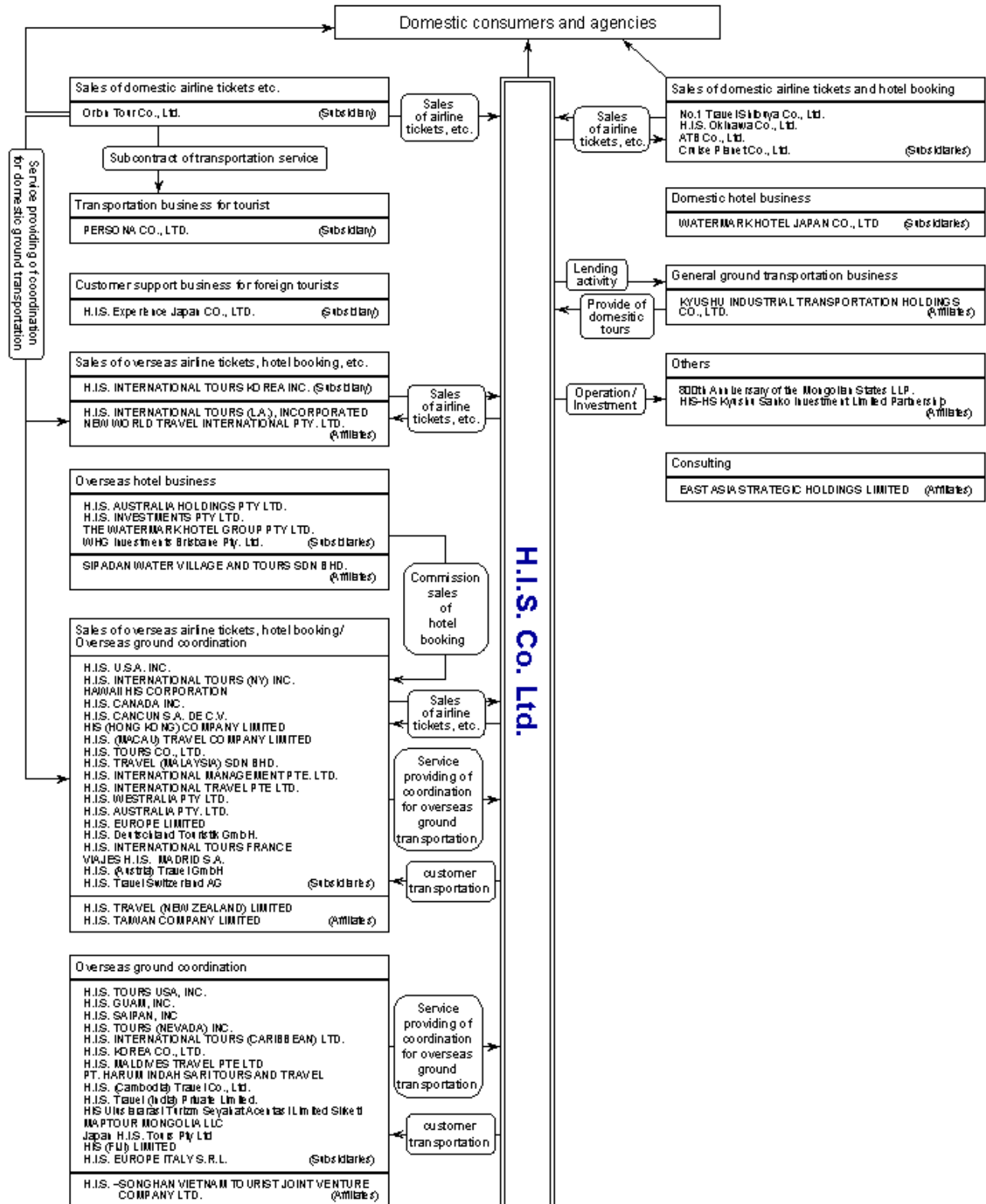
Persona Co., Ltd. offers welcoming and send-off services for travelers.

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.

<b>Subsidiaries</b>	<b>Affiliated Companies</b>
H.I.S. PROPERTIES PTY LTD. PERSONA CO., LTD. Passeport Co., Ltd.	KYUSHU INDUSTRIAL TRANSPORTATION HOLDINGS CO., LTD. <sup>1</sup> HIS-HS Kyushu Sanko Investment Limited Partnership <sup>1</sup> H.S. INSURANCE PLANNING Co, Ltd. EAST ASIA STRATEGIC HOLDINGS LTD. 800th Anniversary of the Mongolian States LLP.

Note: 1. Equity-method affiliate

The following table illustrates Group operating relationships.



## **IV. Management Policy**

Disclosure of the basic management policies, operating indicators serving as goals, medium to long-term management strategy, and issues the Company should address has been omitted because there have been no significant changes in the content of these since the financial statements for fiscal year ended October 2006 were disclosed (disclosed December 20, 2006).

These financial statements may be viewed on the following URLs:

The Company home page (page reporting operating results):  
[http://www.his-j.com/company/ir\\_04.htm](http://www.his-j.com/company/ir_04.htm)

The home page of the Tokyo Stock Exchange (page for searching information on listed companies):  
<http://www.tse.or.jp/tseHpFront/HPLCDS0101.do?method=init>

## V. Consolidated Financial Statements

### 1. Consolidated Balance Sheets

	Millions of yen						
	As of April 30, 2007		As of April 30, 2006		Change	As of Oct. 31, 2006	
<b>ASSETS</b>		%		%			%
<b>Current assets</b>							
Cash and deposits.....	36,945		30,871			36,754	
Notes & accounts receivable.....	6,244		5,343			4,280	
Accrued sales receivable.....	9,945		8,686			9,997	
Marketable securities.....	3,403		4,948			4,721	
Deferred tax assets.....	1,555		1,322			1,491	
Travel deposits.....	8,602		8,487			7,692	
Pre-paid expenses.....	754		720			733	
Short-term loans receivable.....	2,269		400			387	
Other current assets.....	1,292		1,072			1,028	
Allowance for doubtful accounts.....	(113)		(25)			(26)	
<b>Total current assets.....</b>	<b>70,899</b>	<b>73.6</b>	<b>61,827</b>	<b>70.7</b>	<b>9,071</b>	<b>67,060</b>	<b>72.5</b>
<b>Fixed assets</b>							
<b>Tangible fixed assets</b>							
Buildings and structures.....	5,063		4,869			4,793	
Equipment and fittings.....	705		816			728	
Land.....	1,634		1,555			1,552	
Other fixed assets.....	99		97			94	
<b>Total tangible fixed assets.....</b>	<b>7,502</b>	<b>7.8</b>	<b>7,338</b>	<b>8.4</b>	<b>163</b>	<b>7,170</b>	<b>7.7</b>
<b>Intangible fixed assets.....</b>	<b>1,461</b>	<b>1.5</b>	<b>1,631</b>	<b>1.9</b>	<b>(170)</b>	<b>1,537</b>	<b>1.7</b>
<b>Investments and other assets</b>							
Investments in securities.....	9,082		11,625			10,040	
Long-term loans receivable.....	990		502			1,004	
Guarantee deposits.....	4,297		4,025			3,993	
Deferred tax assets.....	1,387		39			988	
Other investments and other assets.....	851		576			854	
Allowance for doubtful accounts.....	(128)		(109)			(130)	
<b>Total investments and other assets.....</b>	<b>16,481</b>	<b>17.1</b>	<b>16,660</b>	<b>19.0</b>	<b>(178)</b>	<b>16,752</b>	<b>18.1</b>
<b>Total fixed assets.....</b>	<b>25,444</b>	<b>26.4</b>	<b>25,630</b>	<b>29.3</b>	<b>(185)</b>	<b>25,460</b>	<b>27.5</b>
<b>Total Assets.....</b>	<b>96,344</b>	<b>100.0</b>	<b>87,458</b>	<b>100.0</b>	<b>8,885</b>	<b>92,520</b>	<b>100.0</b>

	<i>Millions of yen</i>						
	As of April 30, 2007		As of April 30, 2006		Change	As of Oct. 31, 2006	
	%		%			%	
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Notes & accounts payable.....	20,758		15,383			15,749	
Short-term borrowings.....	24		1			—	
Long-term debt to be repaid within one year.....	12		13			14	
Accrued payable.....	688		797			677	
Accrued expenses.....	1,565		1,452			1,397	
Accrued income taxes.....	1,158		1,086			2,243	
Accrued consumption taxes.....	410		229			475	
Pre-trip deposits.....	20,128		19,237			22,086	
Accrued bonuses.....	1,721		1,656			1,863	
Accrued bonuses for directors.....	24		—			42	
Short-term accrued interest for travel funds.....	2		—			0	
Other current liabilities.....	1,741		1,561			2,081	
<b>Total current liabilities.....</b>	<b>48,236</b>	<b>50.1</b>	<b>41,420</b>	<b>47.4</b>	<b>6,816</b>	<b>46,632</b>	<b>50.4</b>
<b>Long-term liabilities</b>							
Long-term debt.....	170		182			175	
Deferred tax liabilities.....	10		411			9	
Accrued employees' retirement benefits.....	1,161		990			1,053	
Accrued directors' and statutory auditors' retirement benefits.....	373		418			424	
Long-term accrued interest for travel funds.....	0		—			0	
Other long-term liabilities.....	90		58			75	
<b>Total long-term liabilities.....</b>	<b>1,806</b>	<b>1.9</b>	<b>2,061</b>	<b>2.3</b>	<b>(254)</b>	<b>1,738</b>	<b>1.9</b>
<b>Total liabilities.....</b>	<b>50,042</b>	<b>52.0</b>	<b>43,481</b>	<b>49.7</b>	<b>6,561</b>	<b>48,370</b>	<b>52.3</b>
<b>MINORITY INTERESTS</b>							
Minority interests.....	—	—	900	1.0	(900)	—	—
<b>SHAREHOLDERS' EQUITY</b>							
Common stock.....	—	—	6,882	7.9	(6,882)	—	—
Capital surplus.....	—	—	7,782	8.9	(7,782)	—	—
Retained earnings.....	—	—	26,406	30.2	(26,406)	—	—
Unrealized holding gains on securities ...	—	—	1,308	1.5	(1,308)	—	—
Translation adjustments.....	—	—	1,550	1.8	(1,550)	—	—
Treasury stock.....	—	—	(853)	(1.0)	853	—	—
<b>Total shareholders' equity.....</b>	<b>—</b>	<b>—</b>	<b>43,075</b>	<b>49.3</b>	<b>(43,075)</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity.....</b>	<b>—</b>	<b>—</b>	<b>87,458</b>	<b>100.0</b>	<b>(87,458)</b>	<b>—</b>	<b>—</b>

	<i>Millions of yen</i>						
	As of April 30, 2007		As of April 30, 2006		Change	As of Oct. 31, 2006	
<b>NET ASSETS</b>							
<b>Shareholders' equity</b>							
Common stock .....	6,882	7.1	—	—	6,882	6,882	7.4
Capital surplus.....	7,782	8.1	—	—	7,782	7,782	8.4
Retained earnings .....	30,894	32.1	—	—	30,894	29,531	31.9
Treasury stock.....	(861)	(0.9)	—	—	(861)	(857)	(0.9)
<b>Total Shareholders' equity</b>	<b>44,697</b>	<b>46.4</b>	<b>—</b>	<b>—</b>	<b>44,697</b>	<b>43,338</b>	<b>46.8</b>
<b>Appraisal and Translation Differences</b>							
Unrealized losses on securities	(1,126)	(1.2)	—	—	(1,126)	(555)	(0.6)
Deferred gain/loss on hedges	(105)	(0.1)	—	—	(105)	(566)	(0.6)
Translation adjustments	2,434	2.5	—	—	2,434	1,559	1.7
<b>Total Appraisal and Translation Differences</b>	<b>1,202</b>	<b>1.2</b>	<b>—</b>	<b>—</b>	<b>1,202</b>	<b>437</b>	<b>0.5</b>
<b>Minority interests</b>	<b>401</b>	<b>0.4</b>	<b>—</b>	<b>—</b>	<b>401</b>	<b>373</b>	<b>0.4</b>
<b>Total net assets.....</b>	<b>46,301</b>	<b>48.0</b>	<b>—</b>	<b>—</b>	<b>46,301</b>	<b>44,149</b>	<b>47.7</b>
<b>Total Liabilities and Net Assets.....</b>	<b>96,344</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>96,344</b>	<b>92,520</b>	<b>100.0</b>

## 2. Consolidated Statements of Income

	<i>Millions of yen</i>							
	Interim period ended April 30, 2007		Interim period ended April 30, 2006		Compared to previous interim period	FY ended October 31, 2006		
Net sales .....	168,621	100.0	148,020	100.0	20,600	328,980	100.0	
Cost of sales .....	144,129	85.5	125,268	84.6	18,860	280,239	85.2	
Gross profit.....	24,492	14.5	22,752	15.4	1,740	48,740	14.8	
Selling, general and administrative expenses .....	21,549	12.7	20,066	13.6	1,483	41,504	12.6	
Operating income .....	2,942	1.8	2,685	1.8	257	7,235	2.2	
<b>Non-operating income</b>								
Interest income .....	272		171			406		
Foreign exchange gains.....	13		123			129		
Income from equity-accounted affiliates .....	206		—			105		
Miscellaneous income.....	54		80			316		
Total non-operating income .....	546	0.3	375	0.3	171	957	0.3	
<b>Non-operating expenses</b>								
Interest expense .....	5		5			9		
Loss from equity-accounted affiliates .....	—		26			—		
Addition to allowance for bad debts .....	85		40			60		
Miscellaneous expenses .....	51		14			40		
Total non-operating expenses .....	141	0.1	86	0.1	55	110	0.0	
Ordinary income .....	3,347	2.0	2,973	2.0	373	8,082	2.5	
<b>Extraordinary gains</b>								
Gain on sale of fixed assets .....	2		12			14		
Gain on sale of investment securities .....	19		36			48		
Gain on sale of shares of affiliates ..	—		49			49		
Gain on reversal of reserve for losses on liquidation of affiliates.....	—		21			21		
Others .....	1		3			6		
Total extraordinary gains .....	23	0.0	124	0.1	(101)	141	0.0	
<b>Extraordinary losses</b>								
Loss on disposal of fixed assets .....	27		19			37		
Loss on sale of fixed assets .....	2		16			16		
Impairment loss.....	—		74			74		
Loss on prior period adjustment.....	5		13			25		
Others .....	4		6			12		
Total extraordinary losses .....	40	0.0	130	0.1	(89)	166	0.1	
Net income before income taxes.....	3,330	2.0	2,967	2.0	362	8,057	2.4	
Income taxes - current.....	1,272		1,166			3,358		
Income taxes - deferred .....	—		—			(245)		
Total taxes .....	1,272	0.8	1,166	0.8	106	3,112	0.9	
Minority interests .....	27	0.0	59	0.0	(32)	77	0.0	
<b>Net income.....</b>	<b>2,030</b>	<b>1.2</b>	<b>1,741</b>	<b>1.2</b>	<b>288</b>	<b>4,867</b>	<b>1.5</b>	



### 3. Consolidated Statements of Surplus

	<i>Millions of Yen</i>
	Interim period ended April 30, 2006
<b>Capital surplus</b>	
<b>Capital surplus at beginning of period</b> .....	<b>7,782</b>
Increase in capital surplus from:	
Profit from sale of treasury stock .....	0
<b>Capital surplus at end of period</b> .....	<b>7,782</b>
<b>Retained earnings</b>	
<b>Retained earnings at beginning of period</b> .....	<b>25,396</b>
Increase in retained earnings from:	
Interim net income .....	1,741
Increase in consolidated subsidiaries.....	31
Total increase in retained earnings.....	1,773
Decrease in retained earnings from:	
Dividends.....	584
Directors' and statutory auditors' bonuses.....	34
Increase in consolidated subsidiaries .....	144
Total decrease in retained earnings.....	763
<b>Retained earnings at end of period</b> .....	<b>26,406</b>

Consolidated Statements of Changes to Shareholders' Equity  
Current Interim Period (November 1, 2006 to April 30, 2007)

(Millions of Yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of October 31, 2006	6,882	7,782	29,531	(857)	43,338
Fluctuations in the period					
Dividends			(667)		(667)
Net income			2,030		2,030
Acquisition of treasury stock				(4)	(4)
Sale of treasury stock		0		0	0
Fluctuations other than shareholders' equity in the interim period (net)					—
Total fluctuation in the interim period	—	0	1,362	(4)	1,358
Balance as of April 30, 2007	6,882	7,782	30,894	(861)	44,697

	Appraisal and Translation Differences				Minority interests	Total net assets
	Unrealized holding gains/losses on securities	Deferred gain/ loss on hedges	Translation adjustments	Total appraisal and translation differences		
Balance as of October 31, 2006	(555)	(566)	1,559	437	373	44,149
Fluctuations in the interim period						
Dividends				—		(667)
Interim net income				—		2,030
Acquisition of treasury stock				—		(4)
Sale of treasury stock				—		0
Fluctuations other than shareholders' equity in the interim period (net)	(571)	460	875	764	28	792
Total fluctuation in the interim period	(571)	460	875	764	28	2,151
Balance as of April 30, 2007	(1,126)	(105)	2,434	1,202	401	46,301

**Previous Fiscal Year (November 1, 2005 to October 31, 2006)**

(Millions of Yen)

	Shareholders' Equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock		
Balance as of October 31, 2005	6,882	7,782	25,396	(842)		39,218
Fluctuations in the period						
Dividends			(584)			(584)
Directors' and statutory auditors' bonuses			(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 shareholders' 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	Deferred 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)
Directors' and statutory auditors' bonuses				—		(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 shareholders' 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 Cash Flows

	<i>Millions of yen</i>		
	Interim period ended April 30, 2007	Interim period ended April 30, 2006	FY ended October 31, 2006
<b>I. Cash flows from operating activities</b>			
Net income before income taxes.....	3,330	2,967	8,057
Depreciation and amortization .....	597	565	1,176
Amortization of goodwill .....	2	—	5
Increase in allowance for doubtful accounts .....	85	47	69
Increase (decrease) in accrued bonuses .....	(145)	65	273
Increase (decrease) in accrued bonuses for directors.....	(20)	—	42
Increase in accrued employees' retirement benefits.....	106	51	114
Increase (decrease) in accrued directors' and statutory auditors' retirement benefits .....	(51)	7	13
Increase in accrued interest for travel funds .....	2	—	1
Interest and dividend income .....	(287)	(188)	(452)
Loss (gain) on equity-accounted affiliates .....	(206)	26	(105)
Loss (gain) from foreign exchange.....	43	6	(25)
Interest expense .....	5	5	9
Loss on partnership investment .....	35	—	—
Gain on sale of marketable securities .....	(0)	—	—
Gain on sale of investment securities.....	(19)	(36)	(48)
Gain on sale of shares of affiliates .....	—	(49)	(49)
Loss on sale of investment securities.....	0	0	4
Appraisal loss on investment securities .....	—	3	3
Gain on sale of tangible fixed assets .....	(2)	(12)	(14)
Loss on sale of tangible fixed assets .....	2	16	16
Loss on disposal of tangible fixed assets .....	27	17	35
Impairment loss.....	—	74	74
Other losses (gains).....	45	(35)	(23)
Increase in accounts receivable.....	(1,729)	(3,059)	(3,377)
Increase in pre-paid travel deposits .....	(876)	(2,532)	(1,730)
Increase in other assets .....	(188)	(208)	(99)
Increase in notes and accounts payable.....	4,683	2,215	(2,588)
Increase (decrease) in accrued consumption taxes.....	(101)	(72)	172
Increase in accrued expenses .....	145	159	103
Increase (decrease) in pre-trip deposits.....	(1,994)	1,244	4,086
Other increase (decrease) in liabilities .....	(303)	348	718
Increase (decrease) in deferred gain/loss on hedges .....	388	—	(570)
Bonus paid to directors and statutory auditors .....	—	(37)	(37)
<b>Sub-total .....</b>	<b>3,574</b>	<b>1,590</b>	<b>11,032</b>
Interest and dividends received .....	304	188	428
Interest paid .....	(5)	(6)	(9)
Income taxes paid .....	(2,361)	(766)	(1,841)
<b>Net cash provided by operating activities .....</b>	<b>1,511</b>	<b>1,006</b>	<b>9,610</b>

	<i>Millions of yen</i>		
	Interim period ended April 30, 2007	Interim period ended April 30, 2006	FY ended October 31, 2006
<b>II. Cash flows from investing activities</b>			
Increase in term deposits.....	(1,561)	(1,512)	(4,997)
Decrease in term deposits .....	2,128	1,545	5,041
Purchase of marketable securities.....	—	(44)	(101)
Proceeds from sale of marketable securities .....	0	—	—
Proceeds from redemption of marketable securities.....	2,300	550	850
Purchase of tangible and intangible fixed assets .....	(497)	(1,670)	(2,102)
Proceeds from sale of tangible and intangible fixed assets.....	4	32	34
Purchase of investment securities .....	(742)	(1,559)	(3,121)
Purchase of shares of affiliates.....	(236)	(998)	(1,053)
Purchase of shares from minority shareholders .....	—	—	(305)
Proceeds from sale of investment securities .....	174	293	362
Proceeds from redemption of investment securities .....	—	116	116
Proceeds from sale of shares of affiliates .....	10	459	459
Increase in loans receivable .....	(2,012)	(7)	(530)
Collection of loans receivable .....	157	38	91
Acquisition of business .....	—	—	(34)
Increase in guarantee deposits.....	(345)	(180)	(543)
Collection of guarantee deposits .....	59	122	511
Others .....	<b>(23)</b>	<b>(4)</b>	(45)
<b>Net cash used in investing activities .....</b>	<b>(583)</b>	<b>(2,820)</b>	<b>(5,370)</b>
<b>III. Cash flows from financing activities</b>			
Increase in short-term borrowings.....	24	1	1
Repayment of short-term borrowings .....	—	(45)	(46)
Repayment of long-term debt.....	(6)	(55)	(62)
Cash dividends paid.....	(667)	(584)	(584)
Distribution of dividends to minority shareholders.....	(17)	(26)	(26)
Purchase of treasury stock.....	(4)	(11)	(14)
Proceeds from sale of treasury stock .....	0	0	0
<b>Net cash used in financing activities .....</b>	<b>(671)</b>	<b>(721)</b>	<b>(732)</b>
<b>IV. Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>367</b>	<b>368</b>	<b>371</b>
<b>V. Increase (decrease) in cash and cash equivalents ...</b>	<b>624</b>	<b>(2,168)</b>	<b>3,878</b>
<b>VI. Cash and cash equivalents at beginning of period ....</b>	<b>36,515</b>	<b>32,557</b>	<b>32,557</b>
<b>VII. Cash and cash equivalents from newly consolidated subsidiaries at beginning of period.....</b>	<b>—</b>	<b>79</b>	<b>79</b>
<b>VIII. Cash and cash equivalents at end of period .....</b>	<b>37,139</b>	<b>30,468</b>	<b>36,515</b>