Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2009

December 5, 2008

Listed company: **AIN PHARMACIEZ INC.** Exchange listed on: JASDAQ
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(Rounded down to nearest million yen)

1. Consolidated results for the second quarter of fiscal year ending April 30, 2009 (May 1, 2008 to October 31, 2008)

(1) Consolidated operating results

(The percentages indicate the rates of increase or decrease compared with the preceding second quarter.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended October 31, 2008	56,859	–	2,172	–	2,070	–	830	–
Six months ended October 31, 2007	48,831	24.3	1,620	79.8	1,563	75.8	737	111.6

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended October 31, 2008	68.59	68.39
Six months ended October 31, 2007	65.02	64.70

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of October 31, 2008	60,710	14,920	24.5	1,161.24
As of April 31, 2008	57,546	12,707	20.9	1,059.78

Reference: Shareholders' equity As of October 31, 2008 ¥14,884 million As of April 30, 2008 ¥12,040 million

2. Dividends

	Dividend per share				
Record date	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2008	–	0.00	–	20.00	20.00
Year ending April 30, 2009	–	0.00	–	–	–
Year ending April 30, 2009 (forecast)	–	–	–	25.00	25.00

Note: Revision of the above forecasts was not made in the period under review.

3. Consolidated results forecast for the fiscal year ending April 30, 2009 (May 1, 2008 to April 30, 2009)

(The percentages indicate the rates of increase or decrease compared with the preceding fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	115,300	8.5	4,920	10.7	4,720	9.4	2,108	30.5	169.20

Note: Revision of the above forecasts was made in the period under review.

4. Other

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): None

(2) Application of simplified accounting methods/specified accounting methods for preparation of quarterly consolidated financial statements: Yes

For details, see "4. Other Information" on pages 4-5 under the heading of Qualitative Information / Financial Statements.

(3) Changes in accounting principles, procedures or presentation methods used in the preparation of the consolidated financial statements

1. Changes as a result of revisions to accounting standards etc.: None
2. Changes other than (1): None

For details, see "4. Other Information" on pages 4-5 under the heading of Qualitative Information / Financial Statements.

(4) Number of outstanding shares (common stock)

1. Number of outstanding shares at end of period (including treasury stock):

As of October 31, 2008	12,820,106 shares
As of April 30, 2008	11,363,456 shares

2. Number of shares held in treasury at end of period:

As of October 31, 2008	2,630 shares
As of April 30, 2008	2,456 shares

3. Average number of shares outstanding

Six months ended October 31, 2008	12,100,359 shares
Six months ended October 31, 2007	11,344,667 shares

*Statement regarding the proper use of financial forecasts and other special remarks

1. The projected financial results for fiscal year ending April 30, 2009 published on September 10, 2008 were adjusted. For matters on projected financial results, please see Section "3. Qualitative Information" on Projected Consolidated Financial Results in Qualitative Information / Financial Statements on Page 3.
2. The "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No.12) and the "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No.14) are applied from the current consolidated fiscal year. In addition, the Company prepared quarterly consolidated financial statements in accordance with the "Regulations on Quarterly Consolidated Financial Statements."
3. The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

Qualitative Information / Financial Statements

1. Qualitative Information on Consolidated Operating Results

During the six months ended October 31, 2008, with the downturn in the global economy triggered by the financial crisis in the United States and Europe, there are growing concerns about its impact on Japan's real economy such as slowdown in production and spending.

Under such economic situation, the Group has sought to expand its business by opening dispensing pharmacies and urban drug stores, and has formed a business and capital alliance with Seven & i Holdings Co., Ltd. in connection with the healthcare business to further improve the Group's operating base.

The financial results for the first six months ended October 31, 2008 remained favorable with the net sales of ¥56,859 million (16.4% up year on year (y/y)), the ordinary income of ¥2,070 million (32.4% up y/y), and the net income of ¥830 million (12.5% up y/y). The financial results by business segments are as indicated below.

(Pharmaceutical business)

In the pharmaceutical business, the profit structure of dispensing pharmacies as the Company's core business has significantly changed due to the revisions to drug prices and medicine dispensing fees in April 2008.

The Group has powerfully advanced the business development on a nationwide scale to expand its business by opening new stores, and has specifically focused on the building of an efficient management system by further enhancing linkages among the Group, an example of which is the fact that the Group made AIN MEDICAL SYSTEMS Inc. its wholly owned subsidiary through stock swap.

With the introduction of the six-year curriculum in pharmaceutical education at colleges, it is expected to become difficult to hire new graduate pharmacists who will graduate in March 2010 or 2011. For this reason, in the current fiscal year, the Company hired more than 280 new graduates as pharmacists and provided them with a three-month training program to prepare for further business expansion.

During the six months ended October 31, 2008, financial results remained steady in existing stores, and the total number of dispensing pharmacies in operation became 360 in the whole Group as a result of opening of seven stores including transfer of business, and the acquisition of Saitama-Chozai by Asahi-Chozai Co., Ltd., a subsidiary of the Group, and store-closing / transfer of business of five stores.

Accordingly, the Group marked increases in both sales and profit with the net sales of ¥49,877 million and the operating income of ¥2,792 million.

(Product sales business)

In the product sales business, the Group has improved its earnings through the specialty-oriented store development with the cosmetic store called "Tulpe" focusing on cosmetic products in addition to the urban drug stores as "Ainz & Tulpe," and through the remodeling of stores and the review of the logistics system based on the new MD.

Regular discussions started on a practical level with Seven & i Holdings Co., Ltd. with which a business alliance was formed in April of the current year. Through these discussions, the Group has been promoting a business cooperation system by making effective use of management resources of the both companies, such as a project to open stores in commercial facilities owned by the Seven & i Group.

During the six months ended October 31, 2008, a "Tulpe" store was opened at a shopping center located in Tsuzuki, Yokohama in May 2008 while a suburban store was closed in the Tokai region. As a result, the total number of drug stores amounted to 45 including AIN TOKAI Inc., a subsidiary of the Group.

Despite the steady progress in the profit recovery brought about by the measures stated above, the Group failed to achieve a turnaround in the net sales of existing stores due to the consumer stagnation in the economic slowdown, having the net sales of ¥6,849 million and the operating loss of ¥109 million.

(Other businesses)

Net sales and operating loss from other businesses were ¥131 million and ¥36 million, respectively.

2. Qualitative Information on Consolidated Financial Position

Total assets as of October 31, 2008 grew by ¥3,164 million to ¥60,710 million from the end of the preceding consolidated fiscal year. This was mainly because of the receivables, inventories, tangible fixed assets, and deposits/guarantees associated with the store opening in the both pharmaceutical and product sales businesses.

Liabilities increased by ¥951 million to ¥45,790 million with the growth of ¥1,348 million to ¥19,924 million in interest-bearing debt as a result of the review on the ratio between the liquidation level of receivables on dispensing and bank loans payable.

Net assets amounted to ¥14,920 million, increasing by ¥2,212 million because of the net income for the six months ended October 31, 2008, the third-party allocation of new shares to Seven & i Holdings Co., Ltd., the stock swap with AIN MEDICAL SYSTEMS Inc., and the exercise of the equity warrants. The equity ratio improved by 3.6 points to 24.5%.

3. Qualitative Information on Projected Consolidated Financial Results

As for the future outlook, the business performance in new and existing stores for the six months ended October 31, 2008 generally went as planned. However, the projected consolidated net sales for the full year was lowered by ¥5,300 million in consideration of the fact that the target net sales in the product sales business is not achieved due to the penetration of the sales policy based on the new MD (merchandise mix focusing on the gross margin rate instead of small profits and quick returns) and the downturn in general consumer spending, as well as that openings of some stores are behind on schedule.

On the other hand, as the improved gross margin rate in the product sales business and the cost containment in the whole Group are expected to complement the impact of the decreased net sales on income, the Group's forecast remains the same as the previously published figures in terms of operating income, ordinary income and net income.

Net income per share is lowered by 0.03 yen from the previously published figure to reflect the exercise of equity warrants during the six month ended October 31, 2008.

The following table shows differences from the projected consolidated financial results previously published for the full year.

	Net sales	Operating income	Ordinary income	Net sales	Net income per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previously published forecast (A)	120,600	4,920	4,720	2,108	169.23
Current adjusted forecast (B)	115,300	4,920	4,720	2,108	169.20
Amount of change (A – B)	5,300	–	–	–	0.03
Percentage change (%)	(4.4)	–	–	–	0.0
Actual results of previous fiscal year	106,231	4,444	4,315	1,615	142.36

4. Other Information

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): None

(2) Application of simplified accounting methods/specified accounting methods for preparation of quarterly consolidated financial statements

1. Calculation method for depreciation of fixed assets

Depreciation of fixed assets was calculated by the method in which the estimated annual depreciation amount based on the budget for the current consolidated fiscal year was proportionally distributed over the year to adjust actual results of acquisition, sale or retirement during the year.

2. Judgment on the collectability of deferred tax assets

As no significant change was found in the management environment and the occurrence of temporary differences after the end of the previous consolidated fiscal year, the projected financial results and tax planning for the future used in the settlement of the previous consolidated fiscal year were used in the judgment on the collectability of deferred tax assets.

3. Calculation method for deferred and accrued accounts

Deferred and accrued accounts were calculated by posting estimated figures based on a reasonable computation method.

4. Calculation of tax expenses

Tax expenses were calculated by reasonably estimating the effective tax rate after the application of the tax effect accounting to the net income before taxes for the consolidated fiscal year including the current 2Q consolidated cumulative period, and multiplying the estimated effective tax rate by the net income before taxes and other adjustments for the quarter.

In addition, deferred income taxes are included in income taxes.

(3) Changes in accounting principles, procedures or presentation methods used in the preparation of the consolidated financial statements

1. The "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No.12) and the "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No.14) are applied from the current consolidated fiscal year.

In addition, the Company prepared quarterly consolidated financial statements in accordance with the "Regulations on Quarterly Consolidated Financial Statements."

2. Associated with the application of the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006) starting from the first quarter consolidated accounting period, in terms of the inventories held for sale in the ordinary course of business, drugs for dispensing, which was mainly subject to the traditional cost method based on the gross average method in the past, is calculated by the new cost method based on the gross average method

(where balance sheet values are subject to write-downs corresponding to the decreased profitability) while the merchandise other than drugs for dispensing, which was mainly subject to the traditional cost method based on the retail method in the past, is calculated by the new cost method based on the retail method (where balance sheet values are subject to write-downs corresponding to the decreased profitability).

This application has no impact on operating income, ordinary income and net income before taxes and other adjustments for the quarter.

3. As it became possible to apply the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007), the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 issued by the Accounting System Committee of the JICPA on January 18, 1994 and revised on March 30, 2007) to quarterly consolidated financial statements for the consolidated fiscal years commencing on or after April 1, 2008, the Company started, in the first quarter consolidated accounting period, applying these accounting standards subject to the accounting procedure for normal sales transactions.

   As the depreciation method for the leased assets associated with non-ownership transfer finance lease transactions, the Company has adopted the straight-line method in which the lease period equals to the useful life with a residual value of zero.

   In addition, the non-ownership transfer finance lease transactions with the lease transaction start date before the first fiscal year of the application of the lease accounting remain subject to the accounting procedure based on the method for lease transactions.

   This application has just a minor impact on operating income, ordinary income and net income before taxes and other adjustments for the quarter.

   Impacts on segment information are indicated in relevant parts.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(¥ thousand)

	Six months ended October 31, 2008 (As of October 31, 2008)	Fiscal year ended April 30, 2008 (As of April 30, 2008)
Assets:		
Current assets:		
Cash on hand and in banks	4,775,841	4,315,144
Notes and accounts receivable	11,237,942	8,964,331
Inventories	5,653,147	5,264,604
Supplies	92,020	90,839
Deferred tax assets	576,205	568,870
Short-term loans	543,494	594,282
Other accounts receivable	2,059,994	2,421,622
Other current assets	505,455	424,247
Allowance for doubtful accounts	(33,645)	(35,153)
Total current assets	25,410,455	22,608,788
Fixed assets:		
Tangible fixed assets:		
Buildings and structures, net	5,892,571	5,794,583
Land	4,972,729	4,849,362
Other tangible fixed assets, net	1,115,320	918,425
Total tangible fixed assets	11,980,622	11,562,371
Intangible fixed assets:		
Goodwill	13,266,240	13,459,919
Other intangible fixed assets	507,325	443,469
Total intangible fixed assets	13,773,565	13,903,389
Investments and other assets:		
Investments in securities	1,940,491	1,964,107
Deferred tax assets	948,067	884,241
Deposits and guarantees	6,143,047	6,111,327
Other investments and other assets	773,104	770,363
Allowance for doubtful accounts	(258,426)	(258,000)
Total investments and other assets	9,546,284	9,472,039
Total fixed assets	35,300,471	34,937,800
Total assets	60,710,927	57,546,589

(¥ thousand)

	Six months ended October 31, 2008 (As of October 31, 2008)	Fiscal year ended April 30, 2008 (As of April 30, 2008)
Liabilities:		
Current liabilities:		
Accounts payable	18,212,925	18,576,099
Short-term debt	7,319,990	7,377,090
Accrued income taxes	983,740	1,214,488
Deposits received	2,819,852	2,704,348
Allowance for bonuses to employees	872,410	718,512
Allowance for bonuses to directors	25,174	42,940
Reserves for reward card obligations	278,767	278,767
Other current liabilities	1,340,321	1,658,245
Total current liabilities	31,853,182	32,570,493
Long-term liabilities:		
Bonds	286,000	472,000
Long-term debt	12,318,198	10,726,414
Allowance for retirement benefits	812,304	735,294
Other long-term liabilities	520,757	334,873
Total long-term liabilities	13,937,260	12,268,582
Total liabilities	45,790,443	44,839,076
Net Assets:		
Shareholders' equity:		
Common stock	5,047,526	3,424,170
Capital surplus	4,237,520	3,543,738
Retained earnings	5,830,100	5,207,517
Treasury stock	(3,745)	(3,435)
Total shareholders' equity	15,111,402	12,171,991
Valuation and translation adjustments:		
Unrealized holding gain on securities	(227,278)	(131,883)
Total valuation and translation adjustments	(227,278)	(131,883)
Minority interests	36,360	667,405
Total net assets	14,920,484	12,707,512
Total liabilities and net assets	60,710,927	57,546,589

(2) Quarterly Consolidated Statements of Income

(¥ thousand)

	Six months ended October 31, 2008 (May 1, 2008 to October 31, 2008)
Net sales	56,859,193
Cost of sales	49,701,350
Gross profit	7,157,843
Selling, general and administrative expenses	4,985,565
Operating income	2,172,278
Non-operating income:	
Interest income	17,207
Dividend income	12,036
Commissions received	26,731
Real estate rental revenue	28,748
Consignment income	16,605
Other non-operating income	38,042
Total non-operating income	139,371
Non-operating expenses:	
Interest expenses	191,396
Loss on sales of receivable	27,954
Real estate rental expenses	6,199
Other non-operating expenses	15,471
Total non-operating expenses	241,022
Ordinary income	2,070,628
Extraordinary income:	
Gain on sale of investments in securities	582
Gain on sale of tangible fixed assets	2,452
Other extraordinary income	7,731
Total extraordinary income	10,766
Extraordinary losses:	
Loss on disposal of fixed assets	9,320
Loss on devaluation of investments in securities	179,747
Asset impairment losses	36,967
Other extraordinary losses	51,129
Total extraordinary losses	277,163
Income before income taxes and minority interests	1,804,230
Income taxes	973,475
Minority interests	742
Net income	830,012

(4) Quarterly Consolidated Statements of Cash Flows

(¥ thousand)

	Six months ended October 31, 2008 (May 1, 2008 to October 31, 2008)
Cash flows from operating activities:	
Income before income taxes and minority interests	1,804,230
Depreciation and amortization	526,697
Asset impairment losses	36,967
Amortization of goodwill	390,623
Loss on devaluation of investments in securities	179,747
Increase in allowance for retirement benefits	77,009
Increase in allowance for bonuses to employees	153,897
Decrease in allowance for bonuses to directors	(17,765)
Interest and dividend income	(29,243)
Interest expenses	191,396
Loss on disposals and sales of tangible fixed assets	6,867
Increase in accounts receivable	(2,225,804)
Increase in inventories	(377,431)
Decrease in accounts payable	(417,927)
Other	234,469
Subtotal	533,734
Interest and dividends received	27,892
Interest paid	(191,184)
Income taxes paid	(1,260,327)
Net cash used in operating activities	(889,883)
Cash flows from investing activities:	
Payments for purchases of tangible and intangible fixed assets	(862,089)
Proceeds from sales of tangible and intangible fixed assets	7,152
Payments for purchases of investments in securities	(347,580)
Proceeds from sales of investments in securities	1,264
Payments for purchases of shares in affiliated companies	(179,675)
Payments for loans	(4,592)
Proceeds from collections of loans	78,074
Payments for time deposits	(24)
Proceeds from withdrawal of time deposits	120,024
Other	(83,685)
Net cash used in investing activities	(1,271,131)
Cash flows from financing activities:	
Proceeds from short-term borrowings	5,591,032
Repayments for short-term borrowings	(6,598,000)
Proceeds from long-term borrowings	4,000,000
Repayments for long-term borrowings	(1,458,348)
Payment for redemption of bonds	(186,000)
Proceeds from issue of shares	1,654,684
Repayments of lease obligations	(14,396)
Payments for purchase of common stock	(309)
Cash dividends paid	(227,220)
Dividend payments to minority shareholders	(19,730)
Net cash provided by financing activities	2,741,712
Increase in cash and cash equivalents	580,696
Cash and cash equivalents at beginning of the period	4,195,144
Cash and cash equivalents at end of the period	4,775,841

Effective from the fiscal year ending March 31, 2009, the company adopted the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12) and Guidance on the Accounting Standard for Quarterly Financial Reporting (ASBJ Guidance No. 14). The company prepares its quarterly consolidated financial statements in accordance with the "quarterly consolidated financial accounting rules."

(4) Notes on the premise of a going concern

None.

(5) Segment Information

[Business Segment Information]

Six months ended October 31, 2008 (May 1, 2008 to October 31, 2008)

(¥ thousand)

	Pharmaceutical Business	Product Sales business	Other businesses	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to external customers	49,877,594	6,849,781	131,817	56,859,193	–	56,859,193
(2) Inter-segment sales and transfers	–	3,000	9,373	12,373	(12,373)	–
Total	49,877,594	6,852,781	141,191	56,871,567	(12,373)	56,859,193
Operating income (loss)	2,792,606	(109,543)	(36,477)	2,646,584	(474,306)	2,172,278

Notes: 1. Business segmentation

Businesses are segmented based on the method adopted for internal management.

2. Individual business segments involve the following activities.

Pharmaceutical business: Management of dispensing pharmacies, franchise operation, temporary staff/recruiting and consulting services, selling of pharmaceuticals and generic drugs.

Product sales business: Selling of pharmaceuticals, cosmetics and household groceries, franchise operation, consultant practice on opening of shopping centers, management of pharmacies

Other businesses: Real-estate leasing service

3. Changes in accounting methods

As stated in the section of "changes in accounting principles/procedures and indications associated with preparation of quarterly consolidated financial statements," the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007), the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 issued by the Accounting System Committee of the JICPA on January 18, 1994 and revised on March 30, 2007)" are early applied from the 1Q consolidated accounting period.

This change has just a minor impact on the operating income from the "pharmaceutical business."

[Segment information by location]

Six months ended October 31, 2008 (May 1, 2008 to October 31, 2008)

This is not applicable because the Company has no subsidiary or important branch office located in foreign countries.

[Overseas net sales]

Six months ended October 31, 2008 (May 1, 2008 to October 31, 2008)

This is not applicable because the Company has no sales in foreign countries.

(6) Notes on significant changes in the amount of shareholders' equity

The Company increased capital through a third-party allocation of new shares to Seven & i Holdings Co., Ltd. on August 26, 2008. In addition, the stock swap with AIN MEDICAL SYSTEMS Inc. on June 1, 2008 and the exercise of the equity warrants during the six months ended October 31, 2008 increased common stock and capital reserves by ¥1,623 million and ¥693 million, respectively.

Accordingly, as of October 31, 2008, common stock and capital reserves amounted to ¥5,047 million and ¥3,237 million, respectively.

The fund financed through the third-party allocation of new shares is currently kept as retained earnings for future investments.

[Reference]
Financial Statements for the Interim Period of Fiscal Year Ended April 30, 2008
(1) Interim Consolidated Statements of Income

(¥ thousand)

Item / Fiscal period	Six months ended October 31, 2007 (May 1, 2007 to October 31, 2007)	
	Amount	Proportion of total
	(¥ thousand)	%
I. Net sales	48,831,105	100.0
II. Cost of sales	42,706,469	87.5
Gross profit	6,124,635	12.5
Selling, general and administrative expenses	4,503,965	9.2
Operating income	1,620,670	3.3
IV. Non-operating income:		
1. Interest income	11,045	
2. Commissions received	26,373	
3. Income from donations	27,711	
4. Guarantee deposits	26,857	
5. Other non-operating income	92,229	
Total non-operating income	184,217	0.4
V. Non-operating expenses:		
1. Interest expenses	170,821	
2. Loss on sales of receivable	27,529	
3. Loss on funds managed in investment partnerships	942	
4. Other non-operating expenses	41,823	
Total non-operating expenses	241,116	0.5
Ordinary income	1,563,770	3.2
VI. Extraordinary income:		
1. Gain on sale of fixed assets	14,870	
2. Gain on sale of investments in securities	0	
3. Insurance income	339,277	
4. Other extraordinary income	16,600	
Total extraordinary income	370,749	0.8
VII. Extraordinary losses:		
1. Loss on disposals and sales of fixed assets	18,942	
2. Asset impairment losses	143,649	
3. Provision for allowance for retirement benefits	30,000	
4. Provision for allowance for doubtful accounts	70,718	
5. Other extraordinary losses	49,079	
Total extraordinary losses	312,391	0.7
Income before income taxes and minority interests	1,622,129	3.3
Income taxes—current	952,325	
Income taxes—deferred	(116,123)	
Total income taxes	836,201	1.7
Minority interests	48,351	0.1
Net income	737,576	1.5

(4) Interim Consolidated Statements of Cash Flows

Item / Fiscal period	Six months ended October 31, 2007 (May 1, 2007 to October 31, 2007)
	Amount
	(¥ thousand)
I. Cash flows from operating activities:	
1. Income before income taxes and minority interests	1,622,129
2. Depreciation and amortization	453,931
3. Asset impairment losses	143,649
4. Amortization of goodwill	356,237
5. Decrease in allowance for doubtful accounts	(5,487)
6. Increase in allowance for retirement benefits	109,538
7. Increase in allowance for bonuses to employees	65,015
8. Decrease in allowance for bonuses to directors	(9,999)
9. Retirement benefits to directors	30,000
10. Interest and dividend income	(21,878)
11. Interest expenses	170,821
12. Loss on funds managed in investment partnerships	942
13. Gain on sales of investments in securities	(0)
14. Loss on disposal and sales of investments in securities	18,942
15. Gain on sales of fixed assets	(14,870)
16. Increase in accounts receivable	(972,656)
17. Decrease in inventories	198,845
18. Increase in other assets	(361,479)
19. Increase in accounts payable	1,702,648
20. Increase in other liabilities	482,386
21. Bonuses paid to directors	(6,000)
Subtotal	3,962,716
22. Interest and dividends received	19,287
23. Interest paid	(170,683)
24. Payments for retirement benefits to directors	(30,000)
25. Income taxes paid	(721,126)
Net cash provided by operating activities	3,060,193

(¥ thousand)

Item \ Fiscal period	Six months ended October 31, 2007 (May 1, 2007 to October 31, 2007)
	Amount
	(¥ thousand)
II. Cash flows from investing activities:	
1. Payments for purchases of tangible fixed assets	(864,621)
2. Proceeds from sales of tangible fixed assets	30,886
3. Payments for purchases of investments in securities	(138,612)
4. Payments for purchases of shares in affiliated companies	(4,577,144)
5. Proceeds from sales of investments in securities	43,832
6. Payments for loans receivable	(455,471)
7. Proceeds from collections of loans	319,977
8. Payments for investments in capital	(4,115)
9. Payments for purchases of intangible fixed assets	(128,981)
10. Proceeds from sales of intangible fixed assets	15
11. Payments for purchases of investments and other assets	(202,264)
12. Proceeds from sales of investments and other assets	154,967
13. Proceeds from withdrawal of time deposits	6,150
Net cash used in investing activities	(5,815,382)
III. Cash flows from financing activities:	
1. Proceeds from short-term borrowings	10,767,497
2. Repayments for short-term borrowings	(12,433,203)
3. Proceeds from long-term borrowings	5,858,475
4. Repayments for long-term borrowings	(1,547,967)
5. Payment for redemption of bonds	(40,000)
6. Proceeds from issue of shares	51,126
7. Cash dividends paid	(202,509)
8. Dividend payments to minority shareholders	(19,726)
Net cash provided by financing activities	2,433,692
IV. Decrease in cash and cash equivalents	(321,497)
V. Cash and cash equivalents at beginning of the period	4,180,709
VI. Cash and cash equivalents at end of the period	3,859,212

(3) Segment Information

[Business Segment Information]

Six months ended October 31, 2007 (April 1, 2007 to October 31, 2007)

(¥ thousand)

	Pharmaceutical Business	Product Sales business	Other businesses	Total	Eliminations/ Corporate	Consolidated
Net sales						
(1) Sales to external customers	41,569,360	7,127,165	134,578	48,831,105	–	48,831,105
(2) Inter-segment sales and transfers	931	3,000	9,373	13,305	(13,305)	–
Total	41,570,292	7,130,165	143,952	48,844,410	(13,305)	48,831,105
Operating expenses	39,248,158	7,322,774	181,247	46,752,180	458,254	47,210,435
Operating income (loss)	2,322,134	(192,608)	(37,295)	2,092,230	(471,560)	1,620,670

Notes: 1. Business segmentation

Businesses are segmented based on the method adopted for internal management.

2. Individual business segments involve the following activities.

Pharmaceutical business: Management of dispensing pharmacies, franchise operation, temporary staff/recruiting and consulting services, selling of pharmaceuticals and generic drugs.

Product sales business: Selling of pharmaceuticals, cosmetics and household groceries, franchise operation, consultant practice on opening of shopping centers, management of pharmacies

Other businesses: Real-estate leasing service

3. Operating expenses, which are not allocated to each segment are included in "Eliminations/Corporate", consist mainly of administrative expenses of general affairs and accounting department at parent company. Figure for the previous interim period was ¥458,254 thousand.

4. Above figure is not included in consumption tax.

[Segment information by location]

Previous interim period (May 1, 2007 to October 31, 2007)

This is not applicable because the Company has no subsidiary or important branch office located in foreign countries.

[Overseas net sales]

Previous interim period (May 1, 2007 to October 31, 2007)

This is not applicable because the Company has no sales in foreign countries.