Hankyu Department Stores, Inc.

FINANCIAL REPORT 2007

Hankyu

Profile

Hankyu Department Stores was established in 1929 in Umeda, Osaka, as the world's first railway terminal department store by Mr. Ichizo Kobayashi, the founder of the Hankyu Corporation. Helped by the ability of a railway terminal to attract customers, the store grew together with the Umeda area, and a succession of stores in other areas were subsequently opened.

In 1947 the Company was spun off from Hankyu Corporation and formed the Hankyu Department Stores Group.

Currently, the Group consists of 40 subsidiaries and 6 affiliates that operate retail businesses, including its core-department store operations, supermarket operations, and shopping center operations.

Contents

General Business Conditions

Ⅰ. Business Performance

The Hankyu Department Stores Group continued the work of laying the foundation for its "GP10 Plan" in the reporting term. Under this long-term management plan, which runs through fiscal 2015, the Group aims to achieve sales of ¥600 billion and operating income of ¥30 billion, both on a consolidated basis. To this end, the Group is expanding the scale of its operations, and undertaking various initiatives to reinforce its business foundation by enhancing its marketing capacity, increasing the efficiency of its operations, and tightening its system of internal controls.

In the department store business, although revenue fell due to large-scale reconstruction work on the Umeda flagship store – necessitating a reduction in sales floor space – sales at the Umeda store exceeded our expectations, and our branches also performed well during the reporting term.

In the supermarket business, revenues rose dramatically, thanks to contributions from the Hankyu Nissho Store (Nissho Corporation was renamed after becoming a subsidiary during the reporting term) and new store openings. As a result, sales on a consolidated basis far exceeded our initial forecasts. Thus, we were able to cover the shortfall in revenue associated with the reconstruction of the Umeda store, and achieved growth in both revenues and earnings.

Operating performance (Reference) Initial forecasts

	Millions of yen	YoY % increase	(Reference) Initial forecasts: Millions of yen
Net sales	395,950	3.8	361,000
Operating income	14,764	1.2	11,000
Net income	8,100	2.2	6,600

In April 2006, we made the decision to open a store in the JR New Hakata Station Building, scheduled to begin operation in the spring of 2011.

In the future, we will do our best to take advantage of the favorable conditions offered by our railway station property in the growing metropolis of Fukuoka, leveraging our expertise in the operation of terminal building department stores with the aim of creating a new model for department stores in the 21st century.

From September 2006 onward, we began talks with The Hanshin Department Store, Ltd. with regard to a business tie-up. However, the two companies decided instead that management integration would be more effective. On March 26, 2007 the two companies agreed to undertake management integration, effective 1st October 2007, and to establish a holding company under which the two operating companies will be managed.

The flagship store of Hankyu is the No. 1 store in the Umeda area (central Osaka), while Hanshin's flagship store is in the No. 2 position. By building a complementary relationship between the two stores, we aim to become the overwhelming market leader in the area.

Ahead of the management integration on 1st October 2007, we have set up a Management Integration Committee, which is making the necessary preparations.

The following is the performance of each business segment:

Department Store Business

1) Umeda Main Store

We began reconstruction of the Umeda store in September 2005. Although the sales area was reduced by about 30%, we have been working to minimise the negative impact by enhancing the appeal of our sales displays through more frequent release of new products and the hosting of attractive events. We are also making efforts to enhance our sales promotion function by offering distinctive products that can become topics of conversation during special sales campaigns, such as the Christmas shopping season, among other means.

To cultivate loyalty with our customers, we are providing store card holders with a variety of information services and privileges to encourage visits to the store and use of these services. We have also begun hosting innovative new events outside the store for frequent visitors and loyal customers. As a result of these and other measures to enhance customer satisfaction, sales through our store card rose approximately 3% from the previous year, providing momentum to overall sales.

To boost our external sales, we increased the number of events hosted at external locations and promoted greater use of the Internet. Through these channels, we were able to dramatically increase sales of cosmetics, one of our specialties, which contributed significantly to total sales in this segment.

Thanks to the implementation of various measures, the decline in sales was approximately 10% for the first-half period, attributable to a 30% reduction in the floor space year-on-year, the closing of the southern concourse in July 2006 and changes in access routes for sales counters. Sales in the second-half period remained virtually unchanged from the same period of the previous year.

Sales for the whole period fell by 6.6%, which was much better than our initial forecast of a 12.7% decline, and we continued to win the top spot in terms of sales among department stores in Western Japan.

2) Branch Stores and Sales Measures

Each branch store implemented a detailed merchandise policy in accordance with local conditions and worked to retain customer loyalty by offering point cards for the branch. As a result, eight of our nine existing branches recorded revenue increases for the reporting term. On the whole, sales were steady throughout the entire fiscal year.

At our Sakai Kitahanada Hankyu branch, we made progress in encouraging loyalty among customers through the use of a point card system and other measures. As a result, food items, which accounted for over 50% of sales, registered over 10% growth in revenue from the previous year. The store overall realised a substantial 9% growth in revenue. In particular, to expand merchandising in the manner expected of department stores, we rounded out our lineup of cosmetic products in the fall of 2005. Then, this spring we increased our lineup of women's fashions, and made steady progress with renovation.

At our Tsuzuki Hankyu branch, we were required to respond to changes in our operating environment, which included an increase in the local population and a conversion in the business format of nearby commercial facilities. To this end, we worked to win new customers through the use of a point card membership system and put greater emphasis on the hosting of special events. We were able to link growth in potential customers to sales, and as a result, sales grew 8% over the previous period.

At our Shijo Kawaramachi Hankyu branch, the renovation of our mens' fashion sales area in September 2006 bore fruit, contributing significantly to a recovery in sales. Sales for the branches as a whole rose 2% over the previous term on existing stores basis.

In addition to these various marketing initiatives, we opened a school in Osaka in April 2006 as a training facility for encouraging creativity and instilling in our employees the will to take on challenges, as well as raising their awareness of their responsibilities and enhancing their social status.

Since the school's opening, we have been engaged in various types of training, focused on encouraging communication between employees, primarily through a discussion format. However, use of the school is not limited to department store employees. We actively encourage Group members to use the school for their own training programs and as a forum for interaction between Group members.

The following is the performance of the department stores business as a result of these measures.

Department stores business

	Millions of yen	YoY % increase (decrease)
Sales	291,567	(3.1%)
Operating income	11,800	1.2%

Supermarket Business

The supermarket business is our second core business after the department store business. During the reporting period, Hankyu Oasis, Inc. opened one new store, and Hankyu Family Store, Co., Ltd. opened two new stores.

In July last year, we made the supermarket chain of Nissho Corporation a subsidiary and renamed it Hankyu Nissho store. This chain of 23 stores is situated primarily along the Hankyu Railways Takarazuka Line. Through this move, we made dramatic progress in securing a dominant position in the Hokusetsu district (covering northern Osaka and eastern Hyogo prefectures), and expanded annual supermarket sales to the ¥100 billion level.

In the fiscal second half, we were able to boost the profitability of existing stores through the renovation and expansion of Hankyu Oasis's leading store at Mukonoso in Amagasaki City, Hyogo Prefecture, and the renovation of each outlet of the Hankyu Nissho Store chain.

We commenced full-scale operation of our logistics center and undertook other measures to improve the infrastructure for the rapid expansion of operations. In September 2006, we established Hanshoku Co., Ltd. as an intermediary holding company to serve as a control center for supermarket operations. We have introduced a variety of measures to facilitate greater coordination between our supermarket and food production subsidiaries, improve the per-unit cost of procurement by leveraging economies of scale, and reduce costs for the business as a whole.

Amid intensifying competition, our revenue registered a year-on-year rise thanks to the favorable sales results reported by our existing stores, as well as contributions to revenue by our new stores and the inclusion of Nissho Corporation in the scope of consolidation. On the other hand, our operating income declined as a result of massive investments, mainly for group-wide system integration and store renovations.

Supermarket business

	Millions of yen	YoY % increase (decrease)
Sales	78,257	53.6
Operating income	1,000	(22.3)

Property Management Business

Hankyu Shopping Center Development Co., Ltd. has been implementing measures to enhance its profitability by improving its vacancy rate for properties under its management. In particular, competition was expected to intensify with the commencement of operation of another commercial facility near the Mosaic Mall Kohoku, a large-scale commercial facility in Yokohama City. We have improved building facilities and have undertaken a review of our tenants, while simultaneously strengthening our collaboration with Tsuzuki Hankyu, our core tenant. In this way, we have made efforts to enhance the appeal of this shopping center.

As a result, four of the five properties under our direct management registered year-on-year growth in earnings. In 2005, two “Can Meet” variety shops located in JR Omiya station in Saitama and JR Shinagawa station in Tokyo reported growth in both revenues and earnings thanks to careful product development calling for the provision of the right product at the right time.

Oi Development Co., Ltd., which operates business hotels, made efforts to raise the weekend occupancy rate by utilising its website to stimulate interest in local tourist attractions and worked to attract more groups as guests. As a result of these efforts, occupancy rates rose above 93% with growth in both revenues and earnings.

Property management business

	Millions of yen	YoY % increase
Net sales	9,284	0.6
Operating income	1,614	5.5

Other Businesses

Although sales declined for this business segment, operating income increased substantially. In October 2005, the Company sold investments in Hankyu Kyoei Pharmacy Co., Ltd., which accounted for approximately 20% of total sales for the segment. This rise in operating income was the result of efforts by each subsidiary to improve its profitability.

Hankyu Kitchen Yell Co., Ltd., which provides a home delivery service in the Kansai area, has been working to acquire new customers in its operating territory and raise freguency of receiving orders. By also undertaking a review of its product line-up, the company increased revenues by 7% year-on-year. In addition, the company improved its profit ratio by focusing on perishable foods and miscellaneous items with a high profit margin. At the same time, it undertook a review of costs, including personnel costs and telecommunication costs. Consequently, the company was able to realise a dramatic improvement in profitability and move its business into the black for the first time in the fifth year of its existence.

Hankyu Job Yell, Co., Ltd., a temp staff company, withdrew from unprofitable businesses, while simultaneously working to cultivate a pool of skilled staff. As a result, the number of new contracts from both within and outside the Group increased, resulting in a dramatic rise in revenues and a return to the black.

Other businesses

	Millions of yen	YoY % increase (decrease)
Sales	16,842	(16.0)
Operating income	338	155.5

Note: Effective from the reporting period, the Company changed its business segmentation. The performance for the previous term has been recalculated in line with the new segmentation.

Management Issues to be Resolved

The Group is expanding the scale of its operations so as to attain the goals of the long-term GP10 plan. From September 2005, we commenced renovation of our Umeda main store, which is the engine driving the overall plan. In addition, we are making preparations for the opening of a new department store in the second half of fiscal 2008 in Nishinomiya City, Hyogo Prefecture. Successive new store openings have been carried out in the supermarket business. A new department store will be opened in Hakata Ward, Fukuoka City, and we have also decided on large-scale projects, such a redevelopment project opposite Oimachi Station in Tokyo’s Shinagawa Ward.

We will undertake these projects and review the organisational structures and systems that make up the skeleton of our Group management system with the plan of preparing a firm base to support an expansion of our business operations.

On the occasion of our management integration with The Hanshin Department Store, Ltd., scheduled for October 1, 2007, we are taking this opportunity to adopt a holding company system and will seek to realise synergies through management integration of the two department store operators as quickly as possible. We also aim to accelerate the speed of our market share expansion in the Kansai area through the basic strategies for diversification in retail operations outlined in our GP10 Plan.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

In the reporting term, the Companies are pursuing growth strategies in line with the GP10 Plan, targeting net sales of ¥600 billion and operating income of ¥30 billion for the term ending March 2015. With regard to our department store operations, which are central to the GP10 Plan, we are rebuilding our flagship store in Umeda so that it can maintain its overwhelming position as the number one store in the area. The opening of the new store is scheduled for fiscal 2011.

The performance of the Umeda store, even with the reduction of its sales area during the rebuilding, was much better than we had expected at the beginning of the year. Our other department stores also reported a steady growth in sales.

In the supermarket business, our second core business, we opened new stores and made Nissho Corporation into a subsidiary, renaming it the Hankyu Nissho Store. In this way, we expanded the scope of operations and made aggressive efforts to dominate the Hokusetsu district (northern Osaka and eastern Hyogo prefectures).

In September 2006, we established Hanshoku Co., Ltd. as an intermediary holding company to serve as a control center for supermarket operations. We have introduced a variety of measures to facilitate greater coordination between our supermarket and food production subsidiaries, improve the per-unit cost of procurement by leveraging economies of scale, and reduce costs for the business as a whole.

As a result, net sales and operating income far exceeded our initial forecasts, showing growth in both revenues and earnings, offsetting the negative impact of the reduction of the sales area in the Umeda main store.

Operating Performance

Net sales

Net sales for the term increased by ¥14,665 million from the previous term to ¥395,950 million ($3,355,508 thousand).

In the department store business, the floor space of the Umeda main store was reduced about 30% year-on-year for the first-half period due to rebuilding work that started in September 2005, which led to a ¥12 billion decline in total revenue. However, nearly all of our existing department stores reported a rise in revenue, partially offsetting the decrease in sales at the Umeda main store. Consequently, sales declined 3.1% to ¥291,567 million. As for the Umeda main store, sales declined by 6.6%, which is much better than our initial forecast of a 12.7% fall. These results are attributable to various measures such as enhanced merchandising, promotional events during the sales campaign season, and more aggressive marketing measures targeting loyal customers and holders of Persona Cards and our point cards, as well as measures to enhance customer satisfaction.

In the supermarket business, Hankyu Oasis and Hankyu Family Store actively opened new supermarkets, and the Nissho Store was made into a subsidiary, which contributed to increasing revenues by ¥24,067 million. As a result, sales totaled ¥78,257 million, up 53.6% year on year.

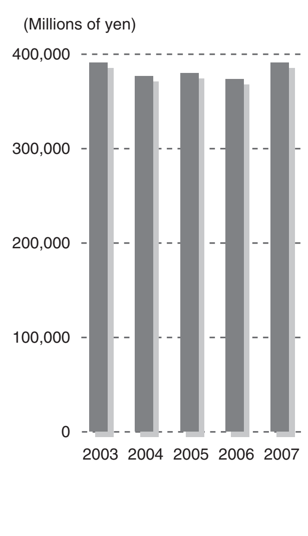
In our other businesses, the impact of the sale of shares in Hankyu Kyoei Pharmacy (a drugstore subsidiary) in October 2005 was partly offset by a strong performance by Hankyu Kitchen Yell Co., Ltd., which made aggressive inroads in the market and increased its customers under a membership system and also purchasing amounts per purchase.

In this way, our subsidiaries helped to make up for the decline in sales at the Umeda main store.

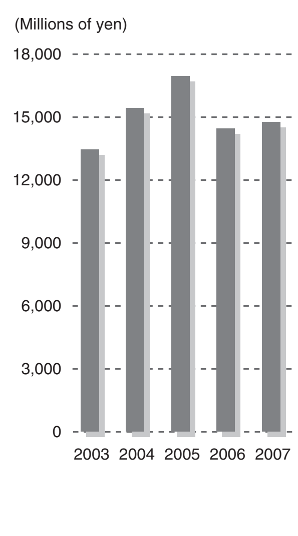
Gross Profit

Gross profit increased by ¥3,343 million to ¥116,585 million ($988,008 thousand). As in the case with sales, gross profits decreased on the decline in revenues of the Umeda main store. This decline, however, was more than offset, principally by the inclusion of Hankyu Nissho Store in the scope of consolidation.

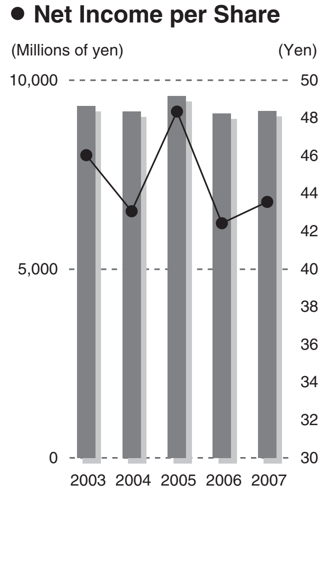
Net Sales



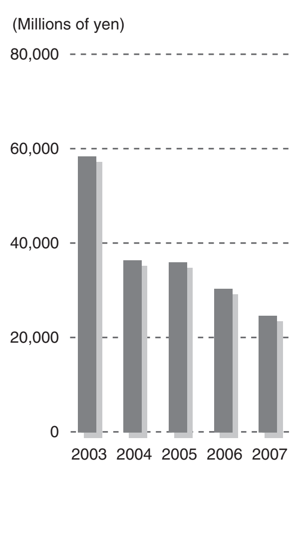
Operating Income



■ Net Income
● Net Income per Share



Interest Bearing Debts



Selling, General and Administrative Expenses and Operating Income

SG&A expenses increased by ¥3,172 million to ¥101,821 million ($862,890 thousand), largely owing to the inclusion of Hankyu Nissho Store in the scope of consolidation. On the other hand, changes in the cost structure have resulted in further reductions in cost, while SG&A expenses for Hankyu Department Stores on a non consolidated basis declined by 4.7% from the previous year's level.

As a result, operating income increased ¥172 million to ¥14,764 million ($125,118 thousand), and the operating income margin remained high at the 3.7% level.

Other Income and Expenses

Net interest and dividend income increased ¥191 million from ¥558 million to ¥749 million ($6,347 thousand). Equity in earnings of affiliated companies increased by ¥77 million.

Accompanying the extension of the construction schedule for the work on the Umeda main store building, we made a reversal of the reserve for losses on the rebuilding of the Umeda main store, which resulted in the posting of an extraordinary gain of ¥1,541 million.

On the other hand, we posted extraordinary losses in the amount of ¥3,334 million ($28,254 thousand), which included the provision for an estimated loss on the disposal of property, plant and equipment relating to the reconstruction of the Hankyu Oi Building and the Oi Development Building, losses on the restructuring of the businesses of subsidiaries, and losses on the disposal of property, plant and equipment.

As a result, income before income taxes increased by ¥959 million to ¥14,308 million ($121,254 thousand).

Net Income

Net income came to ¥8,100 million ($68,644 thousand), up ¥178 million from ¥7,922 million in the previous period. The ROE was 5.7% (6.1% in the previous term), the EPS was ¥43.23 (¥42.28 in the previous term) and fully diluted EPS was ¥38.99 (¥38.13 in the previous term).

Financial Position

1) Assets, Liabilities and Equity

Total assets were ¥282,759 million ($2,396,263 thousand), an increase of ¥6,584 million from the end of the previous term. Investments in securities decreased by ¥14,490 million due to the redemption of bonds. However, as a result of the inclusion of Nissho Corporation in the scope of consolidation, buildings and other structures increased by ¥3,940 million, land by ¥3,914 million, goodwill by ¥9,774 million, and long-term leasehold deposits by ¥3,356 million.

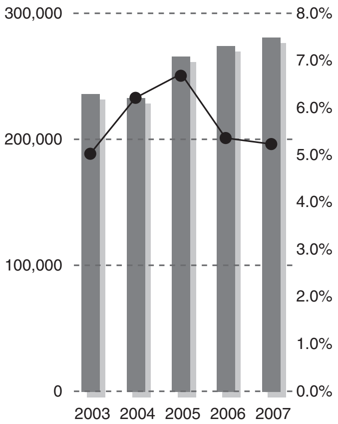
Total liabilities increased by ¥2,077 million to ¥137,867 million ($1,168,365 thousand). This was attributable to two factors. The first factor was an increase in the reserve for losses on store building reconstruction of ¥1,094 million (the difference between the provision for estimated losses arising from the rebuilding of branch stores under the Oimachi Station Front Redevelopment Project and the amount set aside in the previous year for the rebuilding of the Umeda main store). The second factor was the ¥1,044 million increase in long-term debt accompanying the inclusion of Nissho Corporation in the scope of consolidation. Outstanding interest-bearing liabilities at the end of the year were ¥25,368 million ($214,983 thousand), down ¥5,016 million from the previous year-end.

Total net assets (under the new accounting standards) increased by ¥4,507 million to ¥144,892 million ($1,227,898 thousand) as a result of the posting of net income of ¥8,100 million and the payment of dividends of ¥2,342 million. Minority interests in consolidated subsidiaries decreased ¥120 million to ¥1,697 million.

The equity ratio (net assets after deduction of minority interests as a percentage of total assets) was 50.6%, and net assets per share (after deduction of minority interests) stood at ¥764.35 ($6.48).

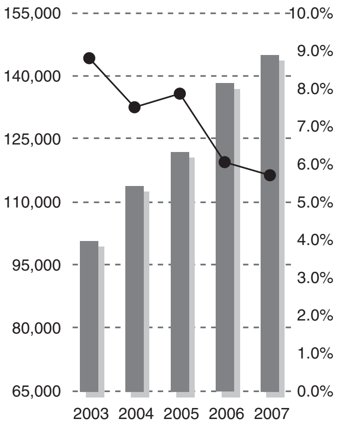
■ Total Assets
● Return on Assets

(Millions of yen)



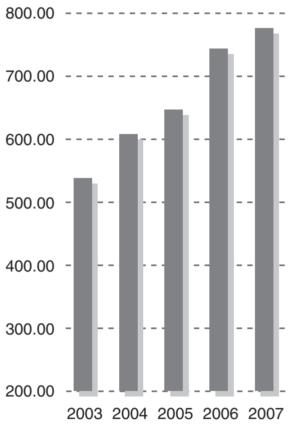
■ Shareholders' Equity
● Return on Equity

(Millions of yen)

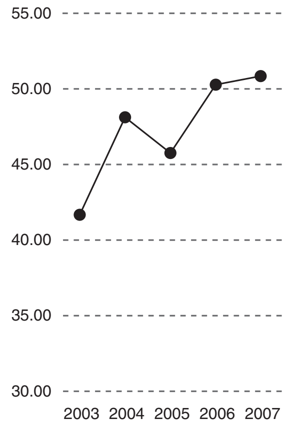


Shareholders' Equity Per Share

(yen)



Shareholders' Equity Ratio



2) Cash Flows
Cash and cash equivalents at the year-end were ¥40,595 million ($344,025 thousand), an increase of ¥1,667 million during the term.

Net cash provided by operating activities increased by ¥3,870 million to ¥18,833 million ($159,602 thousand). This was mainly because income before income taxes grew by ¥959 million, while income taxes paid decreased by ¥2,725 million.

Net cash used in investing activities decreased ¥4,260 million to ¥3,077 million ($26,076 thousand). The inclusion of Nissho Corporation in the scope of consolidation necessitated a cash expenditure of ¥15,370 million. Expenditures for the acquisition of investment securities decreased ¥8,401 million from the previous year. In addition, a certain proportion of time deposits reached maturity, resulting in a rise in cash and cash equivalents.

Net cash used in financing activities increased by ¥5,337 million to ¥14,191 million ($120,263 thousand). This was due primarily to the repayment of long- and short-term debt and the redemption of bonds, necessitating an expenditure of ¥11,792 million compared with an expenditure of ¥6,452 million for the repayment of long- and short-term debt in the previous period.

Risk Disclosures

The profitability and sales of the Companies could be affected by the following risk factors. These risks, however, do not cover all the risks which could affect the future operations or future financial condition of the Companies. The factors related to the future are what the Companies think could happen as of 31st March, 2007.

(1) Business environment

1. Business environment for retailers
The rising dependency ratio (ageing population with falling birthrate) and increasing competition in the market due to entrants from abroad could change the business environment for retailers, which could affect the profitability of the Companies.

2. Rebuilding of the Umeda main store
The Company began rebuilding its Umeda main store in 2005. The first phase of reconstruction will be completed for partial opening in the latter half of 2008, and the full grand opening is scheduled for the latter half of 2011.

The new Umeda main store will be one of the biggest stores in Japan and is expected to be much more profitable than the existing store. During the construction period, however, net sales will decrease due to reduction of the sales area. Also, there are a number of other development plans underway in the Umeda area, which will become one of the largest retail zones in Japan. This will make the area more attractive for shopping than other areas, but internal competition could intensify. These background factors could also affect the profitability of the Companies.

(2) Changes in laws, regulations and other government policies

1. Store openings and extensions
In Japan, the law concerning large retail stores governs the opening of new department stores and supermarkets by the Companies. This law requires that new store openings and existing store extensions with sales area of more than 1,000m^2 must undergo inspection by local authorities to avoid affecting the surrounding living environment. This could influence the Companies' future store opening plans.
Other laws and regulations concerning antitrust, environment, recycling and consumer protection could affect the Companies.

2. Consumption tax (value added tax) rate
A rise in the consumption tax rate could depress personal spending. This could lead to a decrease in the sales of the Companies.

(3) Natural environment and accidents

1. Unusual climate
Cold summers and unseasonably warm winters could influence sales since fashionable clothes are one of the Companies' mainstay products.

2. Natural disasters and accidents
Natural disasters and accidents including earthquakes, floods, typhoons and fires could damage property of the Companies.

(4) Other

1. Safety of items sold
The Companies ensure the high quality of items sold through special quality control committees. Epidemics and other public health related issues such as BSE, however, could depress the domestic consumption of food products and influence sales.

2. Control of customer information
The company has strict internal rules for protecting customer information. Any accidental or criminal leak, however, could damage the Companies' reputation and decrease sales.

3. Systemic risk
Earthquakes, fires, electricity problems and computer viruses could damage the information systems of the Companies and have a negative influence on efficiency and profitability.

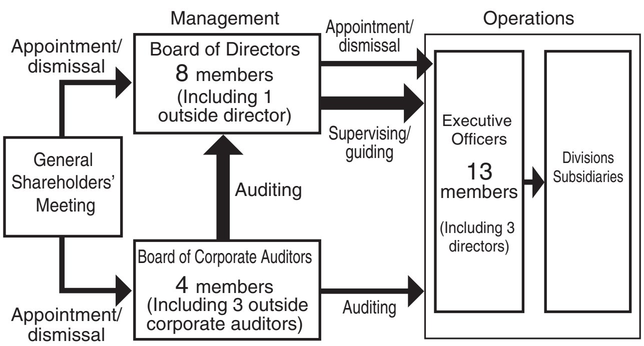
Corporate Governance

Fundamental Stance on Corporate Governance
The Company is working to strengthen corporate governance, focusing on management's supervision function and transparency.
We have appointed outside directors and outside corporate auditors, and the management is reviewed by the Board of Directors and the Board of Corporate Auditors. Management is also reviewed by shareholders and investors through company information willingly disclosed at shareholders' meetings, in business reports, in letters to shareholders and through IR activity.
We introduced an executive officer system in April 2002 and shortened the term of office for directors to one year in June 2002. As a result, the Company has changed to a system in which the responsibility of executive officers for operations and the responsibility of the directors for management and supervision have been clarified.

Company Organisation and Internal Control Systems
The following outlines the situation as of June 2007, when the financial statements were submitted.

1) Internal Governance Organisation
Regarding corporate governance, the Company employs the corporate auditor system rather than the so-called "committee system." Three of our four corporate auditors are outside corporate auditors, and one of eight directors is an outside director.
The following is the system for operations and management auditing.

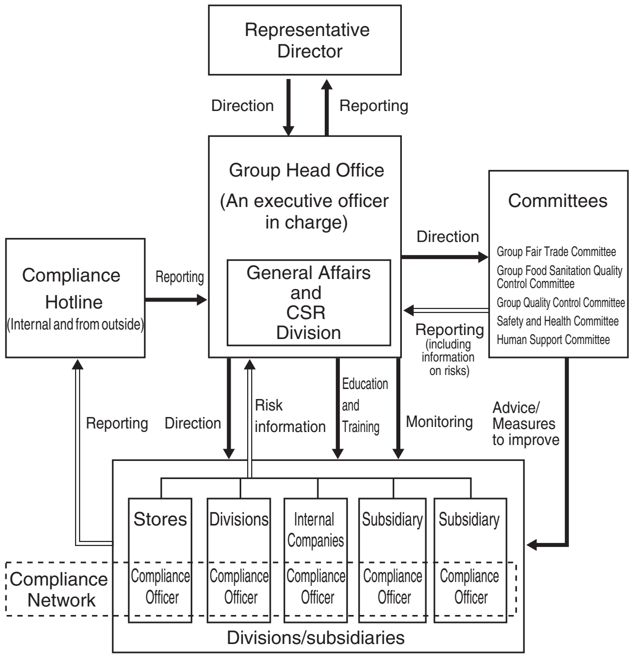
(Chart 1)



The Company employs the executive officer system. Each director on the Board of Directors as an individual, and the Board of Directors as a collective body, supervise the performance of the executive officers.
Each corporate auditor on the Board of Corporate Auditors as an individual, and the Board of Corporate Auditors as a collective body, monitor the performance of each executive officer, each director and the Board of Directors.

2) Internal Control and Risk Management Systems

(Chart 2)



The Hankyu Department Store Group has a code of conduct stipulating basic principles so that executives and employees will act based on the Companies' ethics, laws, regulations and rules. The Companies have also established risk management regulations, which include guidelines for risk prevention measures, reporting when risks occur and the implementation of measures, thereby stipulating basic policies and rules relating to risk management.
In addition, the Companies have a General Affairs and CSR Division, which develop compliance and risk management systems and identify and improve problem areas. There are also various committees that examine and discuss material risks.

The Companies have appointed staff for compliance in every subsidiary and division of the Company to promote information gathering, communication and education related to compliance and risk management, thereby building a compliance network. To share knowledge and information, Group compliance meetings are held regularly.

Moreover, a Compliance Hotline, or whistleblower system, has been established with contact points both inside and outside the Companies.

3) Internal Audit, Corporate Auditors' Audit, and Accounting Audit

The Company has four corporate auditors. Three are outside corporate auditors, and one is a full-time auditor from within the Company. Ten auditors' meetings were held in the term.

All corporate auditors attend Board of Directors' meetings, and the full-time corporate auditor attends weekly full-time directors' "830" meetings. The corporate auditors express opinions at these meetings as needed and interview staff in subsidiaries and in each division about the performance of their duties. They also review operation audits through reports from the internal audit division and reinforce auditing functions by reviewing reports from independent auditors, as well as exchanging opinions.

The internal audit office (9 members), under the direct control of the president, is responsible for internal audits. It makes proposals for improvements based on regular interviews and regular on-site audits and tries to improve the efficiency and quality of audits by reporting the results of internal audits to and regularly exchanging opinions with the corporate auditors.

The Company has designated KPMG AZSA & Co. as its accounting auditing firm. The certified public accountants who executed the accounting audit were Takashi Yoshida, Yoshinori Ikeda and Katsuhiro Wakita. Six other certified public accountants and ten other staff assisted them with the audit.

4) Relationships with Outside Director and Outside Corporate Auditors

The Kansai Electric Power Co., Inc., where outside director Yosaku Fuji works as a director, is a corporate customer of the Company, and the Company sells products to Kansai Electric Power Co., Inc.

Outside corporate auditor Tadashi Yamada is a lawyer and has no special interests in the Company.

Outside corporate auditor Tomohiko Sasaki has no special interests in the Company.

Toho Co., Ltd., where outside corporate auditor Hideyuki Takai is the president and representative director, is a corporate customer of the Company, and the Company sells products to Toho Co., Ltd., Toho Co., Ltd., rents store space for Yurakucho Hankyu in Tokyo to the Company. Toho Co., Ltd., holds 9,689,000 shares of the Company, which accounts for 5.16% of the Company's outstanding shares.

Compensation for Directors and Corporate Auditors

The Company paid a total of ¥351 million ($2,975 thousand) in compensation, ¥305 million ($2,585 thousand) to the directors (¥8 million to outside director) and ¥46 million ($390 thousand) to corporate auditors (¥21 million to outside corporate auditors).

The Company paid an audit fee of ¥47 million ($398 thousand) to KPMG AZSA & Co. Of this total, ¥41 million ($347 thousand) was for the services stipulated in Article 2, Paragraph 1 of the Certified Public Accountant Law, and ¥6 million ($51 thousand) was for other services.

Five-Year Summary

Hankyu Department Stores, Inc. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars (Note1)
Years ended 31st March	2003	2004	2005	2006	**2007**	**2007**
For the year:						
Net sales	¥395,029	¥384,556	¥385,675	¥381,285	**¥395,950**	**$3,355,508**
Cost of sales	281,348	271,916	272,210	268,044	**279,365**	**2,367,500**
Gross profit	113,681	112,640	113,465	113,241	**116,585**	**988,008**
Selling, general and administrative expenses	100,354	97,421	96,582	98,649	**101,821**	**862,890**
Interest expense	647	528	338	97	**125**	**1,059**
Income before income taxes	13,060	14,744	15,650	13,349	**14,308**	**121,254**
Net income	8,574	8,101	9,107	7,922	**8,100**	**68,644**
Per share data (in yen and dollars)						
Net income - basic	45.50	42.89	48.24	42.28	**43.23**	**0.37**
Net income - diluted	45.50	42.89	45.17	38.13	**38.99**	**0.33**
Cash dividends	12.50	12.50	12.50	12.50	**12.50**	**0.11**
At year-end:						
Inventories	¥12,110	¥11,578	¥12,664	¥12,355	**¥13,050**	**$110,593**
Property, plant and equipment (book value)	72,597	71,038	70,352	66,473	**74,788**	**633,797**
Total assets	240,600	237,029	266,119	276,175	**282,759**	**2,396,263**
Long-term debt	35,852	32,180	29,677	22,000	**23,044**	**195,288**
Shareholders' equity	100,673	113,350	121,835	138,568	**143,195**	**1,213,517**
Ratio analysis:						
Gross profit / Net sales (%)	28.78	29.29	29.42	29.70	**29.44**	
Income before income taxes / Net sales (%)	3.31	3.83	4.06	3.50	**3.61**	
Net income / Net sales (%)	2.17	2.11	2.36	2.08	**2.05**	
Net income /Total assets (%)	3.30	3.39	3.62	2.92	**2.90**	
Net income / Shareholders' equity (%)	8.81	7.57	7.74	6.08	**5.75**	
Shareholders' equity / Total assets (%)	41.84	47.82	45.78	50.17	**50.64**	
Long-term debt / Shareholders' equity (times)	0.36	0.28	0.24	0.16	**0.16**	
Net sales / Inventories (times)	32.62	33.21	30.45	30.86	**30.34**	
Net sales / Total assets (times)	1.64	1.62	1.45	1.38	**1.40**	

Note 1: U.S. dollar amounts represent translations of yen amounts at the rate of ¥118 = U.S.$1.
2: Effective 1st April 2006, the Company adopted the new accounting standard for presentation of net assets in the balance sheet and related guidance (Accounting Standards Board Statement No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and Financial Standards Implementation Guidance No. 8, "Implementation Guidance for Accounting Standard for Presentation of Net Assets in the Balance Sheet"). The prior year amount of shareholders' equity has not been restated.
3: As for "Net income / Total assets," the Company uses the average of total assets at the beginning and end of the year. As for "Net income / Shareholders' equity," the Company uses the average of shareholders' equity at the beginning and end of the year.

Consolidated Balance Sheets

As of 31st March, 2005, 2006 and 2007	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note1) 2007
Assets				
Current assets:				
Cash on hand and in banks (Note 7)	¥45,177	¥48,947	¥45,719	$387,449
Notes and accounts receivable				
Trade	18,695	16,528	17,824	151,051
Other	5,783	1,836	2,511	21,280
Allowance for doubtful receivables	(306)	(313)	(303)	(2,568)
	24,172	18,051	20,032	169,763
Inventories (Note 4)	12,664	12,355	13,050	110,593
Deferred tax assets (Note 14)	5,176	3,447	3,228	27,356
Prepaid expenses and other (Note 3 and 8)	7,516	2,812	2,836	24,034
Total current assets	94,705	85,612	84,865	719,195
Investments and long-term loans:				
Investment securities (Note 3)	58,916	79,738	65,165	552,246
Investments in unconsolidated subsidiaries and affiliates	787	926	1,009	8,551
Long-term loans	2,872	2,309	2,592	21,966
Long-term loans to employees	233	172	130	1,102
Total investments and long-term loans	62,808	83,145	68,896	583,865
Property, plant and equipment				
Land (Note 7 and 16)	28,942	28,833	32,747	277,517
Buildings and structures (Note 7)	105,681	90,967	105,535	894,364
Machinery and equipment	11,845	11,793	13,552	114,847
Construction in progress	11	12	196	1,661
	146,479	131,605	152,030	1,288,389
Accumulated depreciation	(76,127)	(65,132)	(77,242)	(654,593)
Total property, plant and equipment	70,352	66,473	74,788	633,796
Other assets:				
Long-term leasehold deposits (Note 5)	29,782	33,625	36,980	313,390
Goodwill (Note 2)	—	—	9,774	82,830
Intangibles	3,130	2,807	3,162	26,797
Long-term deferred tax assets (Note 14)	4,285	4,185	3,535	29,958
Long-term deferred tax assets related to land revaluation (Note 16)	684	—	308	2,610
Interest swaps	496	227	132	1,119
Other assets	261	310	502	4,254
Allowance for doubtful receivables	(384)	(209)	(183)	(1,551)
Total other assets	38,254	40,945	54,210	459,407
	¥266,119	¥276,175	¥282,759	$2,396,263

See accompanying notes.

	Millions of yen			Thousands of U.S. dollars (Note1)
	2005	2006	2007	2007
Liabilities and Net Assets				
Current liabilities:				
Short-term debt (Note 6)	¥ 11	¥ —	¥ —	$ —
Current portion of long-term debt (Notes 6 and 7)	6,465	8,384	2,324	19,695
Notes and accounts payable:				
Trade	26,124	23,407	26,216	222,170
Other	5,737	6,513	6,897	58,449
	31,861	29,920	33,113	280,619
Accrued expenses	4,918	5,089	5,302	44,932
Income and enterprise taxes payable	7,193	3,646	4,271	36,195
Consumption tax payable	521	274	395	3,347
Advances received	22,777	23,624	24,975	211,653
Provision for bonuses to directors and corporate auditors (Note 2)	—	59	72	610
Provision for loss of Umeda main store rebuilding (Note 2)	4,453	111	—	—
Other current liabilities	2,664	2,745	3,080	26,102
Total current liabilities	80,863	73,852	73,532	623,153
Long-term debt (Note 6 and 7)	29,677	22,000	23,044	195,288
Long-term deferred tax liabilities (Note 14)	8,034	15,348	14,105	119,534
Long-term deferred tax liabilities related to land revaluation (Note 16)	344	344	348	2,949
Employees' severance and retirement benefits (Note 9)	11,730	11,826	12,843	108,839
Directors' severance and retirement benefits	315	376	462	3,915
Provision for loss of stores rebuilding (Note 2)	—	—	5,390	45,678
Provision for loss of Umeda main store rebuilding (Note 2)	1,928	4,296	—	—
Long-term payables accrued	1,841	773	75	636
Guarantee deposits	7,044	6,629	7,877	66,754
Deferred hedge gains	496	227	—	—
Other noncurrent liabilities	301	119	191	1,619
Contingent liabilities (Note 11)				
Total liabilities	142,573	135,790	137,867	1,168,365
Net assets (Note 15)				
Shareholders' equity:				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 187,688,301 shares	17,797	17,797	17,797	150,822
Capital surplus	17,574	17,577	17,580	148,983
Retained earnings	74,824	80,340	86,091	729,585
Treasury stock - 286,314 shares in 2005				
- 321,437 shares in 2006	(213)	(252)	(288)	(2,441)
- 345,561 shares in 2007				
Total shareholders' equity	109,982	115,462	121,180	1,026,949
Accumulated gains from revaluation and translation:				
Net unrealised holding gains on securities	12,608	24,546	22,970	194,661
Deferred hedge gains	—	—	79	669
Land revaluation, net of tax (Note 16)	(429)	(1,112)	(797)	(6,754)
Foreign currency translation adjustments	(326)	(328)	(237)	(2,008)
Total accumulated gains from revaluation and translation	11,853	23,106	22,015	186,568
Minority interests in consolidated subsidiaries	1,711	1,817	1,697	14,381
Total net assets	123,546	140,385	144,892	1,227,898
	¥266,119	¥276,175	¥282,759	$2,396,263

Consolidated Statements of Income

Years ended 31st March	Millions of yen			Thousands of U.S. dollars (Note1)
	2005	2006	2007	2007
Net sales	¥385,675	¥381,285	¥395,950	$3,355,508
Cost of sales	272,210	268,044	279,365	2,367,500
Gross profit	113,465	113,241	116,585	988,008
Selling, general and administrative expenses	96,582	98,649	101,821	862,890
Operating income	16,883	14,592	14,764	125,118
Other income (expenses):				
Interest and dividend income	526	655	874	7,407
Equity in earnings (losses) of affiliated companies	(0)	22	99	839
Amortisation of consolidation difference	238	238	150	1,271
Gain on reversal of provision for loss of Umeda main store rebuilding	—	—	901	7,636
A bonus dividend	—	—	640	5,424
Gain on sales of investment in consolidated subsidiary	—	3,036	—	—
Compensation for moving	—	2,028	—	—
Gain on sales of property, plant and equipment (Note 19)	4,502	189	—	—
Gain on the revision of employees' severance and retirement benefits plans (Note 9)	3,456	—	—	—
Gain on sales of investment securities	87	—	—	—
Interest expense	(338)	(97)	(125)	(1,059)
Loss of stores rebuilding (Note 22)	—	—	(1,994)	(16,898)
Loss on disposal of property, plant, equipment and intangibles (Note 25)	(647)	(1,218)	(743)	(6,297)
Loss on restructuring of subsidiary business	—	(621)	(597)	(5,059)
Loss of Umeda main store rebuilding (Note 23)	—	(2,936)	—	—
Impairment losses (Note 24)	—	(2,664)	—	—
Outplacement expenses	—	(719)	—	—
Provision for loss of Umeda main store rebuilding (Note 2)	(6,381)	—	—	—
Expenses of debt assumption agreements	(1,240)	—	—	—
Expenses incurred as a result of the revision of the personnel plans (Note 20)	(797)	—	—	—
Loss on business of subsidiaries (Note 21)	(652)	—	—	—
Expenses for opening a new store	(340)	—	—	—
Other-net	353	844	339	2,872
	(1,233)	(1,243)	(456)	(3,864)
Income before income taxes	15,650	13,349	14,308	121,254
Income taxes (Note 14)**:**				
Current	7,307	4,295	5,645	47,839
Deferred	(878)	1,002	653	5,534
	6,429	5,297	6,298	53,373
Minority interests (losses)	114	130	(90)	(763)
Net income	¥9,107	¥7,922	¥8,100	$68,644
				U.S. dollars (Note 1)
Net income per share - basic	¥48.24	¥42.28	¥43.23	$0.37
Net income per share - diluted	¥45.17	¥38.13	¥38.99	$0.33
Cash dividends	¥12.50	¥12.50	¥12.50	$0.11

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Years ended 31st March	Thousands	Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Deferred hedge gains	Land revaluation, net of tax (Note 16)	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
Balance at 31st March, 2004	187,688	¥17,797	¥17,573	¥68,337	(¥134)	¥10,767	—	(¥642)	(¥348)	¥1,619
Cash dividends - ¥12.5 per share	—	—	—	(2,343)	—	—	—	—	—	—
Net income	—	—	—	9,107	—	—	—	—	—	—
Gain on treasury stock	—	—	1	—	(79)	—	—	—	—	—
Land revaluation, net of tax (Note 16)	—	—	—	(213)	—	—	—	213	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	—	22	—
Increase in net unrealised holding gains on securities	—	—	—	—	—	1,841	—	—	—	—
Deferred hedge gains	—	—	—	—	—	—	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(64)	—	—	—	—	—	—
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	93
Balance at 31st March, 2005	187,688	¥17,797	¥17,574	¥74,824	(¥213)	¥12,608	—	(¥429)	(¥326)	¥1,712
Cash dividends - ¥12.5 per share	—	—	—	(2,342)	—	—	—	—	—	—
Net income	—	—	—	7,922	—	—	—	—	—	—
Gain on treasury stock	—	—	3	—	(39)	—	—	—	—	—
Land revaluation, net of tax (Note 16)	—	—	—	—	—	—	—	(683)	—	—
Increase resulting from decrease in number of equity method affiliates	—	—	—	2	—	—	—	—	—	—
Increase in net unrealised holding gains on securities	—	—	—	—	—	11,938	—	—	—	—
Deferred hedge gains	—	—	—	—	—	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	—	(2)	—
Bonuses to directors and corporate auditors	—	—	—	(66)	—	—	—	—	—	—
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	105
Balance at 31st March, 2006	187,688	¥17,797	¥17,577	¥80,340	(¥252)	¥24,546	—	(¥1,112)	(¥328)	¥1,817
Cash dividends - ¥12.5 per share	—	—	—	(2,342)	—	—	—	—	—	—
Net income	—	—	—	8,100	—	—	—	—	—	—
Gain on treasury stock	—	—	3	—	(36)	—	—	—	—	—
Land revaluation, net of tax (Note 16)	—	—	—	(7)	—	—	—	315	—	—
Decrease resulting from increase in number of consolidated subsidiaries	—	—	—	(0)	—	—	—	—	—	—
Decrease in net unrealised holding gains on securities	—	—	—	—	—	(1,576)	—	—	—	—
Deferred hedge gains	—	—	—	—	—	—	79	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	—	91	—
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	—	—	(120)
Balance at 31st March, 2007	187,688	¥17,797	¥17,580	¥86,091	(¥288)	¥22,970	¥79	(¥797)	(¥237)	¥1,697

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealised holding gains (losses) on securities	Deferred hedge gains	Land revaluation, net of tax (Note 16)	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries
Balance at 31st March, 2006	$150,822	$148,958	$680,847	($2,136)	$208,017	—	($9,424)	($2,779)	$15,398
Cash dividends - $0.11 per share	—	—	(19,847)	—	—	—	—	—	—
Net income	—	—	68,644	—	—	—	—	—	—
Gain on treasury stock	—	25	—	(305)	—	—	—	—	—
Land revaluation, net of tax (Note 16)	—	—	(59)	—	—	—	2,670	—	—
Decrease resulting from increase in number of consolidated subsidiaries	—	—	(0)	—	—	—	—	—	—
Decrease in net unrealised holding gains on securities	—	—	—	—	(13,356)	—	—	—	—
Deferred hedge gains	—	—	—	—	—	669	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	771	—
Minority interests in consolidated subsidiaries	—	—	—	—	—	—	—	—	(1,017)
Balance at 31st March, 2007	$150,822	$148,983	$729,585	($2,441)	$194,661	$669	($6,754)	($2,008)	$14,381

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended 31st March	Millions of yen 2005	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note1) 2007
Cash flows from operating activities:				
Income before income taxes	¥15,650	¥13,349	¥14,308	$121,254
Depreciation and amortisation	6,537	6,726	7,038	59,644
Loss on disposal of property, plant, equipment and intangible assets	647	1,218	743	6,297
Impairment loss	—	2,664	—	—
Increase (decrease) in allowance for doubtful receivables	466	(164)	(118)	(1,000)
Increase in provision for retirement benefits	4,035	236	880	7,458
Interest and dividend income	(526)	(655)	(874)	(7,407)
Interest expense	338	97	125	1,059
Gain on sales of property, plant and equipment	(4,502)	(189)	—	—
Gain on sales of investment securities	(87)	—	—	—
Gain on sales of investment in consolidated subsidiary	—	(3,036)	—	—
Expenses of dept assumption agreements	1,240	—	—	—
Decrease (increase) in notes and accounts receivable	716	1,485	(1,136)	(9,627)
Decrease (increase) in inventories	(1,087)	(150)	310	2,627
Increase (decrease) in notes and accounts payable	785	(1,404)	497	4,212
Increase (decrease) in consumption tax payable	(434)	(235)	76	644
Bonuses payable to directors and corporate auditors	(66)	(67)	(60)	(508)
Other	(2,738)	2,310	1,299	11,008
	20,974	22,185	23,088	195,661
Interest and dividends received	598	663	920	7,797
Interest paid	(405)	(110)	(125)	(1,059)
Income tax paid	(2,205)	(7,775)	(5,050)	(42,797)
Net cash provided by operating activities	18,962	14,963	18,833	159,602
Cash flows from investing activities:				
Net decrease (increase) in time deposits	(5,009)	(5,000)	5,000	42,373
Additions to property, plant and equipment	(7,194)	(9,616)	(5,294)	(44,865)
Proceeds from disposal of property, plant and equipment	4,873	343	957	8,110
Additions to intangibles	(1,291)	(1,014)	(831)	(7,042)
Proceeds from disposal of intangibles	4	12	82	695
Investment in securities	(498)	(8,576)	(175)	(1,483)
Proceeds from sales of investment securities	5,118	8,503	11,992	101,627
Payments for the purchase of stock of subsidiary accompanied by a change in the scope of consolidation	—	—	(15,370)	(130,254)
Proceeds from the sale of stock of subsidiary accompanied by a change in the scope of consolidation	—	3,679	—	—
Payments for long-term loans receivable	(800)	(0)	—	—
Proceeds from collection of long-term loans receivable	609	4,332	562	4,763
Net cash used in investing activities	(4,188)	(7,337)	(3,077)	(26,076)
Cash flows from financing activities:				
Net decrease in short-term debt	0	(11)	(2,800)	(23,729)
Repayments of long-term debt	(3,071)	(6,441)	(3,175)	(26,907)
Proceeds from issuance of bonds	20,000	—	—	—
Payments for redemption of bonds	(17,039)	—	(5,817)	(49,297)
Dividends paid	(2,365)	(2,366)	(2,366)	(20,051)
Proceeds from sale of treasury stock	18	36	54	458
Additions to treasury stock	(96)	(72)	(87)	(737)
Net cash used in financing activities	(2,553)	(8,854)	(14,191)	(120,263)
Foreign exchange differences of cash and cash equivalents	22	(2)	92	779
Net increase (decrease) in cash and cash equivalents	12,243	(1,230)	1,657	14,042
Cash and cash equivalents at beginning of year	27,915	40,158	38,928	329,898
Cash and cash equivalents at beginning of year of newly consolidated subsidiaries	—	—	10	85
Cash and cash equivalents at end of year	¥40,158	¥38,928	¥40,595	$344,025
Reconciliation to balance sheet:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheet	¥45,177	¥48,947	¥45,719	$387,449
Time deposits with maturities exceeding three months	(5,019)	(10,019)	(5,124)	(43,424)
Total	¥40,158	¥38,928	¥40,595	$344,025

See accompanying notes.

Notes to the Consolidated Financial Statements

Hankyu Department Stores, Inc. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of overseas subsidiary are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the country of domicile.

Hankyu Department Stores, Inc. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and the accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2007, which was ¥118 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies (together "Companies") over which the Company has power of control through majority voting right or existence of certain other conditions evidencing control by the Company.

Investments in affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for on the equity method.

The consolidated financial statements include the accounts of the Company and its 38 (34 in 2006 and 35 in 2005) significant majority owned subsidiaries. All significant inter-company transactions and accounts have been eliminated in consolidation.

In the year ended 31st March 2007, the Company purchased all the stock of Nissho, a supermarket business. The Company also set up Hanshoku and Hankyu Foods as new subsidiaries and took into account Mameda as a subsidiary.

In the year ended 31st March 2006, the Company sold the stock of Hankyu Kyoei Pharmacy Co., Ltd., a drugstores subsidiary, and recorded a gain of ¥3,036 million.

One of the consolidated subsidiaries has a financial year ending on 31st December. With respect to the period from the subsidiary's year-end to 31st March, necessary adjustments are made for significant transactions to reflect them appropriately in the consolidated financial statements.

In the elimination of investments in consolidated subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

The difference between the cost of investments in consolidated subsidiaries and the equity in their net assets at dates of acquisition has been, with minor exceptions, amortised over five to twenty years. The investment in the Hankyu Nissho Store is amortised over twenty years.

The equity method has been applied to 6 (6 in 2006 and 7 in 2005) affiliates for the year ended 31st March 2007.

Investments in non consolidated subsidiaries and non-equity-method affiliates are accounted for at cost because of the immaterial effect on the consolidated financial statements. Income from these non consolidated subsidiaries and non-equity-method affiliates is recognised only when the Companies receive dividends.

Cash flow statement

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

Investment securities consist principally of marketable and non-marketable equity securities. The Companies categorise the securities as "available-for-sale." Available-for-sale securities with fair market values are stated at fair value. Unrealised holding gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realised gains and losses on sales of such securities are principally determined by the average cost method. Available-for-sale securities with no fair market value are stated at an average cost.

If the fair market value of available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognised as loss in the period of decline. If the net asset value of available-for-sale securities with no available fair market value declines significantly, such securities are written down to the net asset value and charged to income. In these cases, such fair market value or the net asset value will be carried forward as book value to the next year.

Allowance for doubtful receivables
The allowance for doubtful receivables is provided in amounts management considers sufficient to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

Inventories
Inventories are stated at cost, which is determined principally by the retail cost method.

Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is computed principally by a declining balance method at rates based on the estimated useful life of the assets in accordance with the Corporation Tax Law of Japan. Expenditures for maintenance and repairs, including minor replacements and betterments, are charged to income as incurred.

Buildings acquired after 1st April 1998 (excluding peripheral facilities) are depreciated using the straight-line method.

Goodwill
The difference between the cost of investments in consolidated subsidiaries and equity in their net assets at dates of acquisition are with minor exceptions, amortised over five to twenty years. The investment in the Hankyu Nissho Store is amortised over twenty years.

Software
Software is amortised using the straight-line method over the estimated useful life of five years.

Bonuses
The Companies accrue estimated amounts of employees' bonuses based on estimated amounts to be paid in the subsequent period.

Bonuses to directors and corporate auditors
Commencing with the year ended 31st March 2007, the Company accrues bonuses for directors and corporate auditors based on estimated payments to be made after the end of the year. Previously, the Company treated bonuses for directors and corporate auditors as an appropriation of retained earnings at the time of approval by the shareholders. However, the Company now treats bonuses to directors and corporate auditors as an expense at the time of accrual, in compliance with the new accounting treatment of bonuses for directors and corporate auditors (Accounting Standards Board of Japan's practical guidance report No. 13, 9th March 2004).

Retirement benefits
The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory and non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company has a retirement benefits plan, which consists of unfunded lump-sum payment plans (50% of the whole plan), contributory pension plans (25% of the whole plan) and non-contributory pension plans (25% of the whole plan). Hankyu Oasis, Inc. and 5 other subsidiaries also adopted new retirement benefits plans, which include contributory pension plans.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets.

Prior service costs are recognised in expenses when incurred, and actuarial gains and losses are recognised in expenses in equal amounts within the average of the estimated remaining service years (mainly over 13 years) commencing with the following period.

With regard to retirement benefits for directors and corporate auditors of the Company and certain consolidated subsidiaries, the liability for lump-sum payments is stated at the amount which would be required if they retired as of the balance sheet date.

The Companies have executive officers' severance and retirement benefits. The amounts of liabilities as of 31st March 2005, 2006 and 2007 were ¥92 million, ¥105 million, and ¥123 million ($1,042 thousand), respectively.

Derivative and hedge accounting
Derivative financial instruments are stated at fair value and changes in fair value are recognised as gains or losses unless the derivative financial instruments are used for hedging purposes. All derivative financial instruments are used as

hedges and meet certain hedging criteria. The Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognised.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated into Japanese yen at the rates prevailing at each balance sheet date and the resulting translation gains or losses are charged to income.

In the translation of financial statements of the overseas subsidiary, assets, liabilities, revenues and expenses are translated at the rates prevailing at its balance sheet date and shareholders' equity accounts are translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets.

Finance Leases

Except for leases with covenants transferring ownership of the properties to the lessee, the Companies do not capitalise finance leases.

Reclassifications

Certain amounts in prior years were reclassified to conform to the 2007 presentation. These changes had no impact on previously reported results of operations.

Provision for loss of stores rebuilding

The Companies made a provision to cover estimated losses arising from the rebuilding of the Umeda main store, Hankyu-Oi Building and Oi Development Building. The estimates of losses were based on historical precedents, the book value of these stores' property at the time of demolition, and the estimated cost of the demolition work for Umeda main store and Hankyu-Oi Building for the year ended 31st March 2007.

With the increase of the rebuilding plans, provision for loss of Umeda main store rebuilding is included in the provision for loss of stores rebuilding from the year ended 31st March 2007.

Provision for loss of Umeda main store rebuilding

The Companies made a provision to cover estimated losses arising from the rebuilding of the Umeda main store. The estimates of losses were based on historical precedents, the book value of the store property at the time of demolition, and the estimated cost of the demolition work.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended 31st March, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on 9th December 2005), and the "Implementation guidance for the accounting standard for presentation of net assets in the balance sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on 9th December 2005), (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. The net assets section includes unrealised gains (losses) on hedging derivatives, net of taxes. Under the previous presentation rules, companies were required to present unrealised gains (losses) on hedging derivatives in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests in consolidated subsidiaries between the noncurrent liabilities and shareholders' equity sections, respectively.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the years ended 31st March 2005, 2006 and 2007. Also, if the New Accounting Standards had not been adopted at 31st March 2007, shareholders' equity amounting to ¥143,116 million ($1,212,847 thousand) would have been presented.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended 31st March 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on 27th December 2005), and the "Implementation guidance for the accounting standard for statement of changes in net assets" (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on 27th December 2005), (collectively, the "Additional New Accounting Standards"). Accordingly, the Company prepared the statement of changes in net assets for the year ended 31st March 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2005 and 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although not required under Japanese GAAP.

Bond issue expenses
Bond issue expenses are charged to expense when incurred.

Net income per share
Computations of basic net income per share are based on the weighted average number of shares outstanding during each period. As for diluted net income per share for the years ended 31st March 2005, 2006 and 2007, see Note 26.

Consumption taxes
Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

3. Investment Securities

The following tables summarise acquisition costs, book values (fair values) of available-for-sale securities with available fair values as of 31st March 2005, 2006 and 2007:
Securities with book values exceeding acquisition costs:

	Millions of yen									Thousands of U.S. dollars		
	2005			2006			**2007**			**2007**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 16,919	¥ 38,267	¥ 21,348	¥ 20,267	¥ 61,305	¥ 41,038	**¥ 20,309**	**¥ 58,674**	**¥ 38,365**	**$ 172,110**	**$ 497,237**	**$ 325,127**
Government bonds	714	717	3	701	702	1	**-**	**-**	**-**	**-**	**-**	**-**
Other	7,296	7,584	288	11,561	11,663	102	**205**	**208**	**3**	**1,737**	**1,754**	**17**
Total	¥ 24,929	¥ 46,568	¥ 21,639	¥ 32,529	¥ 73,670	¥ 41,141	**¥ 20,514**	**¥ 58,882**	**¥ 38,368**	**$ 173,847**	**$ 498,991**	**$ 325,144**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2005			2006			**2007**			**2007**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 214	¥ 192	(¥ 22)	¥ 184	¥ 142	(¥ 42)	**¥ 367**	**¥ 262**	**(¥ 105)**	**$ 3,110**	**$ 2,220**	**($ 890)**
Government bonds	-	-	-	10	10	(0)	**10**	**10**	**(0)**	**85**	**85**	**(0)**
Other	12,000	11,486	(514)	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Total	¥ 12,214	¥ 11,678	(¥ 536)	¥ 194	¥ 152	(¥ 42)	**¥ 377**	**¥ 272**	**(¥ 105)**	**$ 3,195**	**$ 2,305**	**($ 890)**

The following table summarises book values of securities with no available fair values as of 31st March 2005, 2006 and 2007:

	Millions of yen			Thousands of U.S. dollars
	2005 Book value	2006 Book value	**2007** Book value	**2007** Book value
Non-listed equity securities	¥ 670	¥ 5,916	**¥ 6,011**	**$ 50,941**

The following table summarises maturities of available-for-sale securities that have maturities as of 31st March 2007:

	Millions of yen		Thousands of U.S. dollars	
	Within 1 year	Over 1 year but within 5 years	Within 1 year	Over 1 year but within 5 years
Government bonds	¥-	¥ 10	$ -	$ 85

The following table summarises sales of available-for-sale securities for the years ended 31st March 2005, 2006 and 2007:

	Millions of yen									Thousands of U.S. dollars		
	2005			2006			**2007**			**2007**		
	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales	Sales	Gains on sales	Losses on sales
Equity securities	¥80	-	-	¥ 1	0	-	**¥ 5**	**5**	**-**	**$ 42**	**42**	**-**

4. Inventories

Inventories at 31st March 2005, 2006 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Merchandise goods and finished goods	¥ 11,625	¥ 11,173	**¥ 12,109**	**$ 102,619**
Work in progress	182	842	**135**	**1,144**
Raw materials and supplies	857	340	**806**	**6,830**
	¥ 12,664	¥ 12,355	**¥ 13,050**	**$ 110,593**

5. Long-term Leasehold Deposits

In connection with its department store business, the Company has entered into long-term lease agreements for store sites and premises. Under such agreements, lessors in Japan generally require the lessee to make substantial deposits in addition to monthly rental payments. A large portion of such deposits is refundable, generally by 10 to 15 equal annual installments commencing in the eleventh year of the lease term, with the balance refundable only on termination of the lease. The deposits bear no interest or bear interest only at a nominal rate.

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans are principally notes payable to banks due in 30-365 days. The average interest rates on these loans as of 31st March 2005 was approximately 1.475%. There was no short-term bank loans as of 31st March 2006 and 2007.
Long-term debt at 31st March 2005, 2006 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
0.115% to 4.81% loans from banks and others, due through 2008	¥ 11,027	¥ 4,500	**¥ 5,368**	**$ 45,492**
2.32% to 5.60% Euro dollar bonds, due 2006	5,115	5,884	**-**	**-**
Zero coupon convertible bonds, due 2011	20,000	20,000	**20,000**	**169,491**
	36,142	30,384	**25,368**	**214,983**
Less amounts due within one year	(6,465)	(8,384)	**(2,324)**	**(19,695)**
	¥ 29,677	¥ 22,000	**¥ 23,044**	**$ 195,288**

In the year ended 31st March 2005, the Company entered into debt assumption agreements with banks for the ¥6,800 million ($57,627 thousand) 3.05% bonds due in 2009.
The Company remains contingently liable, however, on the amounts assumed by the banks.

The current conversion price of the zero coupon convertible bonds issued by the Company on 16th August 2004 is ¥982 ($8.30). The convertible bonds are convertible into 20,366,598 shares of common stock as of 31st March 2007.

Annual maturities of long-term debt at 31st March 2007 were as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2008	**¥ 2,324**	**$ 19,695**
2009	**1,000**	**8,475**
2010	**-**	**-**
2011	**-**	**-**
2012 and thereafter	**22,044**	**186,813**
	¥ 25,368	**$ 214,983**

7. Pledged Assets

The following assets were pledged as collateral for the current portion of long-term debt of ¥166 million ($1,407 thousand) and long-term debt of ¥1,253 million ($10,619 thousand) at 31st March 2007:

	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 5**	**$ 42**
Buildings	**2,009**	**17,025**
Land	**890**	**7,542**
	¥ 2,904	**$ 24,609**

8. Deposited Securities

Certain securities, included in investment securities, were deposited with the Ministry of Justice in accordance with the relevant laws regarding the following transactions:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Installment sales transactions	¥ 707	¥ 702	**¥ -**	**$ -**
Real estate transactions	10	10	**10**	**85**
	¥ 717	¥ 712	**¥ 10**	**$ 85**

9. Employees' Severance and Retirement Benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of 31st March 2005, 2006 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Projected benefit obligation	¥ 29,440	¥ 28,726	**¥ 31,423**	**$ 266,297**
Unrecognised actuarial differences	(76)	204	**(192)**	**(1,627)**
Fair value of pension assets	(17,634)	(17,104)	**(18,388)**	**(155,831)**
Liability for severance and retirement benefits	¥ 11,730	¥ 11,826	**¥ 12,843**	**$ 108,839**

Included in the consolidated statements of income for the years ended 31st March 2005, 2006 and 2007 were severance and retirement benefit expenses that comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Service costs - benefits earned during the year	¥ 1,475	¥ 1,058	**¥ 1,008**	**$ 8,542**
Interest cost on projected benefit obligation	716	577	**612**	**5,187**
Expected return on plan assets	(186)	(279)	**(316)**	**(2,678)**
Amortisation of actuarial differences	217	8	**(69)**	**(585)**
Severance and retirement benefit expenses	2,222	1,364	**1,235**	**10,466**
Other	-	1,515	**367**	**3,110**
Total	¥ 2,222	¥ 2,879	**¥ 1,602**	**$ 13,576**

Retirement benefit expenses of consolidated subsidiaries which have adopted the simplified method are included in service costs.

The discount rate and the rate of expected return on plan assets used by the Companies were mainly 2.0% and 2.0% for the years ended 31st March 2005, 2006 and 2007. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognised as expenses when incurred, and actuarial gains and losses are recognised in equal amounts mainly over 13 years.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own employees' pension fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on 14th March 2003 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund were transferred back to the government's scheme.

The Company applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)," and the effect of transferring the substitutional portion was recognised on the date permission was received from the Ministry of Health, Labor and Welfare. As a result, in the year ended 31st March, 2003, the Company recorded a gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥1,295 million, which was calculated based on the amount of the substitutional portion of the projected benefit obligation as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognised items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥17,430 million at 31st March 2003. The final amount was determined and the pension plan transferred the assets to the government at 31st March 2005.

On 1st October 2004, the Company adopted a new retirement benefits plan which consisted of unfunded lump-sum payment plans (50% of the whole plan), contributory pension plans (25% of the whole plan) and noncontributory pension plans (25% of the whole plan). Hankyu Oasis, Inc. and 5 other subsidiaries also have adopted new retirement benefits plans which include contributory pension plans.

The Companies recorded a gain of ¥3,456 million on the revision of the employees' severance and retirement benefits plan, which consisted of a gain on the transition to the new retirement benefits plan amounting to ¥3,150 million and a gain on the return of substitutional portion of welfare pension plan amounting to ¥306 million.

10. Finance Leases

Information, as lessee, for non-capitalised finance leases at 31st March 2005, 2006 and 2007 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Original lease obligations (including finance charges) for machinery and equipment	¥ 4,957	¥ 3,837	**¥ 2,920**	**$ 24,746**
Payments remaining:				
Payments due within one year	¥ 534	¥ 427	**¥ 341**	**$ 2,890**
Payments due after one year	889	710	**465**	**3,941**
Total	¥ 1,423	¥ 1,137	**¥ 806**	**$ 6,831**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2005, 2006 and 2007 were ¥756 million, ¥393 million and ¥441 million ($3,737 thousand), respectively.

11. Contingent Liabilities

Contingent liabilities were as follows as of 31st March 2005, 2006 and 2007.

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Dept assumption agreements	¥ 15,800	¥ 15,800	¥ **6,800**	$ **57,627**

12. Derivative Transactions

The Company enters into interest rate swap contracts to manage risk and reduce exposure to interest rate fluctuations, and currency swap contracts to manage risk related to marketable securities denominated in foreign currencies. The Company does not use derivatives for leveraging or speculative purposes.

Derivative transactions involve credit risk and market risk. However, the Company is exposed to minimum credit risk from breach of contract because they deal only with highly rated financial institutions. In addition, the Company enters into interest rate and currency swaps to hedge against risks of market fluctuations in relation to interest rates and its assets and liabilities. Accordingly, although profits or losses are produced temporarily, no profit or loss will be incurred at the expiration of the contracts.

To maintain adequate risk management, the Board of Directors and other persons in management approve derivative transactions and review them as to purpose, content, counter-party and risk.

The Company evaluates hedge effectiveness semi-annually by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items and the corresponding changes in the hedging derivative instruments, except in cases of obvious hedge effectiveness.

13. Business Segment Information

Business segment information for the years ended 31st March 2005, 2006 and 2007, required to be disclosed by the Securities and Exchange Law of Japan, was as follows:

Industry segment information As of and for the year ended 31st March 2005	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	¥ 306,985	¥ 46,385	¥ 7,769	¥ 24,536	¥ -	¥ 385,675
Intersegment	1,213	6,726	1,153	15,376	(24,468)	-
Total net sales	308,198	53,111	8,922	39,912	(24,468)	385,675
Operating costs and expenses	294,053	51,931	7,647	39,586	(24,425)	368,792
Operating income	¥ 14,145	¥ 1,180	¥ 1,275	¥ 326	¥ (43)	¥ 16,883
Assets	¥ 212,455	¥ 22,954	¥ 22,018	¥ 53,939	¥ (45,247)	¥ 266,119
Depreciation and amortisation	4,515	915	621	486	-	6,537
Capital expenditure	4,662	2,018	513	418	-	7,611

As of and for the year ended 31st March 2006	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	¥ 301,048	¥ 50,960	¥ 9,225	¥ 20,052	¥ -	¥ 381,285
Intersegment	1,623	5,390	761	14,789	(22,563)	-
Total net sales	302,671	56,350	9,986	34,841	(22,563)	381,285
Operating costs and expenses	291,013	55,063	8,456	34,709	(22,548)	366,693
Operating income	¥ 11,658	¥ 1,287	¥ 1,530	¥ 132	¥ (15)	¥ 14,592
Assets	¥ 227,620	¥ 22,026	¥ 21,955	¥ 41,984	¥ (37,410)	¥ 276,175
Depreciation and amortisation	4,626	1,062	622	416	-	6,726
Capital expenditure	9,226	1,413	314	435	-	11,388

As of and for the year ended 31st March 2007	Millions of yen					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	¥ 291,567	¥ 78,257	¥ 9,284	¥ 16,842	¥ -	¥ 395,950
Intersegment	1,584	4,570	792	14,677	(21,623)	-
Total net sales	293,151	82,827	10,076	31,519	(21,623)	395,950
Operating costs and expenses	281,351	81,827	8,462	31,181	(21,635)	381,186
Operating income	¥ 11,800	¥ 1,000	¥ 1,614	¥ 338	¥ 12	¥ 14,764
Assets	¥ 248,290	¥ 51,819	¥ 22,075	¥ 36,966	¥ (76,391)	¥ 282,759
Depreciation and amortisation	4,569	1,543	580	346	-	7,038
Capital expenditure	3,740	2,774	453	292	-	7,259

As of and for the year ended 31st March 2007	Thousands of U.S. dollars					
	Department stores	Supermarkets	Property management	Other	Eliminations	Total
Net sales						
External customers	$ 2,470,906	$ 663,195	$ 78,678	$ 142,729	$ -	$ 3,355,508
Intersegment	13,424	38,729	6,712	124,381	(183,246)	-
Total net sales	2,484,330	701,924	85,390	267,110	(183,246)	3,355,508
Operating costs and expenses	2,384,331	693,449	71, 712	264,246	(183,348)	3,230,390
Operating income	$ 99,999	$ 8,475	$ 13,678	$ 2,864	$ 102	$ 125,118
Assets	$ 2,104,153	$ 439,144	$ 187,076	$ 313,271	$ (647,381)	$ 2,396,263
Depreciation and amortisation	38,721	13,076	4,915	2,932	-	59,644
Capital expenditure	31,695	23,508	3,839	2,475	-	61,517

Prior year information for 2005 and 2006 has been reclassified to conform to the 2007 presentation.

Changes in Business Segmentation

The Companies used to classify their businesses into four segments: department stores, foods, property management and other businesses. However, we changed this segmentation in accordance with the increasing importance of the supermarket business. In fiscal year 2007, Hankyu Nissho Store, a supermarket business company, joined the Companies. The Companies also established Hanshoku Co., Ltd. as the intermediate holding company of the supermarket and food manufacturing business subsidiaries for prompt decision-making and implementation of the business strategy in the supermarket business. Hanshoku Co., Ltd. controls 3 functional groups of supermarket business subsidiaries. These 3 groups consist of Hankyu Oasis, Inc., Hankyu Family Store Co., Ltd. and Hankyu Nissho Store as Retailing business group, Hankyu Bakery Co., Ltd., Hankyu Foods, Inc., Hankyu Delica, Inc. and Mameda, Inc. as Food manufacturing business group, and Hankyu Fresh Yell Co., Ltd. as Purchasing function group. These 3 functional groups operate as one group increasing their scale to make the supermarket business more profitable. This is the reason why we reclassified these subsidiaries related to the supermarket business as ‘Supermarket business.’ Subsidiaries which used to be in ‘Foods business’ and are not related to the supermarket business are reclassified into other businesses since these subsidiaries have no significant impact on sales and operating income.

Segment	Commodity and business lines
Department stores	Clothing, accessories, foods, Restaurants and coffee shops, general merchandise, services and others
Supermarkets	Supermarkets, food production, purchasing and other food related business
Property management	Rental management of commercial facilities and hotels
Other	Wholesaling, membership management, home delivery, transportation, interior facilities, restaurants, temporary staffing, information processing

Geographic segment information for the years ended 31st March 2005, 2006 and 2007 was not disclosed since the proportion of domestic operations to the total amounts were more than 90%, for both the total sales and assets.

Overseas sales segment information was not disclosed since overseas sales of the Companies was less than 10% of consolidated net sales.

14. Income Tax

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2005, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Deferred tax assets:				
Loss carryforwards	¥ 419	¥ 540	**¥ 498**	**$ 4,220**
Bonuses to employees	1,567	1,580	**1,521**	**12,890**
Retirement benefits	4,697	4,707	**5,104**	**43,254**
Investments in consolidated subsidiaries	-	-	**3,038**	**25,746**
Loss on disposal of fixed assets	650	598	**549**	**4,653**
Depreciation	1,270	1,218	**145**	**1,229**
Impairment of investment securities and others	-	-	**142**	**1,203**
Loss on revaluation of land	1,561	1,561	**-**	**-**
Impairment losses of fixed assets	861	1,861	**1,517**	**12,856**
Provision for loss of stores rebuilding	-	-	**2,156**	**18,271**
Provision for loss of Umeda main store rebuilding	2,539	1,763	**-**	**-**
Unpaid transitional contribution on definite contribution pension plan	929	609	**301**	**2,551**
Retirement benefit trust assets	1,439	1,134	**769**	**6,517**
Other	2,345	2,032	**1,727**	**14,636**
	18,277	17,603	**17,467**	**148,026**
Valuation allowance	(282)	(132)	**(390)**	**(3,305)**
Total deferred tax assets	17,995	17,471	**17,077**	**144,721**
Deferred tax liabilities:				
Deferred gains on real properties	(2,656)	(3,252)	**(3,020)**	**(25,593)**
Land revaluation of a consolidated subsidiary	(793)	(793)	**(1,409)**	**(11,941)**
Valuation gain on investment securities resulting from conversion of retirement benefit trust assets (equity securities)	(4,591)	(4,591)	**(4,591)**	**(38,907)**
Unrealised holding gains on securities	(8,493)	(16,551)	**(15,347)**	**(130,059)**
Deferred hedge gains	-	-	**(52)**	**(441)**
Other	(35)	-	**-**	**-**
Total deferred tax liabilities	(16,568)	(25,187)	**(24,419)**	**(206,941)**
Net deferred tax assets (liabilities)	¥ 1,427	¥ (7,716)	**¥ (7,342)**	**$(62,220)**

Net deferred tax assets (liabilities) as of 31st March 2005, 2006 and 2007 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Current assets	¥ 5,176	¥ 3,447	**¥ 3,228**	**$ 27,356**
Long-term assets	4,285	4,185	**3,535**	**29,958**
Long-term liabilities	(8,034)	(15,348)	**(14,105)**	**(119,534)**
Net deferred tax assets (liabilities)	¥ 1,427	¥ (7,716)	**¥ (7,342)**	**$(62,220)**

Reconciliation of the differences between the statutory tax rate and the effective income tax rate was as follows:

	Millions of yen
	2006
Aggregate statutory income tax rate	42.0%
Increase (reduction) in taxes resulting from:	
Non-deductible expenses	1.6
Tax on inhabitants per capita	0.5
Net operating losses in subsidiaries	1.3
Permanent differences (including dividends)	(1.8)
Amortisation of consolidated goodwill	(0.6)
Valuation allowance	(1.1)
Others	(2.2)
Effective income tax rate	39.7%

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for 2005 and 2007 are not disclosed since the difference between the statutory tax rate and the effective income tax rate was less than 5% of aggregate statutory income tax rate.

15. Net Assets

The Japanese Corporate Law ("the Law") became effective on 1st May 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after 30th April 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalised by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

The dividend policy is one of the most important policies of the Company. The Company used to focus on maintaining the dividend amount, while now the Company is going to consider the dividend amount based on the progress of GP10 plan.

During the period of rebuilding of Umeda main store, however, the Company is focused on maintaining the dividend amount of ¥12.5 per share even if the sales might decrease temporally.

16. Land Revaluation

In accordance with the Law Concerning Revaluation of Land, land used for business owned by two consolidated subsidiaries was revaluated. The unrealised gains and losses, net of deferred taxes, were excluded from the statement of income and reported as "Land revaluation" in net assets, and the relevant deferred tax was shown as "Long-term deferred tax liabilities related to land revaluation" in liabilities and "Long-term deferred tax assets related to land revaluation" in assets at 31st March 2005, 2006 and 2007.

Related information was as follows:

Date of revaluations	28th February 2002 and 31st March 2002
Book value of land after revaluation	¥3,558 million
Market value of land at 31st March 2007	¥2,950 million
Difference	¥608 million

17. Stock purchase rights

Stock Options of the Company are as follows:

Date of the special resolution at the annual general shareholders' meeting	27th June 2002
The number of grantees	8 directors, 4 executive officers, 38 employees and 48 directors of subsidiaries
Class and number of stock	244,000 shares of common stock
Class and number of stock as of 31st March 2007	158,000 shares of common stock
The exercise period of stock purchase rights	From 1st September 2004 to 31st August 2007
The exercise price of stock purchase rights	¥843 per share

The exercise price of stock purchase rights would be adjusted if the Company issued new shares at a price below the market price or in other circumstances.

The details of Zero coupon convertible bonds, due 2011 are as follows:

Date of issue	16th August 2004
The number of stock purchase rights	4,000
Class and number of stock	20,366,598 shares of common stock
The exercise period of stock purchase rights	From 23rd August 2004 to 9th August 2011
The exercise price of stock purchase rights (convertible price)	¥982 per share
The stock issuing price and capitalizing amount	¥982 per share ¥491 per share

The exercise price of stock purchase rights (convertible price) would be adjusted if the Company issued new shares at a price below the market price or in other circumstances.

18. Loan Commitments

For efficient procurement of working capital, the Company has entered into loan commitment contracts with two (three in 2005 and 2006) financial institutions, providing the Company with loan commitment facilities in the aggregate amount of ¥5,000 million as of 31st March 2007 and ¥10,000 million as of 31st March 2005 and 2006.

The amount of ¥5,000 million ($42,373 thousand) was still unused as of 31st March 2007.

19. Gain on Sales of Property, Plant and Equipment

Gain on sales of property, plant and equipment in the year ended 31st March 2005 was mainly due to the sale of unused dormitory land in Osaka for ¥4,358 million and an unused dormitory building and land in Hyogo Prefecture for ¥140 million.

The gain on sales of property, plant and equipment in the year ended 31st March 2006 was mainly due to the sale of an unused Hankyu Department Stores dormitory building and land in Takarazuka for ¥88 million and the sale of the former Ikeda Distribution Centre building and land for ¥99 million.

20. Expenses Incurred as a Result of the Revision of Personnel Plans

Expenses incurred as a result of the revision of personnel plans in the year ended 31st March 2005 consisted of ¥517 million incurred for the revision of personnel plans for part-time employees of the Company and ¥280 million incurred for the revision of bonus payments of Hankyu Oasis, Inc.

21. Loss on Business of Subsidiaries

Loss on business of subsidiaries in the year ended 31st March 2005 consisted of a loss of ¥458 million on loans to an affiliated company and a loss of ¥194 million for the restructuring of the credit card business.

22. Loss of Stores Rebuilding

Loss of stores rebuilding in the year ended 31st March 2007 consisted of a loss of ¥1,994 million ($16,898 thousand) for the provision for loss of stores rebuilding.

23. Loss of Umeda Main Store Rebuilding

Loss of Umeda main store rebuilding in the year ended 31st March 2006 consisted of a loss of ¥2,479 million for the provision for loss of Umeda main store rebuilding and a loss of ¥457 million on disposal of fixed assets etc..

24. Impairment Losses

The Company recorded impairment losses in the year ended 31st March 2006 as described below.

Location	Asset group	Use	Type of assets	Millions of yen
Chuo-ku, Kobe	Kobe Hankyu	Store	Buildings and structures	¥ 2,211
Kita-ku, Kobe	Rokko-Kita Sports Centre	Former recreation facility	Land	453

The Companies classify assets into groups under the accounting rules for impairment losses on fixed assets in the following way:

(1) Stores and other accounting units of a similar nature for which revenue and expenditure are continuously ascertained as a group; and
(2) An idle asset or an asset to be sold as a separate item

An impairment loss on Kobe Hankyu was recognised because a large adjacent supermarket closed at the end of November 2005. The closing caused a deterioration in the operating environment of the Kobe Harborland area, where the store is located, and this is expected to have a negative influence on its operating profit or loss.

Since the Rokko-kita Sports Centre, which was used as a recreational facility and grouped into common property, was closed in January 2006 it was reclassified as a separate asset and an impairment loss was recognised.

As a result, the book values of the two properties in question were reduced to net selling price or recoverable value, and the reduced amount, ¥2,664 million, was recorded as an impairment loss under special losses.

Appraisal value provided by a trust and banking company was used as the net selling price for Kobe Hankyu and an estimated selling price was used as the net selling price of the Rokko-kita Sports Centre.

25. Loss on Disposal of Property, Plant, Equipment and Intangibles

Loss on disposal of property, plant, equipment and intangibles in the year ended 31st March 2007 consisted of losses of ¥632 million ($5,356 thousand) on disposal of buildings and structures, losses of ¥8 million ($68 thousand) on disposal of machinery and vehicles and losses of ¥103 million ($873 thousand) on disposal of other assets.

26. Consolidated Statements of Cash Flows

Assets and liabilities of the newly consolidated subsidiary by acquisition of shares at the inception of its consolidation, 31 July 2006, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Current assets	¥ -	¥ -	**¥ 5,049**	**$ 42,788**
Fixed assets	-	-	**16,461**	**139,500**
Total assets	¥ -	¥ -	**¥ 21,510**	**$182,288**
Current liabilities	-	-	**6,400**	**54,237**
Long-term liabilities	-	-	**6,503**	**55,110**
Total liabilities	¥ -	¥ -	**¥ 12,903**	**$109,347**

Assets and liabilities of the ex-consolidated subsidiary by sale of shares at the end of its consolidation, 30 September 2005, were as follows:

	Millions of yen		
	2005	2006	**2007**
Current assets	**¥ -**	¥ 1,603	**¥ -**
Fixed assets	**-**	787	**-**
Total assets	**¥ -**	¥ 2,390	**¥ -**
Current liabilities	**-**	1,565	**-**
Long-term liabilities	**-**	145	**-**
Total liabilities	**¥ -**	¥ 1,710	**¥ -**

27. Net Income per Share

Reconciliation of the difference between basic and diluted net income per share (“EPS”) for the years ended 31st March 2005, 2006 and 2007.

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Basic net income per share calculation:				
Income (numerator):				
Net income	¥ 9,107	¥ 7,922	**¥ 8,100**	**$ 68,644**
Amounts not belonging to common stock	66	-	**-**	**-**
(bonuses to directors from retained earnings)	(66)	(-)	**(-)**	**(-)**
Net income available to common stockholders	9,041	7,922	**8,100**	**68,644**
Shares, thousands (denominator):				
Weighted average number of shares	187,447	187,380	**187,358**	
Basic EPS (yen and U.S. dollars)	¥ 48.24	¥ 42.28	**¥ 43.23**	**$ 0.37**
Diluted net income per share calculation:				
Income (numerator):				
Net income	¥ 9,107	¥ 7,922	**¥ 8,100**	**$ 68,644**
Amounts not belonging to common stock	66	-	**-**	**-**
(bonuses to directors from retained earnings)	(66)	(-)	**(-)**	**(-)**
Net income available to common stockholders	9,041	7,922	**8,100**	**68,644**
Effect of dilutive securities-convertible bonds	-	-	**-**	**-**
Adjusted net income	9,041	7,922	**8,100**	**68,644**
Shares, thousands (denominator):				
Weighted average number of shares	187,447	187,380	**187,358**	
Assumed conversion of convertible bonds	12,722	20,366	**20,366**	
Assumed exercise of stock purchase rights	-	10	**23**	
Adjusted weighed average number of shares	200,169	207,756	**207,747**	
Diluted EPS (yen and U.S. dollars)	¥ 45.17	¥ 38.13	**¥ 38.99**	**$ 0.33**

As for the year ended 31st March 2005, stock purchase rights did not have diluted effects and were not taken into account in the calculation of diluted net income per share.

28. Business Combinations

(Change in accounting standard for business combinations, etc.)

Effective from the year ended 31st March 2007, the Company applied the "Accounting standard for business combinations" issued by the Business Accounting Council on 31st October 2003, Accounting Standard Board Statement No. 7, "Accounting Standard for Business Divestitures" issued by the Accounting Standard Board of Japan on 27th December 2005 and Accounting Standard Board Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" issued by the Accounting Standards Board of Japan on 22nd December 2006. The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the year ended 31st March 2007.

1. Corporate name and business of the entity combined, the purpose of business combination, the date of business combination, legal form of business combination, corporate name after business combination and percentage of total shares outstanding

(1) Corporate name and business of the entity combined
Name: Nissho Corporation
Business: Supermarkets business

(2) Purpose of business combination
The Companies operate in the supermarkets business with originalities as Department store Group. By combining with Nissho Corporation, which has stores in Hokusetsu (northern area of Osaka and south-eastern area of Hyogo) area, the Companies can enhance intra-group synergistic effects through the combination of the strong points of each supermarkets subsidiaries and the complementary effects in the operating area. The Companies can also enlarge the scale of the supermarkets business and implement the dominant strategy in Kansai area.

(3) Date of business combination
31st July 2006

(4) Legal form of business combination
Purchase of shares of Nissho Corporation

(5) Corporate name after business combination
Hankyu Department Stores, Inc.

(6) Percentage of total shares outstanding
100%

2. The period of operations of the purchased company included in the consolidated statements of income
From 1st August 2006 to 31st March 2007

3. Acquisition cost
¥18,750 million ($158,898 thousand)

4. Amount of goodwill, reason for the generation of goodwill and the way and period of amortisation of goodwill

(1) Amount of goodwill
¥10,143 million ($85,958 thousand)

(2) Reason for the generation of goodwill
The goodwill arose from the future profitability by the increased scale of the supermarkets business.

(3) The way and period of amortisation of goodwill
Equal amortisation over 20 years

5. Assets and liabilities of the combined company as of the date of the combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5,049	$ 42,788
Fixed assets	16,461	139,500
Total assets	¥ 21,510	$ 182,288
Current liabilities	6,400	54,237
Long-term liabilities	6,503	55,110
Total liabilities	¥ 12,903	$ 109,347

6. The estimated influence on the consolidated statements of income for the year ended 31st March 2007 if the business combination had been completed on 1st April 2006

Sales	¥408,156 million
Operating Income	¥14,647 million
Income before income taxes	¥14,203 million
Net income	¥7,969 million
Net income per share	¥42.53

The influence shown above is estimated by adding the sales and income of Nissho Corporation from 1st April 2006 to 31st July 2006 and the amortisation of goodwill for the same period.

29. Subsequent Events

(Purchase of treasury stock)
The Company purchased its treasury stock on 10th April 2007 to prepare for a stock-for-stock exchange with Hanshin Department Store Ltd., which is scheduled for 1st October 2007.

The information on the purchase of treasury stock is as follows:
1. The number of stock purchased: 16,257,000 shares
2. The purchase price: ¥18,517 million ($156,924 thousand) (¥1,139 ($9.7) per share)

(Merger with Hanshin Department Store Ltd.: Stock-for-stock exchange with Hanshin Department Store Ltd. and Spin-off of the department store business of the Company and establishment of a new holding company)

The Company, Hanshin Department Store Ltd., Hanshin Electric Railway Co., Ltd. and Hankyu Hanshin Holdings, Inc. agreed upon the integration of the management of the Company and Hanshin Department Store Ltd. on 26th March 2007.

The Company and Hanshin Department Store Ltd. made a stock-for-stock exchange contract on 10th May 2007 to make Hanshin Department Store Ltd. a subsidiary of the Company.

The Company is going to spin off the department store business and become a holding company of the newly-split-up department store business company and Hanshin Department Store Ltd. on 1st October 2007, on the condition that the stock-for-stock exchange goes in effect.

The plan of the stock-for-stock exchange and the spin-off of the department store business of the Company and the establishment of a new holding company was approved at the general shareholders' meeting held on 27th June 2007.

1. Stock-for-stock exchange

(1) Objective: The competitive advantage by the overwhelming market shares in Osaka Umeda area
The increase in customer satisfaction and shareholders' value

(2) Stock exchange ratio: 1 share of common stock issued by the Company will be exchanged for each share of common stock of Hanshin Department Store Ltd.

(3) Newly issued stock for stock-for-stock exchange: 35,416,476 shares (16,364,000 shares out of the above-mentioned amount will be treasury stock.)

(4) Overview of Hanshin Department Store Ltd.
1. Name: Hanshin Department Store Ltd.
2. Address: 1-13-13 Umeda Kita-ku, Osaka City, Osaka, Japan
3. Representative Director: President Hideo Nishikawa
4. Common Stock: ¥4,358 million ($36,932 thousand) as of 31st March 2007
5. Net asset: ¥27,556 million ($233,525 thousand) as of 31st March 2007
6. Total asset: ¥50,491 million ($427,890 thousand) as of 31st March 2007
7. Business: Department Store Business

(5) Overview of the Company
1. Name: Hankyu Department Stores, Inc. (scheduled to change its name to H_2O RETAILING CORPORATION on 1st October 2007)
2. Address: 8-7 Kakuda-cho Kita-ku Osaka City, Osaka, Japan
3. Representative Director: President Nobuaki Nitta
4. Common Stock: ¥17,797 million ($150,822 thousand) as of 31st March 2007
5. Business: Department Store Business (management and planning of the group companies from 1st October 2007)

(6) The date of stock-for-stock exchange: 1st October 2007

2. Spin-off of the department store business of the Company and the establishment of a new holding company

(1) Objective: The Company will spin off the department store business, including human resources, accounting and development division related to department store business, to establish a new entity, and the registered trading name will be changed to H_2O RETAILING CORPORATION, creating a holding company structure. The new Hankyu Department Stores will be converted into an operating company under the holding company H_2O RETAILING CORPORATION.

(2) Details of the business to be spun off
1. Business: Department Store Business
2. Sales: ¥290,171 million ($2,459,076 thousand)
3. Gross Profit: ¥80,372 million ($681,119 thousand)

(3) Overview of the Company to spin off the business
1. Name: Hankyu Department Stores, Inc.
(scheduled to change its name to H_2O RETAILING CORPORATION on 1st October 2007)
2. Address: 8-7 Kakuda-cho Kita-ku Osaka City, Osaka, Japan
3. Representative Director: President Nobuaki Nitta
4. Common Stock: ¥17,797 million ($150,822 thousand) as of 31st March 2007
5. Business: Department Store Business (management and planning of the group companies from 1st October 2007)

(4) Overview of the newly established company to succeed the spun-off business
1. Name: Hankyu Department Stores, Inc.
2. Address: 8-7 Kakuda-cho Kita-ku Osaka City, Osaka, Japan
3. Representative Director: President Nobuaki Nitta
4. Common Stock: ¥5,000 million ($42,373 thousand)
5. Business: Department Store Business

(5) The date of spin-off: 1st October 2007

Independent Auditors' Report

To the Shareholders and Board of Directors of
Hankyu Department Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Hankyu Department Stores, Inc. and consolidated subsidiaries as of 31st March 2005, 2006 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended 31st March 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hankyu Department Stores, Inc. and subsidiaries as of 31st March 2005, 2006 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 13 to the consolidated financial statements, Hankyu Department Stores, Inc. and subsidiaries changed its segmentation.
(2) As discussed in Note 29 to the consolidated financial statements, Hankyu Department Stores, Inc. purchased its treasury stock (the number of stock purchased: 16,257,000 shares, the purchase price: ¥18,517 million ($156,924 thousand)) on 10th April 2007, and the plan of stock-for-stock exchange with Hanshin Department Stores Ltd. and Spin-off of the department store business of Hankyu Department Stores, Inc. and Establishment of a new holding company was approved at the general shareholders' meeting held on 27th June 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
27th June 2007

KPMG AZSA & Co.

KPMG AZSA & Co.

Corporate Data

Board of Directors and Corporate Auditors

Chairman and Representative Director
Shunichi Sugioka
President and Representative Director
Nobuaki Nitta
Representative Director, Senior Managing Executive Officer
Jun Wakabayashi
Director, Senior Managing Executive Officer
Kohei Yanagisawa
Director
Kazutoshi Senno
Director, Executive Officer
Tadatsugu Mori
Directors
Kohei Kobayashi, Yosaku Fuji
Managing Executive Officers
Akira Maekawa, Kimihiko Kitabe, Keiji Uchiyama
Executive Officers
Satoshi Kouchi, Makoto Namimatsu
Naoya Araki, Atsushi Suzuki
Norifumi Morii, Takaichi Kawamura, Eiji Komori
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Tadashi Yamada, Tomohiko Sasaki
Hideyuki Takai (As of 27th June 2007)

Outline of the Company

Date of Establishment :	March 1947
Stated Capital :	¥17,797 million
Authorised Shares :	300,000,000
Issued and Outstanding Shares :	187,688,301
Shareholders :	17,244
Employees :	2,895

Principal Shareholders :

Hankyu Department Stores Kyoeikai
Toho Co., Ltd.
Japan Trustee Services Bank, Ltd. (Trust account)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Hankyu Hanshin Holdings, Inc.
Daido Life Insurance Company
The Master Trust Bank of Japan, Ltd. (Trust account)
Japan Trustee Services Bank, Ltd. (Trust account 4)
Sumitomo Mitsui Banking Corporation
Nippon Life Insurance Company

Principal Consolidated Subsidiaries

Company Name	Stated capital (Millions of yen)	Annual sales (Millions of yen)	Direct holding by the company (%)	Principal business
Hankyu Oasis, Inc.	¥ 100	¥ 40,085	100.0	Operation of supermarkets
Hankyu Nissho Store	100	24,067	100.0	Operation of supermarkets
Hankyu Family Store Co., Ltd.	100	11,272	100.0	Operation of supermarkets
Hankyu Kitchen Yell Co., Ltd.	50	5,198	100.0	Food delivery service
Hankyu Foods, Inc.	50	2,600	100.0	Manufacture and sales of food products
Hankyu Bakery Co., Ltd.	50	2,338	100.0	Manufacture and sales of food products
Hankyu Shopping Center Development Co., Ltd.	50	6,254	100.0	Developer
Oi Development Co., Ltd.	550	2,343	67.2	Hotel
Hankyu Seisakusho Co., Ltd.	20	4,990	100.0	Manufacture and sales of furniture and furnishings
Hankyu Design Systems Co., Ltd.	10	2,601	100.0	Sales of sales promotion materials and printings
Hankyu Department Stores Europe B.V.	EUR.220 thousand	EUR.2,855 thousand	100.0	Fund-raising and fund management related to overseas business
Hankyu Home Styling Co., Ltd.	10	508	100.0	Sales of furniture
Esaka Logistics Services Co., Ltd.	20	5,075	100.0	Transportation
Persona Co., Ltd.	20	478	100.0	Credit card business
Hankyu Maintenance Services Co., Ltd.	10	2,574	100.0	Operation of office maintenance service
With System, Inc.	100	2,384	81.0	Data processing and systems development
Hankyu Job Yell Co., Ltd.	40	2,106	100.0	Temporary employment agency
Hankyu Tomonokai Co., Ltd.	50	1,198	100.0	Membership organization for customer service

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