Hankyu Department Stores, Inc.

FINANCIAL REPORT 2005

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 37 subsidiaries and 7 affiliates that operate retail business including its core-department store operations, supermarket operations, and shopping center operations.

Contents

Five-year Summary

Hankyu Department Stores, Inc. and Consolidated Subsidiaries

Years ended 31st March	Millions of yen					Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2004	**2005**	**2005**
For the year:						
Net sales	¥394,965	¥401,475	¥395,029	¥384,556	**¥385,675**	**$3,604,439**
Cost of sales	283,233	288,229	281,348	271,916	**272,210**	**2,544,018**
Gross profit	111,732	113,246	113,681	112,640	**113,465**	**1,060,421**
Selling, general and administrative expenses	106,316	103,279	100,354	97,421	**96,582**	**902,636**
Interest expense	852	677	647	528	**338**	**3,159**
Income (loss) before income taxes	4,893	(20,448)	13,060	14,744	**15,650**	**146,262**
Net income (loss)	2,156	(13,117)	8,574	8,101	**9,107**	**85,112**
Per share data (in yen and dollars)						
Net income (loss) - basic	11.61	(70.62)	45.50	42.89	**48.24**	**0.45**
Net income - diluted	11.61	—	45.50	42.89	**45.17**	**0.42**
Cash dividends	12.50	12.50	12.50	12.50	**12.50**	**0.12**
At year-end:						
Inventories	¥15,615	¥13,485	¥12,110	¥11,578	**¥12,664**	**$118,355**
Property, plant and equipment (book value)	82,602	74,419	72,597	71,038	**70,352**	**657,495**
Total assets	292,746	279,640	240,600	237,029	**266,119**	**2,487,093**
Long-term debt	68,158	57,606	35,852	32,180	**29,677**	**277,355**
Shareholders' equity	105,928	94,046	100,673	113,350	**121,835**	**1,138,645**
Ratio analysis:						
Gross profit / Net sales (%)	28.29	28.21	28.78	29.29	**29.42**	
Income before income taxes / Net sales (%)	1.24	—	3.31	3.83	**4.06**	
Net income / Net sales (%)	0.55	—	2.17	2.11	**2.36**	
Net income /Total assets (%)	0.72	—	3.30	3.39	**3.62**	
Net income / Shareholders' equity (%)	2.03	—	8.81	7.57	**7.74**	
Shareholders' equity / Total assets (%)	36.18	33.63	41.84	47.82	**45.78**	
Long-term debt / Shareholders' equity (times)	0.64	0.61	0.36	0.28	**0.24**	
Net sales / Inventories (times)	25.29	29.77	32.62	33.21	**30.45**	
Net sales / Total assets (times)	1.35	1.44	1.64	1.62	**1.45**	

Note 1: U.S. dollar amounts represent translations of yen amounts at the rate of ¥107=U.S.$1.
2: Effective 1st April 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share"). Prior year amounts of net income (loss) per share have 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.

General Condition of Business

I. Corporate Sales and Business Results

In the current period the Hankyu Department Stores Group used the fruits of management reforms to date to concentrate proactively on carrying out its growth strategy, with steps such as opening a branch in Kitahanada in Sakai (in the southern area of Osaka) as well as opening new stores and increasing floor space in current stores of supermarkets.

As a result we were able to achieve sales of ¥385,675 million ($3,604,439 thousand) and record profits, with operating income of ¥16,883 million ($157,785 thousand), and consolidated net income of ¥9,107 million ($85,112 thousand). We accomplished these results by achieving an increase in sales, although a small one, for the 1st time in 3 years, and by making continuous efforts to improve gross profit and lower costs. The ratio of operating income to sales on a consolidated basis reached 4.4%, meaning that we have built an outstandingly high profit structure for a company in the retail sector.

Following are the results for each business segment.

Department Store Business
Sales ¥312,854 million ($2,923,869 thousand) (y/y -1.8%)
Operating income ¥14,256 million ($133,234 thousand) (y/y+6.9%)

1) Rebuilding plan for our flagship store in Umeda

We decided to rebuild our flagship store in Umeda, to make the structure earthquake proof and suitable for the increasingly severe competition in the Umeda area of Osaka, as well as to maintain our overwhelming position as the number one store in this area.

The new store in Umeda will use floors from the second basement floor to the thirteenth floor for sales, and it will have a total sales area of 84,000 square meters, an increase of 137%. Full renovation will start from this summer. We will divide the renovation into two periods, so that we can continue sales activities while carrying out the renovation. We have been steadily making preparations for a store opening at the end of the first period in the autumn of 2007, and the grand opening in the spring of 2011.

2) Opening of a branch store in Kitahanada, Sakai

Creating prototypes of the "New suburban department store business" is one of the major businesses in GP10, the company's long-term business plan, and in October 2004 we opened a store in Kitahanada, a suburb of Sakai City near Osaka.

We aimed to create a community department store that targets both the family in their 30s, which conventional shopping centers serve, and fashionable housewives in their 50s,who are the main customers of urban department stores.

In regard to product line-up, we plan to create new stores unlike those in any other department stores, with daily foods that emphasise "freshness, quality, and price", daily fashion that adds stylish elements to everyday prices, and proposal of lifestyle plans.

By planning and creating this type of store, we achieved sales of ¥4,385 million in the first five months.

3) Sales measures

We have made clear the store concept tailored to the characteristics of each store's locality and have sought to make full use of information on customers, and we have worked to strengthen our marketing power by turning it into a part of store environments, services, and our product line-up.

This year in particular we have focused on strengthening services. We have sought to improve the level of direct customer service by implementing motivational, self-development programs for sales persons such as a license system, a gold name system, and an incentive system, in addition to basic sales training.

We have also tried out a new system using IC tags in the women's shoes departments at the Umeda main store and at Yurakucho Hankyu in Tokyo. By achieving efficiencies such as getting accurate information on product inventories and shortening the time required for the customer to be able to try on shoes, we have obtained definitely positive results from this type of system.

We have also pushed ahead with remodeling of the Umeda flagship store, by planning things and events for people who want to enjoy life in good style, so that customers can be shared throughout the whole store. In June 2004, we completed the remodeling with the opening of a market where a customer can find everything needed for daily cooking — fresh foods, and groceries.

With these steps we have been able to develop a complete line-up of products suited to customers' life-styles, and we have also sought improvements in the specialisation, entertainment value, and topicality of the goods and services we offer in our businesses.

As a result of measures such as the above, we were able to achieve almost all the objectives we set in our business plan, despite the negative effects of irregular weather from typhoons and an unusually warm winter.

Supermarket Business

Sales ¥48,392 million ($452,261 thousand) (y/y +8.3%)

Operating Income ¥877 million ($8,196 thousand) (y/y +38.1%)

In the supermarket business we concentrated on strengthening marketing and carrying out a plan to accelerate the opening of branch stores in the period to expand sales. Another major theme was setting up chain store operations.

Hankyu Oasis, Inc. opened three branch stores and increased the floor space in two stores in Osaka/Hyogo Pref. in the year ended 31st March 2005. Hankyu Family Store Co., Ltd. opened four branches inside Osaka City.

As we worked to expand sales in these ways, we also sought to strengthen profitability through steps such as improvement of gross income by direct purchasing of fresh products and improvement of labor costs by use of part-time workers. We also carried out measures to make stores more rooted in local communities, such as using a customer analysis system and changing the point system for purchases in current stores.

In April 2004 regulations requiring that display prices include the cost of the national consumption tax caused a slight decline in unit prices for goods, but as a result of the measures described above, the supermarket business had increased both sales and operating income.

Real Estate Business

Sales ¥4,377 million ($40,907 thousand) (y/y +21.0%)

Operating income ¥757 million ($7,074 thousand) (y/y +17.7%)

Hankyu Shopping Center Development Co., Ltd. concentrated on improving its profitability through improvement of its occupancy ratio and active pursuit of property management contracts.

We transferred operations of the former Sukiyabashi Hankyu to a new specialty commercial building "Mosaic Ginza Hankyu", which opened in October 2004. In March 2005 we also opened "Mosaic Dining Shijo Kawaramachi", as renewal restaurants on the seventh and eighth floors of the Kyoto Sumitomo Building that Hankyu Department Store occupies.

Other Businesses

Sales ¥20,052 million ($187,402 thousand) (y/y +12.7%)

Operating Income ¥1,064 million ($9,944 thousand) (y/y+48.0%)

Hankyu Kitchen Yell Co., Ltd., a members-only individual delivery service business, finished with expanding the area of its distribution services, focused on working its current areas more thoroughly to improve its operations and obtain new members.

As a result of other subsidiaries also concentrating on improving profitability in each business area, sales and income increased.

Retirement Benefits

Since the Group introduced new retirement benefits accounting, additional obligations and expenses have also continued to arise due to a slump in the investment operating results of pension assets. In addition, views on lump-sum retirement payments have been changing as lifetime employment has declined and a variety of employment and working styles have come about.

Given the current environment, we carried out a drastic reform of the company' s retirement allowance and pension systems, to reduce uncertainties for management as well as to respond to changes in values and retain excellent human resources. We concentrated on rebuilding these systems and moving to a defined contribution pension system.

As a result of implementing this system in seven companies including Hankyu Department Stores, Inc., we were able to reduce retirement benefit obligations from ¥43,209 million as of 31st March 2004 to ¥29,440 million ($275,140 thousand) as of 31st March 2005. This reduction enabled us to record ¥3,456 million ($32,299 thousand) in other income as gain on the revision of emoployees' severance and retirement benefits plans.

Ⅱ. Management Issues To Be Resolved

The retail market environment has been changing greatly, with the emergence of an ageing society and a falling birthrate, pension problems, the retirement of the baby boomers, and the coming of a life-style generation.

Among these changes we foresee that the structure of the retail industry will be very different in ten years, as large foreign retailers make inroads into the Japanese market and corporate shakeouts and restructuring occur in the industry.

In light of these trends the Group created the GP10 plan of the Company' s long-term objectives over the next 10 years to FY 2015. We realise the importance of always continuing to change to adapt to changes in the times, and we aim to continue to improve our corporate value in the future.

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

Survey

The Companies have been promoting a growth strategy including opening a new store of Sakai Kitahanada Hankyu and other new supermarkets stores, based on the achievement of business renovation.

The growth strategy, 'H03 Mid-Term 3-Year Action Plan', includes the reclassification of department store businesses, growth in the food business and growth in the property management business.

The Companies have achieved the goals of 'H03 Mid-Term 3-Year Action Plan' in fiscal year 2005, and will be focusing on achieving the goals of 'GP 10 Plan', where we have targeted net sales of ¥600,000 million and operating income of ¥30,000 million in fiscal year 2015.

Operating Performance

Net Sales

Net sales for the term increased 0.3% (¥1,119 million, $10,458 thousand) from the previous term, to ¥385,675 million ($3,604,439 thousand). In a breakdown by segment, net sales decreased 1.8% to ¥312,854 million ($2,923,869 thousand) in department stores operations, and increased 8.3% to ¥48,392 million ($452,261 thousand) in supermarkets operations. Net sales increased 21.0% to ¥4,377 million ($40,907 thousand) in real estate management operations, and increased 12.7% to ¥20,052 million ($187,402 thousand) in other business operations.

Business expansion in subsidiaries, such as opening new supermarket stores and expanding the service area of home delivery service, has contributed to the increase of net sales for the first time in 3 years.

Gross Profit

Gross profit increased 0.7% (¥825 million, $7,710 thousand) to ¥113,465 million ($1,060,421 thousand). Increased sales, the expansion of sales zones unique to Hankyu and unifying the purchasing functions of the Group food businesses have contributed to the increased gross profit.

Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative expenses decreased 0.9% (¥839 million, $7,841 thousand) to ¥96,582 million ($902,636 thousand) as the Companies promoted cost efficiency.

Operating income increased 10.9% (¥1,664 million, $15,551 thousand) to ¥16,883 million ($157,785 thousand). This is a record result for the Companies and the Companies have been recording more than 10% increases in operating income for seven successive years. The operating income / net sales ratio was 4.4%, a high level among the department store businesses.

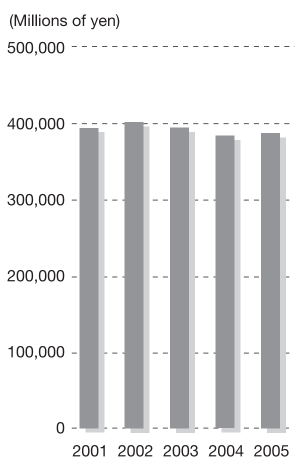
Other Income and Expenses

Other loss increased by ¥758 million ($7,084 thousand) to ¥1,233 million ($11,523 thousand).

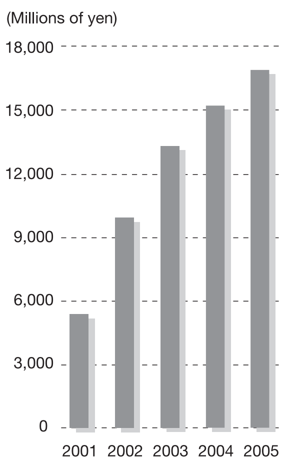
Interest and dividend income was ¥526 million ($4,916 thousand), while interest expense was ¥338 million ($3,159 thousand). The net interest income during this fiscal year increased by ¥195 million ($1,822 thousand) to ¥188 million ($1,757 thousand).

Equity in losses of affiliated companies decreased by

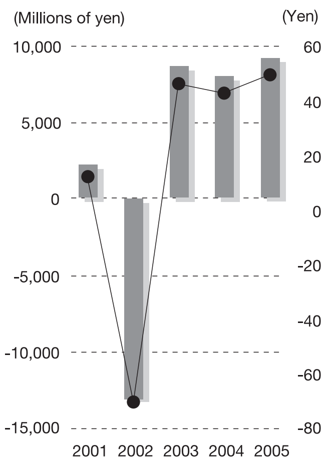
Net Sales



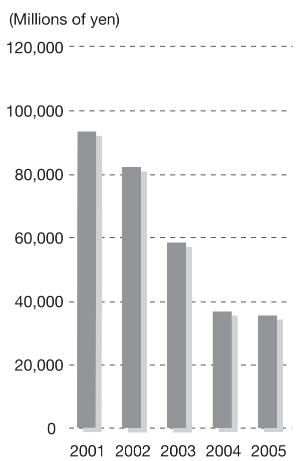
Operating Income



■ Net Income (Loss)
● Net Income per Share



Interest Bearing Debts



¥31 million to ¥0 million ($0 thousand).

During the previous fiscal year, there were impairment losses of ¥2,409 million for fixed assets, while during this fiscal year, there is a provision for loss of Umeda main store rebuilding of ¥6,381 million ($59,636 thousand), expenses of debt assumption agreements of ¥1,240 million ($11,589 thousand), expenses incurred as a result of the revision of the personnel plans of ¥797 million ($7,449 thousand) together with gain on sales of property, plant and equipment of ¥4,502 million ($42,075 thousand) and gain on the revision of employees' severance and retirement benefits plans of ¥3,456 million ($32,299 thousand).

Income before income taxes increased by ¥906 million ($8,467 thousand) to ¥15,650 million ($146,262 thousand).

Net Income

Net income increased by ¥1,006 million ($9,402 thousand), or 12.4%, to ¥9,107 million ($85,112 thousand). At the end of the term, net income per share increased by ¥5.35 ($0.05) to ¥48.24 ($0.45), and diluted net income per share was ¥45.17 ($0.42).

Financial Position

As of 31st March 2005, total assets stood at ¥266,119 million ($2,487,093 thousand), an increase of ¥29,090 million ($271,869 thousand) from the previous term-end.

This increase was mainly attributable to the increase of ¥17,253 million ($161,243 thousand) in cash on hand and in banks due to the cash flows from operating activities and the increase of ¥10,305 million ($96,308 thousand) in investment securities which was mainly due to the securities returned from the employees' pension plan.

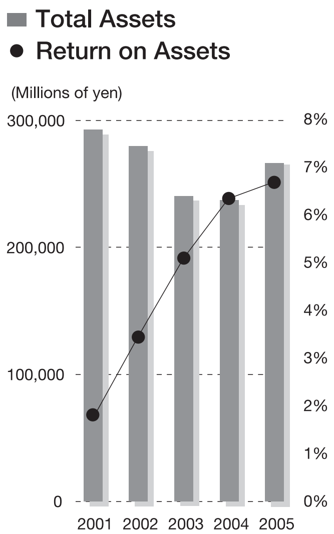
Total liabilities increased by ¥20,513 million ($191,710 thousand) to ¥142,573 million ($1,332,458 thousand). As for bonds, the Company issued zero coupon convertible bonds of ¥20,000 million ($186,916 thousand) and entered into debt assumption agreements with banks for bonds of ¥9,000 ($84,112 thousand) and ¥6,800 ($63,551 thousand) during this fiscal year. Total borrowings decreased by ¥609 million ($5,692 thousand) to ¥36,153 million ($337,879 thousand). Employees' severance and retirement benefits increased by ¥4,035 million ($37,710 thousand) to ¥11,730 million ($109,626 thousand). The provision for loss of Umeda main store rebuilding was ¥6,381 million ($59,636 thousand), ¥4,453 million ($41,617 thousand) in the current portion and ¥1,928 million ($18,019 thousand) in the long-term portion of liabilities.

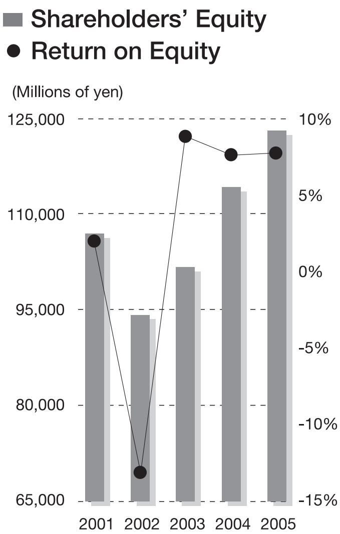
Minority interests in consolidated subsidiaries increased by ¥92 million ($860 thousand) to ¥1,711 million ($15,990 thousand).

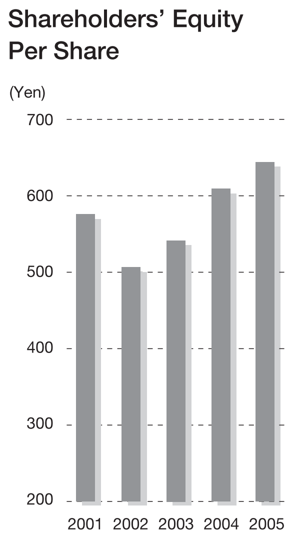
Shareholders' equity increased by ¥8,485 million ($79,299 thousand) to ¥121,835 million ($1,138,645 thousand) due to the net income of ¥9,107 million ($85,112 thousand) and dividends of ¥2,343 million ($21,897 thousand).

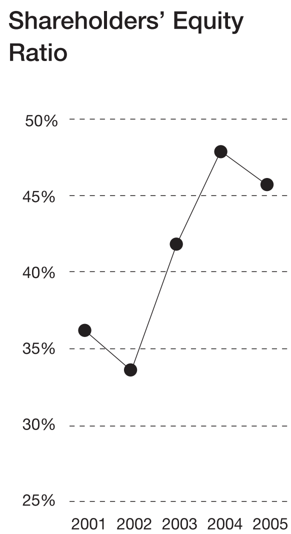
The shareholders' equity ratio was 45.78% and shareholders' equity per share stood at ¥649.78 ($6.07), an increase of ¥45.57 ($0.43) from the previous term-end.

The annual dividend per share amounted to ¥12.5 ($0.12), unchanged from the previous term.









Cash Flows

Cash inflows from operating activities decreased by ¥2,722 million ($25,439 thousand) to ¥18,962 million ($177,215 thousand). This is because there was an increase of income tax paid of ¥1,208 million ($11,290 thousand) and the adjustment for the gain from disposal of property, plant and equipment, while income before income taxes increased.

Cash flows from investing activities posted a net cash outflow of ¥4,188 million ($39,140 thousand), compared with ¥9,038 million for the previous term. This is mainly attributable to the increase of proceeds from disposal of property, plant and equipment of ¥1,448 million ($13,533 thousand) and the increase of proceeds from sales of investment securities of ¥1,701 million ($15,897 thousand).

Cash outflows from financing activities decreased by ¥14,699 million ($137,374 thousand) to ¥2,553 million ($23,860 thousand). This is because repayments of short-term and long-term debt during this fiscal year were ¥3,071 million ($28,701 thousand), compared with ¥14,850 million for the previous term.

As a result, the term-end balance of cash and cash equivalents increased ¥12,243 million ($114,420 thousand) from the previous term-end to ¥40,158 million ($375,308 thousand).

Risk Disclosures

The profitability and sales of the Companies could be affected by the following 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 2005.

(1) Business environment

①Business environment for retailers

The ageing society, increasing competitiveness in the market due to newcomers from abroad could change the business environment for retailers, which could affect the profitability of the Companies.

②Rebuilding of Umeda main store

The Company has decided to rebuild its Umeda main store. The new Umeda main store will be one of the biggest stores in Japan and is expected to be much more profitable than the present store. During the construction period that will end in 2011, however, net sales will be on the decrease due to the decrease of the sales area.

In the Umeda area, there are other development plans including the opening of another department store. This will make the Umeda area more advantageous than other areas, but the competition within the area could be intensified.

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

① In Japan, the law concerning big retail stores regulates the opening of new stores by retailers. This law aims to conserve the living environment of neighbours around stores, and could influence the Companies' future plans of opening new stores.

Other laws and regulations concerning antitrust, environment, recycling or consumer protection could affect the Companies.

② Consumption tax (Value added tax) rate

A rise in the consumption tax rate could depress domestic personal consumption. This could lead to a decrease in the sales of the Companies.

(3) Natural environment and accidents

① Unusual climate

Cold summers and too warm winters could influence the sales of the Company, since fashionable clothes are one of the Company's main commodities.

② Natural disasters and accidents

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

(4) Other

① Safety of items sold

The Companies control the high quality of sales items through special committees on quality control. Some epidemics such as BSE, however, could depress the domestic consumption of food products and influence the sales of the Companies.

② Control of customer information

The Company is highly prepared for protecting customer information by setting internal rules for customer information. Any leak of this information by accident or by crime, however, could damage the Companies' reputation and decrease the 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 the Companies' efficiency and profitability.

Corporate Governance

The Company reinforces corporate governance focusing on a “checking system for management” and “transparency”.

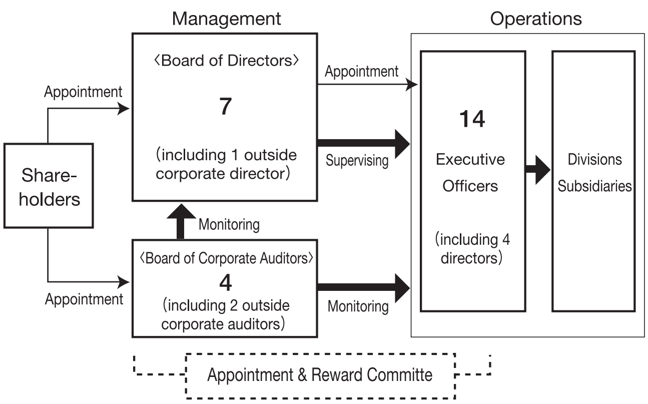
The Company has an outside corporate director and outside auditors and discloses Company information through general annual shareholders’ meetings, annual reports, letters to shareholders and IR activities.

In April 2002, the Company introduced a management system that includes a streamlined Board of Directors and the new position of non-board executive officers. In June 2002, the Company also introduced the system where all the directors are elected annually at general shareholders’ meetings. Directors are responsible for management decisions and supervising, while executive officers are responsible for actual operations of respective divisions.

The following describes the Company’ s corporate governance as of 31st March 2005.

(1) Management system

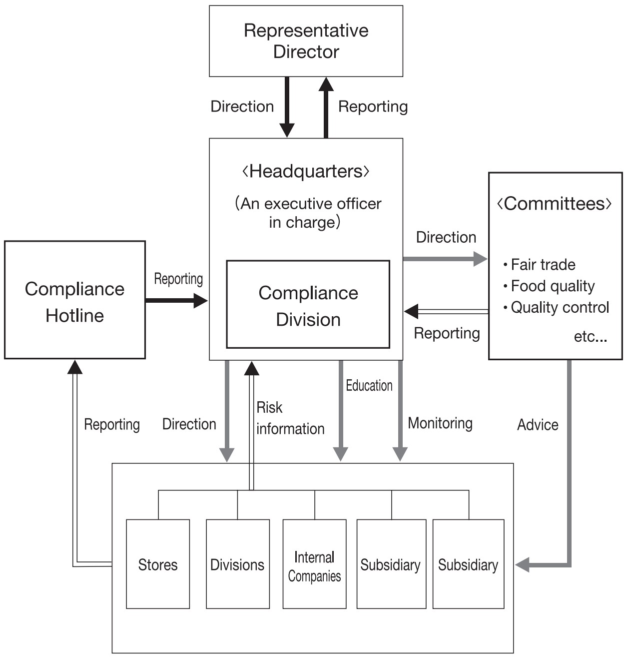
- The Company has a corporate auditors system.
- The Company has seven directors, one of which is an outside corporate director.
- The Company has four corporate auditors, two of which are outside corporate auditors.
- The staff of the Compliance Division are in charge of internal auditing and report to representative directors and auditors.
- The following is the system for operations and management monitoring.



The Company has executive officers, who are in charge of respective divisions and the directors and Board of Directors supervise executive officers.

Corporate auditors and Board of Corporate Auditors monitor the directors, the Board of Directors and the operations of executive officers.

(2) Internal control and risk management systems



The Companies have staff for compliance in every division and subsidiary. This makes it easy for Compliance Division to identify the elements related to compliance. The elements are reported to representative directors through the executive officer in charge.

The Compliance Division holds regular “Compliance Leaders Meetings”, where the staff for compliance are the members. They share information related to compliance, and the Compliance Division is responsible for education on risk management, and implements improvements in business operations and takes measures related to risk management.

The Companies also have a Compliance Hotline.

Consolidated Balance Sheets

As of 31st March, 2003, 2004 and 2005	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	**2005**	**2005**
Assets				
Current assets:				
Cash on hand and in banks	¥32,481	¥27,924	**¥45,177**	**$422,215**
Marketable securities (Note 3)	0	0	**0**	**0**
Notes and accounts receivable (Note 7) :				
Trade	20,663	19,407	**18,695**	**174,720**
Unconsolidated subsidiaries and affiliates	0	0	**0**	**0**
Other	13,859	8,165	**5,783**	**54,047**
Allowance for doubtful receivables	(87)	(141)	**(306)**	**(2,860)**
	34,435	27,431	**24,172**	**225,907**
Inventories (Note 4)	12,110	11,578	**12,664**	**118,355**
Deferred tax assets (Note 15)	7,595	1,920	**5,176**	**48,373**
Prepaid expenses and other	2,561	2,697	**7,516**	**70,243**
Total current assets	89,182	71,550	**94,705**	**885,093**
Investments and long-term loans:				
Investment securities (Note 3 and 8)	34,623	48,611	**58,916**	**550,617**
Investments in unconsolidated subsidiaries and affiliates	751	811	**787**	**7,355**
Long-term loans	3,806	6,158	**2,872**	**26,841**
Long-term loans to employees	87	293	**233**	**2,178**
Total investments and long-term loans	39,267	55,873	**62,808**	**586,991**
Property, plant and equipment (Note 7)				
Land (Note 17)	29,137	29,116	**28,942**	**270,486**
Buildings and structures	105,797	105,755	**105,681**	**987,673**
Machinery and equipment	10,742	11,589	**11,845**	**110,701**
Construction in progress	524	17	**11**	**103**
	146,200	146,477	**146,479**	**1,368,963**
Accumulated depreciation	(73,603)	(75,439)	**(76,127)**	**(711,468)**
Total property, plant and equipment	72,597	71,038	**70,352**	**657,495**
Other assets:				
Long-term leasehold deposits (Note 5)	30,801	29,624	**29,782**	**278,336**
Intangibles	3,325	2,529	**3,130**	**29,252**
Long-term deferred tax assets (Note 15)	3,353	4,817	**4,285**	**40,047**
Long-term deferred tax assets related to land revaluation (Note 17)	798	838	**684**	**6,393**
Interest swaps	1,054	596	**496**	**4,636**
Other assets	306	247	**261**	**2,439**
Allowance for doubtful receivables	(83)	(83)	**(384)**	**(3,589)**
Total other assets	39,554	38,568	**38,254**	**357,514**
	¥240,600	¥237,029	**¥266,119**	**$2,487,093**

See accompanying Notes.

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	**2005**	**2005**
Liabilities, Minority Interests and Shareholders' Equity				
Current liabilities:				
Short-term debt (Note 6)	¥6,026	¥11	**¥11**	**$103**
Current portion of long-term debt (Notes 6 and 7)	8,814	3,071	**6,465**	**60,421**
Notes and accounts payable:				
Trade	25,552	25,336	**26,124**	**244,149**
Other (Note 7)	10,845	7,069	**5,737**	**53,617**
	36,397	32,405	**31,861**	**297,766**
Accrued expenses	3,855	4,879	**4,918**	**45,963**
Income and enterprise taxes payable	979	1,711	**7,193**	**67,224**
Consumption tax payable	1,405	955	**521**	**4,869**
Advances received	21,525	22,214	**22,777**	**212,869**
Provision for loss of Umeda main store rebuilding (Note 2)	—	—	**4,453**	**41,617**
Other current liabilities	2,328	2,406	**2,664**	**24,897**
Total current liabilities	81,329	67,652	**80,863**	**755,729**
Long-term debt (Note 6)	35,852	32,180	**29,677**	**277,355**
Long-term deferred tax liabilities (Note 15)	—	5,084	**8,034**	**75,084**
Long-term deferred tax liabilities related to land revaluation (Note 17)	143	344	**344**	**3,215**
Employees' severance and retirement benefits (Note 10)	6,477	7,695	**11,730**	**109,626**
Directors' severance and retirement benefits	206	314	**315**	**2,944**
Provision for loss of Umeda main store rebuilding (Note 2)	—	—	**1,928**	**18,019**
Long-term accrued payables	4,420	308	**1,841**	**17,206**
Guarantee deposits	8,043	7,403	**7,044**	**65,832**
Deferred hedge gains	1,054	596	**496**	**4,635**
Other non-current liabilities	509	484	**301**	**2,813**
Contingent liabilities (Note 12)				
Total liabilities	138,033	122,060	**142,573**	**1,332,458**
Minority interests in consolidated subsidiaries	1,894	1,619	**1,711**	**15,990**
Shareholders' equity (Note 16):				
Common stock:				
Authorised - 300,000,000 shares,				
Issued - 187,688,301 shares in 2003				
Issued - 187,688,301 shares in 2004				
Issued - 187,688,301 shares in 2005	17,797	17,797	**17,797**	**166,327**
Capital surplus	17,565	17,573	**17,574**	**164,243**
Retained earnings	62,948	68,337	**74,824**	**699,290**
Land revaluation, net of tax (Note 17)	(982)	(642)	**(429)**	**(4,009)**
Net unrealised holding gains on securities	3,938	10,767	**12,608**	**117,832**
Foreign currency translation adjustments	(378)	(348)	**(326)**	**(3,047)**
Treasury stock - 314,830 shares in 2003				
- 193,138 shares in 2004				
- 286,314 shares in 2005	(215)	(134)	**(213)**	**(1,991)**
Total shareholders' equity	100,673	113,350	**121,835**	**1,138,645**
	¥240,600	¥237,029	**¥266,119**	**$2,487,093**

Consolidated Statements of Income

Years ended 31st March	Millions of yen 2003	Millions of yen 2004	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2005
Net sales	¥395,029	¥384,556	**¥385,675**	**$3,604,439**
Cost of sales	281,348	271,916	**272,210**	**2,544,018**
Gross profit	113,681	112,640	**113,465**	**1,060,421**
Selling, general and administrative expenses	100,354	97,421	**96,582**	**902,636**
Operating income	13,327	15,219	**16,883**	**157,785**
Other income (expenses):				
Interest and dividend income	501	521	**526**	**4,916**
Interest expense	(647)	(528)	**(338)**	**(3,159)**
Loss on disposal of property, plant, equipment and intangibles	(982)	(849)	**(647)**	**(6,047)**
Provision for loss of Umeda main store rebuilding (Note 2)	—	—	**(6,381)**	**(59,635)**
Expenses incurred as a result of the revision of the personnel plans (Note 22)	—	—	**(797)**	**(7,449)**
Loss on businesses of subsidiaries (Note 23)	—	—	**(652)**	**(6,093)**
Expenses for opening a new store	—	—	**(340)**	**(3,177)**
Impairment loss (Note 2)	—	(2,409)	**—**	**—**
Loss on restructuring of business (Note 9)	(1,217)	—	**—**	**—**
Expenses of debt assumption agreements	—	—	**(1,240)**	**(11,589)**
Gain on sales of property, plant and equipment (Note 21)	297	1,891	**4,502**	**42,075**
Gain on sales of investment securities	313	240	**87**	**813**
Gain on the revision of employees' severance and retirement benefits plans (Note 10)	—	—	**3,456**	**32,299**
Gain on goodwill sale	—	319	**—**	**—**
Gain on return of substitutional portion of welfare pension plan	1,295	—	**—**	**—**
Prior service cost of welfare pension plan (Note 10)	2,199	—	**—**	**—**
Loss on revaluation of investment securities	(1,871)	—	**—**	**—**
Net transition obligation of divested subsidiaries	(759)	—	**—**	**—**
Special retirement benefits	(434)	(458)	**—**	**—**
Equity in earnings (losses) of affiliated companies	125	(31)	**(0)**	**(0)**
Amortisation of consolidation difference	207	240	**238**	**2,224**
Other-net	706	589	**353**	**3,299**
	(267)	(475)	**(1,233)**	**(11,523)**
Income before income taxes	13,060	14,744	**15,650**	**146,262**
Income taxes :				
Current	849	1,714	**7,307**	**68,290**
Deferred (Note 15)	3,582	4,838	**(878)**	**(8,206)**
	4,431	6,552	**6,429**	**60,084**
Minority interests	55	91	**114**	**1,066**
Net income	¥8,574	¥8,101	**¥9,107**	**$85,112**

	Yen			U.S. dollars (Note 1)
Net income per share - basic	¥45.50	¥42.89	**¥48.24**	**$0.45**
Net income per share - diluted	¥45.50	¥42.89	**¥45.17**	**$0.42**
Cash dividends	¥12.50	¥12.50	**¥12.50**	**$0.12**

See accompanying Notes.

Consolidated Statements of Shareholders' Equity

Years ended 31st March	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Land revaluation, net of tax (Note 17)	Net unrealised holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at 31st March, 2002	185,750	¥17,700	¥16,464	¥56,644	(¥1,846)	¥ 5,649	(¥536)	(¥ 29)
Additionally issued shares (Note 16)	1,938	97	1,101	—	—	—	—	—
Land revaluation, net of tax (Note 17)	—	—	—	71	864	—	—	—
Net income	—	—	—	8,574	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	158	—
Decrease in net unrealised holding gains on securities	—	—	—	—	—	(1,711)	—	—
Treasury stock purchased	—	—	—	—	—	—	—	(186)
Cash dividends-¥12.5 per share	—	—	—	(2,321)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(32)	—	—	—	—
Increase resulting from decrease in number of consolidated subsidiaries	—	—	—	11	—	—	—	—
Increase resulting from increase in number of consolidated subsidiaries	—	—	—	1	—	—	—	—
Balance at 31st March, 2003	187,688	¥17,797	¥17,565	¥62,948	(¥982)	¥ 3,938	(¥378)	(¥215)
Land revaluation, net of tax (Note 17)	—	—	—	(301)	340	—	—	—
Net income	—	—	—	8,101	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	30	—
Increase in net unrealised holding gains on securities	—	—	—	—	—	6,829	—	—
Gain on treasury stock	—	—	8	—	—	—	—	81
Cash dividends-¥12.5 per share	—	—	—	(2,342)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(89)	—	—	—	—
Decrease resulting from increase in number of consolidated subsidiaries	—	—	—	(1)	—	—	—	—
Increase resulting from increase in number of equity method affiliates	—	—	—	21	—	—	—	—
Balance at 31st March, 2004	**187,688**	**¥17,797**	**¥17,573**	**¥68,337**	**(¥642)**	**¥10,767**	**(¥348)**	**(¥134)**
Land revaluation, net of tax (Note 17)	**—**	**—**	**—**	**(213)**	**213**	**—**	**—**	**—**
Net income	**—**	**—**	**—**	**9,107**	**—**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**22**	**—**
Increase in net unrealised holding gains on securities	**—**	**—**	**—**	**—**	**—**	**1,841**	**—**	**—**
Gain on treasury stock	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**(79)**
Cash dividends-¥12.5 per share	**—**	**—**	**—**	**(2,343)**	**—**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(64)**	**—**	**—**	**—**	**—**
Balance at 31st March, 2005	**187,688**	**¥17,797**	**¥17,574**	**¥74,824**	**(¥429)**	**¥12,608**	**(¥326)**	**(¥213)**

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Land revaluation, net of tax (Note 17)	Net unrealised holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at 31st March, 2004	**$166,327**	**$164,234**	**$638,664**	**($6,000)**	**$100,626**	**($3,252)**	**($1,252)**
Land revaluation, net of tax (Note 17)	**—**	**—**	**(1,991)**	**1,991**	**—**	**—**	**—**
Net income	**—**	**—**	**85,112**	**—**	**—**	**—**	**—**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**205**	**—**
Increase in net unrealised holding gains on securities	**—**	**—**	**—**	**—**	**17,206**	**—**	**—**
Gain on treasury stock	**—**	**9**	**—**	**—**	**—**	**—**	**(739)**
Cash dividends-$0.12 per share	**—**	**—**	**(21,897)**	**—**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**(598)**	**—**	**—**	**—**	**—**
Balance at 31st March, 2005	**$166,327**	**$164,243**	**$699,290**	**($4,009)**	**$117,832**	**($3,047)**	**($1,991)**

See accompanying Notes.

Consolidated Statements of Cash Flows

Years ended 31st March	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	**2005**	**2005**
Cash flows from operating activities:				
Income before income taxes	¥13,060	¥14,744	**¥15,650**	**$146,262**
Depreciation and amortisation	8,069	6,694	**6,537**	**61,094**
Loss on disposal of property, plant, equipment and intangibles	982	849	**647**	**6,047**
Impairment loss	-	2,409	**-**	**-**
Increase (decrease) in allowance for doubtful receivables	(43)	54	**466**	**4,355**
Increase in provision for retirement benefits	570	1,327	**4,035**	**37,710**
Interest and dividend income	(501)	(521)	**(526)**	**(4,916)**
Interest expense	647	528	**338**	**3,159**
Gain on sales of property, plant and equipment	(297)	(1,891)	**(4,502)**	**(42,075)**
Gain on sales of investment securities	(313)	(240)	**(87)**	**(813)**
Gain on goodwill sale	-	(319)	**-**	**-**
Expenses of debt assumption agreements	-	-	**1,240**	**11,589**
Loss on restructuring of business	1,217	-	**-**	**-**
Decrease in notes and accounts receivable	780	1,264	**716**	**6,692**
Decrease (increase) in inventories	1,378	532	**(1,087)**	**(10,159)**
Increase (decrease) in notes and accounts payable	(1,525)	(224)	**785**	**7,336**
Decrease in consumption tax payable	(103)	(453)	**(434)**	**(4,056)**
Bonuses payable to directors and corporate auditors	(40)	(91)	**(66)**	**(617)**
Amortisation of prior service cost of welfare pension plan	(2,199)	-	**-**	**-**
Gain on return of substitutional portion of welfare pension plan	(1,295)	-	**-**	**-**
Loss on revaluation of investment securities	1,871	-	**-**	**-**
Net transition obligation of divested subsidiaries	759	-	**-**	**-**
Other	(20,961)	(1,978)	**(2,738)**	**(25,589)**
	2,056	22,684	**20,974**	**196,019**
Interest and dividends received	515	537	**598**	**5,589**
Interest paid	(670)	(540)	**(405)**	**(3,785)**
Income tax paid	(692)	(997)	**(2,205)**	**(20,608)**
Net cash provided by operating activities	1,209	21,684	**18,962**	**177,215**
Cash flows from investing activities:				
Net decrease (increase) in time deposits	487	9	**(5,009)**	**(46,813)**
Additions to property, plant and equipment	(11,469)	(5,900)	**(7,194)**	**(67,234)**
Proceeds from disposal of property, plant and equipment	3,829	3,425	**4,873**	**45,542**
Additions to intangibles	(531)	(762)	**(1,291)**	**(12,065)**
Proceeds from disposal of intangibles	348	93	**4**	**37**
Investment in securities	(1,549)	(6,367)	**(498)**	**(4,654)**
Proceeds from sales of investment securities	32,272	3,417	**5,118**	**47,832**
Proceeds from the sale of (payment for the) stock of affiliated company accompanied by a change in the scope of consolidation	71	-	**-**	**-**
Payments for long-term loans receivable	-	(2,953)	**(800)**	**(7,477)**
Proceeds from collection of long-term loans receivable	-	-	**609**	**5,692**
Net cash provided by (used in) investing activities	23,458	(9,038)	**(4,188)**	**(39,140)**
Cash flows from financing activities:				
Net decrease in short-term debt	(13,291)	(6,015)	**0**	**0**
Increase in long-term debt	250	-	**-**	**-**
Repayments of long-term debt	(17,771)	(8,835)	**(3,071)**	**(28,701)**
Proceeds from issuance of bonds	-	-	**20,000**	**186,916**
Payments for redemption of bonds	-	-	**(17,039)**	**(159,243)**
Dividends paid	(2,343)	(2,364)	**(2,365)**	**(22,103)**
Proceeds from sale of treasury stock	-	8	**18**	**168**
Additions to treasury stock	(186)	(46)	**(96)**	**(897)**
Net cash used in financing activities	(33,341)	(17,252)	**(2,553)**	**(23,860)**
Foreign exchange differences of cash and cash equivalents	384	36	**22**	**205**
Net increase (decrease) in cash and cash equivalents	(8,290)	(4,570)	**12,243**	**114,420**
Cash and cash equivalents at beginning of year	40,741	32,462	**27,915**	**260,888**
Cash and cash equivalents at beginning of year of newly consolidated subsidiaries	11	23	**-**	**-**
Cash and cash equivalents at end of year	¥32,462	¥27,915	**¥40,158**	**$375,308**
Reconciliation to balance sheet:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheet	¥32,481	¥27,924	**¥45,177**	**$422,215**
Marketable securities in the balance sheet	0	0	**0**	**0**
Time deposits with maturities exceeding three months	(19)	(9)	**(5,019)**	**(46,907)**
Total	¥32,462	¥27,915	**¥40,158**	**$375,308**

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 of International Financial Reporting Standards. The accounts of an overseas subsidiary are based on its 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 and the inclusion of consolidated statements of shareholders' equity) 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. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March 2005, which was ¥107 to U.S.$1.00. The convenience 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 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 of the investees, are accounted for on the equity method.

The consolidated financial statements include the accounts of the Company and its 35 (33 in 2004 and 31 in 2003) significant majority-owned subsidiaries. All significant inter-company transactions and accounts have been eliminated in consolidation.

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 subsidiaries.

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

The equity method has been applied to 7 (8 in 2004 and 7 in 2003) affiliates for the year ended 31st March 2005.

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.

Accounting change

In the year ended 31st March 2004, the Company adopted early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on 9th August 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Standard Implementation Guidance No. 6) issued by the Accounting Standards Board of Japan on 31st October 2003. As a result, income before income taxes for the year ended 31st March 2004 decreased by ¥2,409 million compared with what would have been reported if the new accounting standard had not been adopted early. Accumulated impairment losses are directly deducted from the acquisition costs.

The Companies grouped their fixed assets based on the relationship in terms of operating activities, and recognised impairment losses of ¥2,409 million for the following groups of fixed assets in the year ended 31st March 2004:

Company	Use	Type of assets	Millions of yen
Hankyu Department Stores, Inc.	Idle assets	Land, etc.	¥ 155
Hankyu Oasis, Inc.	Store	Buildings and structures	1,819
Persona Co., Ltd.	Software	Intangible assets	435

The Company recognised the impairment loss for the idle land, of which the carrying amount may not be recoverable. The recoverable amounts of the lands are their net realisable values based on the bank assessed land values.

Hankyu Oasis, Inc. recognised the impairment loss for one of its stores because of the decline of market values and the growing competitiveness in the near future. The recoverable amounts of the assets are the present values of expected cash flows from on-going utilisation and subsequent disposal of the assets based on a discount rate of 5%.

Persona Co., Ltd. recognised the impairment loss for the software, which is no longer planned to be utilised. The recoverable amounts of the assets are their net realisable values, in this case, zero. The impairment loss in this case was the asset carrying value.

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

Marketable securities consist of Money Management Fund. Investment securities consist principally of marketable and non-marketable equity securities. The Companies categorise those 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 shareholders' equity. 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 should be written down to the net asset value by charging to income; in these cases, such fair market value or the net asset value will be carried forward 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 has been 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 lives 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.

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, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

Retirement benefits

The Companies provided two types of post-employment benefit plans, unfunded lump-sum payment plans and funded 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.

On 1st October 2004, the Company adopted a new 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 the 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 lives (mainly over 13 years) commencing with the following period.

With the split up of Hankyu Kyoei Bussan Co., Ltd. ("HKB"), a consolidated subsidiary, related net transition obligation, resulting from the adoption of a new accounting standard, is recognised in expenses in the year ended 31st March 2003.

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.

In the year ended 31st March 2004, the Companies adopted executive officer's severance and retirement benefits plans. The amounts, as of 31st March 2004 and 2005 were ¥61 million and ¥92 million ($850 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 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 current rates at each balance sheet date and the resulting translation gains or losses are charged to income currently.

As to translation of financial statements of the overseas subsidiary, assets, liabilities, revenues and expenses are translated at current rates 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 shareholders' equity.

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

Reclassifications
Certain amounts in prior years have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Provision for loss of Umeda main store rebuilding
The Companies recognised a loss for the Umeda main store rebuilding, which was estimated on the book value of the store property at the time of disposal due to rebuilding.

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. There were no dilutive common stock equivalents outstanding for the years ended 31st March 2003 and 2004.

3. Marketable Securities and 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 2003, 2004 and 2005:

Securities with book values exceeding acquisition costs:

	Millions of yen									Thousands of U.S. dollars		
	2003			2004			**2005**			**2005**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 1,865	¥ 10,405	¥ 8,540	¥ 4,655	¥ 23,254	¥ 18,599	**¥ 16,919**	**¥ 38,267**	**¥ 21,348**	**$ 158,122**	**$ 357,636**	**$ 199,514**
Government bonds	11	12	1	706	707	1	**714**	**717**	**3**	**6,673**	**6,701**	**28**
Other	6,044	6,221	177	683	719	36	**7,296**	**7,584**	**288**	**68,187**	**70,878**	**2,691**
Total	¥ 7,920	¥ 16,638	¥ 8,718	¥ 6,044	¥ 24,680	¥ 18,636	**¥ 24,929**	**¥ 46,568**	**¥ 21,639**	**$ 232,982**	**$ 435,215**	**$ 202,233**

Other securities:

	Millions of yen									Thousands of U.S. dollars		
	2003			2004			**2005**			**2005**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 2,418	¥ 2,016	(¥ 402)	¥ 11	¥ 8	(¥ 3)	**¥ 214**	**¥ 192**	**(¥ 22)**	**$ 2,000**	**$ 1,794**	**($ 206)**
Government bonds	-	-	-	10	10	(0)	**-**	**-**	**-**	**-**	**-**	**-**
Other	17,118	15,319	(1,799)	23,854	23,222	(632)	**12,000**	**11,486**	**(514)**	**112,150**	**107,346**	**(4,804)**
Total	¥ 19,536	¥ 17,335	(¥ 2,201)	¥ 23,875	¥ 23,240	(¥ 635)	**¥ 12,214**	**¥ 11,678**	**(¥ 536)**	**$ 114,150**	**$ 109,140**	**($ 5,010)**

The following table summarises book values of securities with no available fair values as of 31st March 2003, 2004 and 2005:

	Millions of yen			Thousands of U.S. dollars
	2003 Book value	2004 Book value	**2005** Book value	**2005** Book value
Money managment fund	¥ 0	¥ 0	**¥ 0**	**$ 0**
Non-listed equity securities	650	691	**670**	**6,262**

The following table summarises maturities of available-for-sale securities that have maturities as of 31st March 2005:

	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	¥ 2	¥714	$ 19	$ 6,673

The following table summarises sales of available-for-sale securities for the years ended 31st March 2003, 2004 and 2005:

	Millions of yen									Thousands of U.S. dollars		
	2003			2004			**2005**			**2005**		
	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	¥877	¥313	-	¥363	¥240	-	**¥ 80**	**-**	**-**	**$748**	**-**	**-**

4. Inventories

Inventories at 31st March 2003, 2004 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Merchandise goods and finished goods	¥ 11,803	¥ 10,585	**¥ 11,625**	**$ 108,645**
Work in progress	32	116	**182**	**1,701**
Raw materials and supplies	275	877	**857**	**8,009**
	¥ 12,110	¥ 11,578	**¥ 12,664**	**$ 118,355**

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 interest 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 2003, 2004 and 2005 were approximately 0.76%, 1.375% and 1.475%, respectively. Long-term debt at 31st March 2003, 2004 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
0.115% to 4.81% loans from banks and others, due through 2007	¥ 22,933	¥ 14,097	**¥ 11,027**	**$ 103,056**
3.0% bonds, due 2006	9,000	9,000	**-**	**-**
2.32% Euro dollar bonds, due 2006	5,933	5,354	**5,115**	**47,804**
3.05% bonds, due 2009	6,800	6,800	**-**	**-**
Zero coupon convertible bonds, due 2011	-	-	**20,000**	**186,916**
	44,666	35,251	**36,142**	**337,776**
Less amounts due within one year	(8,814)	(3,071)	**(6,465)**	**(60,421)**
	¥ 35,852	¥ 32,180	**¥ 29,677**	**$ 277,355**

In the year ended 31st March 2005, the Company entered into debt assumption agreements with banks for the ¥9,000 million ($84,112 thousand) 3.0% bonds due 2006 and the ¥6,800 million ($63,551 thousand) 3.05% bonds due 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 ($9.2). The convertible bonds are convertible into 20,366,598 shares of common stock as of 31st March 2005.

Annual maturities of long-term debt at 31st March 2005 were as follows:

Years ending 31st March,	Millions of yen	Thousands of U.S. dollars
2006	**¥ 6,465**	**$ 60,421**
2007	**2,549**	**23,822**
2008	**7,128**	**66,617**
2009	**-**	**-**
2010 and thereafter	**20,000**	**186,916**
	¥ 36,142	**$ 337,776**

7. Pledged Assets

The following assets are pledged as collateral for current portion of long-term debt of ¥645 million at 31st March 2004:

	Millions of yen
Property, plant and equipment, net of accumulated depreciation	¥ 507

Accounts receivable of ¥1,500 million are pledged as collateral for other short-term accounts payable of ¥1,500 million at 31st March 2004.

8. Deposited Securities

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

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Installment sales transactions	¥ 2	¥ 2	**¥ 707**	**$ 6,607**
Real estate transactions	10	10	**10**	**94**
	¥ 12	¥ 12	**¥ 717**	**$ 6,701**

9. Loss on Restructuring of Business

The loss on restructuring of business for the year ended 31st March 2003 is the loss generated by the reorganisation of HKB consisting as follows:

	Millions of yen
	2003
Inventory valuation loss	¥ 293
Retirement benefits	458
Loss from abandonment of fixed assets	105
Other	361
Total	¥ 1,217

10. 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 2003, 2004 and 2005 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Projected benefit obligation	¥ 39,010	¥ 43,209	**¥ 29,440**	**$ 275,140**
Unrecognised actuarial differences	(9,249)	(3,817)	**(76)**	**(710)**
Fair value of pension assets	(23,284)	(31,697)	**(17,634)**	**(164,804)**
Liability for severance and retirement benefits	¥ 6,477	¥ 7,695	**¥ 11,730**	**$ 109,626**

Included in the consolidated statements of income for the years ended 31st March 2003, 2004 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Service costs-benefits earned during the year	¥ 2,118	¥ 1,586	**¥ 1,475**	**$ 13,785**
Interest cost on projected benefit obligation	2,047	968	**716**	**6,691**
Expected return on plan assets	(1,441)	(500)	**(186)**	**(1,738)**
Prior service costs	(2,199)	-	**-**	**-**
Amortisation of net transition obligation	830	-	**-**	**-**
Amortisation of actuarial differences	821	767	**217**	**2,028**
Gain on return of the substitutional portion of welfare pension plan	(1,295)	-	**-**	**-**
Severance and retirement benefit expenses	¥ 881	¥ 2,821	**¥ 2,222**	**$ 20,766**

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 are mainly 2.0% and 2.0% for the year ended 31st March 2005 and 2.0% and 4.0% for the year ended 31st March 2004 and 2.5% and 4.0% for the year ended 31st March 2003, respectively. 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 /losses are recognised in equal amounts mainly over 13 years.

In accordance with the revision of the law concerning employee pension funds, the level of benefit payment to employees was changed in the year ended 31st March 2003. Consequently, amortisation of prior service costs, which resulted from this change, were fully recognised in the year and recorded as other income.

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 are 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 on 31st March 2005.

On 1st October 2004, the Company adopted a new 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 recorded a gain of ¥3,456 million ($32,299 thousand) on the revision of the employees' severance and retirement benefits plans, which consists of a gain on the transition to the new retirement benefits plan amounting to ¥3,150 million ($ 29,439 thousand) and a gain on return of substitutional portion of welfare pension plan amounting to ¥306 million ($2,860 thousand).

11. Finance Leases

Information, as lessee, under non-capitalised finance leases at 31st March 2003, 2004 and 2005 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Original lease obligations (including finance charges) for machinery and equipment	¥ 7,192	¥ 5,307	**¥ 4,957**	**$ 46,327**
Payments remaining:				
Payments due within one year	¥ 1,043	¥ 704	**¥ 534**	**$ 4,991**
Payments due after one year	1,894	1,178	**889**	**8,308**
Total	¥ 2,937	¥ 1,882	**¥ 1,423**	**$ 13,299**

Rental expenses under such non-capitalised finance leases for the years ended 31st March 2003, 2004 and 2005 were ¥668 million, ¥946 million and ¥756 million ($7,065 thousand), respectively.

12. Contingent Liabilities

Contingent liabilities are as follows as of 31st March 2003, 2004 and 2005.

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Guarantees for employees' housing loans	¥ 3	¥ 1	**¥ -**	**$ -**
Debt assumption agreements	-	-	**15,800**	**147,663**
Total	¥ 3	¥ 1	**¥ 15,800**	**$ 147,663**

13. Derivative Transactions

The Companies enter 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 Companies do not use derivatives for leveraging or speculative purposes.

Derivative transactions involve credit risk and market risk. However, the Companies are exposed to minimum credit risk from breach of contract, because they deal only with highly rated financial institutions. In addition, the Companies enter 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 the management approve derivative transactions and review them as to purpose, content, counter-party and risk.

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

14. Business Segment Information

The Companies' operations are classified into four industry segments as follows:
Department stores: Clothing, personal goods, household goods and sundry goods
Supermarkets: Food, clothing and sundry goods
Real estate management: Leasing real estate
Other: Food products, clothing manufacture, transportation, food delivery service, financing, leasing and other

Business segment information for the years ended 31st March 2003, 2004 and 2005, as required to be disclosed by the Securities and Exchange Law of Japan, is as follows:

Industry segment information As of and for the year ended 31st March 2003	Millions of yen					
	Department stores	Supermarkets	Real estate management	Other	Eliminations	Total
Net sales						
External customers	¥ 326,356	¥ 49,053	¥ 4,076	¥ 15,544	¥ -	¥ 395,029
Inter-segment	1,138	2,920	1,172	15,185	(20,415)	-
Total net sales	327,494	51,973	5,248	30,729	(20,415)	395,029
Operating costs and expenses	315,893	51,500	4,562	30,099	(20,352)	381,702
Operating income	¥ 11,601	¥ 473	¥ 686	¥ 630	¥ (63)	¥ 13,327
Assets	¥ 182,129	¥ 18,550	¥ 13,078	¥ 59,803	¥ (32,960)	¥ 240,600
Depreciation and amortisation	5,150	652	449	1,818	-	8,069
Capital expenditure	7,542	491	60	3,114	-	11,207

As of and for the year ended 31st March 2004	Millions of yen					
	Department stores	Supermarkets	Real estate management	Other	Eliminations	Total
Net sales						
External customers	¥ 318,492	¥ 44,663	¥ 3,616	¥ 17,785	¥ -	¥ 384,556
Inter-segment	1,229	2,842	1,031	12,711	(17,813)	-
Total net sales	319,721	47,505	4,647	30,496	(17,813)	384,556
Operating costs and expenses	306,391	46,870	4,003	29,777	(17,704)	369,337
Operating income	¥ 13,330	¥ 635	¥ 644	¥ 719	¥ (109)	¥ 15,219
Assets	¥ 195,583	¥ 17,517	¥ 15,512	¥ 49,425	¥ (41,008)	¥ 237,029
Depreciation and amortisation	4,629	662	387	1,016	-	6,694
Capital expenditure	5,240	977	74	1,651	-	7,942

As of and for the year ended 31st March 2005	Millions of yen					
	Department stores	Supermarkets	Real estate management	Other	Eliminations	Total
Net sales						
External customers	**¥ 312,854**	**¥ 48,392**	**¥ 4,377**	**¥ 20,052**	**¥ -**	**¥ 385,675**
Inter-segment	**1,659**	**3,204**	**1,107**	**10,521**	**(16,491)**	**-**
Total net sales	**314,513**	**51,596**	**5,484**	**30,573**	**(16,491)**	**385,675**
Operating costs and expenses	**300,257**	**50,719**	**4,727**	**29,509**	**(16,420)**	**368,792**
Operating income	**¥ 14,256**	**¥ 877**	**¥ 757**	**¥ 1,064**	**¥ (71)**	**¥ 16,883**
Assets	**¥ 226,324**	**¥ 18,672**	**¥ 15,745**	**¥ 46,478**	**¥ (41,100)**	**¥ 266,119**
Depreciation and amortisation	**4,630**	**802**	**390**	**715**	**-**	**6,537**
Capital expenditure	**4,847**	**1,911**	**347**	**506**	**-**	**7,611**

As of and for the year ended 31st March 2005	Thousands of U.S. dollars					
	Department stores	Supermarkets	Real estate management	Other	Eliminations	Total
Net sales						
External customers	**$ 2,923,869**	**$ 452,261**	**$ 40,907**	**$ 187,402**	**$ -**	**$ 3,604,439**
Inter-segment	**15,505**	**29,944**	**10,345**	**98,327**	**(154,121)**	**-**
Total net sales	**2,939,374**	**482,205**	**51,252**	**285,729**	**(154,121)**	**3,604,439**
Operating costs and expenses	**2,806,140**	**474,009**	**44,178**	**275,785**	**(153,458)**	**3,446,654**
Operating income	**$133,234**	**$8,196**	**$7,074**	**$9,944**	**$(663)**	**$157,785**
Assets	**$ 2,115,177**	**$ 174,504**	**$ 147,150**	**$ 434,374**	**$ (384,112)**	**$ 2,487,093**
Depreciation and amortisation	**43,271**	**7,496**	**3,645**	**6,682**	**-**	**61,094**
Capital expenditure	**45,299**	**17,860**	**3,243**	**4,729**	**-**	**71,131**

For the years ended 31st March 2004 and 2005, the Financing and leasing segment, which in prior years was disclosed separately, is included in the "Other" segment. Prior year information has been reclassified to conform to the 2004 and 2005 presentation.

Geographic segment information for the years ended 31st March 2003, 2004 and 2005 is not disclosed since the proportion of domestic operations to the total amounts is more than 90 %, for both the total sales and assets. Overseas sales segment information is not disclosed since overseas sales of the Companies for the three years is less than 10% of consolidated net sales.

15. Income Tax

Significant components of the Companies' deferred tax assets and liabilities as of 31st March 2003, 2004 and 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Deferred tax assets:				
Loss carry forwards	¥ 6,548	¥ 512	¥ **419**	$ **3,916**
Bonuses to employees	1,241	1,316	**1,567**	**14,645**
Retirement benefits	4,452	5,146	**4,697**	**43,897**
Loss on disposal of fixed assets	853	739	**650**	**6,075**
Depreciation	1,359	1,315	**1,270**	**11,869**
Loss on revaluation of land	1,561	1,561	**1,561**	**14,589**
Impairment losses of fixed assets	-	1,011	**861**	**8,047**
Provision for loss of Umeda main store rebuilding	-	-	**2,539**	**23,729**
Unpaid transitional contribution on definite contribution pension plan	-	-	**929**	**8,682**
Retirement benefit trust assets	-	-	**1,439**	**13,448**
Other	1,250	1,534	**2,345**	**21,916**
	17,264	13,134	**18,277**	**170,813**
Valuation allowance	(406)	(252)	**(282)**	**(2,636)**
Total deferred tax assets	16,858	12,882	**17,995**	**168,177**
Deferred tax liabilities:				
Reversal of amortisation of prior service cost	(1,376)	(1,376)	**-**	**-**
Gain on return of the substitutional portion of welfare pension plan	(518)	(518)	**-**	**-**
Deferred gains on real properties	(647)	(1,223)	**(2,656)**	**(24,822)**
Land revaluation of a consolidated subsidiary	(793)	(793)	**(793)**	**(7,411)**
Valuation gain on investment securities resulting from the return from the employees' pension plan (equity securities)	-	-	**(4,591)**	**(42,907)**
Unrealised holding gains on securities	(2,576)	(7,235)	**(8,493)**	**(79,374)**
Other	-	(84)	**(35)**	**(327)**
Total deferred tax liabilities	(5,910)	(11,229)	**(16,568)**	**(154,841)**
Net deferred tax assets	¥ 10,948	¥ 1,653	¥ **1,427**	**$13,336**

Net deferred tax assets as of 31st March 2003, 2004 and 2005 were included in the consolidated balance sheets as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	**2005**	**2005**
Current assets	¥ 7,595	¥ 1,920	¥ **5,176**	$ **$48,373**
Long-term assets	3,353	4,817	**4,285**	**40,047**
Long-term liabilities	-	(5,084)	**(8,034)**	**(75,084)**
Net deferred tax assets	¥ 10,948	¥ 1,653	¥ **1,427**	$ **13,336**

The aggregate statutory income tax rate will be reduced for the years commencing on 1st April 2004 and later due to the revised local tax law. On 31st March 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on 1st April 2004 or later. As a result, deferred tax assets increased by ¥29 million and provision for deferred income taxes increased by ¥132 million and net unrealised holding gains on securities increased by ¥161 million compared with what would be reported using the then currently applicable tax rate of 42%. Also long-term deferred tax liabilities related to land revaluation decreased by ¥7 million, long-term deferred tax assets related to land revaluation decreased by ¥40 million, and land revaluation, net of tax, decreased by ¥33 million.

Reconciliations of the differences between the statutory tax rate and the effective income tax rates are as follows:

	Millions of yen	
	2003	2004
Aggregate statutory income tax rate in Japan	42.0%	42.0%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	0.7	0.8
Tax on inhabitants per capita	0.5	0.4
Net operating losses in subsidiaries	3.1	1.8
Permanent differences (including dividends)	(0.3)	(0.5)
Decrease in deferred tax assets due to change in tax rate	1.0	-
Amortisation of consolidated goodwill	-	(0.5)
Valuation allowance	(13.4)	1.1
Others	0.3	(0.7)
Effective income tax rate	33.9%	44.4%

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

16. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as stated capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus. Amounts exceeding one-half the issue price of shares may be credited to capital surplus in certain circumstances such as exchanges of shares.

On 1st October 2002, the Company increased its ownership in HKB to make it a wholly owned subsidiary by exchanging the Company's shares with the shares owned by minority shareholders of HKB. The Company issued 1,938 thousand shares of common stock and common stock increased ¥97 million and capital surplus increased ¥1,101 million.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital, included in capital surplus, equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalised by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code.

17. 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 shareholders' equity, and the relevant deferred tax is 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 2003, 2004 and 2005.

Related information is as follows:

Date of revaluations	28th February 2002 and 31st March 2002
Book value of land after revaluation	¥3,636 million
Market value of land at 31st March 2005	¥2,933 million
Difference	¥703 million

18. Related Party Transactions

Principle related party transactions between the Company and Hankyu Toho Credit Service Co., Ltd. for the years ended 31st March 2003 are as follows:

	Millions of yen
	2003
Collections for credit sales	¥ 27,182

Hankyu Toho Credit Service Co., Ltd. became a consolidated subsidiary by additional acquisition of shares on 31st October 2002. Therefore, regarding collections for credit sales for the year 2003, only the related amount during the first half of the financial year is shown above.
Hankyu Toho Credit Service Co., Ltd. changed its company name to "Persona Co., Ltd." on 1st August 2003.

19. Stock Options (stock purchase rights)

By special resolution at the general shareholders' meeting held on 27th June 2002, the Company introduced a stock option plan in accordance with Article 280-21 of the Commercial Code in Japan, and granted stock purchase rights at advantageous terms to 8 directors, 4 executive officers, 38 employees and 48 directors of subsidiaries.

The stock purchase rights can be exercised at a price of ¥843 per share in the period from 1st September 2004 to 31st August 2007, and a total of 244,000 shares of common stock could be issued by the exercise of these rights. 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 certain other circumstances.

20. Loan Commitments

For efficient procurement of working capital, the Company has entered into loan commitment contracts with three financial institutions, which provide the Company with loan commitment facilities in the aggregate amount of ¥10,000 million ($93,458 thousand) as of 31st March 2005.
The total commitment amount of ¥10,000 million ($93,458 thousand) is unused as of 31st March 2005.

21. Gain on Sales of Property, Plant and Equipment

Gain on sales of property, plant and equipment in the year ended 31st March 2005 is mainly due to the sales of unused dormitory land in Osaka of ¥4,358 million ($40,729 thousand) and unused dormitory building and land in Hyogo Prefecture of ¥140 million ($1,308 thousand).

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

Expenses incurred as a result of the revision of the personnel plans in the year ended 31st March 2005 consist of ¥517 million ($4,832 thousand) incurred for the revision of personnel plans for part-time employees of the Company and ¥280 million ($2,617 thousand) incurred for the revision of bonus payments of Hankyu Oasis, Inc.

23. Loss on Businesses of Subsidiaries

Loss on businesses of subsidiaries in the year ended 31st March 2005 consists of loss of ¥458 million ($4,280 thousand) on loans to an affiliated company and a loss of ¥194 million ($1,813 thousand) for the restructuring of the credit card business.

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 2003, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended 31st March 2005, 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 2003, 2004 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2005, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March 2005 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
29th June 2005

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
Directors, Managing Executive Officers
Kohei Yanagisawa, Kazutoshi Senno
Directors
Kohei Kobayashi, Yosaku Fuji
Executive Officers
Kiyoshi Takimoto, Keiji Uchiyama
Akira Maekawa, Satoshi Kouchi
Makoto Namimatsu, Kimihiko Kitabe,
Shuji Yagi, Mitsumasu Goto
Naoya Araki, Toshifumi Okajima
Standing Corporate Auditor
Toshimitsu Konishi
Corporate Auditors
Tadashi Yamada, Tomohiko Sasaki
Hideyuki Takai

(As of 29th June 2005)

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 :	17,830
Employees :	3,110

Principal Shareholders :

Hankyu Department Stores Kyoeikai
Japan Trustee Services Bank, Ltd. (Trust account)
The Master Trust Bank of Japan, Ltd. (Trust account)
Hankyu Corporation*
Daido Life Insurance Company
UFJ Bank Ltd.
Nippon Life Insurance Company (Special Pension Account)
Sumitomo Mitsui Banking Corporation
Nippon Life Insurance Company
Toho Co., Ltd.

*Hankyu Corporation changed its company name to Hankyu Holdings, Inc. on 1st April 2005.

Principal Consolidated Subsidiaries

Company Name	Stated capital (Millions of yen)	Annual sales (Millions of yen)	Direct holding by the company (Per cent.)	Principal business
Hankyu Oasis, Inc.	¥ 100	¥38,424	100.0	Operation of supermarkets
Hankyu Family Store Co., Ltd.	100	6,383	100.0	Operation of supermarkets
Hankyu Kitchen Yell Co., Ltd.	50	3,831	100.0	Food delivery service
Hankyu Foods Industry Co., Ltd.	50	7,372	100.0	Manufacture and sales of food products
Hankyu Bakery Co., Ltd.	50	1,793	100.0	Sales of food products
Hankyu Shopping Center Development Co., Ltd.	50	5,345	100.0	Developer
Oi Development Co.,Ltd.	550	2,270	67.2	Hotel
Hankyu Kyoei Pharmacy Co., Ltd.	100	6,433	100.0	Operation of drugstores
Hankyu Seisakusho Co., Ltd.	20	6,202	100.0	Manufacture and sales of furniture and furnishings
Hankyu Design Systems, Inc.	10	2,021	100.0	Sales of sales promotion materials and printings
Hankyu Department Stores Europe B.V.	EUR.220 thousand	EUR.2,912 thousand	100.0	Fund-raising and fund management related to overseas business
Hankyu Home Styling Co., Ltd.	10	115	100.0	Sales of furniture
Esaka Logistics Services Co., Ltd.	20	5,431	100.0	Transportation
Persona Co., Ltd.	20	1,661	100.0	Credit card business
N.T.E.,Inc.	50	371	100.0	Wholesale and retail of clothing and accessories
Hankyu Maintenance Services Co., Ltd.	10	2,567	100.0	Operation of office maintenance service
With System Co., Ltd.	100	2,336	80.0	Data processing and systems development
Hankyu Job Yell Co., Ltd.	40	2,120	100.0	Temporary employment agency
Hankyu Tomonokai Co., Ltd.	50	1,052	100.0	Membership organization for customer service

HANKYU DEPARTMENT STORES, INC.
8-7, Kakuda-cho, Kita-ku, Osaka
Phone: +81-6-6361-1381
Fax: +81-6-6367-3184
URL http://www.hankyu-dept.co.jp

Printed in Japan