

# Message to Our Shareholders 2007

## Hankyu Department Stores, Inc.

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## To Our Shareholders



President and Representative Director

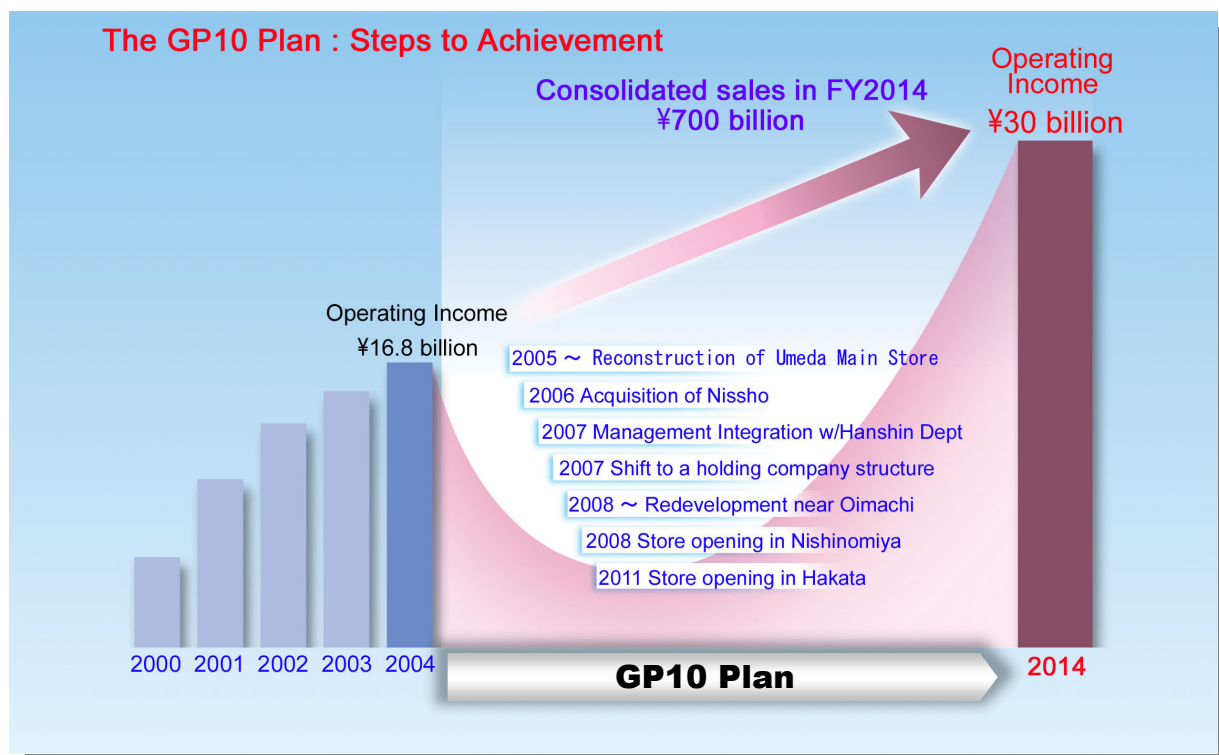
**Nobuaki Nitta**

During fiscal 2006, our Group saw both revenues and earnings increase. Performance was driven by curtailment of revenue losses arising from diminished sales space following the launch of reconstruction works at Umeda Main Store in the previous fiscal year, by increased revenues at other branches, and by opening of new supermarkets and the acquisition of retailer Nissho Corp. (now Hankyu Nissho Store).

We made steady progress in the development of business infrastructure and expansion of operational scale as we pursued long-term business goals, grouped as the Grand Prix 10 (GP10) Plan. In addition to the acquisition of Nissho, we decided to open a new store in New Hakata Station Building, scheduled to open its doors in the spring of 2011, and rebuild multiple-use buildings within the redevelopment project near JR Oimachi Station in Tokyo's Shinagawa Ward. We also established of Hanshoku Co., Ltd. as an intermediary holding company to oversee our growing supermarket operations. In negotiations launched in September 2006 for our business alliance with The Hanshin Department Store, Ltd., we came to the conclusion that integrating our businesses would be the most efficient way forward for both of us. At our General Shareholders' Meeting on 27th June 2007, approval was gained for the integration of our businesses on 1st October this year and for a shift to a holding company structure.

In line with this integration, we revised our consolidated sales target for fiscal 2014 to ¥700 billion, and will aim to expand market share in the Kansai area through diversification of our retail operations-our basic strategy-under our new structure led by a new holding company, H<sub>2</sub>O Retailing Corp.

I sincerely hope we can count on the continued support of our shareholders in our future endeavours.

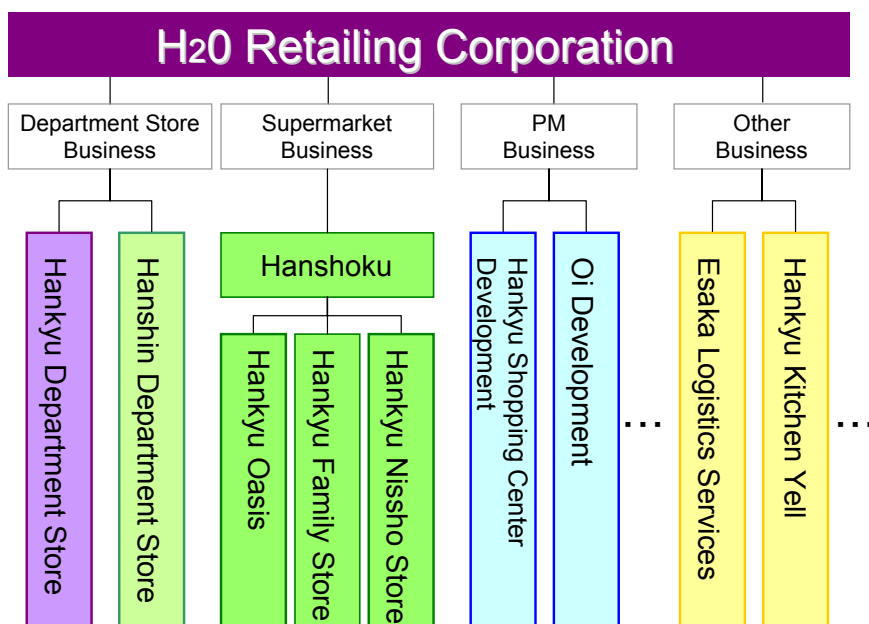


# *The shift to a holding company structure*

**On 1st October,  
The Hankyu Department Stores Group will relaunch as H2O Retailing Group.**

With our integration with The Hanshin Department Store, Ltd. on 1st October, 2007, the Group will shift to a holding company structure and change its registered trading name to H2O Retailing Corp.

Under the holding company H2O Retailing, we will move quickly to garner the synergies of integrated management, and create an operational structure that will bring us closer to GP10 Plan target achievement for each of our businesses.



## **To Our Shareholders**

The 88th General Shareholders' Meeting on 27th June this year approved a resolution to change the registered name of the company from Hankyu Department Stores, Inc. to H2O Retailing Corp., as of 1st October 2007.

I sincerely hope our shareholders will lend their support to H2O Retailing Corp. and the existing Hankyu department store group and Hanshin Department Store.

Representative director, Senior managing executive officer

**Jun Wakabayashi**

(H2O Retailing Corp. future President)

# H2O

**H2O Retailing Corporation**

In line with the Group's vision of our stores as the lifestyle provider local communities cannot do without, we will change our public face to the symbol for water, which is indispensable to the global environment.

Looking ahead as we become a dual-core Group, we are determined to retain our indispensable role in regional communities, by relaying high-quality information and enriching the daily lives of our customers through a combination of competition and cooperation with our new partner.

# Management integration with Hanshin Department Store

**Combination of two powerhouses  
will give us an overwhelming position  
as the number one local store**



## Details of the integration

With the Osaka Northern District (North Yard) Development and new store openings and floorspace expansion by other retailers, the Umeda area of Osaka, where our flagship store is located, will become Japan's main retail battleground in 2011. At the same, accelerating clustering of commercial outlets in Umeda will, we believe, steadily increase the weighting of the Kansai business area.

Against this backdrop, we and Hanshin Department Store began negotiations for a business alliance in September 2006. We decided to ally our businesses in the belief that maximising benefits of scale by creating a single retailer with an integrated operating base - drawing on the strength of both brands and combining the adjacent flagship stores of both companies - would be the best way forward.

## Integration method

The share exchange and spin-off methods will be adopted to carry out management integration with Hanshin Department Store.

On 1st October 2007, the Company will issue shares to shareholders of The Hanshin Department Store, Ltd. at a ratio of one Company share for one Hanshin Department Store share. We will acquire Hanshin Department Store shares currently held by Hanshin Electric Railway Co., Ltd. and Hankyu Hanshin Holdings, Inc. thereby making Hanshin Department Store a wholly owned subsidiary.

Then, we will spin off our department store business to establish a new entity, and our registered trading name will be changed to H2O Retailing Corp., creating a holding company structure. (The new Hankyu Department Stores will be converted into an operating company under the holding company H2O Retailing Corp.)

In this way, we aim to create an operating structure that realises the benefits of integration while maintaining and leveraging the brands of both Hankyu and Hanshin department stores.

## Benefits of integration

### 1). Strengthening the Umeda Main Store strategy

In the Umeda area, where clustering of commercial outlets continues, the Group is progressing with reconstruction works at the Umeda Main Store of Hankyu Department Stores, under our plan to build up an overwhelming position as the number one local store.

By leveraging our integration of management with Hanshin Department Store, without sacrificing the individual strengths of both companies, we aim to build up relations that are complimentary while remaining competitive as we set about creating an overwhelming advantage in the local retail sector based on our flagship stores.

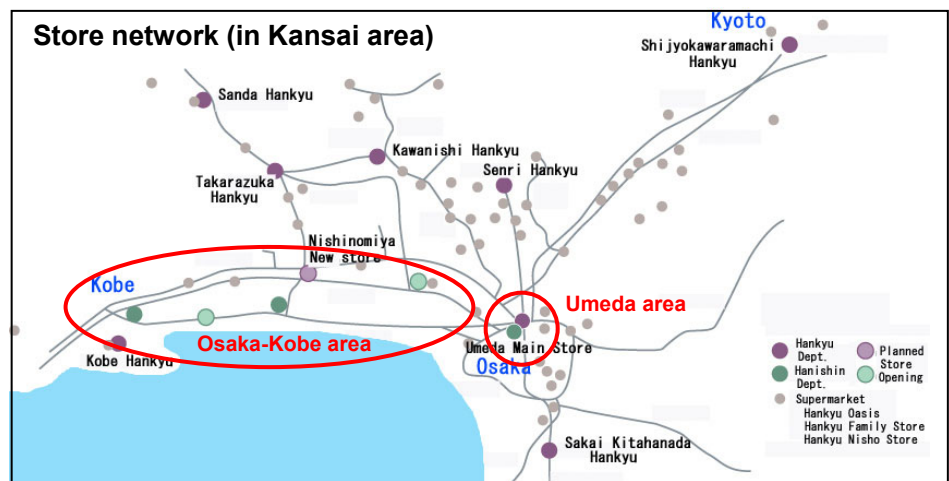
### 2). Expanding our network of stores in the Kyoto-Osaka-Kobe area

The Group is working to build up its business and market share in the Kyoto-Osaka-Kobe area. Through the acquisition in 2006 of Nissho Corp.(now Hankyu Nissho Store), we have expanded our retail network along the Hankyu Railway Takarazuka Line.

We believe we will be able to expand our store network in Osaka Kobe belt through management integration with Hanshin Department Store and new store openings in the area around the Hankyu Nishinomiya-Kitaguchi Station area, planned to open in autumn 2008.

### 3). Sharing our infrastructure

We believe that the fact that the main stores of both our companies stand next to each other, and that other stores of both companies target the Kyoto-Osaka-Kobe area, is a major advantage in terms of sharing infrastructure such as logistics and computer systems. Leveraging this strength, we are harmonising back-office management and daily operations.





## Redevelopment project near JR Oimachi Station

Currently, the Group operates various facilities near JR Oimachi Station (Shinagawa Ward, Tokyo). These include Oi Hankyu Food Hall, Hankyu Oimachi Daily Shoppers and the business hotel Ours Inn Hankyu. Recent years have brought major changes to this neighborhood. In particular, the Shinagawa and Osaki areas adjoining Oimachi have boomed as business areas.

To meet this business demand, we have decided to demolish obsolete structures and replace them with principally lodging hotels (i.e. not function-oriented) and commercial facilities tailored to local needs, as well as adding residential blocks.

We plan to close existing commercial facilities in the spring of 2008 to begin works there. Plans call for construction to finish at hotel and commercial buildings in autumn 2011, without interruption to the business of existing hotels during the works, with the grand opening scheduled for fiscal 2014.



**Overview of new building**

Site area : 9,856 m<sup>2</sup>  
 Total Floor space : approx.55,000 m<sup>2</sup>  
 To consist of  
 • Hotel facilities (3F-30F, 1,100 rooms)  
 • Commercial facilities (18,000m<sup>2</sup>)  
 • Residential (B1F-29F)

## Uni-President Hankyu Department Store in Kaohsiung, Taiwan

On 12th May 2007, we opened Uni-President Hankyu Department Store, the centerpiece of Taiwan's largest shopping center, Dream Mall, which stands at a waterfront location in the second city, Kaohsiung. Uni-President Hankyu Department Store is managed by Uni-President group of Taiwan, supported by the expertise of Hankyu. With five floors above ground and one below, and a sales area of approximately 23,000 m<sup>2</sup>, this is a uniquely arranged retail space offering international brands and the latest in world fashion. It incorporates the style of Hankyu Department Stores' Umeda Main Store just as it is in Osaka.

To recreate the elegant environments for which Hankyu Department Stores is famous, we have made every effort to keep the authentic Hankyu style just as it is experienced in Japan. Visitors to Taiwan are cordially urged to drop in at the Uni-President Hankyu Department Store and see for themselves what we have done.



Dream Mall

**Uni-President Hankyu Department Store at a glance**

Sales area : approx. 23,000 m<sup>2</sup>  
 Retail mix :  
 Womenswear, Menswear,  
 Childrenswear,  
 and lifestyle accessories  
 Annual Sales : NT\$2 billion



## Preparing to expand the scale of supermarket operations

In the other principal business of the Group, supermarkets, we have made steady progress in expanding the scale of operations in line with targets in the GP10 Plan, through measures such as the acquisition of Nissho Corp.(now Hankyu Nissho Store) and new openings in the Hankyu Oasis and Hankyu Family Store chains.

At the same time, in our manufacturing subsidiaries such as Mameda, Inc. and Hankyu Foods, Inc., we are expanding our scope of sales through expansion of marketing channels outside the Group, by opening Mameda outlets in other department stores and commercial facilities in a wide spread of areas.



Hankyu Oasis

## Launch of joint use of Persona Card and Hanshin's Emerald Card

Ahead of the management integration with Hanshin Department Store on 1st October, the Persona Card and Hanshin department stores' Emerald Card became usable at stores of either company on 1st April 2007.

The Persona Card and the Emerald Card can both be used at the main and other stores of Hankyu Department Stores and at the Umeda Main Store of Hanshin Department Store to obtain discounts on most items.

We also launched joint-validity product vouchers of both companies, giving shoppers in Umeda even more benefits and convenience.



# Settlement Report (from 1<sup>st</sup> April 2006 to 31<sup>st</sup> March 2007)

## Consolidated Statements of Income

(Millions of yen)

	Amount	Comparison with the previous term
<b>Net sales</b>	<b>395,950</b>	<b>103.8%</b>
Cost of sales	279,365	104.2%
Selling, general and administrative expenses	101,820	103.2%
<b>Operating income</b>	<b>14,763</b>	<b>101.2%</b>
Non-operating income	2,607	99.9%
Non-operating expense	1,270	110.5%
<b>Recurring income</b>	<b>16,100</b>	<b>100.3%</b>
Extraordinary profit	1,541	28.2%
Extraordinary loss	3,334	40.9%
<b>Income before income taxes</b>	<b>14,307</b>	<b>107.2%</b>
Current income taxes	5,644	131.4%
Deferred income taxes	652	65.2%
Minority losses	89	–
<b>Net income</b>	<b>8,099</b>	<b>102.2%</b>

## Non-Consolidated Statements of Income

(Millions of yen)

	Amount	Comparison with the previous term
<b>Net sales</b>	<b>290,171</b>	<b>96.8%</b>
Other operating revenue	2,980	104.5%
Cost of sales	209,798	97.2%
Selling, general and administrative expenses	71,550	95.3%
<b>Operating income</b>	<b>11,802</b>	<b>101.2%</b>
Non-operating income	2,072	105.3%
Non-operating expense	935	99.2%
<b>Recurring income</b>	<b>12,939</b>	<b>102.0%</b>
Extraordinary profit	6,594	120.4%
Extraordinary loss	1,257	17.1%
<b>Income before income taxes</b>	<b>18,276</b>	<b>168.9%</b>
Current income taxes	4,410	144.1%
Deferred income taxes	2,501	198.4%
<b>Net income</b>	<b>11,364</b>	<b>174.9%</b>

## Consolidated Balance Sheets

(Millions of yen)

	Amount	Comparison with the previous term
Current assets	84,864	△ 747
Fixed assets	197,894	+7,331
<b>Total</b>	<b>282,758</b>	<b>+6,583</b>

	Amount	Comparison with the previous term
Current liabilities	73,531	△ 320
Fixed liabilities	64,334	+2,396
<b>Net assets</b>	<b>144,892</b>	<b>+4,507</b>
<b>Total</b>	<b>282,758</b>	<b>+6,583</b>

## Non-Consolidated Balance Sheets

(Millions of yen)

	Amount	Comparison with the previous term
Current assets	90,811	+11,140
Fixed assets	155,440	+14,457
<b>Total</b>	<b>246,251</b>	<b>+25,598</b>

	Amount	Comparison with the previous term
Current liabilities	62,907	+16,269
Fixed liabilities	48,675	+1,054
<b>Net assets</b>	<b>134,668</b>	<b>+8,274</b>
<b>Total</b>	<b>246,251</b>	<b>+25,598</b>

## Projection of Performance (from 1<sup>st</sup> April 2007 to 31<sup>st</sup> March 2008)

### Consolidated

(Millions of yen)

	Amount	Comparison with the previous term
Net sales	477,000	120.5%
Operating income	17,000	115.1%
Recurring income	17,700	109.9%
Net income	9,100	112.3%

## Corporate data

### Outline of the Company (as of 31<sup>st</sup> March 2007)

**Company Name ;** HANKYU DEPARTMENT STORES, INC.

**Address of the main store ;** 8-7, Kakuda-cho, Kita-ku, Osaka

**Incorporated ;** 7<sup>th</sup> March 1947

**Capital ;** ¥17,796,659,575

**Total number of issued and outstanding shares ;** 187,688,301

**Number of shareholders ;** 17,244

**Website address ;** <http://www.hankyu-dept.co.jp>

### Board of Directors (as of 27<sup>th</sup> June 2007)

#### <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

**Standing Corporate Auditor ;** Toshimitsu Konishi

**Corporate Auditors;** Tadashi Yamada  
Tomohiko Sasaki  
Hideyuki Takai

#### <Executive officers (not including those holding Director positions as well)>

##### **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

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