Diamond City Co., Ltd.

DIAMOND CITY

Creating Optimum Services

ANNUAL REPORT 2004

Year ended February 29, 2004

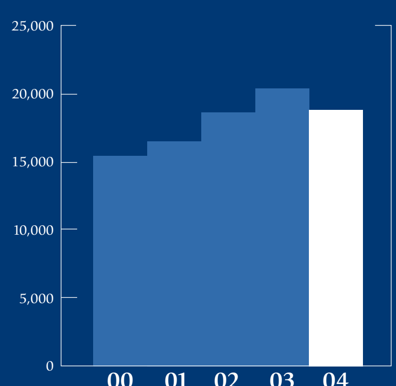
Financial Highlights

Diamond City Co., Ltd. and Subsidiary
Years ended February 29, 2004 and February 28, 2003

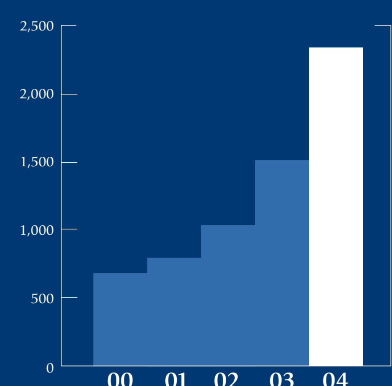
	Millions of Yen (except per share data)		Thousands of U.S. Dollars (except per share data)
	2004	2003	2004
FOR THE YEAR:			
Operating revenue	¥ 18,854	¥ 20,429	$171,400
Operating income	4,008	4,630	36,436
Income before income taxes and minority interests	4,643	2,803	42,209
Net income	2,343	1,511	21,300
AT YEAR-END:			
Total assets	¥ 98,200	¥107,684	$892,727
Total shareholders' equity	23,696	21,787	215,418
Interest-bearing debt	33,422	30,138	303,836
PER SHARE DATA:			
Net income	¥ 101.23	¥ 70.61	$ 0.92
Cash dividends	20.00	17.50	0.18
Shareholders' equity	1,040.00	957.84	9.45

Note: U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥110=U.S.$1, the exchange rate prevailing on February 29, 2004.

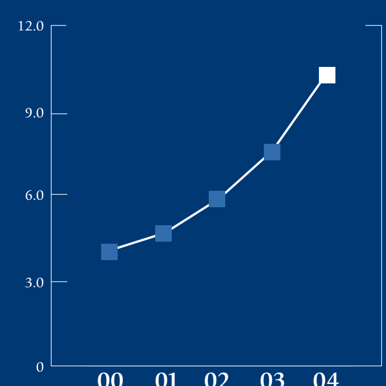
Operating Revenue
(¥ millions)



Net Income
(¥ millions)



ROE
(%)



Contents

In this annual report, the Company refers to Diamond City Co., Ltd., and Diamond City refers to the Company and its consolidated subsidiary.

To Our Shareholders

"LEADERSHIP"

It is my pleasure to address our shareholders for the first time as president and CEO of Diamond City Co., Ltd., having taken over the reins from Mr. Hideo Nojima. During his six-year tenure, and amid a period of change, Mr. Nojima was instrumental in creating our present business model, by pursuing full-scale development of suburban mall-type shopping centers (SCs) anchored by two key stores.

I am committed to moving Diamond City forward by building on this business model. By continuing to implement our ongoing medium-term business plan based on the theme of 'new people taking on new challenges,' we will lay the path for a new era for Diamond City.

OPERATING ENVIRONMENT

Diamond City contributes to local communities by creating employment and fostering economic growth through its development, operation and management of SCs. Over the past several years, our expertise in SC development and retailing, combined with our superior financial expertise, have provided major growth opportunities. Although competition to acquire development sites has been stiff, there has been ample supply of prime locations suitable for large-scale development, including the plant sites of major companies. In June 2000, various regulations were repealed, including the Large-Scale Retail Store Law, which was replaced by the Large-Scale Retail Store Location Law. These factors have created an environment that will for the first time enable us to fully demonstrate our capabilities as a service company dedicated to customer satisfaction. As part of this vision, we are constantly combining our superior capabilities in mall-type SC development, with our accumulated expertise in management, sales techniques and other areas that increase sales at SCs. Also, expansion of the real estate investment trust (REIT) market and the market for securitized products has created an environment conducive to enacting proactive growth-oriented financial strategies.

As competition escalates in the retail industry, our rivals include not only domestic firms but also overseas retailers and commercial property developers that are making genuine inroads in the Japanese retail market.

Under these conditions, Diamond City aims to capitalize on the opportunities presented at this key point in the evolution of Japan's retail industry by constantly upgrading our expertise in the service industry and differentiating the way we create value for consumers, and thereby translate accurate assessments of customer needs into further growth over the coming years.

EARNINGS OVERVIEW AND MEDIUM-TERM BUSINESS PLAN

To establish an unshakeable position as the leading company in the SC industry, we set into motion a three-year business plan under the banner of "Innovation and Execution" in March 2002. The plan resulted in year-on-year growth at the majority of stores in the fiscal year ended February 29, 2004.

President and CEO
Yozo Tai

In particular, the performance of Diamond City "carat" and Diamond City Terrace, high-traffic SCs anchored by two key stores, exceeded initial targets. We take this as evidence that our strategic direction is correct.

In the fiscal year ended February 29, 2004, sales declined because of the sale of Nara Family to a Japanese REIT, Japan Retail Fund Investment Corporation, and shifting of the assets to a property management (PM) project. Operating revenue is reduced because we now receive property management fees from this property rather than rental income. On the other hand, this move has streamlined assets on the balance sheet. The project is, therefore, very meaningful in terms of representing a new earnings model in which we generate fee-based revenue from the supply of our expertise. Going forward, we plan to manage SCs owned by other companies on a contract basis to expand our revenue and broaden our base of expertise.

Due to the steady progress we have made in executing our medium-term management plan, as well as in preparing for the scheduled opening of new SCs during 2004, we upwardly revised the initial-year targets of the plan for the fiscal year ending February 28, 2005 in respect of both revenues and earnings. We raised the consolidated operating revenue target from ¥31.5 billion to ¥36.0 billion and the net income target from ¥3.6 billion to ¥4.0 billion. Also, consolidated ROE in the fiscal year ended February 29, 2004 reached 10%, which cleared the plan's target of 8%. Separate from these medium-term management plan targets, we aim to achieve an operating income to total investment ratio (ROI) of at least 10% at new SCs within three years of opening. We have already met this objective for Diamond City "carat" and Diamond City Terrace and aim to achieve even higher levels of profitability for new SCs scheduled to be opened going forward.

TARGETING FURTHER GROWTH THROUGH CRYSTALLIZATION OF EXPERTISE AND SCALE EXPANSION

Unique business model and development policies

I believe that the Company has now established a solid position as a "creative developer" that shapes new consumer lifestyles based on our experience in actively developing new SCs over the past several years, and our ability to respond to customer needs and increase customer traffic. Diamond City's business model is centered on the creation of shopping spaces that fully address consumer needs in terms of convenience and that maximize customer satisfaction. Underpinning this model are suburban mall-type shopping centers anchored around two key tenants, one being a general merchandise store (GMS) that is closely linked to everyday living and the other a large tenant whose retail concept is highly sensitive to the provision of high-quality lifestyles. Japan has a number of major cities and there are still suburbs-Diamond City's target catchment areas—that lack large-scale SCs. We plan to carefully select and develop sites from these areas. Diamond City places top priority on harmonious existence with areas surrounding its development sites. Our aim is to contribute to the vitalization of regional economies and coexist with local retailers while attracting customers for the purpose of creating new value. Diamond City therefore develops its SCs based on the concept of creating spaces for the enjoyment of local residents, offering an experience that was previously unavailable to them.

Pursuing qualitative and quantitative expansion

Our basic strategy is to continually provide increasing numbers of consumers with attractive SCs. This is achieved through the active opening of new stores, as well as the renewal of existing stores and the sale of stores whose mission in serving the local community is finished. Making these decisions with the correct timing is important. From March 2004 onward, Diamond City plans to add to the five locations it has already developed to date by steadily opening new SCs, including Diamond City prou in Osaka, which is scheduled to open during the current fiscal year. Based on our view that there are no major risks that require concern, such as the risk of late opening, we expect to expand Diamond City's sales floor area from 400,000m^2 in the February 2003 fiscal year to 800,000m^2 in the February 2005 fiscal year.

In the pipeline for opening by 2007 are malls in Kumamoto Kashima, Osaka Tsurumi, and Sendai Natori. In addition, we are making progress in negotiations on multiple proposed development sites.

Last year, we relocated our development and leasing corps from our Osaka Head Office to Tokyo. With this move, we intend to broaden our scope with respect to the acquisition of development sites while pursuing an even better tenant mix. Our aim is to make the Diamond City brand known nationwide.

Leveraging economies of scale to drive earnings growth
We have achieved a better balance between quality and costs by improving construction management while pursuing scale expansion. Reassessment of design/specifications, shortening of the development period and other improvements have reduced development costs. Also, by undertaking multiple development projects at the same time, we have gained greater economies of scale. We are confident that this, in conjunction with efficient capital investment, will translate into higher profitability.

Minimizing operations risk
We are fully cognizant of the risks associated with rapid expansion in the scale of our operations and have taken precautions against their materializing. To alleviate the risk of understaffing due to higher operational volume associated with rapid growth, we have accepted temporary employee transfers from our business partners and tapped their know-how. Internally, we have stepped up hiring while upgrading and expanding our employee training programs.

Also, to respond to ever-evolving consumer needs, we have undertaken a number of innovative initiates, including revamping our leasing methods and upgrading our operations software for managing sales events and database marketing, both at existing and new locations. These actions are taken from a number of angles such as the Lifestyle Assortment Stores (L.A.S.) paradigm of housing a complex of specialty stores that make proposals and proactively help customers realize their personal styles. By sharing information concerning our successes and failures, we minimize operations risk.

Minimizing financial risk
Believing that an efficient and healthy asset base is essential to achieving our objective of sustainable growth, we run the company in a way that keeps the buildup of assets in check. Not only does this entail the use of diversified fund procurement methods to prevent the balance sheet from becoming bloated, it requires the creation of mechanisms to generate the operating cash flow needed to support growth. In June 2004, we established a special organization toward this end. In the fiscal year ended February 29, 2004, funds required for the development of new stores and other uses totaled approximately ¥90.0 billion, of which the use of leases accounted for approximately ¥40.0 billion. We also pursued development under special purpose company (SPC) arrangements and otherwise took steps to keep our balance sheet lean. Furthermore, our policy is to increase stable fee income, controlling risk while accepting a smaller return, and the number of managed properties and tenants by strengthening our PM business.

CORPORATE SOCIAL RESPONSIBILITY

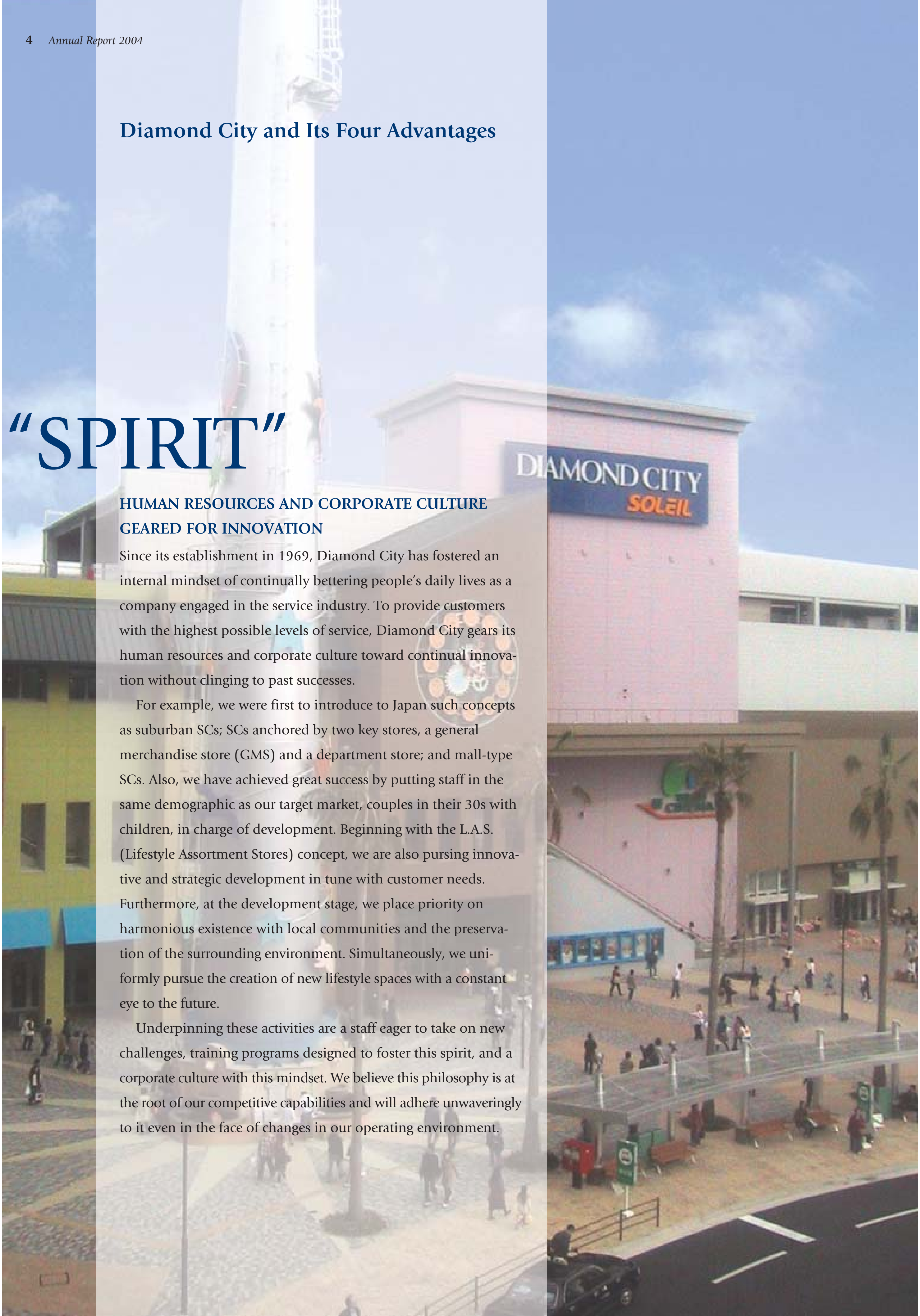
Diamond City seeks to earn recognition not just for the economic value it creates but also for contributing to society through coexistence with local communities, environmental preservation activities, and active participation in the AEON 1% Club, whereby we donate 1% of our pre-tax income to worthy causes. Because SCs have major impacts on local communities and natural environments, we have made "environment and people-friendly SC creation" the cornerstone of our development concept. Specifically, the SCs we opened in the fiscal year ended February 29, 2004 reflected our strengthened commitment to such basic policies as the use of universal designs, which are friendly to the physically challenged and senior citizens, and, starting from the design stage, development that minimizes the impact on the environment, promoting harmonious coexistence with the global environment.

The amount of land available for SC development has increased substantially. Moreover, there is still a lot of room for Diamond City to refine its 'Service Creator' business model and improve the financial mechanisms crucial to achieving profit growth in a manner that constrains asset expansion. While pursuing further growth by enhancing these structures, we aim to increase corporate transparency with respect to all of our stakeholders, including stockholders, business partners, employees, and local communities.

August 2004

Yozo Tai
President and CEO

Diamond City and Its Four Advantages



"SPIRIT"

HUMAN RESOURCES AND CORPORATE CULTURE GEARED FOR INNOVATION

Since its establishment in 1969, Diamond City has fostered an internal mindset of continually bettering people's daily lives as a company engaged in the service industry. To provide customers with the highest possible levels of service, Diamond City gears its human resources and corporate culture toward continual innovation without clinging to past successes.

For example, we were first to introduce to Japan such concepts as suburban SCs; SCs anchored by two key stores, a general merchandise store (GMS) and a department store; and mall-type SCs. Also, we have achieved great success by putting staff in the same demographic as our target market, couples in their 30s with children, in charge of development. Beginning with the L.A.S. (Lifestyle Assortment Stores) concept, we are also pursing innovative and strategic development in tune with customer needs. Furthermore, at the development stage, we place priority on harmonious existence with local communities and the preservation of the surrounding environment. Simultaneously, we uniformly pursue the creation of new lifestyle spaces with a constant eye to the future.

Underpinning these activities are a staff eager to take on new challenges, training programs designed to foster this spirit, and a corporate culture with this mindset. We believe this philosophy is at the root of our competitive capabilities and will adhere unwaveringly to it even in the face of changes in our operating environment.

"PARADIGMS"

OPERATIONS CAPABLE OF MEETING VARIOUS CONSUMER NEEDS

Diamond City has developed a formula successfully responding to the needs of the times and has designed top-caliber operating systems capable of executing business policy in accordance with this formula.

Specifically, the formula entails a persistent focus on an SC prototype that translates the latest consumer needs into tangible merchandise and services. Diamond City's SC prototype involves developing sites in the suburbs of major cities, attracting a balanced mixture of tenants that offer upscale lifestyles, as well as those that have lineups geared toward convenience, then blending in a broad array of other tenants, including retail shops, restaurants, cinemas and amusement facilities. As such, the core of Diamond City's operations is the provision of proposals for the retail industry that are not offered by companies simply leasing real estate, in addition to the ability to attract quality tenants and achieve a balanced mix of tenants.

At new developments, we are using our original L.A.S. format to achieve a tenant composition that offers enhanced lifestyles and are experimenting with the use of point cards to build customer loyalty and to better discern consumer needs. Also, Diamond City uses its IT infrastructure to share information on examples of successful events at existing stores and trial activities to boost sales at all its SCs.

As a full-service SC operator, from development to management/administration, one of Diamond City's major strengths is its ability to build a low-cost development structure that reduces expenses and conserves energy at every stage of the process, from planning and design to project execution and management. Another strength is Diamond City's ability to create structures that constantly increase corporate value while rigorously controlling risk, including through the expansion of PM activities and asset securitization.

"PARTNERSHIPS"

STRONG SUPPORT FRAMEWORK

Diamond City possesses unparalleled information and service know-how. Founded 35 years ago as a joint venture between AEON Co. Ltd. and Mitsubishi Corporation, Diamond City has inherited the superior corporate DNA of both companies.

Diamond City enjoys strong cooperative relationships with AEON and Mitsubishi. Having both companies as business partners affords Diamond City a support framework for gathering information and sharing business know-how. Diamond City has a multifaceted relationship with AEON, which provides the retail know-how accumulated within its group, and is a core tenant as a GMS at many Diamond City SCs. The cooperative relationship with Mitsubishi is very broad, encompassing the gathering of data on potential SC sites, land acquisition, SC construction contracting, and tenant solicitation. Diamond City is therefore able to sustain high-quality operations on many fronts, including acquisitions of property, leasing, oversight, and marketing, on a scale and with speed that transcends its existing headcount and business scale.

Strong relationships with these partners also provides Diamond City flexible access to highly experienced personnel in a broad range of business areas, beginning with the property development and retail industries. As such, even during high-growth periods, Diamond City is able to recruit skilled staff and achieve a high level of business performance in a short period of time.

"CONTRIBUTION"

HARMONIOUS COEXISTENCE WITH LOCAL COMMUNITIES AND THE GLOBAL ENVIRONMENT

Diamond City's business approach and activities both emphasize harmonious coexistence with local communities and the global environment. The 'Diamond City Code of Conduct' clearly states that we will fulfill our responsibilities as a corporate citizen whose roots are in local communities, and on this basis, we contribute to society and the preservation of the environment through SC development that is safe, pleasant, and clean.

Major activities include greening programs within SC grounds and the cleanup of areas surrounding SCs by Diamond City and tenant employees. SC development is based on the Heart Building Law and our own benchmarks for promoting Universal Design. They therefore feature amenities and services that can be used not only by able-bodied persons but can also be easily accessed by the physically challenged, senior citizens, and pregnant women. We also implement strategies to reduce congestion on streets around our SCs and take proactive measures to reduce carbon dioxide emissions; for example, by using large-scale stretch-to-length (STL) thermal storage systems that use the system recommended by electric power companies. As a testament to our commitment, all our offices have environmental management systems that are ISO 14001 certified.

We believe that our focus on harmonious coexistence with local communities provides us with a strong competitive advantage in procuring future development sites and in aligning the capabilities of tenants with the needs of consumers over the longer term.

Also, as a member of the AEON Group, we contribute 1% of our annual pre-tax income to the AEON 1% Club, which carries out various social and environmental activities, including the promotion of environmental preservation, education, international people-to-people and cultural exchange, and regional development.

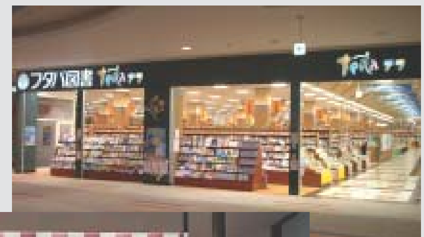
Diamond City's New Concept

L.A.S.

L.A.S.—OUR ORIGINAL CONCEPT

Two points are essential to raising an SC's profitability: the ability to attract customers and a high level of return patronage. A key to attracting customers is to consistently provide them with a space for realizing the lifestyles they envision, done by bringing together an appealing array of tenants. To enhance the level of return patronage, Diamond City creates malls anchored by two key stores, an approach vital to achieving this end. This entails two distinct tenant types: a GMS providing goods and services needed for everyday life, and a collection of upscale stores that offer something more for customers' lifestyles.

DIAMOND CITY SOLEIL is one such development incorporating these two store types. First opening its doors in March 2004, this SC is home to JUSCO, a general merchandise store. Under the same roof is a collection of Lifestyle Assortment Stores, or L.A.S., offering a lineup of high-quality merchandise. Unique to Diamond City, the L.A.S. concept targets the post-baby-boomer generation and women in their thirties with children. The L.A.S. concept is underpinned by a fundamental desire at Diamond City to support the lifestyles of customers in each of these demographics. Actively assisting customers in realizing their own style is an array of specialized tenants, proposing lifestyle options with goods ranging from apparel and knickknacks to food and books. In turn, a satisfying L.A.S. visit, whether to shop or to have a meal, lays the groundwork for return visits, and illustrates the pivotal role of L.A.S. in the ability of SCs to attract customers.

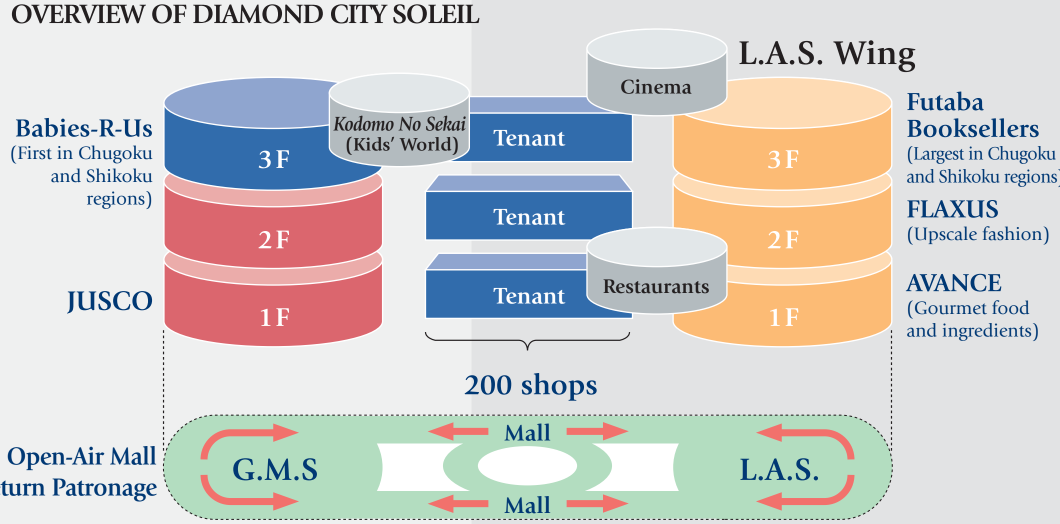


Futaba Booksellers

FLAXUS

AVANCE

OVERVIEW OF DIAMOND CITY SOLEIL



The 3-Floor "Two Anchor Tenant" Open-Air Mall
Achieving High Return Patronage

FLAXUS

FLAXUS—A CORE L.A.S. TENANT

The brainchild of apparel manufacturer World Co., Ltd., FLAXUS is a strategic new format offering merchandise for a variety of different lifestyles, and developed specifically to complement regional shopping centers (or RSC) in creating new suburban markets. In terms of sales floor area, the FLAXUS in DIAMOND CITY SOLEIL, opened in Hiroshima in March 2004, is 4,817 m^2, while the FLAXUS in DIAMOND CITY ARURU opened in April 2004 in the city of Nara is 3,600 m^2. The largest FLAXUS, with a sales floor area of 6,987 m^2, is found in DIAMOND CITY LUCLE, opened in Fukuoka in June 2004. FLAXUS is the core L.A.S. tenant in every one of these shopping centers.

FLAXUS embodies the concept of lifestyles touched by refinement and beauty. The store's target patrons are mainly married women in their late 20's and early 30's, a group highly sensitive to making the most of their lifestyles. In Japan, this cohort also comprises the largest customer base for shopping centers. FLAXUS is designed to meet the needs of the family market, with a merchandise lineup composed of a wide variety of product brands, from apparel, fashion accessories, cosmetics, food, home interiors and maternity items, to brands for babies, children, men and ladies. FLAXUS ultimately aims to transcend the limitations of conventional shopping centers, assisting married couples in their thirties in achieving the high-quality lifestyles they desire.

Among its features, FLAXUS has a creative layout that sets it apart from typical large-scale apparel stores, as well as an unbeatable lineup of brands and a relaxing atmosphere. Leveraging these strengths, FLAXUS is expected to play an essential part in attracting customers to Diamond City shopping centers.

The Tradewind Patio at LUCLE
This gorgeous display exudes a sense of luxury

Food Panic at LUCLE
Food Panic combines a food court with trendy dine-in restaurants

SOLEIL façade
The inviting FLAXUS entranceway

The Brilliant Garden at LUCLE
The Brilliant Garden offers fashionable, seasonal items

New Shopping Centers

Diamond City develops, operates and manages SCs that anticipate the needs of the times and create new lifestyles. Diamond City is committed to building attractive SCs as a specialist commercial developer based on the ideal of providing maximum customer satisfaction through optimum services.

DIAMOND CITY Hana

- Location: 25-1, Oiwake-cho, Saiin, Ukyo-ku, Kyoto
- Site area: Approx. 47,000m²
- Total floor area: Approx. 99,000m²
- Parking capacity: Approx. 1,690 vehicles

DIAMOND CITY SOLEIL

- Location: 2-1-1, Osu, Fuchu-cho, Aki-gun, Hiroshima
- Site area: Approx. 114,000m²
- Total floor area: Approx. 218,000m²
- Parking capacity: Approx. 4,300 vehicles

DIAMOND CITY ARURU

- Location: 7-20-1, Magarikawa-cho, Kashihara-shi, Nara
- Site area: Approx. 84,700m^2
- Total floor area: Approx. 160,000m^2
- Parking capacity: Approx. 3,300 vehicles

DIAMOND CITY LUCLE

- Location: 192-1, Aza-Oinoki, Oaza-Sakado, Kasuya-machi, Kasuya-gun, Fukuoka
- Site area: Approx. 217,000m^2
- Total floor area: Approx. 106,000m^2
- Parking capacity: Approx. 4,200 vehicles

DIAMOND CITY KiRiO

- Location: 25-1, Aza-Minamiyatsug-aike, Oaza-Kuroda, Kisokawa-cho, Haguri-gun, Aichi
- Site area: Approx. 95,000m^2
- Total floor area: Approx. 158,000m^2
- Parking capacity: Approx. 4,000 vehicles

DIAMOND CITY prou

- Location: 4-1-12, Higashi Asakayama-cho, Sakai-shi, Osaka
- Site area: Approx. 58,000m^2
- Total floor area: Approx. 175,000m^2
- Parking capacity: Approx. 2,500 vehicles

Corporate Governance

Managing Director **Kenzo Fujitsuka**
Managing Director **Nobuo Aoki**
President and CEO **Yozo Tai**
Chairman **Hideo Nojima**
Senior Managing Director **Chitoshi Yamanaka**
Managing Director **Makoto Sakamoto**

Director **Masahiro Sakabe**
Director **Masahiro Abe**
Director **Motoya Okada**
Director **Masayuki Yoda**
Director **Masayuki Okada**

Auditor **Yukio Ueno**
Auditor **Hisateru Taniuchi**
Standing Auditor **Aritsune Hayashi (full-time)**
Auditor **Kazuhiko Ichimura**

The Company believes swiftly responding to changes in its operating environment, while fulfilling its responsibilities in terms of accountability to stakeholders and fostering a corporate culture that embodies a strong sense of business ethics are vital to continuous growth in corporate value.

The Company has adopted the corporate auditor system as part of its corporate governance framework. Under this system, only one of the four corporate auditors is a full-time employee of the company. Also, the 11-member Board of Directors now includes two outside directors.

Several directors from Mitsubishi Corporation, with which the Company has a business relationship (i.e. project contracts), and AEON, with which the Company has store leasing agreements, have been appointed as outside directors or outside corporate auditors. Transactions with both companies are conducted on an arm's length basis, and none of the individual outside directors or outside corporate auditors has a direct conflict of interest.

Diamond City has established a Compliance Committee, which includes a legal advisor, and holds internal compliance seminars as part of a broader effort to promote adherence to business ethics and all relevant laws and regulations in its business activities.

Six-Year Summary

Diamond City Co., Ltd. and Subsidiary
Years ended February 28 or 29

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data)
	2004	2003	2002	2001	2000	1999	**2004**
FOR THE YEAR:							
Operating revenue	**¥ 18,854**	¥ 20,429	¥18,667	¥ 16,532	¥15,444	¥ 15,938	**$171,400**
Operating costs	**12,597**	13,914	13,288	12,601	11,946	11,559	**114,518**
General and administrative expenses	**2,249**	1,885	1,372	1,309	1,138	1,383	**20,446**
Operating income	**4,008**	4,630	4,007	2,622	2,360	2,997	**36,436**
Income before income taxes and minority interests	**4,643**	2,803	2,028	1,594	1,476	2,011	**42,209**
Net income	**2,343**	1,511	1,034	799	686	964	**21,300**
AT YEAR-END:							
Total assets	**¥ 98,200**	¥107,684	¥90,818	¥105,042	¥96,476	¥100,871	**$892,727**
Shareholders' equity	**23,696**	21,787	18,002	17,252	16,694	16,429	**215,418**
Interest-bearing debt	**33,422**	30,138	23,260	30,281	32,938	35,279	**303,836**
PER SHARE DATA:							
Net income	**¥ 101.23**	¥ 70.61	¥ 49.46	¥ 38.21	¥ 32.84	¥ 46.10	**$ 0.92**
Cash dividends	**20.00**	17.50	12.50	12.50	10.00	10.00	**0.18**
Shareholders' equity	**1,040.00**	957.84	861.44	825.47	798.76	786.08	**9.45**

Note: U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥110=U.S.$1, the exchange rate prevailing on February 29, 2004.

Management Discussion and Analysis

Forward-Looking Statements

This annual report contains forward-looking statements about the Company and its group company that are not historical facts. These statements include forecasts that are based on assumptions, projections and plans in light of information currently available to management. They are therefore subject to a number of risks and uncertainties which, without limitation, include economic conditions, market movements and exchange rate fluctuations. These risks and uncertainties could cause actual results to differ from forecasts.

SUPPLEMENTARY INFORMATION FOR ANALYZING DIAMOND CITY'S FINANCIAL STATEMENTS

HOW INVESTMENTS IN PROJECTS ARE REFLECTED IN DIAMOND CITY'S FINANCIAL STATEMENTS

In developing shopping centers (SCs), for Diamond City, the largest investments concern projects where it owns the land, buildings and other property. Most of the total amount invested in these cases relates to buildings, structures and land, which are all shown on the balance sheet under property, plant and equipment.

Recently, though, Diamond City has engaged in fewer projects of the type just described. Instead, the Company more often leases land and buildings from the owners and offers its expertise in constructing and operating shopping centers. In these cases, the Company is awarded the contract to develop the project and is entrusted to operate and manage the facility once completed.

The Company acquires auxiliary facilities other than the main buildings and records these assets on its balance sheets under the item "Buildings and structures." Investments related to construction of the main buildings held by the owner are paid as construction cost deposits and shown on the balance sheet as "Lease deposits paid," an item that also includes guarantee deposits.

Construction cost deposits and guarantee deposits received from tenants are recorded on the balance sheet under liabilities as "Lease deposits received." Guarantee deposits for anchor tenants are equivalent to the construction expenses for the main buildings, and, for subtenants, guarantee deposits are six months' rent plus an estimated amount for returning the property to its original condition.

DIAMOND CITY OPERATING REVENUE AND OPERATING COSTS

Operating Revenue

Diamond City's operating revenue is made up of rent from tenants, maintenance expenses, parking revenues and other revenues. Rent itself consists of fixed rental payments and variable rental payments, but consists mainly of the latter, which is based on tenant sales.

The variable rate is determined by taking into consideration factors such as a tenant's business model, profitability, and a comparison of leasing terms with prevailing market rates. The variable rates for general merchandise stores and restaurant and service businesses range from 8–15% and 10–18% of sales, respectively. Tenants are required to meet minimum monthly and/or annual sales targets, and must close if they consistently fall below these levels.

Diamond City receives all sales receipts of tenants and, after deducting rent and expenses, returns the net amount to tenants twice a month.

Operating Costs

Operating costs are made up of labor costs for operating SCs and costs related to SC facilities. The latter include facility management expenses; utility expenses; leasing payments, which are paid to the owners of the land and/or buildings; and depreciation of SC facilities.

DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

BUSINESS OVERVIEW

Company Overview

In 1989, the Company listed on the Second Section of the Osaka Securities Exchange. On November 25, 2002, Diamond City listed on the Second Section of the Tokyo Stock Exchange, subsequently listing on the first sections of the Tokyo Stock Exchange and Osaka Securities Exchange on February 3, 2003. In March 2003, Nara Family, a property owned by consolidated subsidiary Diamond Family Co., Ltd., was sold, resulting in improved cash flows and a more streamlined balance sheet. This property continues to be operated and managed as the Company's third SC in its new property management business.

As of February 29, 2004, Diamond City owned 13 SCs located throughout Japan, from which it received revenue from real estate leasing. Also, Diamond City managed and operated three SCs, from which it received revenue in the form of management fees.

FINANCIAL POSITION

Assets

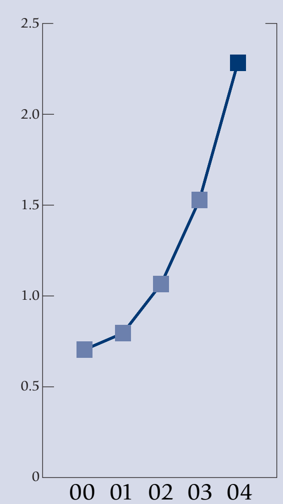
Total assets as of February 29, 2004 stood at ¥98,200 million. This represented a decrease of ¥9,484 million, or 8.8%, from ¥107,684 million a year ago.

Current assets rose 70.9% to ¥5,784 million, due primarily to an increase in cash and cash equivalents and an increase in trade accounts receivable associated with a greater number of SCs.

Net property, plant and equipment decreased ¥24,770 million, or 36.3%, to ¥43,541 million, down from ¥68,311 million a year ago. Despite the acquisition of ¥6,672 million in fixed tangible assets related to multiple new projects, primarily Diamond City Hana, opened on February 21, 2004, and Diamond City Kashima (tentative name), net property, plant, and equipment declined due to a ¥29,133 million decrease associated with the sale of Nara Family and ¥2,226 million in depreciation.

Total investments and other assets rose ¥12,887 million, or 35.8%, to ¥48,875 million, up from ¥35,988 million at the end of the previous year. This reflected a ¥13,482 million increase in lease deposits paid to ¥40,410 million, from ¥26,928 million, due mainly to construction cost deposits paid to the owner of Diamond City Hana and construction cost deposits accompanying the start of construction of Diamond City SOLEIL.

ROA
(%)



Liabilities

Liabilities declined ¥11,732 million, or 13.8%, to ¥73,110 million, down from ¥84,842 million at the end of the previous year.

Current liabilities fell ¥2,842 million, or 9.8%, to ¥26,169 million, down from ¥29,011 million at the end of the previous fiscal year.

Long-term liabilities fell ¥8,890 million, or 15.9%, to ¥46,941 million, compared with ¥55,831 million at the end of the previous year.

The major factors affecting long-term liabilities were: 1) an ¥8,000 million increase due to the issue of convertible bonds with warrants in December 2003, 2) a ¥13,734 million decrease owing to a reduction in lease deposits received due to the transfer of repayment obligations for lease deposits received accompanying the sale of Nara Family, and 3) a ¥4,147 million decrease in long-term unearned income.

Shareholders' Equity

Common stock, additional paid-in capital, and treasury stock did not change from the end of the previous fiscal year. However, retained earnings rose 17.5% to ¥12,796 million. As a result, total shareholders' equity rose 8.8% to ¥23,696 million.

Consequently, the equity ratio rose by 3.9 percentage points to 24.1%, and equity per share rose 8.6% to ¥1,040. ROE, one of Diamond City's key targets under its current medium-term management plan, improved 2.7 percentage points, from 7.6% to 10.3%.

CASH FLOWS

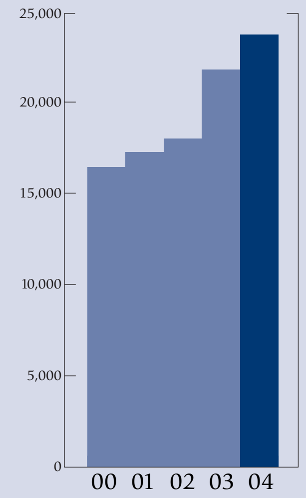
Operating activities provided net cash of ¥4,778 million, down ¥1,664 million, or 25.8%, from the previous fiscal year. Income before income taxes and minority interests increased ¥1,840 million to ¥4,643 million, but depreciation and amortization decreased ¥1,348 million, or 36.2%, to ¥2,375 million due to the sale of Nara Family, and there was a ¥1,337 million gain on sales of property, plant and equipment.

Investing activities used net cash of ¥6,528 million. Cash of ¥6,306 million, 58.9% more than the previous fiscal year, was used for purchases of property, plant and equipment, including for Kumamoto Kashima, where a new shopping center is planned. There was also an outflow of ¥14,377 million, 32.8% up on the previous fiscal year, for lease deposits paid relating to new projects such as Diamond City SOLEIL. These were offset in part by a ¥14,190 million inflow from sales of property, plant and equipment due to the sale of Nara Family.

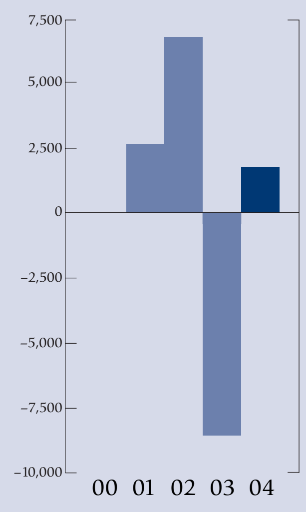
Financing activities provided net cash of ¥2,871 million, down 68.7% from the previous fiscal year. There were inflows of ¥8,000 million from the issuance of bonds with stock acquisition rights and ¥3,600 million from long-term payables, a 7.7% year-on-year decrease. These were offset by an outflow of ¥8,315 million, compared with an inflow of ¥2,978 million in the previous fiscal year, for the repayment of debt using funds from the sale of Nara Family.

As a result, cash and cash equivalents increased ¥1,121 million, or 59.0%, from a year ago, to ¥3,021 million.

Shareholders' Equity
(¥ millions)



Free Cash Flows
(¥ millions)



OPERATING RESULTS

Overview of Operations

Supported by broad customer bases, SC sales at Diamond City "carat", opened in November 2000, and Diamond City Terrace, opened in October 2002, at ¥32.6 billion and ¥35.2 billion, respectively, exceeded their targets and contributed to an increase in operating revenue. Also, Diamond City Kumamoto-Minami and Diamond City Fujiidera Shopping Center were refurbished and tenant changes were instituted to better meet customer needs and revitalize sales. In February 2004, Diamond City Hana in Kyoto made a 'soft' opening as a new location.

Diamond City started a full-scale property management business as a future earnings base. In this business, rather than owning the assets, Diamond City develops, operates and manages properties on a contract basis. As part of this, Nara Family, a property owned by consolidated subsidiary Diamond Family Co., Ltd., was sold to Japan Retail Fund Investment Corporation in March 2003 for ¥34,062 million. Simultaneously, Diamond City signed a property management contract with Japan Retail Fund and continues to manage Nara Family as the third property in its property management business. Diamond City used the proceeds from the sale of Nara Family to repay debt. Also, as a result of the sale, Diamond City was released from the obligation to repay ¥19,891 million in lease deposits received.

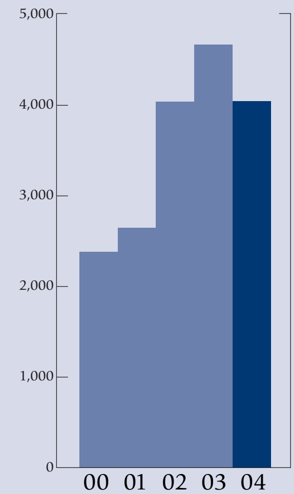
Operating Results

Consolidated operating revenue for the fiscal year ended February 29, 2004 fell 7.7% from the previous fiscal year to ¥18,854 million. Operating income fell 13.4% to ¥4,008 million; income before income taxes and minority interests rose 65.6% to ¥4,643 million; and net income increased 55.1% to ¥2,343 million, the highest level since the Company went public.

Operating income declined mainly as a result of the sale of Nara Family. The Company now receives fees from managing this property rather than lease revenue from tenants as in the past. The ¥1,337 million in gains from the sale of the property was recorded as extraordinary income.

The operating costs ratio improved 1.3 percentage points from the previous year, reflecting economies of scale derived from the opening of new, large SCs, and the benefits of efforts to reduce operating costs at existing SCs.

Operating Income
(¥ millions)



Operating Revenue by Shopping Center

	2004	2003	Change	YoY (%)
	(Millions of yen)			
Diamond City Higashisumiyoshi Shopping Center	¥ 683	¥ 686	¥ (3)	99.6%
Diamond City Meisei Shopping Center	1,183	1,112	71	106.4
Diamond City Fujiidera Shopping Center	1,014	1,005	9	100.8
Neyagawa Green City	1,117	1,087	30	102.8
Kawaguchi Green City	1,719	1,717	2	100.1
Wonder City	2,371	2,218	153	106.9
Diamond City Kumamoto-Minami	1,586	1,351	235	117.4
Diamond City "carat"	2,962	2,803	159	105.7
Diamond City Terrace	3,659	2,598	1,061	140.8
Diamond City Hana	592	–	592	–
Others	317	235	82	134.9
Kyoto Family (consolidated subsidiary)	1,168	1,188	(20)	98.4
Nara Family (consolidated subsidiary)	483	4,465	(3,982)	10.8
Corporate and eliminations	–	(36)	36	–
Total	¥18,854	¥20,429	¥(1,575)	92.3%

Notes: 1. Diamond City Terrace was opened in October 2002.

2. Diamond City Hana was opened in February 2004.

3. Green City, Wonder City, Diamond City "carat," Diamond City Terrace, and Diamond City Hana are the names of shopping centers.

4. Nara Family was sold to Japan Retail Fund Investment Corporation in March 2003, and the assets are now operated under a property management contract.

NEW SHOPPING CENTERS AND NEW DEVELOPMENT PRODUCTS

Status of new shopping centers (as of June 30, 2004)

Diamond City recently opened the following shopping centers:

Diamond City ARURU: Opened in March 2004

Diamond City SOLEIL: Opened in April 2004

Diamond City KiRiO : Opened in June 2004

Diamond City LUCLE: Opened in June 2004

NEW DEVELOPMENT PROJECTS AND FUNDING

The following shopping centers are presently under development:

Diamond City prou : Scheduled to open in the fall of 2004.

Kumamoto Kashima

Osaka Tsurumi

Sendai Natori

Funding for the development of each of these shopping centers is being provided by operating cash flows, tenant lease deposits, funds raised directly in capital markets, asset securitization, leases and loans, and long-term borrowings.

Risks to Business Expansion

Competition

The retail industry, Diamond City's fundamental business domain, has been in a prolonged slump since the bursting of Japan's economic bubble and has undergone realignment and a shakeout amid the harsh environment. Meanwhile, competition within the retail industry has escalated in response to consumer needs, which have evolved and become more diverse. Recently, overseas retailers and commercial property developers have been entering the Japanese market, and this is expected to further escalate competition, not only among domestic firms but also with and among overseas companies. Accordingly, this competitive environment may affect the Company's operations and earnings.

Legal Constraints

In June 2000, the Large-Scale Retail Store Law was replaced by the Large-Scale Retail Store Location Law, which is aimed at preserving the living environment in areas surrounding large-scale retail stores by requiring the operators of such stores to give adequate consideration to traffic and environmental problems in the location of facilities and methods of operation. Diamond City develops its SCs in accordance with all relevant laws and regulations. These laws could, however, cause delays in the development of some SCs from initial plans, which could affect the Company's earnings in a particular period. Other laws that could affect the Company's earnings include the City Planning Law, the Building Standard Law, the Heart Building Law, and the Fire Defense Law.

Relationships With Majority Shareholders

The Company's two main shareholders are AEON Co., Ltd., and Mitsubishi Corporation, which have stakes of 30.68% and 30.67%, respectively, based on the total number of shares outstanding. In addition to the aforementioned capital relationships, Diamond City has business relationships and personnel-related relationships with both companies. However, Diamond City pursues business development based on its own policies.

Although the AEON Group has a commercial property development unit similar to Diamond City, at this point, there is no business competition between the two due to differing target development sites and development scales. However, changes in the operating environment for commercial property developers could bring the two into competition in the future. Also, AEON is an anchor tenant in shopping centers developed by Diamond City, excluding Yokosuka APT. AEON accounted for 23.5% of Diamond City's total operating revenue in the fiscal year ended February 29, 2004. Although the entrance/exit of AEON could affect Diamond City's earnings, because Diamond City is expanding the development scale of future shopping centers, we believe that anchor tenant lease revenue as a proportion of overall SC lease revenue will decline and that Diamond City's earnings reliance on AEON will decrease.

Consolidated Balance Sheets

Diamond City Co., Ltd. and Subsidiary
February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2004**	2003	**2004**
CURRENT ASSETS:			
Cash and cash equivalents	¥ 3,021	¥ 1,900	$ 27,464
Marketable securities (Note 3)		10	
Receivables — Trade accounts (Note 13)	1,684	951	15,309
Deferred tax assets (Note 8)	223	207	2,027
Other current assets	856	317	7,782
Total current assets	5,784	3,385	52,582
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 4)	20,097	22,092	182,700
Buildings and structures (Note 4)	43,533	81,465	395,755
Construction in progress	3,851	1,266	35,009
Other	2,543	3,350	23,118
Total	70,024	108,173	636,582
Accumulated depreciation	(26,483)	(39,862)	(240,755)
Net property, plant and equipment	43,541	68,311	395,827
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	60	170	545
Lease deposits paid (Note 2-e)	40,410	26,928	367,364
Long-term prepaid expenses (Note 2-e)	6,172	6,628	56,109
Deferred tax assets (Note 8)	1,125	1,222	10,227
Other assets	1,108	1,040	10,073
Total investments and other assets	48,875	35,988	444,318
TOTAL	¥ 98,200	¥107,684	$ 892,727

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT LIABILITIES:			
Short-term borrowings (Note 4)	¥ 6,050	¥ 9,538	$ 55,000
Current portion of long-term debt (Note 4)	3,506	5,721	31,873
Payables — Trade accounts	958	709	8,709
Payable — Construction (Note 13)	7,698	4,723	69,982
Deposits received	5,542	4,265	50,382
Income taxes payable	974	1,065	8,855
Current portion of lease deposits received (Notes 2-e and 13)	335	2,646	3,045
Other current liabilities	1,106	344	10,054
Total current liabilities	26,169	29,011	237,900
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	23,866	14,879	216,963
Liability for retirement benefits (Note 5)	342	338	3,109
Lease deposits received (Notes 2-e and 13)	21,702	35,436	197,291
Long-term unearned income (Note 2-e)	1,031	5,178	9,373
Total long-term liabilities	46,941	55,831	426,736
MINORITY INTERESTS	1,394	1,055	12,673
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9 and 10)			
SHAREHOLDERS' EQUITY (Notes 6 and 12):			
Common stock; authorized — 91,000,000 shares in 2004 and 83,600,000 shares in 2003; issued — 22,750,000 shares in 2004 and 2003	4,975	4,975	45,227
Capital surplus	5,915	5,915	53,773
Retained earnings	12,796	10,889	116,327
Net unrealized gain on available-for-sale securities	15	13	136
Total	23,701	21,792	215,463
Treasury stock — at cost, 3,900 shares in 2004 and 2003	(5)	(5)	(45)
Total shareholders' equity	23,696	21,787	215,418
TOTAL	¥98,200	¥107,684	$892,727

Consolidated Statements of Income

Diamond City Co., Ltd. and Subsidiary
Years Ended February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING REVENUE (Note 13)	**¥18,854**	¥20,429	**$171,400**
OPERATING COSTS	**12,597**	13,914	**114,518**
GROSS PROFIT	**6,257**	6,515	**56,882**
GENERAL AND ADMINISTRATIVE EXPENSES	**2,249**	1,885	**20,446**
OPERATING INCOME	**4,008**	4,630	**36,436**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**246**	179	**2,236**
Interest expense	**(606)**	(1,375)	**(5,509)**
Gain on sales of property, plant and equipment (Note 7)	**1,337**	2	**12,155**
Loss on disposal of property, plant and equipment	**(114)**	(393)	**(1,036)**
Other — net	**(228)**	(240)	**(2,073)**
Other income (expenses) — net	**635**	(1,827)	**5,773**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**4,643**	2,803	**42,209**
INCOME TAXES (Note 8):			
Current	**1,866**	1,760	**16,964**
Deferred	**80**	(547)	**727**
Total income taxes	**1,946**	1,213	**17,691**
MINORITY INTERESTS IN NET INCOME	**354**	79	**3,218**
NET INCOME	**¥ 2,343**	¥ 1,511	**$ 21,300**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2-k and 11):			
Basic net income	**¥101.23**	¥70.61	**$0.92**
Diluted net income	**98.89**		**0.90**
Cash dividends applicable to the year	**20.00**	17.50	**0.18**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Diamond City Co., Ltd. and Subsidiary
Years Ended February 29, 2004 and February 28, 2003

	Thousands	Millions of Yen				
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, MARCH 1, 2002	20,900	¥3,695	¥4,635	¥ 9,672	¥ 2	¥(2)
Net income				1,511		
Cash dividends, ¥12.5 per share				(261)		
Bonuses to directors and corporate auditors				(33)		
Increase in treasury stock (1,600 shares)						(3)
Net increase in unrealized gain on available-for-sale securities					11	
Issuance of common stock (Note 6)	1,850	1,280	1,280			
BALANCE, FEBRUARY 28, 2003	22,750	4,975	5,915	10,889	13	(5)
Net income				2,343		
Cash dividends, ¥17.5 per share				(398)		
Bonuses to directors and corporate auditors				(38)		
Net increase in unrealized gain on available-for-sale securities					2	
BALANCE, FEBRUARY 29, 2004	**22,750**	**¥4,975**	**¥5,915**	**¥12,796**	**¥15**	**¥(5)**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-Sale Securities	Treasury Stock
BALANCE, FEBRUARY 28, 2003	$45,227	$53,773	$ 98,991	$118	$(45)
Net income			21,300		
Cash dividends, $0.16 per share			(3,618)		
Bonuses to directors and corporate auditors			(346)		
Net increase in unrealized gain on available-for-sale securities				18	
BALANCE, FEBRUARY 29, 2004	**$45,227**	**$53,773**	**$116,327**	**$136**	**$(45)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Diamond City Co., Ltd. and Subsidiary
Years Ended February 29, 2004 and February 28, 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 4,643**	¥ 2,803	**$ 42,209**
Adjustments for:			
Income taxes — paid	**(1,957)**	(1,545)	**(17,791)**
Depreciation and amortization	**2,375**	3,723	**21,591**
Gain on sales of property, plant and equipment	**(1,337)**	(2)	**(12,155)**
Changes in assets and liabilities:			
Increase in receivables — Trade accounts	**(733)**	(310)	**(6,664)**
Increase in payables — Trade accounts	**249**	283	**2,264**
Increase in deposits received	**950**	1,003	**8,636**
Other — net	**588**	487	**5,346**
Total adjustments	**135**	3,639	**1,227**
Net cash provided by operating activities	**4,778**	6,442	**43,436**
INVESTING ACTIVITIES:			
Net decrease in short-term investments		60	
Purchases of property, plant and equipment	**(6,306)**	(3,968)	**(57,327)**
Proceeds from sales of property, plant and equipment	**14,190**	7	**129,000**
Lease deposits paid	**(14,377)**	(10,830)	**(130,700)**
Return of lease deposits paid	**64**	344	**582**
Repayment of lease deposits received	**(4,179)**	(3,799)	**(37,991)**
Proceeds from lease deposits received	**4,136**	3,662	**37,600**
Other	**(56)**	(489)	**(509)**
Net cash used in investing activities	**(6,528)**	(15,013)	**(59,345)**
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	**(3,488)**	(197)	**(31,709)**
Proceeds from long-term debt	**15,440**	10,300	**140,364**
Repayment of long-term debt	**(8,668)**	(3,225)	**(78,800)**
Proceeds from issuance of common stock		2,560	
Dividends paid	**(413)**	(276)	**(3,755)**
Net cash provided by financing activities	**2,871**	9,162	**26,100**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,121**	591	**10,191**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**1,900**	1,309	**17,273**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 3,021**	¥ 1,900	**$ 27,464**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended February 29, 2004 and February 28, 2003

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Diamond City Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110 to $1, the approximate rate of exchange at February 29, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation** — The consolidated financial statements include the accounts of the Company and its sole subsidiary as of February 29, 2004 and its two subsidiaries as of February 28, 2003 (together, the "Group"). During the year ended February 29, 2004, the Company liquidated one subsidiary, which was excluded from the consolidation.

The differences between the cost and underlying net equity of investments in subsidiaries at acquisition, are charged to income when incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. **Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

c. **Marketable and Investment Securities** — The Group's all marketable equity and debt securities are classified as available-for-sale securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. **Property, Plant and Equipment** — Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method at rates based on the estimated useful lives of the assets. The range of useful lives is from 3 to 25 years and 3 to 30 years for buildings and structures at February 29, 2004 and February 28, 2003, respectively.

e. **Lease Deposits Paid and Lease Deposits Received** — Certain shopping centers operated by the Group are generally leased under 20 year lease agreements. The lease agreements require that the Group makes a lease deposit (recorded as Lease Deposits Paid) to the lessor which consists of a construction cost deposit and a guarantee deposit. The leased buildings and structures are constructed by the lessors to the Group's specifications on land owned by the lessors. A portion of the lessors' construction costs is financed by the Group using the construction cost deposit, which is non-interest bearing and refundable in equal annual installments commencing in the 11th year. The guarantee deposits are non-interest bearing and refundable upon expiration of the leases. The construction cost deposits are discounted to present value using the current market rates at the inception of the leases. The differences between the stated amounts and the present values of the construction cost deposits are included in long-term prepaid expenses and amortized over the lease term. Interest income is recognized using the interest method and an imputed interest rate over the term of the lease.

The Group receives lease deposits (recorded as Lease Deposits Received) from tenants of the shopping centers generally under 20 year lease agreements. The lease deposits received also include a construction cost deposit and a guarantee deposit. The construction cost deposits are non-interest bearing and payable in equal annual payments commencing in the 11th year. The guarantee deposits are non-interest bearing and payable upon expiration of the leases. The construction cost deposits are discounted to present values using the current market rates at the inception of the leases. The differences between the stated amounts and the present values of the construction cost deposits are included in long-term unearned income and amortized over the lease term. Interest expense is recognized using the interest method and an imputed interest rate over the term of the lease.

f. **Bond Issue Costs** — Bond issue costs are charged to income as incurred.

g. **Retirement and Pension Plans** — The Group has non-contributory defined benefit pension plans and unfunded retirement benefit plans for employees. In addition, the Group has joined a contributory funded plan which was established by Mitsubishi Corporation Group companies and is governed by the regulations of the Japanese Welfare Pension Insurance Law. The amounts contributed to the fund were charged to income when paid.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

h. **Leases** — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

i. **Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. **Appropriations of Retained Earnings** — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

k. **Per Share Information** — Effective March 1, 2003, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The average number of common shares used in the computation was 22,746 thousand and 21,393 thousand shares for 2004 and 2003, respectively, net of the average number of shares of treasury stock.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding conversion right at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax. Basic net income per share for the years ended February 29, 2004 and February 28, 2003 and diluted net income per share for the year ended February 29, 2004 are computed in accordance with the new standard. Diluted net income per share for the year ended February 28, 2003 is not disclosed because there were no dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

l. **Reclassifications** — Certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

3. MARKETABLE AND INVESTMENT SECURITIES

The cost and aggregate fair value of marketable and investment securities at February 29, 2004 and February 28, 2003 were as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	¥33	¥27		¥60

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Current — Government bonds	¥ 10			¥ 10
Non-current — Equity securities	147	¥23		170

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	$300	$245		$545

Marketable and investment securities were reduced by ¥63 million at February 28, 2003, for other than temporary declines in fair value.

4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at February 29, 2004 and February 28, 2003 consisted of notes to banks, bank overdrafts and borrowings from an insurance company. The weighted average annual interest rates for the short-term borrowings were 0.99% and 1.13% at February 29, 2004 and February 28, 2003, respectively.

Long-term debt at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Collateralized loans from banks, due serially to 2018 with interest rates ranging from 1.80% to 2.45%	¥ 1,695	¥ 4,670	$ 15,409
Unsecured loans from banks and insurance companies, due serially to 2010 with interest rates ranging from 0.85% to 1.99% (2004) and from 0.94% to 3.45% (2003)	10,177	12,030	92,518
Zero coupon bonds with stock conversion rights due 2008	8,000		72,727
Other	7,500	3,900	68,182
Total	27,372	20,600	248,836
Less current portion	(3,506)	(5,721)	(31,873)
Long-term debt, net of current portion	¥23,866	¥14,879	$216,963

Annual maturities of long-term debt at February 29, 2004 for the next five years and thereafter were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending February 28:		
2005	¥ 3,506	$ 31,873
2006	2,261	20,554
2007	3,621	32,918
2008	1,561	14,191
2009	8,761	79,645
2010 and thereafter	7,662	69,655
Total	**¥27,372**	**$248,836**

The carrying amounts of assets pledged as collateral for the above collateralized long-term loans at February 29, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	**¥4,858**	**$44,164**
Buildings and structures — Net of accumulated depreciation	**3,908**	**35,527**
Total	**¥8,766**	**$79,691**

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Group has never been requested to provide any additional collateral.

Terms and conditions of the zero coupon bonds with stock conversion rights due 2008 are as follows:

Aggregate principle amount	¥8,000,000,000
Conversion price	¥2,846 per share
The issue price of the Bonds	100% of the principal amount of the Bonds
Exercise period of stock acquisition rights	From February 2, 2004 to August 28, 2008
Maturity date	August 29, 2008 unless previously redeemed, exercised or cancelled

If the outstanding convertible bonds had been converted at February 29, 2004, 2,810 thousand shares of common stock would have been issued.

The conversion prices of the convertible bonds are subject to adjustments in certain circumstances.

5. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Group and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The Group also has recorded a liability for retirement benefits for directors and corporate auditors in the amount of ¥81 million ($736 thousand), and ¥62 million as of February 29, 2004 and February 28, 2003, respectively. The payments of retirement benefits to directors and corporate auditors are subject to approval at the shareholders' meeting.

The liability for employees' retirement benefits at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 421	¥ 408	$ 3,827
Fair value of plan assets	(160)	(132)	(1,454)
Liability for employees' retirement benefits	¥ 261	¥ 276	$ 2,373

The components of net periodic benefit costs are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 41	¥47	$ 373
Gain-or loss on plan assets	(14)	10	(127)
Contribution to the contributory funded plan	40	23	363
Net periodic retirement benefit costs	¥ 67	¥80	$ 609

The assets of the pension plan established by Mitsubishi Corporation Group companies as of February 29, 2004 and February 28, 2003 were ¥567 million ($5,155 thousand) and ¥321 million, respectively. The amount is allocated based on head-count.

6. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, up on approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning March 1, 2003.

The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥9,523 million ($86,573 thousand) as of February 29, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

On November 23, 2002, the Company issued common stock of 1,850 thousand shares, by public offering at a price of ¥1,383.85 ($12.58) per share for gross cash proceeds of ¥2,560 million ($23,273 thousand), of which ¥1,280 million ($11,636 thousand) was recorded as additional paid-in capital in accordance with the Code.

7. GAIN ON SALES OF PROPERTY, PLANT AND EQUIPMENT

On March 6, 2003, a subsidiary of the Company securitized a shopping center, including land, buildings and structures and lease deposits paid, and transferred the assets to a financial institution. Lease deposits received from the tenants were also transferred to the financial institution without recourse. The proceeds and gain on the sale of the shopping center were ¥14,190 million ($129,000 thousand) and ¥1,337 million ($12,155 thousand), respectively.

8. INCOME TAXES

The Group are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.8% for the years ended February 29, 2004 and February 28, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 29, 2004 and February 28, 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
CURRENT:			
Deferred tax assets:			
Accrued enterprise tax and business facility tax	¥ 93	¥ 96	$ 845
Accrued bonuses	63	44	573
Landholding tax	58	58	527
Other	9	9	82
Deferred tax assets	¥223	¥207	$2,027

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
NON-CURRENT:			
Deferred tax assets:			
Depreciation	¥1,098	¥1,136	$ 9,982
Write-down of property, plant and equipment	882	1,098	8,018
Lease deposits received and long-term unearned income	41	161	373
Retirement benefits	121	114	1,100
Other	38	97	345
Deferred tax assets	2,180	2,606	19,818
Deferred tax liabilities:			
Lease deposits paid and long-term prepaid expenses	¥ 875	¥ 967	$ 7,955
Deferred capital gains on property	128	356	1,164
Other	52	61	472
Deferred tax liabilities	1,055	1,384	9,591
Net deferred tax assets	¥1,125	¥1,222	$10,227

9. LEASES

The Group leases certain buildings, machinery, computer equipment and other assets.

Total rental expenses for the years ended February 29, 2004 and February 28, 2003 were ¥4,412 million ($40,109 thousand) and ¥4,353 million, respectively, including ¥456 million ($4,145 thousand) and ¥447 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, lease payment of finance leases that do not transfer ownership of the leased property to the lessee presented on an "as if capitalized" basis for the years ended February 29, 2004 and February 28, 2003 was as follows:

	Millions of Yen				
	2004				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**¥3,326**	**¥151**	**¥1,001**	**¥142**	**¥4,620**
Accumulated depreciation	**474**	**74**	**547**	**98**	**1,193**
Net leased property	**¥2,852**	**¥ 77**	**¥ 454**	**¥ 44**	**¥3,427**

	Millions of Yen				
	2003				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥3,291	¥224	¥1,222	¥141	¥4,878
Accumulated depreciation	303	107	589	67	1,066
Net leased property	¥2,988	¥ 117	¥ 633	¥ 74	¥3,812

	Thousands of U.S. Dollars				
	2004				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	**$30,236**	**$1,373**	**$9,100**	**$1,291**	**$42,000**
Accumulated depreciation	**4,309**	**673**	**4,973**	**891**	**10,846**
Net leased property	**$25,927**	**$ 700**	**$4,127**	**$ 400**	**$31,154**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 406**	¥ 464	**$ 3,691**
Due after one year	**3,021**	3,348	**27,463**
Total	**¥3,427**	¥3,812	**$31,154**

Lease payments and depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Lease payments	**¥456**	¥447	**$4,145**
Depreciation expense	**456**	447	**4,145**

The amount of acquisition cost and obligations under finance leases includes imputed interest expense.

Depreciation expense, which is not reflected in the accompanying statements of income, are computed by the straight-line method.

Obligations under non-cancellable operating leases as of February 29, 2004 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥ 5,081**	¥ 4,190	**$ 46,191**
Due after one year	**58,414**	41,130	**531,036**
Total	**¥63,495**	¥45,320	**$577,227**

Undiscounted amounts of lease deposits for these non-cancellable operating leases were ¥27,168 million ($246,982 thousand) and ¥19,833 million at February 29, 2004 and February 28, 2003. Discounted amounts of ¥24,895 million ($226,318 thousand) at February 29, 2004 and ¥20,949 million at February 28, 2003 were accounted for as lease deposits paid in the balance sheet. The remaining amounts of ¥15,515 million ($141,046 thousand) at February 29, 2004 and ¥5,979 million at February 28, 2003 were construction cost deposits and guarantee deposits for SC's under construction.

10. CONTINGENT LIABILITIES

On July 5, 2001, the Company sold the right to a lease deposit to a third party and entered into a contractual commitment to extend credit to the third party up to ¥8,500 million ($77,273 thousand) in the event that the third party experiences cash flow difficulties due to the non-timely refund of the lease deposits paid. At February 29, 2004, there was no credit extended under this commitment.

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended February 29, 2004 is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	For the year ended February 29, 2004			
	Net Income	Weighted Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥2,303	22,746	¥101.23	$0.92
Effect of Dilutive Securities				
Zero coupon bonds		539		
Diluted EPS				
Net income for computation	¥2,303	23,285	¥ 98.89	$0.90

12. SUBSEQUENT EVENT

Appropriations of Retained Earnings — The following appropriations of retained earnings at February 29, 2004 were approved at the Company's shareholders' meeting held on May 25, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20 ($0.18) per share	¥455	$4,136
Bonuses to directors and corporate auditors	41	373

13. TRANSACTIONS WITH RELATED PARTIES

The Group has transactions with following related parties.

AEON Co., Ltd.
A shareholder who owns 30.68% of the Company's voting common stock at February 29, 2004 and February 28, 2003.

Mitsubishi Corporation
A shareholder who owns 30.67% of the Company's voting common stock at February 29, 2004 and February 28, 2003.

AEON Kyushu Co., Ltd. (former Kyushu JUSCO Co., Ltd.)
A subsidiary of AEON Co., Ltd.

Transactions with these related parties for the year ended February 29, 2004 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Revenue from leases of shopping centers to AEON Co., Ltd.	**¥3,925**	¥3,495	**$35,682**
Receipt of lease deposit from AEON Co., Ltd.	**469**	4,370	**4,264**
Purchase of buildings and structures of shopping centers from Mitsubishi Corporation	**286**	1,634	**2,600**
Revenue from leases of shopping centers to AEON Kyushu Co., Ltd. (former Kyushu JUSCO Co., Ltd.)	**262**	214	**2,382**

Note: Rents are renewed every 2 or 3 years in consideration of changes in the economic situation and tax and other conditions.

The balances due to or from these related parties at February 29, 2004 and February 28, 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Receivables — Trade accounts from AEON Co., Ltd.	**¥ 615**	¥ 163	**$ 5,591**
Lease deposits received from AEON Co., Ltd.:			
Current-portion of long-term	**323**	179	**2,936**
Long-term	**6,734**	6,767	**61,218**
Payable — Construction to Mitsubishi Corporation	**300**	305	**2,727**
Receivables — Trade accounts from AEON Kyusyu Co., Ltd. (former Kyushu JUSCO Co., Ltd.)	**9**	7	**82**
Lease deposits received from AEON Kyusyu Co., Ltd. (former Kyushu JUSCO Co., Ltd.) — Long-term	**968**	968	**8,800**

Note: Lease deposits received are stated amounts.

Deloitte.

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Independent Auditors' Report

To the Board of Directors of Diamond City Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Diamond City Co., Ltd. and subsidiary (together, the "Group") as of February 29, 2004 and February 28, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 Diamond City Co., Ltd. and subsidiary as of February 29, 2004 and February 28, 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 25, 2004

Member of
Deloitte Touche Tohmatsu

Directors and Auditors

(As of May 25, 2004)

Chairman	**Hideo Nojima**
President and CEO	**Yozo Tai**
Senior Managing Director	**Chitoshi Yamanaka**
Managing Directors	**Nobuo Aoki** **Makoto Sakamoto** **Kenzo Fujitsuka**
Directors	**Motoya Okada** **Masahiro Abe** **Masayuki Yoda** **Masahiro Sakabe** **Masayuki Okada**
Standing Auditor	**Aritsune Hayashi (full-time)**
Auditors	**Hisateru Taniuchi** **Yukio Ueno** **Kazuhiko Ichimura**

Corporate Data

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DATE ESTABLISHED:
March 20, 1969

CAPITAL:
¥4,975.2 million

NUMBERS OF EMPLOYEES:
207 (As of February 29, 2004)

PUBLIC LISTINGS:
Tokyo Stock Exchange, First Section
Osaka Securities Exchange, First Section

NUMBER OF SHAREHOLDERS:
1,848 (As of February 29, 2004)

TRANSFER AGENT:
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INDEPENDENT AUDITORS:
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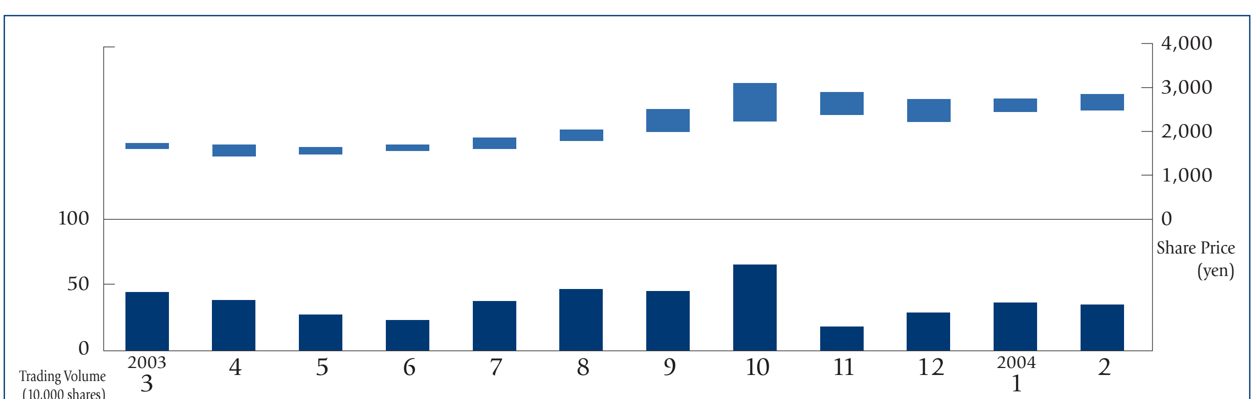
Share Price



DIAMOND
CITY

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