The Embodiment of Excellence

DIAMOND CITY CO., LTD.

ANNUAL REPORT 2005

Year ended February 28, 2005

FINANCIAL HIGHLIGHTS

Diamond City Co., Ltd. and Subsidiary
Years ended February 28, 2005 and February 29, 2004

	Millions of Yen (except per share data)		Thousands of U.S. Dollars (except per share data)
	2005	2004	2005
For the year:			
Operating revenue	¥ 39,305	¥ 18,854	$ 374,333
Operating income	10,134	4,008	96,514
Income before income taxes and minority interests	8,427	4,643	80,257
Net income	4,754	2,343	45,276
At year-end:			
Total assets	¥114,917	¥ 98,200	$ 1,094,448
Shareholders' equity	34,297	23,696	326,638
Interest-bearing debt	19,275	33,422	183,571
Per share data:			
Net income	¥ 132.94	¥ 101.23	$ 1.27
Cash dividends	20.00	20.00	0.19
Shareholders' equity	914.30	1,040.00	8.71

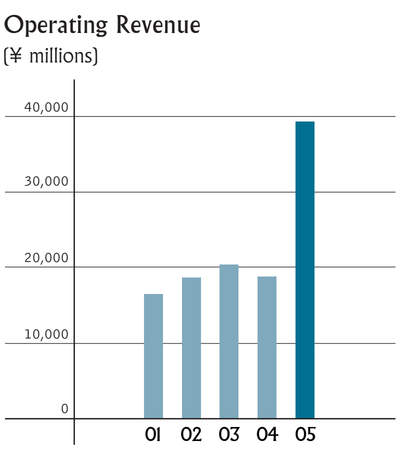
Notes: 1. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥105=U.S.$1, the exchange rate prevailing on February 28, 2005.

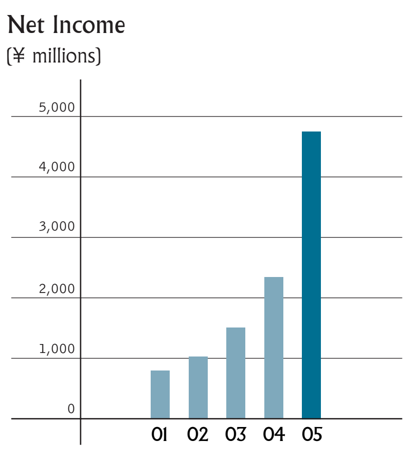
2. Diamond City split its common stock on October 20, 2004, with shareholders receiving 1.5 shares for each existing share. However, net income per share and shareholders' equity per share for the fiscal year ended February 2005 are calculated based on the assumption that the split took place at the beginning of the fiscal year.

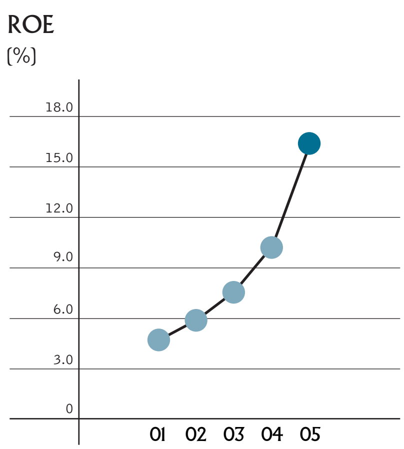
The per-share information below is calculated based on the assumption that the aforementioned stock split took place at the start of the fiscal year.

February 2004 Fiscal Year (Split Adjusted Basis)

Net income per share	¥67.49
Shareholders' equity per share	¥693.33







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

Diamond City achieved sharp growth in sales and earnings in the fiscal year ended February 28, 2005, amid a challenging operating environment. Moreover, we achieved the final-year targets in our medium-term business plan, with all indicators above their targets. As tremendous growth in terms of business scale this past fiscal year has dramatically increased our social responsibility, we recognize that the Company is now at a crucial point in its development. As such, Diamond City is undergoing a transformation aimed at achieving further growth. As part of this effort, in February 2005, we moved our head office to Tokyo to help bolster our presence in eastern Japan. Although the targets in our new medium-term business plan, formulated in the current fiscal year, are very high, we are working to achieve them based on a deep-seated conviction in our mission and the spirit of challenge.

Fiscal 2005 Results and Issues to Be Addressed

Competition in the domestic shopping center (SC) business has greatly intensified with the entry of major overseas retailers and major Japanese developers. Nonetheless, Diamond City opened six new SCs across Japan during the fiscal year ended February 2005, helping to push both sales and earnings to record highs.

Diamond City has aggressively procured favorable development sites in the form of unutilized factory sites and idle land. We have also amassed a wealth of expertise in building highly attractive SCs. In the fiscal year ended February 2005, we opened SCs in various regions across Japan, and solid starts at all of them contributed to sharp earnings growth. However, despite this robust performance, tenant-related factors affected profitability at some SCs. Based on its philosophy of partnership and mutual success with all tenants, Diamond City is working diligently to resolve such issues. Looking ahead to the fiscal year ending February 2006, we will open one new SC, giving us ample time to solidify plans for six additional SCs now on the drawing board.

Results Exceed Medium-term Plan Targets by Wide Margin

In the fiscal year ended February 2005, Diamond City recorded operating revenue of ¥39.3 billion and net income of ¥4.7 billion, significantly above the final-year targets in our medium-term business plan of ¥30.0 billion and ¥3.5 billion, respectively. This mainly reflected the on-schedule opening of eight major mall-type SCs, including Diamond City carat, all of which made a strong start.

We also diversified our fund procurement by securitizing real estate, thereby preventing the balance sheet from becoming bloated due to the addition of several large-scale facilities to our asset portfolio.

We also enhanced our financial health by taking aggressive steps in other areas. This included expansion of our fee business, where we increased the number of buildings that we handle under property management (PM) agreements. Under these arrangements, we operate and manage properties on behalf of the actual owner. Among our new SCs, we launched Diamond City ARURU and Diamond City LUCLE through special purpose companies (SPCs) and implemented securitization schemes for both from the start of their establishment. The use of this financing method supported an increase in ROE from 10.3% to 16.4%.

Heightening Brand Recognition

In addition to our ability to expand our business, Diamond City also possesses proprietary expertise cultivated through its experience in SC development. Our strength also encompasses our inexhaustible determination to provide superior services.

Advantages of Having In-depth Know-how

Diamond City utilizes its expertise to provide customers with superior facilities, and from the time of development, emphasizes coexistence with the local community and growth in partnership with tenants. The Company also possesses financial technologies that enable the successive opening of SCs in a short span of time. All of these factors are the key components of our know-how, the foundation of the Diamond City brand.

Diamond City also boasts unparalleled know-how in all areas of business related to customer relationships. During our 35-year history as a commercial property development specialist, we have accumulated a wealth of expertise with customers while continually searching for ways to develop SCs that offer improved amenities and higher returns, always reflecting our knowledge and experience in our next projects to realize new SCs evocative of the times.

Highlighting the Uniqueness of the Diamond City Brand

As the SC development industry becomes more homogeneous, Diamond City continually leverages its position as a pioneer to formulate innovative and attractive development schemes for customers. For example, we developed the Lifestyle Assortment Stores (L.A.S.) format that addressed individual customer needs. Moreover, the Company conducts trial activities, including those aimed at attracting department stores as key tenants, and emphasizes research that draws on candid opinions and feedback from customers, the results of which are incorporated in subsequent projects. This is a direct reflection of the growing importance of taking on challenges and exploring new ideas in partnership with various parties, including tenants, makers, and local governments and residents, rather than simply formulating development plans internally. Additionally, as a developer with a broad knowledge base and advanced financial technologies, Diamond City has implemented bold securitization and property management schemes that allow it to sidestep the position of property manager. As a result, we are able to sell old properties or turn them over to a property management firm in a timely manner. This enables us to keep our asset portfolio fresh and sustain high margins without a heavy financial burden.

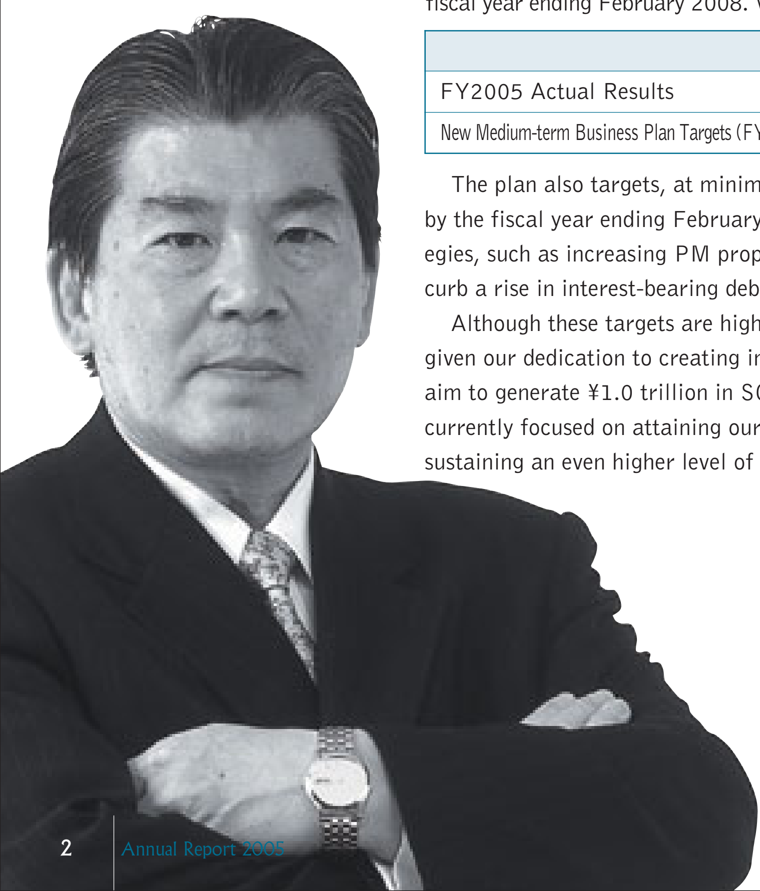
New Medium-term Business Plan

Having met the targets in our previous medium-term business plan, we have set new goals that will run through the fiscal year ending February 2008. We are committed to achieving the plan's numerical targets, as shown below:

	Retails sales (All SCs)	Operating revenue	Net income
FY2005 Actual Results	¥319.7 billion	¥39.3 billion	¥ 4.7 billion
New Medium-term Business Plan Targets (FY2008 Target)	¥600.0 billion	¥60.0 billion	¥10.0 billion

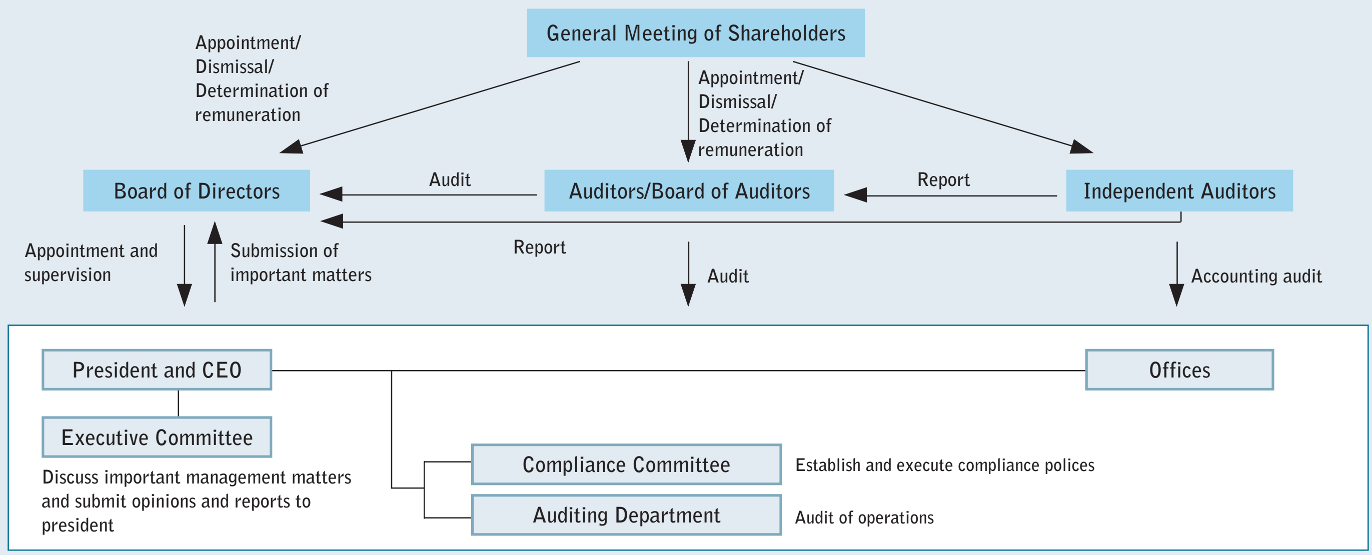
The plan also targets, at minimum, an ROA of 7%, ROE of 20%, and a shareholders' equity ratio of 35% by the fiscal year ending February 2008. We aim to achieve these goals through diversifying our profit strategies, such as increasing PM properties and the securitizing of four to five SCs currently being developed to curb a rise in interest-bearing debt.

Although these targets are high, we feel they are wholly achievable and are determined to reach them, given our dedication to creating industry-leading SCs that win customer acclaim. As a longer-term goal, we aim to generate ¥1.0 trillion in SC retail sales by the end of the February 2010 fiscal year. While we are currently focused on attaining our immediate goals, we ultimately aim to fashion a company capable of sustaining an even higher level of business performance.



Yozo Tai
President and CEO

STRUCTURE OF CORPORATE GOVERNANCE SYSTEM



Striving for Excellence in the Eyes of All Customers

Given our expanding business, we intend to systematize our management decision-making and policy-execution processes to the greatest extent possible, increase management transparency, and enhance corporate soundness. Moreover, because excellent personnel are essential to our growth, we actively train and recruit staff, as we believe this will help boost the image and awareness of the Diamond City brand.

As a corporate citizen, Diamond City has the opportunity to contribute to society through its business activities. Rather than simply supplying goods to the market, our objective is to create properties that provide visitors with joy and excitement, and become number one in customer satisfaction. By relocating our head office to Tokyo, we now have more opportunities to work closer with our stakeholders, primarily tenants. Our move to Tokyo also positions us better for expansion in eastern Japan and nationwide. Under the slogan "Growing Our Community Together," we will further our efforts to become an outstanding company with a strong presence in the SC field.

July 2005

Yozo Tai
President and CEO

CORPORATE GOVERNANCE

Managing Director
Kenzo Fujitsuka

Senior Managing Director
Chitoshi Yamanaka

President and CEO
Yozo Tai

Chairman
Hideo Nojima

Managing Director
Makoto Sakamoto

Managing Director
Yoshinari Ikeda

Director
Masahiro Sakabe

Director
Masayuki Yoda

Director
Yoshikazu Nakanishi

Director
Motoya Okada

Director
Masayuki Moro

Auditor
Yukio Ueno

Auditor
Hisateru Taniuchi

Standing Auditor
Aritsune Hayashi (full-time)

Auditor
Kazuhiko Ichimura

Diamond City believes the enhancement of corporate value through the realization of its medium and long-term business strategy rests on fostering a corporate culture that embodies a strong sense of business ethics. We believe this is realized by being accountable to our stakeholders and ensuring that management makes proposals and takes corrective action to resolve problem areas by fully comprehending the issues at hand.

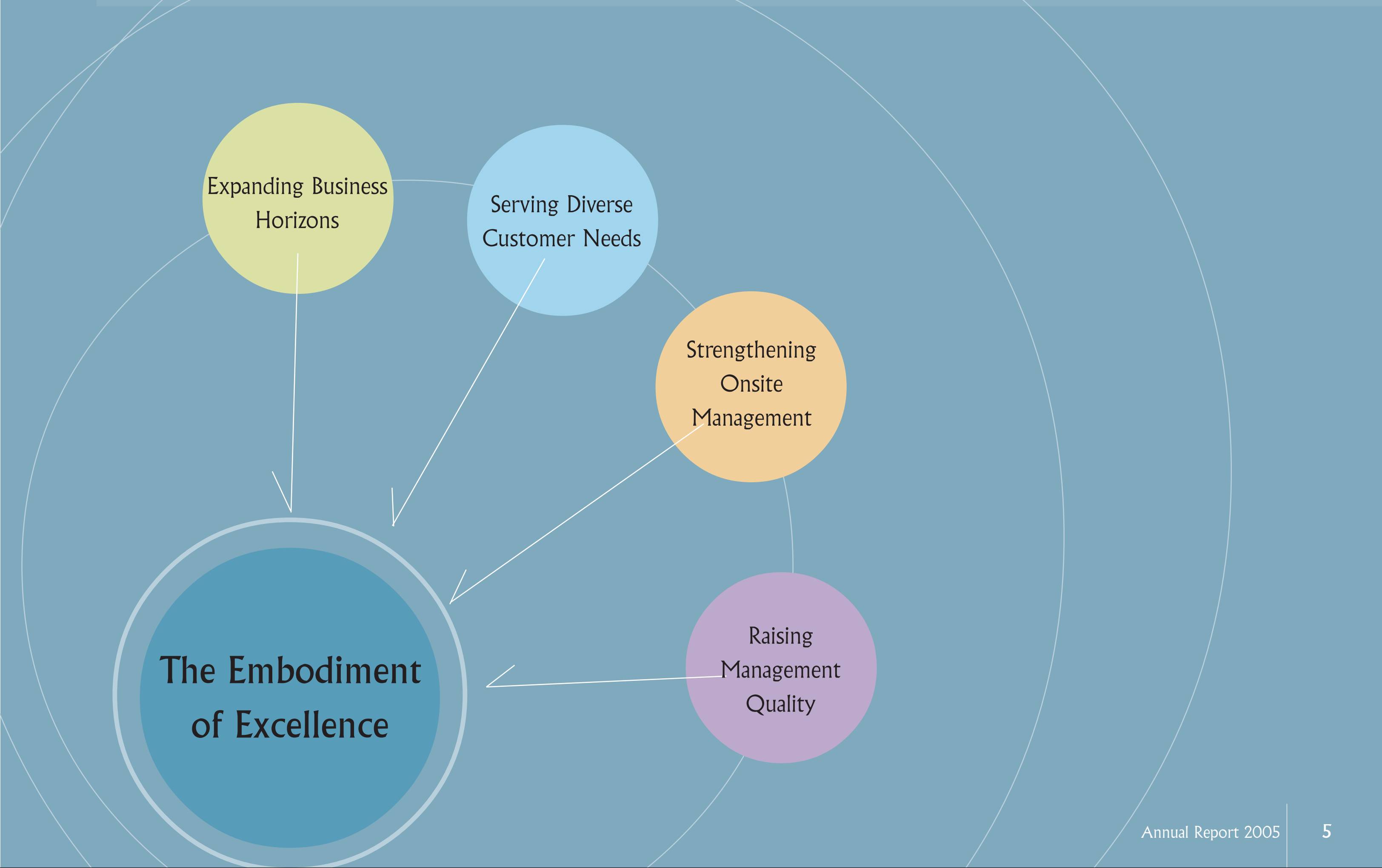
The Company has adopted the corporate auditor system as part of its corporate governance framework. Under this system, all of our four corporate auditors are external auditors and one of them is a full-time employee of the Company. Also, the 11-member Board of Directors includes two outside directors. Several directors from Mitsubishi Corporation, with which the Company has a business relationship (i.e., project contracts), and AEON Co., Ltd., with which the Company has store leasing agreements, have been appointed as outside directors. Transactions with both of the aforementioned 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 also 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.

The Embodiment of Excellence

Cementing the Diamond City Brand

To further cement the Diamond City brand in the market, we are pursuing strategies underpinned by four major strengths: the planning and execution of projects that expand our business; in-depth retailing know-how that serves diverse customer needs; the ability to operate high-margin businesses; and top-quality management that supports these factors. We are confident that the maximization of synergies generated among all four areas will firmly entrench the Diamond City brand in the SC market.



Expanding Business Horizons

Diamond City opened six major SCs in the fiscal year ended February 2005, and plans are to build seven additional ones by February 2008. In fiscal 2005, Diamond City had 800,000m^2 of floor space under management, up from 400,000m^2 at the end of the previous fiscal year. Diamond City projects that it will have 1,200,000m^2 of floor space under management by the end of fiscal 2008. The doubling of sales and floor space and accompanying business expansion has steadily increased recognition of the Diamond City brand.

Due to the shift in the focus of our development away from western Japan and acceleration of the pace of Diamond City SC openings in the eastern part of the country, we relocated the Development and Leasing Department to Tokyo in 2003, followed by the head office in 2005. Looking ahead, we plan to develop SCs on a nationwide scale and intend to gain greater market penetration of the Diamond City brand.

Moreover, Diamond City has made overseas expansion a key component of its new medium-term business plan. In Taiwan, the Company won a consulting contract for "Dream Mall," a large-scale commercial facility, marking our first foray overseas. This business was initiated by the Taiwanese companies involved, evidence that Diamond City's SC management technologies are highly regarded internationally. The Company plans to leverage the expertise it has accumulated in Japan to expand aggressively overseas, especially in Asia and other growing markets.

Serving Diverse Customer Needs

Because of its retailing know-how, Diamond City possesses unique strengths in SC construction. It has developed a clear prototype that encompasses such factors as site, design, and target market, and in line with this prototype, the Company has amassed a wealth of expertise in building highly attractive facilities that continually draw consumers. Moreover, the Company's strong leasing and marketing capabilities enable it to secure prominent tenants. Taken together, these strengths have served to build the brand's reputation.

Diamond City takes a partnership-oriented approach to growth, and this has provided the Company with a competitive edge as a commercial property developer in terms of know-how in providing guidance to tenants. The successful operations of existing tenants drive strong customer traffic, which in turn attracts high-caliber retailers. This ability to attract shoppers has contributed to growth in the fee business, including property management, which the Company has been pursuing more aggressively recently.

Reflecting its drive to build ever-more attractive SCs and gain even greater power to attract consumers, in October 2004, the Company opened Diamond City prou, anchored by a major general merchandise store (GMS) and featuring a prominent department store as a key tenant. This success is already supporting the expansion of the Company's future developments and leasing models.

Strengthening On-site Management

Diamond City holds development costs down by shortening the development period and reducing construction expenses. The Company also holds down costs by boosting maintenance and management efficiency, and reduces energy expenses by utilizing ice thermal energy storage systems. Through these measures, the Company ensures that all properties offer safety and security, and realizes their low-cost operations.

Diamond City also uses its strong leasing capabilities to attract superior tenants, thus maximizing synergies among tenants, which in turn boosts the efficiency with which tenant floor space is utilized. This attention to efficiency in all aspects of operations is reflected in the Company's high margins. Diamond City also utilizes a scrap-and-build strategy when necessary by closing unprofitable locations, selling under favorable timing buildings that have reached the end of their useful lives, and turning the operation of facilities over to property management firms, all of which helps boost asset efficiency. Moreover, Diamond City has succeeded in expanding its business in a financially well-balanced manner by taking innovative funding and investment measures that preclude it from having to actually take ownership of some properties.

Diamond City believes that employee training oriented toward the support of superior operations is essential to sustained growth. As such, we have upgraded our training program, beginning with the establishment of Diamond City Academy. We also aggressively recruit females and young employees. Through these measures, we hope to strengthen our position in the industry.

Raising Management Quality

Diamond City's SC business has an inherently public nature that plays a role in the everyday lives of customers. For this reason, Diamond City seeks to earn high marks for contributing to society through coexistence with local communities and environmental preservation activities.

The Company has streamlined management activities by strengthening corporate governance, including the appointment of outside directors. The Company has also taken steps to boost management transparency and credibility with the formation of a Compliance Committee, which includes a legal advisor. Currently, we are working to better clarify existing management decision-making requirements and processes and to construct systematic workflow charts to record our progress. We are confident that this will further increase management quality.

The SC business has a major impact on local communities, and the facilities themselves have a major impact on local environments. The Company therefore carries out programs to reduce carbon dioxide (CO_2) emissions and follow proper procedures for waste disposal. Moreover, the Company operates based on the principles of coexisting with local retailers and contributing to local economies. The Company also engages in and supports a variety of charitable activities. Diamond City is also committed to "environment and people-friendly SC creation" in all aspects of its business. For example, the Company separates smoking and non-smoking areas of SCs and emphasizes the accessible use of restrooms and seating areas based on the Heart Building Law and the Health Promotion Law. Diamond City CLAIR (Kashima-machi, Kamimashiki-gun, Kumamoto), scheduled to open in October 2005, represents the Company's first property developed entirely based on universal design, reflecting the culmination of expertise gained through the development of previous SCs.

NEW SHOPPING CENTERS

SCs Opened Under the Previous Medium-term Business Plan

Diamond City has accelerated the development of mall-type SCs, starting with Diamond City carat, which opened in Saitama Prefecture in 2000. Over the three years through the end of February 2005, the Company opened seven mall-type SCs. As a result, the Company currently operates a total of eight large mall-type SCs.

DIAMOND CITY prou

- Location: 4-1, Higashi Asakayama-cho, Sakai-shi, Osaka
- Site area: Approx. 58,000m^2
- Total floor area: Approx. 175,000m^2
- Parking capacity: Approx. 2,800 vehicles

DIAMOND CITY KiRiO

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

Growing Our Community Together.

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 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 SOLEIL

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

DIAMOND CITY Hana

- Location: 25-1, Oiwake-cho, Saiin, Ukyo-ku, Kyoto
- Site area: Approx. 47,000m^2
- Total floor area: Approx. 99,000m^2
- Parking capacity: Approx. 1,700 vehicles

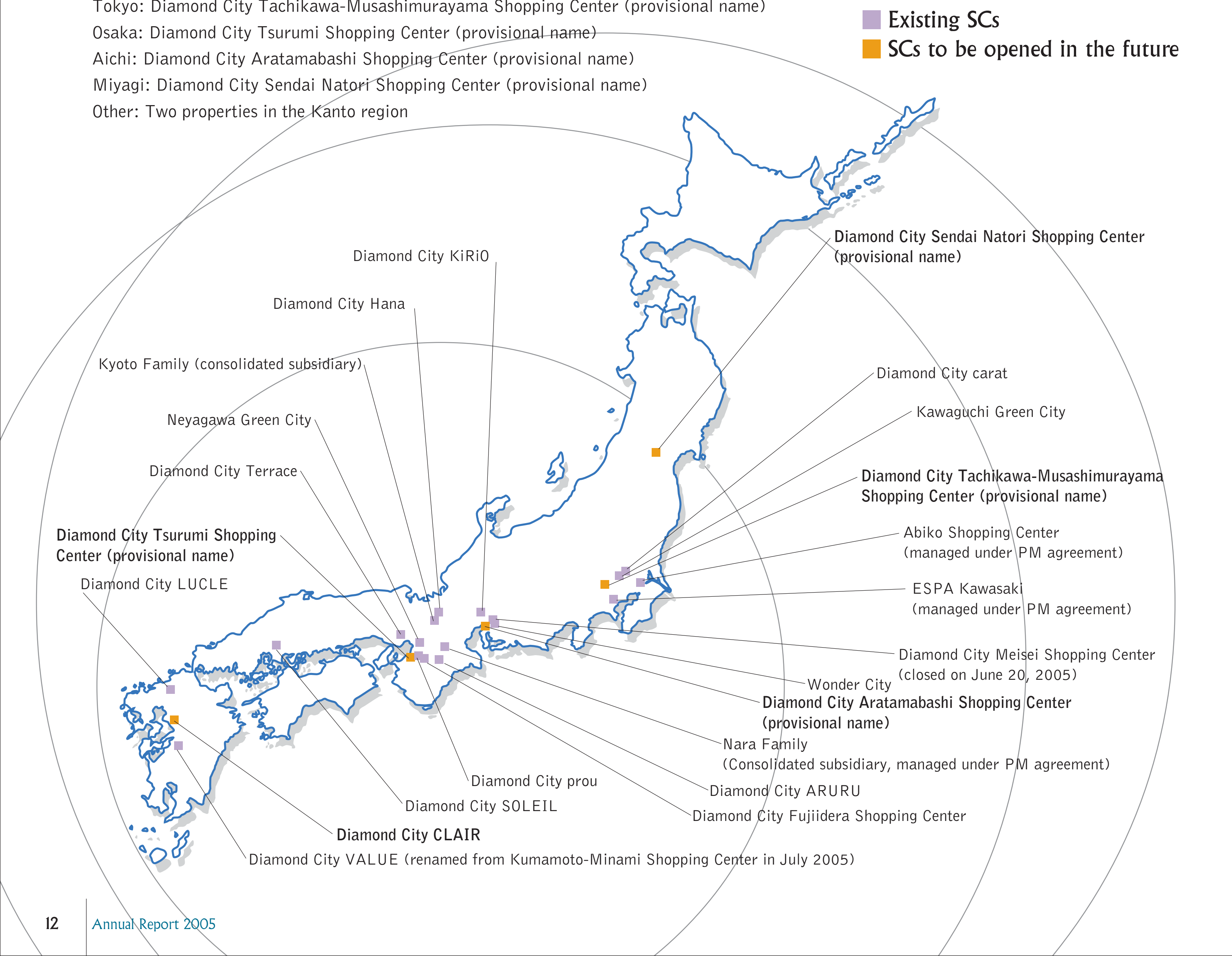
SCs Scheduled to Open Under Current Medium-term Business Plan

Diamond City plans to open seven new SCs from March 2005 to February 2008, the term of its current medium-term business plan. At the end of February 2005, there were a total of 18 properties (of which three were being operated by the Company on behalf of the actual owners under property management agreements) operated by Diamond City. Diamond City expects to have 24 properties in operation at the conclusion of its current medium-term business plan, reflecting plans to close and sell one location during the term of the plan.

The management is working diligently to firmly establish the Diamond City brand throughout Japan. As part of this effort, Diamond City has added the Kanto and Tohoku regions to its development area, which had been centered on the Kansai region.

SCs Scheduled to Open by February 2006
- Kumamoto Prefecture: Diamond City CLAIR (scheduled to open in October 2005)

SCs Scheduled to Open by February 2008
- Tokyo: Diamond City Tachikawa-Musashimurayama Shopping Center (provisional name)
- Osaka: Diamond City Tsurumi Shopping Center (provisional name)
- Aichi: Diamond City Aratamabashi Shopping Center (provisional name)
- Miyagi: Diamond City Sendai Natori Shopping Center (provisional name)
- Other: Two properties in the Kanto region



FIVE-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)
	2005	2004	2003	2002	2001	2005
For the year:						
Operating revenue	¥ 39,305	¥ 18,854	¥ 20,429	¥18,667	¥ 16,532	$ 374,333
Operating costs	26,447	12,597	13,914	13,288	12,601	251,876
General and administrative expenses	2,724	2,249	1,885	1,372	1,309	25,943
Operating income	10,134	4,008	4,630	4,007	2,622	96,514
Income before income taxes and minority interests	8,427	4,643	2,803	2,028	1,594	80,257
Net income	4,754	2,343	1,511	1,034	799	45,276
At year-end:						
Total assets	¥114,917	¥ 98,200	¥107,684	¥90,818	¥105,042	$1,094,448
Shareholders' equity	34,297	23,696	21,787	18,002	17,252	326,638
Interest-bearing debt	19,275	33,422	30,138	23,260	30,281	183,571
Per share data:						
Net income	¥ 132.94	¥ 101.23	¥ 70.61	¥ 49.46	¥ 38.21	$ 1.27
Cash dividends	20.00	20.00	17.50	12.50	12.50	0.19
Shareholders' equity	914.30	1,040.00	957.84	861.44	825.47	8.71

Notes: 1. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥105=U.S.$1, the exchange rate prevailing on February 28, 2005.

2. Diamond City split its common stock on October 20, 2004, with shareholders of record receiving 1.5 shares for each existing share. However, net income per share and shareholders' equity per share for the fiscal year ended February 2005 are calculated based on the assumption that the split took place at the beginning of the fiscal year.

The per-share information below is calculated based on the assumption that the aforementioned stock split took place at the start of the fiscal year ended February 2001.

	2004	2003	2002	2001
Net income per share	¥ 67.49	¥ 45.89	¥ 31.92	¥ 24.77
Shareholders' equity per share	¥693.33	¥637.44	¥573.24	¥549.60

(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.

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 range from 8–15% of sales and restaurant and service businesses range from 10–18% of sales. 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

As Japan's first developer specializing in commercial facilities, Diamond City develops, operates, and manages "quality" SCs.

In the fiscal year ended February 2005, the Company closed Diamond City Higashisumiyoshi SC and sold Yokosuka APT. Meanwhile, it opened the following six new SCs: Diamond City Hana (Kyoto), Diamond City SOLEIL (Hiroshima), Diamond City ARURU (Nara), Diamond City LUCLE (Fukuoka), Diamond City KiRiO (Aichi), and Diamond City prou (Osaka). As of February 28, 2005, Diamond City owned 15 SCs (excluding Tottori Green City, which it is preparing to sell), 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. Aggressive SC openings during the fiscal year greatly expanded the Company's size. Consequently, the gross leasable area (GLA) was approximately 800,000m^2 at the end of the fiscal year, double the approximately 400,000m^2 of GLA at the end of the previous fiscal year.

Financial Position

Assets

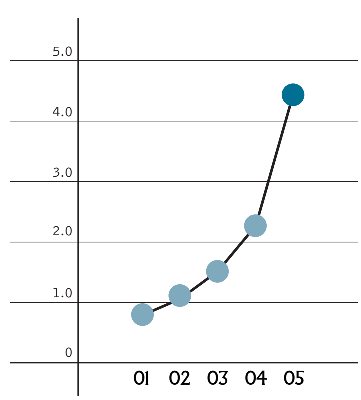
Total assets stood at ¥114,917 million. This represented an increase of ¥16,717 million.

Current assets rose ¥9,340 million, due primarily to a ¥2,886 million increase in cash and cash equivalents and short-term investments associated with a rise in deposits received from tenants and a ¥4,764 million increase in advances paid.

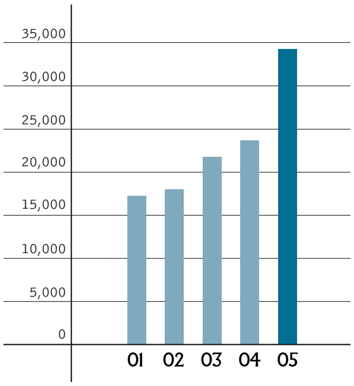
Net property, plant and equipment totaled ¥44,907 million, an increase of only ¥1,366 million year on year, despite the opening of six new SCs during the fiscal year under review. This reflected rigorous efforts to streamline the balance sheet through the aggressive use of leases and securitization schemes using special purpose companies (SPCs). It also reflected the sale of assets of Diamond City Kumamoto-Minami SC, the closure and sale of Diamond City Higashisumiyoshi SC, and valuation losses related to Yokosuka APT and Tottori Green City.

On the other hand, investments and other assets was ¥54,886 million, up ¥6,011 million from the previous fiscal year-end. The increase mostly reflected guarantee deposits paid to the owners of Diamond City KiRiO and other new SCs.

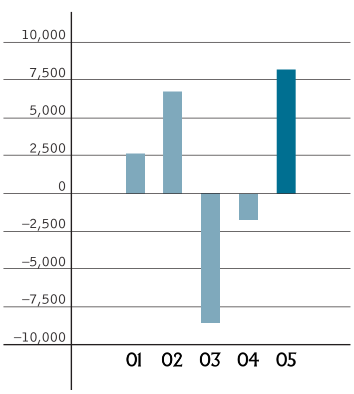
ROA
(%)



Shareholders' Equity
(¥ millions)



Free Cash Flows
(¥ millions)



Liabilities

Liabilities totaled ¥79,170 million, up ¥6,060 million. Interest-bearing debt totaled ¥19,275 million, down ¥14,147 million from the previous fiscal year. The main factors behind the increase were the repayment of debt with higher net cash provided by operating activities, and the conversion of warrant bonds, which were included in long-term debt, into common stock as a result of the exercise of 130% call options. These were offset by a ¥5,461 million increase in payable-construction (i.e., SC construction fees), and increases in lease deposits and sales deposits, which rose ¥9,309 million and ¥3,334 million, respectively.

As a result, although the ratio of liabilities to total assets increased, the interest-bearing debt ratio fell to 16.8% from 34.0% at the end of the previous fiscal year.

Shareholders' Equity

Shareholders' equity totaled ¥34,297 million, up ¥10,601 million. This reflected increases of ¥3,180 million in both common stock and capital surplus as a result of the exercise of warrants to purchase new common stock and a ¥4,258 million rise in retained earnings due to higher net income.

Consequently, the equity ratio rose from 24.1% at the end of the previous fiscal year to 29.8%. The debt/equity ratio (average balance of interest-bearing debt/average balance of total shareholders' equity) improved from 1.4 to 0.9. ROE rose 6.1 percentage points from 10.3% at the end of the previous fiscal year to 16.4%.

CASH FLOWS

(Cash flow from operating activities)

Operating activities provided net cash of ¥8,837 million, up 85.0%. The increase in advances paid rose ¥4,764 million, versus an increase of ¥638 million in the previous fiscal year. However, income before income taxes and minority interests rose 81.5% to ¥8,427 million, and sales deposits from tenants rose 292.9% to ¥3,733 million, due to the opening of six new SCs.

(Cash flow from investing activities)

Investing activities used net cash of ¥662 million, versus net cash used of ¥6,528 million in the previous fiscal year. Purchases of property, plant, and equipment associated with the opening of six SCs totaled ¥10,421 million, compared with ¥6,306 million in the previous fiscal year, while lease deposits paid amounted to ¥11,468 million, versus ¥14,377 million in the previous fiscal year. These were offset in part by a ¥13,036 million inflow from the sale of Diamond City Kumamoto-Minami SC and the sale of the land vacated by Higashisumiyoshi SC (in the previous fiscal year, the sale of Nara Family generated proceeds of ¥14,190 million). Other offsetting factors included the proceeds from lease deposits received in the amount of ¥12,909 million (¥4,136 million in the previous fiscal year).

(Cash flow from financing activities)

Financing activities used net cash of ¥8,289 million, versus net cash provided of ¥2,871 million in the previous fiscal year. The major factor was a ¥7,788 million reduction in interest-bearing debt financed primarily with funds received from the sale of Diamond City Kumamoto-Minami SC (¥3,284 million increase in the previous fiscal year).

OPERATING RESULTS

Overview of Operations

Diamond City opened six large SCs in the fiscal year ended February 2005, all of which performed well. At the existing properties, the Company worked to create attractive SCs through remodeling and tenant changes.

The Company also pursued scrap-and-build strategies at some properties to boost asset efficiency. For example, in October 2004, the Company closed the Diamond City Higashisumiyoshi Shopping Center, developed in 1970 as its first project, owing to the age of the facilities. Also, in November 2004, the Company sold Yokosuka APT because of its small scale and because it no longer conformed to the concept of SCs that the Company currently operates. The Company is preparing to sell Tottori Green City and has made value adjustments to meet the expected selling price.

The Company aggressively pursues a development model that takes itself out of the ownership seat, and in the fiscal year ended February 2005 worked to improve cash flow, streamline the balance sheet, and securitize fixed assets. Specifically, the Company used a special-purpose company (SPC) to securitize Diamond City ARURU and Diamond City LUCLE, and at Diamond City KiRiO, it utilized a lease arrangement to securitize assets. Additionally, the Company placed the assets of Diamond City Kumamoto-Minami SC in a real estate trust overseen by a trust bank, and subsequently sold the trust beneficiary rights to a third party (i.e., an SPC) for ¥10,655 million. At the time of the asset transfer, Diamond City and a trust bank concluded a building lease agreement with a fixed term of 15 years for the aforementioned SC. Consequently, Diamond City is still entitled to use the SC following the asset transfer.

In another development, the Company remodeled Kyoto Family, its consolidated subsidiary.

Operating Results

Consolidated operating revenue for the fiscal year ended February 28, 2005, the final year of the Company's previous three-year business plan, rose 108.5% from the previous fiscal year to ¥39,305 million. Operating income jumped 152.8% to ¥10,134 million; income before income taxes and minority interests rose 81.5% to ¥8,427 million; and net income increased 102.9% to ¥4,754 million, substantially exceeding the initial goals of the medium-term business plan, which targeted consolidated operating revenue of ¥30,000 million and net income of ¥3,500 million.

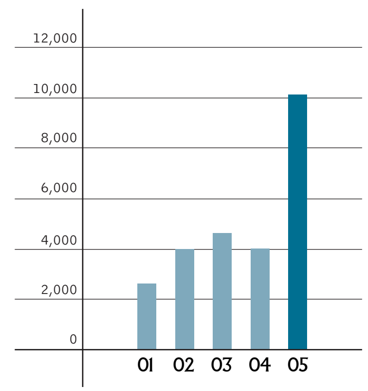
The major factor behind the increase in operating revenue was a ¥21,366 million increase in operating revenue from SCs opened during the fiscal year, equivalent to ¥21,958 for the fiscal year.

As in the case of operating revenue, the major factor for the increase in operating income was a ¥7,502 million increase from SCs opened during the fiscal year, equivalent to ¥7,961 million for the fiscal year. Non-operating income improved by ¥363 million. As a result, ordinary income totaled ¥10,003 million, up ¥6,489 million, or 184.7%, from the previous fiscal year.

Other income (expenses)—net was an expense of ¥1,707 million, a change of ¥2,342 million from other income of ¥635 million in the previous fiscal year. This decline was largely attributable to a ¥673 million decrease in gain on sales of property, plant and equipment from the previous fiscal year when the company recorded a gain of ¥1,337 million from the sale of Nara Family, a property owned by consolidated subsidiary Diamond City Family. This was offset in part by a gain of ¥664 million in the fiscal year under review on the sales of property, plant and equipment from the closure of Diamond City Higashisumiyoshi SC. Another contributing factor was a combined ¥1,782 million in losses on the write-down of Yokosuka APT and Tottori Green City.

Income before income taxes and minority interests totaled ¥8,427 million, up ¥3,784 million, or 81.5%, year on year. After income taxes and minority interests in net income, net income was ¥4,754 million, up ¥2,411 million, or 102.9%. Basic net income per share of common stock was ¥132.94, versus ¥101.23 in the previous fiscal year. The Company conducted a stock split on October 20, 2004. Assuming that the stock split took place at the beginning of the previous fiscal year, basic net income per share of common stock for the previous fiscal year on a split-adjusted basis would be ¥67.49.

Operating Income
(¥ million)



Operating Revenue by Shopping Center

	(Millions of yen)			
	2005	2004	Change	YoY(%)
Diamond City Higashisumiyoshi Shopping Center	¥ 359	¥ 683	¥ (324)	52.6%
Diamond City Meisei Shopping Center	1,009	1,183	(174)	85.4
Diamond City Fujiidera Shopping Center	1,021	1,014	7	100.7
Neyagawa Green City	1,069	1,117	(48)	95.8
Kawaguchi Green City	1,670	1,719	(49)	97.1
Wonder City	2,258	2,371	(113)	95.2
Diamond City Kumamoto-Minami	1,524	1,586	(62)	96.1
Diamond City carat	2,901	2,962	(61)	97.9
Diamond City Terrace	3,700	3,659	41	101.1
Diamond City Hana	2,691	592	2,099	454.8
Diamond City SOLEIL	5,805	–	5,805	–
Diamond City ARURU	3,817	–	3,817	–
Diamond City LUCLE	4,070	–	4,070	–
Diamond City KiRiO	3,812	–	3,812	–
Diamond City prou	1,763	–	1,763	–
Kyoto Family (consolidated subsidiary)	1,135	1,168	(33)	97.2
Others	701	800	(99)	87.5
Total	¥39,305	¥18,854	¥20,451	208.5%

Notes: 1. All of the above are names of shopping centers (SCs).
2. Diamond City Hana, Diamond City SOLEIL, Diamond City ARURU, Diamond City LUCLE, Diamond City KiRiO, and Diamond City prou opened in 2004 on March 3, March 24, April 1, June 4, June 24, and October 28, respectively (Diamond City Hana held a preliminary opening on February 21).
3. Diamond City Higashisumiyoshi Shopping Center was closed on October 2, 2004.

New Development Projects

The following shopping centers are presently under development (as of June 2005):

- Diamond City CLAIR (scheduled to open in October 2005)
- Diamond City Tachikawa-Musashimurayama Shopping Center (provisional name; scheduled to open in fall 2006)
- Diamond City Tsurumi Shopping Center (provisional name; scheduled to open in December 2006)
- Diamond City Aratamabashi Shopping Center (provisional name; scheduled to open in February 2007)
- Diamond City Sendai Natori Shopping Center (provisional name; scheduled to open in March 2007)

RISK FACTORS IN THE BUSINESS DEVELOPMENT OF DIAMOND CITY

The following are risks that could affect the Diamond City Group's operating results and financial condition, including share price. All forward-looking statements below represent the judgments of management as of the end of February 2005.

Earnings

The retailing industry, the operating domain for the Group's SC business, has been hit hard by the economic malaise in Japan, triggering a hollowing out and reorganizations. Meanwhile, the need to respond to diversifying consumer demands has fueled competition among retailers. Furthermore, the entry of overseas retailers and commercial property developers to the Japanese market is likely to spark competition with foreign companies. These factors could affect the Group's business activities and operating results.

Risks Associated With Fund Procurement and Rising Interest Rates

The Group's commercial property development business requires substantial funds for development from the initial phase. During the fiscal year under review, the Group's interest-bearing debt was reduced from ¥33,422 million at the end of the previous fiscal year to ¥19,275 million, resulting in a decrease in its interest-bearing debt to total assets from 34.0% to 16.8%. This is the result of our efforts to shrink assets through such measures as securitizing assets and diversifying fund procurement. While these efforts will be ongoing, sudden changes in the financial markets or other factors that limit the options we have to raise funds could affect the development of the Group's business activities.

Moreover, higher interest payments due to future increases in interest rates could affect the Group's operating results.

Risks Associated With Higher Costs

The Group's core business is the development, operation and management of SCs. During the development phase, either the Group or another company may carry the burden of acquiring real estate or paying for construction costs. Where the Group must carry this responsibility, because costs per development project are high, if real estate prices or raw materials costs rise in the future, then business profitability could be adversely affected by these higher costs, affecting the Group's operating results.

As a management goal to boost investment efficiency, the Group targets an operating income to total investment ratio of 10% by the third anniversary of each SCs opening to mitigate risks of a deterioration of profitability.

Risks Associated With Owning Fixed Assets

The land and/or buildings of SCs operated by the Group are owned by either the Group or a third party. At the end of February 2005, the Group owned land valued at ¥12,912 million, and buildings and structures of ¥28,946 million. The value of these assets could decrease as a result of future economic conditions, changes in tax and other laws, natural disasters or other events.

Risks Associated With Law Changes

The Group's business is subject to the Large-Scale Retail Store Location Law, which came into force on June 1, 2000. This law requires developers to take into consideration traffic, environmental and other issues to maintain a livable environment in communities close to SCs, and deciding on methods of operation. Other laws applicable to the Group's business include the City Planning Law, the Building Standard Law, the Heart Building Law, and the Fire Defense Law.

The Group adheres to applicable rules and regulations in conducting commercial property development. However, delays in the development of SCs resulting from these laws could adversely affect the Group's earnings.

CONSOLIDATED BALANCE SHEETS

Diamond City Co., Ltd. and Subsidiary
February 28, 2005 and February 29, 2004

ASSETS	Millions of Yen 2005	2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 2,907	¥ 3,021	$ 27,686
Short-term investments (Note 2.b)	3,000		28,571
Receivables — Trade accounts (Note 14)	2,577	1,684	24,543
Deferred tax assets (Note 9)	428	223	4,076
Other current assets	6,212	856	59,162
Total current assets	15,124	5,784	144,038
PROPERTY, PLANT AND EQUIPMENT:			
Land	12,912	20,097	122,972
Buildings and structures	49,446	43,533	470,914
Construction in progress	409	3,851	3,895
Other	4,335	2,543	41,286
Total	67,102	70,024	639,067
Accumulated depreciation	(22,195)	(26,483)	(211,381)
Net property, plant and equipment	44,907	43,541	427,686
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	478	60	4,552
Lease deposits paid (Note 2.e)	42,819	40,410	407,800
Long-term prepaid expenses (Note 2.e)	8,854	6,172	84,324
Deferred tax assets (Note 9)	988	1,125	9,410
Other assets	1,747	1,108	16,638
Total investments and other assets	54,886	48,875	522,724
TOTAL	¥114,917	¥98,200	$1,094,448

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Short-term borrowings (Note 4)	¥ 1,900	¥ 6,050	$ 18,095
Current portion of long-term debt (Note 4)	3,749	3,506	35,705
Payables — Trade accounts	1,893	958	18,029
Payable — Construction (Note 14)	13,159	7,698	125,324
Deposits received	8,876	5,542	84,533
Income taxes payable	2,623	974	24,981
Current portion of lease deposits received (Notes 2.e and 14)	340	335	3,238
Other current liabilities	775	1,106	7,381
Total current liabilities	33,315	26,169	317,286
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	13,626	23,866	129,771
Liability for retirement benefits (Note 5)	416	342	3,962
Lease deposits received (Notes 2.e and 14)	31,011	21,702	295,343
Long-term unearned income (Note 2.e)	802	1,031	7,638
Total long-term liabilities	45,855	46,941	436,714
MINORITY INTERESTS	1,450	1,394	13,810
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 7 and 13):			
Common stock; authorized — 136,500,000 shares in 2005 and 91,000,000 shares in 2004; issued — 37,476,497 shares in 2005 and 22,750,000 shares in 2004	8,155	4,975	77,667
Capital surplus	9,095	5,915	86,619
Retained earnings	17,054	12,796	162,419
Net unrealized gain on available-for-sale securities	29	15	276
Total	34,333	23,701	326,981
Treasury stock — at cost, 16,924 shares in 2005 and 3,900 shares in 2004	(36)	(5)	(343)
Total shareholders' equity	34,297	23,696	326,638
TOTAL	¥114,917	¥98,200	$1,094,448

CONSOLIDATED STATEMENTS OF INCOME

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2005 and February 29, 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING REVENUE (Note 14)	¥39,305	¥ 18,854	$374,333
OPERATING COSTS	26,447	12,597	251,876
GROSS PROFIT	12,858	6,257	122,457
GENERAL AND ADMINISTRATIVE EXPENSES	2,724	2,249	25,943
OPERATING INCOME	10,134	4,008	96,514
OTHER INCOME (EXPENSES):			
Interest and dividend income	520	246	4,952
Interest expense	(501)	(606)	(4,771)
Gain on sales of property, plant and equipment	664	1,337	6,324
Loss on sales and disposal of property, plant and equipment	(347)	(114)	(3,305)
Loss on write-down of property, plant and equipment (Note 8)	(1,782)		(16,971)
Other — net	(261)	(228)	(2,486)
Other income (expenses) — net	(1,707)	635	(16,257)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	8,427	4,643	80,257
INCOME TAXES (Note 9):			
Current	3,678	1,866	35,028
Deferred	(77)	80	(733)
Total income taxes	3,601	1,946	34,295
MINORITY INTERESTS IN NET INCOME	72	354	686
NET INCOME	¥ 4,754	¥ 2,343	$ 45,276

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.l and 12):			
Basic net income	¥132.94	¥67.49	$ 1.27
Diluted net income	122.80	65.93	1.17
Cash dividends applicable to the year	20.00	13.33	0.19

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2005 and February 29, 2004

	Thousands	Millions of Yen				
	Outstanding 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, 2003	22,746	¥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	22,746	4,975	5,915	12,796	15	(5)
Net income				4,754		
Cash dividends, ¥20 per share				(455)		
Bonuses to directors and corporate auditors				(41)		
Repurchase of treasury stock	(13)					(31)
Stock splits (Note 7)	11,786					
Conversion of convertible bonds	2,941	3,180	3,180			
Net increase in unrealized gain on available-for-sale securities					14	
BALANCE, FEBRUARY 28, 2005	37,460	¥ 8,155	¥ 9,095	¥ 17,054	¥29	¥(36)

	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 29, 2004	$47,381	$56,333	$121,867	$143	$ (48)
Net income			45,276		
Cash dividends, $0.19 per share			(4,333)		
Bonuses to directors and corporate auditors			(391)		
Repurchase of treasury stock					(295)
Stock splits (Note 7)					
Conversion of convertible bonds	30,286	30,286			
Net increase in unrealized gain on available-for-sale securities				133	
BALANCE, FEBRUARY 28, 2005	$77,667	$86,619	$162,419	$276	$(343)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2005 and February 29, 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 8,427	¥ 4,643	$ 80,257
Adjustments for:			
Income taxes — paid	(2,029)	(1,957)	(19,324)
Depreciation and amortization	3,103	2,375	29,552
Gain on sales of property, plant and equipment	(664)	(1,337)	(6,324)
Write-down of property, plant and equipment	1,782		16,971
Changes in assets and liabilities:			
Increase in receivables — Trade accounts	(1,346)	(733)	(12,819)
Increase in payables — Trade accounts	935	249	8,905
Increase in deposits received	3,733	950	35,552
Increase in advances paid	(4,764)	(638)	(45,371)
Other — net	(340)	1,226	(3,237)
Total adjustments	410	135	3,905
Net cash provided by operating activities	8,837	4,778	84,162
INVESTING ACTIVITIES:			
Net increase in short-term investments	(3,000)		(28,571)
Purchases of property, plant and equipment	(10,421)	(6,306)	(99,248)
Proceeds from sales of property, plant and equipment	13,036	14,190	124,152
Proceeds from liquidation of property, plant and equipment	3,644		34,705
Lease deposits paid	(11,468)	(14,377)	(109,219)
Return of lease deposits paid	234	64	2,229
Repayment of lease deposits received	(3,804)	(4,179)	(36,229)
Proceeds from lease deposits received	12,909	4,136	122,943
Increase in long-term loan receivables	(500)		(4,762)
Other	(1,292)	(56)	(12,305)
Net cash used in investing activities	(662)	(6,528)	(6,305)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(4,150)	(3,488)	(39,524)
Proceeds from long-term debt	480	15,440	4,571
Repayment of long-term debt	(4,118)	(8,668)	(39,219)
Dividends paid	(470)	(413)	(4,476)
Repurchase of treasury stock	(31)		(295)
Net cash provided by (used in) financing activities	(8,289)	2,871	(78,943)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(114)	1,121	(1,086)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,021	1,900	28,772
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 2,907	¥ 3,021	$ 27,686
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock	¥ 3,180		$ 30,286
Convertible bonds converted into capital surplus	3,180		30,286

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

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 ¥105 to $1, the approximate rate of exchange at February 28, 2005. 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 28, 2005 and February 29, 2004 (together, the "Group"). During the year ended February 29, 2004, the Company liquidated one subsidiary, which was excluded from the consolidation.

The difference between the cost and underlying net equity of the investment in a subsidiary at acquisition, is 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.

Time deposits with an original maturity of more than three months are classified as short-term investments.

c. Marketable and Investment Securities — All 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 in 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 was from 3 to 30 years and 3 to 25 years for buildings and structures at February 28, 2005 and February 29, 2004, 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 — Until December 1, 2004, the Group had non-contributory defined benefit pension plans and unfunded retirement benefit plans for employees. However the non-contributory defined pension plans were abolished on December 1, 2004 and all funded pension assets were distributed to the qualified employees.

In addition, until February 28, 2005, the Group had joined a contributory funded plan which was established by Mitsubishi Corporation Group companies and was governed by the regulations of the Japanese Welfare Pension Insurance Law. The amounts contributed to the fund were charged to income when paid. However the contributory funded plan was dissolved on February 24, 2005 and all funded pension assets are to be distributed to the qualified employees.

On March 1, 2005, the Group revised its unfunded retirement benefit plan and introduced a point system.

Retirement benefits for directors and corporate auditors are provided for 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. Derivatives and Hedging Activities — The Group uses interest rate swaps to manage its exposures to fluctuations in interest rates. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows:

a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income and

b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expenses or income.

l. Per Share Information — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax.

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, retroactively adjusted for stock splits.

m. New Accounting Pronouncements — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Group is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVESTMENT SECURITIES

The cost and aggregate fair value of marketable and investment securities at February 28, 2005 and February 29, 2004 were as follows:

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	¥33	¥48		¥81

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

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	$314	$457		$771

Investment securities included investment in special purpose companies of ¥397 million ($3,781 thousand) whose fair value was not readily determinable as of February 28, 2005.

4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at February 28, 2005 and February 29, 2004 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 1.14% and 0.99% at February 28, 2005 and February 29, 2004, respectively.

Long-term debt at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Collateralized loans from banks, due serially to 2018 with interest rates ranging from 1.80% to 2.45%		¥ 1,695	
Unsecured loans from banks and insurance companies, due serially to 2018 with interest rates ranging from 0.85% to 2.45% (2005) and from 0.85% to 1.99% (2004)	¥ 8,234	10,177	$ 78,419
Zero coupon bonds with stock conversion rights due 2005	1,641	8,000	15,629
Other	7,500	7,500	71,428
Total	17,375	27,372	165,476
Less current portion	(3,749)	(3,506)	(35,705)
Long-term debt, less current portion	¥13,626	¥23,866	$129,771

The Company repaid a part of the collateralized loans from banks prior to the maturity date and the remaining balance became unsecured loans.

Annual maturities of long-term debt as of February 28, 2005 for the next five years and thereafter were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending February 28:		
2006	¥ 3,749	$ 35,705
2007	3,807	36,257
2008	2,047	19,495
2009	947	9,019
2010	870	8,286
2011 and thereafter	5,955	56,714
Total	¥17,375	$165,476

Terms and conditions of the zero coupon bonds with stock conversion rights due 2005 are as follows:

Aggregate principle amount	¥8,000,000,000
Conversion price	¥1,897.30 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 March 10, 2005
Maturity date	March 11, 2005 unless previously redeemed, exercised or cancelled

From February 1, 2005 the Company can redeem all of the convertible bonds at par value, if the closing price of the share on the Tokyo Stock Exchange for each of 20 consecutive trading days is more than 130% of the conversion price in effect on each such trading day. The Company received a right to redeem the outstanding convertible bonds through the call option contract on February 3, 2005. The Company determined to redeem the outstanding convertible bonds on March 11, 2005 at a board of directors meeting held on February 7, 2005.

If the outstanding convertible bonds had been converted at February 28, 2005, 865 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 ¥101 million ($962 thousand), and ¥81 million as of February 28, 2005 and February 29, 2004, respectively. The payments of retirement benefits to directors and corporate auditors are subject to approval at the shareholders' meeting.

As stated in the significant accounting policies, the non-contributory defined pension plan were abolished and all funded pension assets were distributed to the qualified employees and the contributory funded plans was dissolved and all funded pension assets are to be distributed to the qualified employees for the year ended February 28, 2005.

The liability for employees' retirement benefits at February 28, 2005 and February 29, 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥315	¥421	$3,000
Fair value of plan assets		(160)	
Liability for employees' retirement benefits	¥315	¥261	$3,000

The components of net periodic retirement benefit costs are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥34	¥41	$324
Gain or loss on plan assets	(2)	(14)	(19)
Contribution to the contributory funded plan	40	40	381
Net periodic retirement benefit costs	¥72	¥67	$686

The Group also recorded loss on settlement and revision of severance payment plans of ¥47 million ($448 thousand), which was included in "other-net" in the consolidated statements of income.

6. DERIVATIVES

The Group enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies that regulate the authorization and credit limit amount.

As the interest rate swap contracts are qualified for hedge accounting for the years ended February 28, 2005, no disclosures of market value information are presented.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are 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. The Code permits 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 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 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 Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. 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 shareholders meeting.

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. The amount of retained earnings available for dividends under the Code was ¥13,637 million ($129,876 thousand) as of February 28, 2005, based on the amount recorded in the Company's general books of account.

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

On October 20, 2004, the Company made a stock split by way of a free share distribution at the rate of 0.5 shares for each outstanding share and 11,786,263 shares were issued to shareholders of record on August 31, 2004.

8. WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT

The Company determined to sell certain idle properties at a board of directors meeting and wrote down the value of the properties to the estimated sales price. As a result, the Company recognized ¥1,782 million ($16,971 thousand) losses in the year ended February 28, 2005. No such losses were recognized in the year ended February 29, 2004.

9. INCOME TAXES

The Group is 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 28, 2005 and February 29, 2004.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 41.8% to 40.5%, effective for years beginning on or after March 1, 2005. The deferred tax assets and liabilities which will realize on or after March 1, 2005 are measured at the effective tax rate of 40.5% at February 28, 2005 and February 29, 2004.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 28, 2005 and February 29, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
CURRENT:			
Deferred tax assets:			
Accrued enterprise tax and business facility tax	¥ 235	¥ 93	$ 2,238
Accrued bonuses	123	63	1,171
Landholding tax	56	58	533
Other	14	9	134
Deferred tax assets	¥ 428	¥ 223	$ 4,076
NON-CURRENT:			
Deferred tax assets:			
Depreciation	¥ 644	¥ 882	$ 6,133
Write-down of property, plant and equipment	941	1,098	8,962
Lease deposits received and long-term unearned income	58	41	552
Retirement benefits	158	121	1,505
Other	93	38	886
Deferred tax assets	¥1,894	¥2,180	$18,038
DEFERRED TAX LIABILITIES:			
Lease deposits paid and long-term prepaid expenses	¥ 634	¥ 875	$ 6,038
Deferred capital gains on property	252	128	2,400
Other	20	52	190
Deferred tax liabilities	¥ 906	¥1,055	$ 8,628
Net deferred tax assets	¥ 988	¥1,125	$ 9,410

10. LEASES

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

Total rental expenses for the years ended February 28, 2005 and February 29, 2004 were ¥11,385 million ($108,429 thousand) and ¥4,412 million, respectively, including ¥443 million ($4,219 thousand) and ¥456 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 on an "as if capitalized" basis for the years ended February 28, 2005 and February 29, 2004 was as follows:

	Millions of Yen				
	2005				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥3,234	¥114	¥944	¥152	¥4,444
Accumulated depreciation	638	36	495	129	1,298
Net leased property	¥2,596	¥ 78	¥449	¥ 23	¥3,146

	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

	Thousands of U.S. Dollars				
	2005				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	$30,800	$1,086	$8,990	$1,448	$42,324
Accumulated depreciation	6,076	343	4,714	1,229	12,362
Net leased property	$24,724	$ 743	$4,276	$ 219	$29,962

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 364	¥ 406	$ 3,467
Due after one year	2,782	3,021	26,495
Total	¥3,146	¥3,427	$29,962

Lease payments and depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Lease payments	¥443	¥456	$4,219
Depreciation expense	443	456	4,219

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, is computed by the straight-line method.

Obligations under non-cancelable operating leases as of February 28, 2005 and February 29, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 12,097	¥ 5,081	$ 115,210
Due after one year	143,818	58,414	1,369,695
Total	¥155,915	¥63,495	$1,484,905

Undiscounted amounts of lease deposits for these non-cancellable operating leases were ¥47,304 million ($450,514 thousand) and ¥27,168 million at February 28, 2005 and February 29, 2004, respectively. Discounted amounts of ¥41,772 million ($397,829 thousand) at February 28, 2005 and ¥24,895 million at February 29, 2004 were accounted for as lease deposits paid in the balance sheet. The remaining amounts of ¥1,047 million ($9,971 thousand) at February 28, 2005 and ¥15,515 million at February 29, 2004 were construction cost deposits and guarantee deposits for SC's under construction.

11. 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 ¥7,500 million ($71,429 thousand) in the event that the third party experiences cash flow difficulties due to the non-timely refund of the lease deposit. At February 28, 2005, there was no credit extended under this commitment.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2005 and February 29, 2004 is as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
For the year ended February 28, 2005	Net Income	Weighted Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥4,707	35,407	¥132.94	$1.27
Effect of Dilutive Securities				
Zero coupon bonds		2,924		
Diluted EPS				
Net income for computation	¥4,707	38,331	¥122.80	$1.17

For the year ended February 29, 2004				
Basic EPS				
Net income available to common shareholders	¥2,303	34,119	¥67.49	
Effect of Dilutive Securities				
Zero coupon bonds		809		
Diluted EPS				
Net income for computation	¥2,303	34,928	¥65.93	

13. SUBSEQUENT EVENT

Appropriations of Retained Earnings — The following appropriations of retained earnings at February 28, 2005 were approved at the Company's shareholders' meeting held on May 23, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20 ($0.19) per share	¥749	$7,133
Bonuses to directors and corporate auditors	47	448

14. TRANSACTIONS WITH RELATED PARTIES

The Group has transactions with following related parties.

AEON Co., Ltd.
A shareholder who owned 27.94% and 30.68% of the Company's voting common stock at February 28, 2005 and February 29, 2004.

Mitsubishi Corporation
A shareholder who owned 27.93% and 30.67% of the Company's voting common stock at February 28, 2005 and February 29, 2004.

AEON Kyusyu Co., Ltd.
A subsidiary of AEON Co., Ltd.

Transactions with these related parties for the years ended February 28, 2005 and February 29, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Revenue from leases of shopping centers to AEON Co., Ltd.	¥ 6,161	¥3,925	$ 58,676
Receipt of lease deposit from AEON Co., Ltd.	718	469	6,838
Purchase of buildings and structures of shopping centers from Mitsubishi Corporation	16,816	286	160,152
Revenue from leases of shopping centers to AEON Kyusyu Co., Ltd.	1,070	262	10,190
Receipt of lease deposit from AEON Kyusyu Co., Ltd.	774		7,371

(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 28, 2005 and February 29, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Receivables — Trade accounts from AEON Co., Ltd.	¥ 197	¥ 615	$ 1,876
Lease deposits received from AEON Co., Ltd.:			
Current-portion of long-term	323	323	3,076
Long-term	6,016	6,734	57,295
Payable — Construction to Mitsubishi Corporation	12,589	300	119,895
Receivables —Trade accounts from AEON Kyusyu Co., Ltd.	7	9	67
Lease deposits received from AEON Kyusyu Co., Ltd. — Long-term	194	968	1,848

(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 as of February 28, 2005 and February 29, 2004, 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 Company'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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diamond City Co., Ltd. and subsidiary as of February 28, 2005 and February 29, 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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.

May 23, 2005

Deloitte Touche Tohmatsu

Member of
Deloitte Touche Tohmatsu

DIRECTORS AND AUDITORS

(As of May 23, 2005)

Chairman	Hideo Nojima
President and CEO	Yozo Tai
Senior Managing Director	Chitoshi Yamanaka
Managing Director	Makoto Sakamoto
Managing Director	Kenzo Fujitsuka
Managing Director	Yoshinari Ikeda
Director	Motoya Okada
Director	Masayuki Yoda
Director	Masahiro Sakabe
Director	Masayuki Moro
Director	Yoshikazu Nakanishi
Standing Auditor	Aritsune Hayashi (full-time)
Auditor	Hisateru Taniuchi
Auditor	Yukio Ueno
Auditor	Kazuhiko Ichimura

CORPORATE DATA

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Date established:	March 20, 1969
Capital:	¥8,154.7 million
Number of employees:	223 (As of February 28, 2005)
Public listings:	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section
Number of shareholders:	4,511 (As of February 28, 2005)
Transfer agent:	The Mitsubishi Trust and Banking Corporation Stock Transfer Agency Department 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Independent auditors:	Deloitte Touche Tohmatsu 13-23, Shibaura 4-chome, Minato-ku, Tokyo 108-8530, Japan

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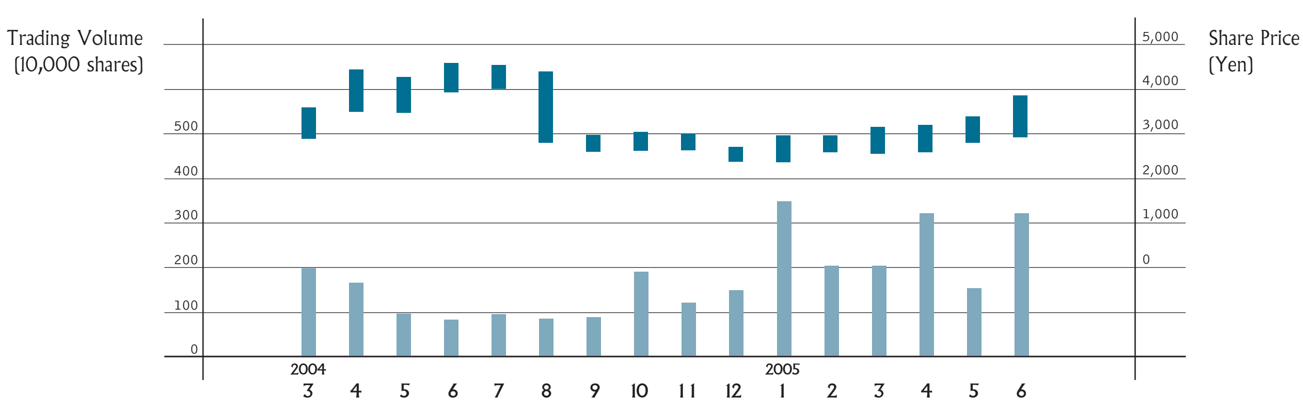

A stock split was implemented (1.5 for 1) in October 2004.

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