DIAMOND CITY CO., LTD.

ANNUAL REPORT 2006

Year ended February 28, 2006

Growing Our Community Together.

DIAMOND CITY

Three Strengths Spell Sustainable Growth

Profile

Diamond City commenced operations in 1969 as Japan's first specialist developer of large-scale commercial complexes. Since its foundation, the Company has developed a wide variety of shopping centers that appeal to customers, such as multiple function shopping centers and large-scale shopping centers with malls. Diamond City's basic business development policy is to not stop at just developing retail commercial facilities, but to make its shopping centers places that create lifestyle cultures and contribute to regional communities.

Diamond City has become a leading company in the shopping-center market with a solid brand name. The Company has earned its reputation through its unparalleled expertise in creating facilities that are friendly to all types of customers, in coexisting with the local community right from the development stage, and in implementing operating policies that cooperate with tenants in targeting growth. For the future, the Company will continue to take initiatives in developing, managing and operating shopping centers that capture the hearts of its customers and that are safe and comfortable. In this manner, Diamond City will endeavor to be recognized as a company with high corporate value based on the excitement and pleasure it delivers to its customers.

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(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.

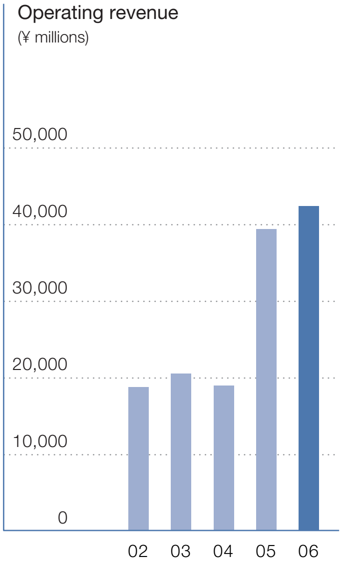
In this annual report, the Company refers to Diamond City Co., Ltd., and Diamond City refers to the Company and its consolidated subsidiary. The former consolidated subsidiary Diamond Family Co., Ltd. merged on March 31, 2006, and the succesor company was taken over by the Company. As a result, Diamond Family Co., Ltd. ceased to exist.

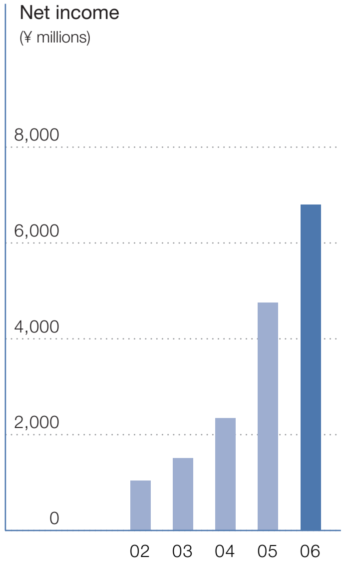
FINANCIAL HIGHLIGHTS

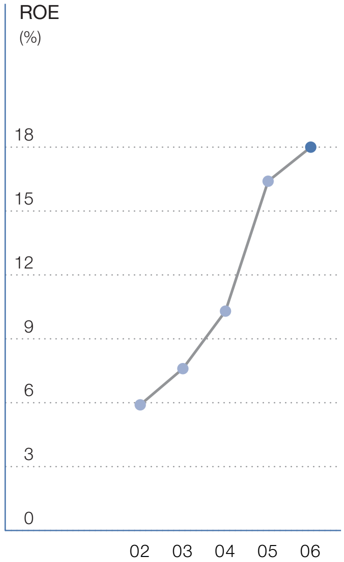
Diamond City Co., Ltd. and Subsidiary
Years ended February 28, 2006 and 2005

	Millions of Yen (except per share data)		Thousands of U.S. Dollars (except per share data)
	2006	2005	2006
For the year:			
Operating revenue	¥ 42,276	¥ 39,305	$364,445
Operating income	10,475	10,134	90,304
Income before income taxes and minority interests	11,638	8,427	100,328
Net income	6,802	4,754	58,637
Capital expenditures	12,986	27,352	111,945
Depreciation and amortization	3,571	3,103	30,785
Free cash flows	4,104	8,174	35,382
At year-end:			
Total assets	¥111,610	¥114,917	$962,153
Shareholders' equity	41,154	34,297	354,775
Interest-bearing debt	15,532	19,275	133,891
Per share data (Yen, U.S. Dollars)**:**			
Net income	¥ 177.06	¥ 132.94	$ 1.53
Cash dividends	30.00	20.00	0.26
Shareholders' equity	1,075.95	914.30	9.28
Ratio (%)**:**			
ROE	18.0	16.4	–
Shareholders' equity ratio	36.9	29.8	–
ROA	6.0	4.5	–

Notes: 1. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥116=U.S.$1, the exchange rate prevailing on February 28, 2006.
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.







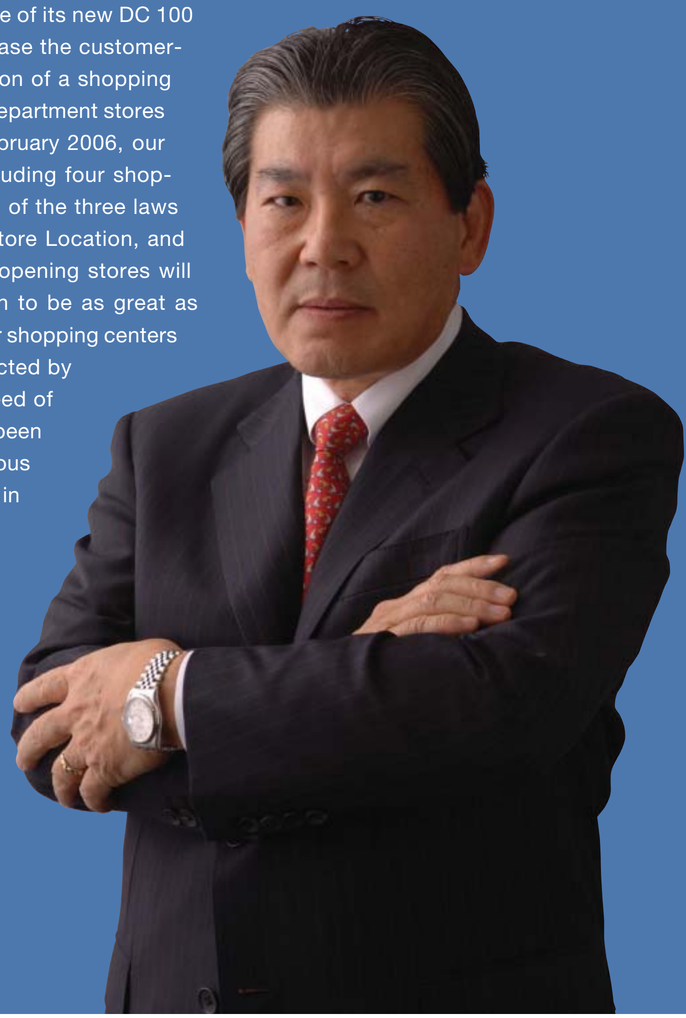
To Our Shareholders

In the fiscal year ended February 28, 2006, the first year of its new medium-term business plan DC 100, Diamond City posted another solid consolidated performance. Operating revenue rose 7.6% from the previous fiscal year to ¥42,276 million. Operating income advanced 3.4% to ¥10,475 million, while net income surged 43.1%, to ¥6,802 million. These results surpassed the initial targets for the fiscal year of consolidated operating revenue of ¥42,000 million and net income of ¥6,000 million. One of the major contributors to growth was the strong sales performance of the six shopping centers opened in the previous fiscal year, which recorded a 107.0% increase in sales in the second half of the fiscal year after a full-scale rebound in consumption got under way in Japan. Another major factor was the strong starting performance by Diamond City CLAIR (Kumamoto Prefecture) after its launch during the fiscal year under review. In addition, the Company vigorously proceeded with realigning its asset portfolio and its remodeling strategies. Sales of existing shopping centers are growing favorably and, as originally planned, three shopping centers are scheduled for opening in the fiscal year ending February 28, 2007, with construction progressing well. Consequently, the Company has upwardly revised its original performance forecasts for the fiscal year ending February 28, 2007, projecting that consolidated operating revenue and income will be ¥47,000 million and ¥7,500 million, respectively.

Original Business Model Drives Performance Growth

In the fiscal year under review, Diamond City registered record highs in consolidated operating revenue and net income, posting a solid performance under the guidance of its new DC 100 medium-term business plan. During the fiscal year, we worked to increase the customer-acquisition power of our original business model, which is a combination of a shopping mall business model with those of general merchandise stores (GMS), department stores and our specialty Lifestyle Assortment Stores (L.A.S.). At the end of February 2006, our nationwide network consisted of 18 large-scale shopping centers, including four shopping centers under our property management. As a result of the reform of the three laws governing urban development, the City Planning, Large-Scale Retail Store Location, and Central City Invigoration laws, there are concerns that regulations on opening stores will become stricter, but we do not expect the impact on our organization to be as great as suggested by these concerns. Our optimism comes from the facts that our shopping centers are located on the edge of urban areas and so are less likely to be affected by regulations, and from the certainty that our regional customers have need of our shopping center development expertise. Looking overseas, we have been receiving commissions for consulting services in Taiwan since the previous fiscal year, and have set our sights on entering the consulting markets in China and other East Asian countries in the future.

At a meeting of the Board of Directors held in April 2006, Diamond City decided to become a member of the AEON Group. For the future, we will endeavor to strengthen our organization to raise our level of competitiveness another notch, including in overseas markets, thereby becoming a truly powerful shopping center company.



July 2006

Yozo Tai

President and CEO

Interview with the President

Q. Diamond City chalked up another good performance last year, with growth in revenue and profits. Would you tell us the major factors involved in these results?

A. Because the fiscal year ended February 28, 2006 was the first year of our medium-term business plan DC 100, we set high performance targets to aim for. However, when the year was over and done with, we had actually improved on those goals, registering operating revenue of ¥42.3 billion, operating income of ¥10.5 billion and net income of ¥6.8 billion. The major reasons behind this strong result were the favorable sales performances of the six shopping centers opened in 2004 and a better than expected sales performance by Diamond City CLAIR, which we opened in Kumamoto Prefecture in October 2005.

For these seven shopping centers, we are targeting an operating income to total investment ratio of 10% or more. Performances vary by store, but of the six shopping centers that have operated for a full year, three had a ratio of 10% or greater, including Diamond City KiRiO (Aichi Prefecture) with 14.6%, and three others were below 10%. However, on average, the six shopping centers did achieve a 10% return on total investment.

One of the reasons we reached this goal was that Diamond City KiRiO was even more successful in attracting customers than originally anticipated, which drove growth in operating revenue. Normally, fashion store tenants take up about 30% of store floor space. At Diamond City KiRiO, not only is this number a high 40%, but also the plentiful variety of fashion outlets among tenants has won the patronage of customers. Another shopping center, Diamond City LUCLE in Fukuoka Prefecture, is located in an area that can be easily accessed by automobile and has an expansive, flat parking lot. This ease and comfort of shopping has been widely appreciated by elderly customers, contributing to a high return on total investment.

We remodeled two shopping centers during the fiscal year. After signing a property management agreement with the Japan Retail Fund Investment Corporation for Abiko Shopping Plaza, in Chiba Prefecture, we proposed the remodeling of the shopping center. We took this step after realizing that changes in the surrounding environment had produced a younger customer base. In November 2005, we remodeled the shopping center to target a “new family” customer base of young adults starting families. As a result of changing to 20 new tenants in the 50-tenant complex, sales of the specialty shops rose 52% year on year in December. The other shopping center remodeled during the fiscal year was Diamond City Kumamoto-Minami Shopping Center in Kumamoto Prefecture. Because of the successive opening of competitive stores in the surrounding district, we changed the shopping center’s name to Diamond City VALUE in July 2005, adjusting the composition of tenants at the same time. These changes fortified the outlet and amusement aspects of the shopping center, which now has a reputation as an enjoyable shopping center to spend time in.

In our newly opened Diamond City CLAIR, we particularly emphasized universal design, incorporating it right from the design stage. The universal design concept is utilized in 110 items throughout the complex, making the shopping center more convenient not only for people with handicaps or the elderly, but for all visitors. We intend to use Diamond City CLAIR as the model for new shopping centers, working to improve the design further to make our shopping centers even more convenient for customers.

As a result of these activities, our medium-term business plan DC 100 is proceeding according to schedule. As a result of our efforts to trim down our balance sheet under our “have-not” management strategy, our shareholders’ equity ratio at the end of the fiscal year under review was 36.9%, while return on equity (ROE) was 18% and return on assets (ROA) was 6.0%. These figures compared with our goals for the end of February 2008 of a shareholders’ equity ratio of 35%, ROE of 20% and ROA of 7%. Therefore, we have already achieved our goal for the shareholders’ equity ratio in the first year of the medium-term business plan, and are now working to achieve our ROE and ROA targets.

Q. Can you say that Diamond City is on track to attain the goals of the medium-term business plan DC 100?

A. Our medium-term business plan DC 100 is a three-year plan that began in the fiscal year under review and finishes in the fiscal year ending February 2008. We exceeded our goals for the first fiscal year, and are off to a good start in the second. For that reason, I am convinced that we will achieve the ultimate goals of the plan. For the current fiscal year, the second year of the plan, we are targeting consolidated operating revenue of ¥47.0 billion and net income of ¥7.5 billion. To that end, we have already begun construction of Diamond City mu: (Tachikawa and Musashi Murayama in Tokyo), which is scheduled to open in November 2006, and Diamond City Leafa (Tsurumi-ku, Osaka), scheduled to open around the same time. We also have started building Diamond City Sendai Natori Shopping Center (provisional name), in Miyagi Prefecture, which we plan to launch in March 2007. Right now, all our efforts are concentrated on getting these three shopping centers open on time and achieving our performance targets for existing shopping centers.

In the fiscal year ending February 2008, the final year of the plan, our goals are consolidated operating revenue of ¥60.0 billion and net income of ¥10.0 billion. In addition to the three shopping centers we are opening during this fiscal year, we have other new shopping centers in the planning stage that we intend to develop on schedule. Furthermore, continuing to pursue our "have-not" management strategy, we will be expanding operations on the condition that our balance sheet does not grow any larger than necessary.

Q. What type of shopping center development is important for achieving Diamond City's sustained growth?

A. We use two or three core stores combined into one mall format as a business model for our shopping centers. At Diamond City mu:, which we are planning on opening in Tokyo in November 2006, we are using a three-core-store format, putting together a JUSCO GMS, a Mitsukoshi department store, and a Diamond City L.A.S.* in one mall. Sharing a mall with a department store is a new experiment for Diamond City. We feel that the department store will provide an advantage by attracting a broader range of customers to the mall. Diamond City's main targeted customer bases are women and young families, and the inclusion of a department store will bring customers in the 50-year-old or over bracket to the mall. In addition, the availability of a department store should increase the number of customers coming to the mall for a specific purpose, which will expand the local market to a radius of about 15 kilometers around the mall. For the future, we are thinking of developing a range of projects that have two core stores or more, hopefully of the type that comprise a GMS, a department store and something extra.

Among the steps we are taking to improve our cash flow and trim our balance sheet are scrap & build, which is employed when our shopping center assets no longer match the business pattern; and the sale of assets to real estate investment trust (REIT) schemes and real estate funds. In the fiscal year under review, we closed Diamond City Meisei Shopping Center, in Nagoya, and sold the assets. In the case of Kyoto Family, in Kyoto, we sold the assets to the REIT company Japan Retail Fund Investment Corporation and then signed a property management agreement to operate the shopping center. We did not make any full-scale changes in the facilities or the tenants, just changed the ownership in a manner that did not affect our customers. In this way, we intend to continue to operate shopping centers developed by us under property management agreements even after selling them. Through such schemes, we plan to expand the scope of our operations by leasing shopping centers built by owners with little experience in operating them, or taking over operation of shopping centers based on a property management agreement.

* L.A.S. (Lifestyle Assortment Stores) is an original Diamond City concept for developing stores based on addressing individual customer needs and collecting a group of outlets that can propose one-rank-up lifestyles to customers.

In implementing this strategy, the management issue we face for the future is the development of staff that can efficiently operate shopping centers and maximize the appeal of our services to create the necessary organization for the expansion of our operations. We already have highly motivated managers and staff with the ability to compete aggressively even under difficult conditions. Including recent hires, the number of talented young people we possess well suited to the development of shopping center operations is increasing, and we are focusing our energies on developing this next generation of young managers and staff. We have established an in-house training course called the Diamond City Academy, which follows a planned annual schedule of training, including training camps, to develop and nurture personnel.

Q. When the three laws governing urban development are revised, it will become more difficult to open large-scale stores in the suburbs. Will these revised laws have a large impact on your shopping center development planning?

A. The revisions to the three laws governing urban development—the City Planning, Large-Scale Retail Store Location, and Central City Invigoration laws—have been passed by the Diet. These laws aim to regulate the opening of large-scale commercial complexes in suburban areas, coaxing companies to open these complexes in commercial districts in cities. Locating them in cities will prevent the decline of downtown commercial districts, and cause the necessary functions for urban living, including shopping, to be compactly collected into downtown areas. In the past, it was quite easy to locate large-commercial complexes in areas other than residential and industrial areas. However, under the revised laws, restrictions have been placed on opening large-sized commercial complexes of ten thousand square meters or greater in the suburbs. Now, it is basically extremely difficult to open such complexes in areas other than commercial or semi-industrial districts, and competition to win these locations will become severe.

Nevertheless, I do not believe that the revised laws will have much of an impact on our operations. The locations we choose for our shopping centers are on the edge of large urban areas where there is a population of four or five hundred thousand people within a radius of ten kilometers or less around the location. These locations are not the ones that are being regulated by the revised laws, nor are they the suburban locations that other developers are targeting for their large-scale commercial complexes. Diamond City's greatest appeal as a developer is to be able to bring the polished attractions of downtown commercial complexes to these areas that are not affected by the revised laws. I also believe that this unrivaled ability differentiates us from our competitors and is responsible for our success. Moreover, we begin our selection process by looking at locations where regional representatives have invited us to come and set up stores. Once selected, we carefully plan the smooth opening of our shopping centers, making sure we fully understand the urban planning concepts of the prefecture or other local government bodies. We try to provide development plans that are persuasive to all regional factions. For customers, we strive to be an indispensable infrastructure for their lifestyles. For regional government bodies, we aim to be a town manager that will bring the area together and help foster a local culture. For the prefecture, we try to be a gravitation core for the town that prevents people from moving to other prefectures.

Since we first became a specialist commercial developer in 1969, Diamond City has gained a great deal of experience in dealing with laws and regulations. In each case, we try to be innovative in achieving the maximum results possible within the framework of the regulations. With the strong support of customers, we always overcome whatever hurdles lie in our path. It is my promise to our supporters that we do not intend to slack off in our efforts, and will continue to build shopping centers that maintain our unique appeal while contributing to the development of regional communities.

Q. What is your thinking on the successful TOB by AEON?

A. Diamond City was established as a joint venture by AEON Co., Ltd., and Mitsubishi Corporation. In the past, the two companies have not only shared a capital relationship, but also conducted business together as partners. Despite this relationship, a tender offer bid (TOB) by AEON for our shares was accepted by the Board of Directors of Diamond City in a meeting held on April 3, 2006.

We had two reasons for accepting the TOB. The first was due to the change made in our profit structure by our shift from fixed tenant fees to sales percentage-based tenant fees. Over the years, we have steadily expanded the content of our business as a developer. However, we have come to realize that our current corporate principles and the nature of our business development are more those of a comprehensive retail service business than a developer. Therefore, as a member of the retail service industry, we felt that it was necessary for Diamond City to proceed with cooperative efforts within that industry. Furthermore, because tenant rental fees are now linked to tenant sales, we feel a strong sense of solidarity with our tenants because of our shared destiny. Based on these factors, we decided to become a member of the AEON Group, the largest retailer in Japan, and to become a company that utilizes its developer skills to support the Group's retail business while also being able to develop even more customer-appealing shopping centers using our operating skills.

The other reason for accepting the TOB was our desire to enter markets in China and East Asian countries. In the past, we have regularly surveyed markets in China and East Asian countries and continued to do our research. However, we did not think that Diamond City had the adequate staff or organization to enter such markets on its own, and felt it would be necessary to have a partner. Since AEON has over 40 facilities in China and the rest of East Asia, a deepening of our business relationship would allow us to make more effective use of that expertise and knowledge. On the other hand, despite the end to our capital ties, we believe that Diamond City will still be able to collaborate with Mitsubishi Corporation in such matters as selection of location and partners for individual projects.

Diamond City is the only company in the shopping center industry that can boast capabilities in all three areas of mall development, operations and tenant leasing. By adding AEON's retail expertise and information capabilities to the mix, both parties can expect to be able to demonstrate their capabilities at an even higher level.

Q. How is your organization addressing the issues of corporate governance and corporate social responsibility?

A. We consider corporate governance to be a top priority management issue, and an essential element in enabling the Company to respond quickly to changes in the business environment, to fulfill its responsibility to be accountable to its stakeholders, and to conduct itself as a highly ethical business.

Diamond City has adopted a corporate auditor system, and all of our corporate auditors are outside auditors. To increase the transparency of our management decisions, we have established an Executive Committee as an advisory arm to the President. The Executive Committee comprises such members as standing directors and corporate auditors and meets every Monday. To prevent the management of the business from seeming biased in the view of any of our stakeholders, we take the opinions of outside people seriously to ensure that correct decisions are made as a Company and that correct perceptions prevail.

We also have established a Compliance Committee, which includes a legal advisor, and hold internal compliance seminars to build adherence to relevant laws and regulations and to business ethics in our business activities. As part of our internal control system, the Auditing Office carries out planned audits of each of the shopping centers, monitoring improvements in specified items and reporting its results to the Executive Committee. Based on those results, the director in charge provides guidance for improving compliance performance.

Among our corporate social responsibility activities, we implement a variety of measures to contribute to reducing the impact of our business activities on the environment and to creating a sustainable society. We utilize a large-sized ice thermal storage system to reduce the production of carbon dioxide. We hold tree planting and tree nurturing ceremonies within our shopping centers and encourage local residents to participate. We also actively introduce universal design in all aspects of our shopping centers. We are a member of the AEON 1% Club, donating 1% of our pre-tax profits to worthy causes in Japan and abroad. Our shopping centers give top priority to maintaining a relationship of trust with regional inhabitants, and aim to take on the role of regional community centers. We make unceasing efforts to work with each region to build a "community" called Diamond City and to develop it. By realizing our corporate vision of "Growing Our Community Together," we are contributing to the regional communities we serve.

Q. Would you please explain your basic policy regarding increasing shareholder value?

A. The shopping centers developed, managed, and operated by Diamond City have a highly public nature to them. To continue to manage and operate them in a stable manner over the long term, we not only place importance on strengthening our business base, but also on returning profits to our shareholders.

For the fiscal year ended February 28, 2006, we paid a year-end dividend of ¥15 per share. Combined with an interim dividend of ¥15 per share, the annual dividend was ¥30 per share. This represents an increase in actual terms over the ¥20 per share dividend in the previous fiscal year after taking into consideration the 1-to-1.5 stock split implemented in the previous fiscal year. In principle, we try to maintain a dividend payout of 20%, and there has been no change in that policy. On the other hand, we also place importance on strengthening our financial structure. As a rule, we try to maintain a shareholders' equity ratio of at least 35% even while making substantial capital investments.

Looking ahead, we will strive to make our Company even more attractive to our customers, our tenants, our business associates and our employees, while also seeking to be highly evaluated by our investors. Furthermore, we will endeavor to achieve a high reputation in capital markets, enabling Diamond City to also return profits to our shareholders in the form of higher stock prices.

Corporate Governance

Managing Director	Senior Managing Director	President and CEO	Chairman	Managing Director	Managing Director
Kenzo Fujitsuka	Chitoshi Yamanaka	Yozo Tai	Naoki Hayashi	Makoto Sakamoto	Yoshishige Ikeda

Diamond City considers corporate governance to be a top priority management issue, and believes its proper use leads to an increase in corporate value. The corporate governance system does so by enabling management to respond quickly to changes in the business environment and to take rapid measures to solve problems after recognizing them. It also supports the Company's efforts to fulfill its responsibility to be accountable to its stakeholders and to conduct itself as a highly ethical business.

Diamond City has adopted a corporate auditor system. Under this system, all 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.

The two outside directors and three of the outside corporate auditors are from AEON Co., Ltd., with which Diamond City has store leasing agreements. Motoya Okada is President and Chief Executive Officer while Naoki Hayashi is senior managing executive officer of AEON. The outside corporate auditors are Hisateru Taniuchi, Seiji Fujii, and Norimitsu Yamaguchi. Transactions with AEON are conducted on the basis of standard contracts, and none of the individual outside directors or outside corporate auditors has a direct conflict of interest regarding his appointed position with Diamond City.

To enable quick response to changes in the business environment and to increase the transparency of management decisions, Diamond City has positioned the President as Chief Executive Officer. Under the President, the Company has established the Executive Committee, which acts as an advisory arm. Comprised of such members as standing directors and corporate auditors, the Executive Committee meets every Monday. The committee screens and investigates important management issues before reporting on them to the President and giving its opinions. Following this process, the Board of Directors decides on the issues. Among other corporate governance bodies, the Company also has established a Compliance Committee, which includes a legal advisor. To spread an awareness of compliance throughout Diamond City, it is necessary to make steady efforts on a daily basis. To increase recognition of the importance of compliance among each and every individual, the Company holds internal compliance seminars, working to build adherence to relevant laws and regulations and to business ethics in its business activities.

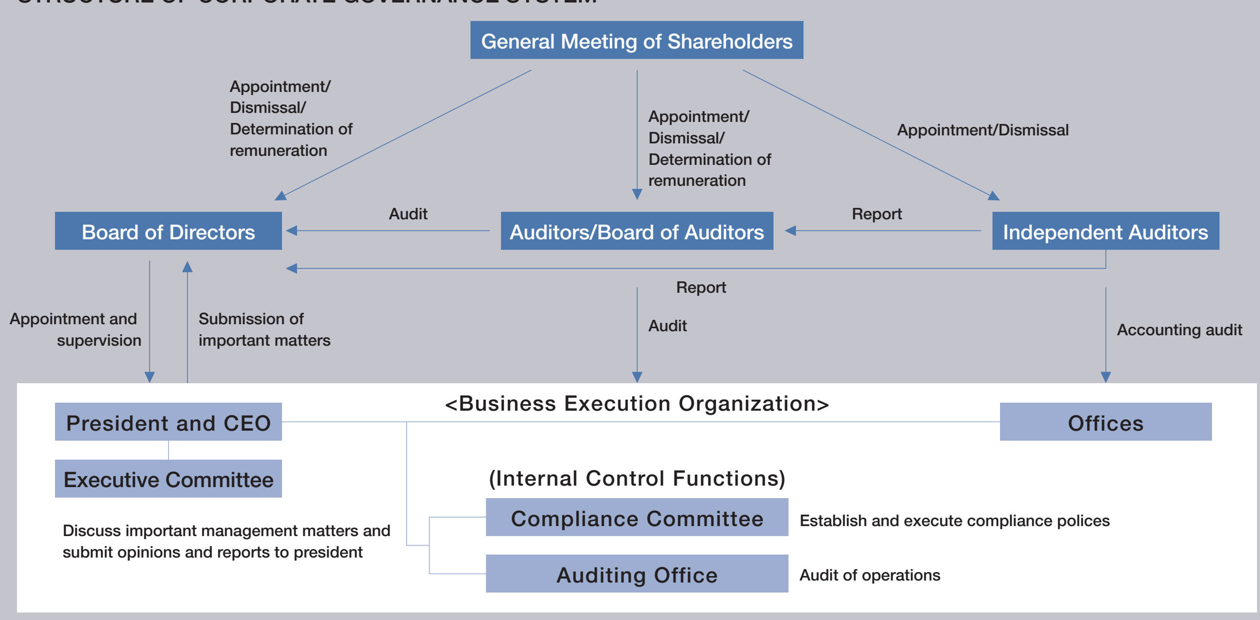
As part of Diamond City's internal control system, the Auditing Office carries out planned audits of each of the shopping centers, monitoring improvements in specified items and reporting its results to the Executive Committee. Based on those results, the director in charge provides guidance for improving compliance performance.

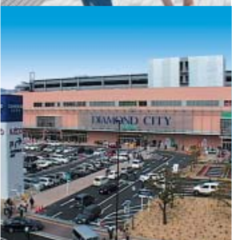
Through these measures, Diamond City is focusing its efforts on corporate governance and compliance, aiming to increase corporate value and achieve sustained development.

Director	Director	Director	Director	Director
Masato Murai	Masahiro Sakabe	Motoya Okada	Masayuki Yoda	Masayuki Moro

Auditor	Standing Auditor	Auditor	Auditor
Seiji Fujii	Aritsune Hayashi (full-time)	Hisateru Taniuchi	Norimitsu Yamaguchi

STRUCTURE OF CORPORATE GOVERNANCE SYSTEM



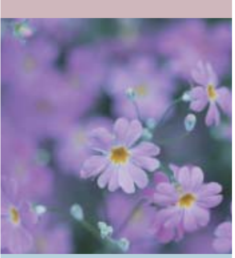


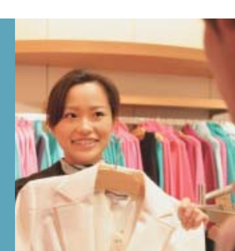
"Three Strengths Spell Sustainable Growth"
～A Business Strategy for Greater Shareholder Value～

Our medium-term business plan DC 100 hit the ground running in its first year with an excellent performance. The strengths supporting our growth as a company are concentrated in the following three points:

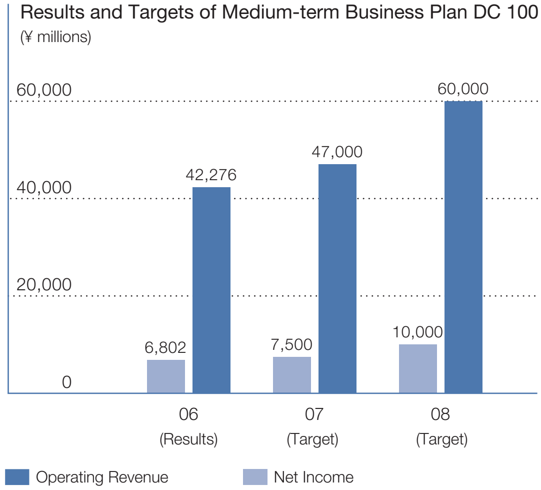
1. An original business model demonstrating high earning power
2. Business alliances with companies in other business sectors
3. Opening friendly shopping centers with strong ties to the local community

Pursuing business strategies that will enable sustainable growth, Diamond City continues to target greater shareholder value and corporate value.





Results and Targets of Medium-term Business Plan DC 100



Business Plan and Targets

Diamond City exceeded its targets for the past fiscal year under the plan. In the fiscal year ending February 28, 2007, the second year of the DC 100 plan, the Company is aiming for consolidated operating revenue of ¥47.0 billion and net income of ¥7.5 billion.

For the fiscal year ending February 29, 2008, the final year of the medium-term business plan, Diamond City has set goals of consolidated operating revenue of ¥60.0 billion and net income of ¥10.0 billion. In addition, the Company is targeting a shareholders' equity ratio of 35% or greater and ROE and ROA of at least 20% and 7%, respectively.

1

Earning Drivers—An original business model demonstrating high earning power

Our earning power springs from the development of appealing shopping centers based on joint businesses with collaborating companies, the acquisition of skilled staff, and retail and leasing expertise.

2

Partnering for Success—Business alliances with companies in other business sectors

As a new development, we are forming business alliances with such partners as department store giants Hankyu Department Stores, Inc., and Mitsukoshi, Ltd. These partnerships have given a boost to our ability to attract customers and produced other synergies as well.

3

Developing Shopping Centers that Better Your Communities—Opening friendly shopping centers with strong ties to the local community

We create the shopping centers of choice for all stakeholders by building shopping centers that please customers and by providing government bodies with persuasive reasoning for their opening.

In the fiscal year under review, the first year of the medium-term business plan DC 100, sales of our newly opened shopping centers surpassed our original goals, getting off to a good start. Attaining the goals of the medium-term business plan depends on whether or not we can continue to develop and launch shopping centers that our customers find appealing. We plan to open seven shopping centers over the three years covered by the medium-term business plan. The first of them, opened in the fiscal year under review, is already showing good results. We are also making good progress toward the launch of another three shopping centers in the current fiscal year.

The attraction to our customers and high reputation of our shopping centers can be attributed to the previously mentioned three strengths. In the following pages, we provide a more detailed analysis of these capabilities.

1 Earning Drivers—An original business model demonstrating high earning power

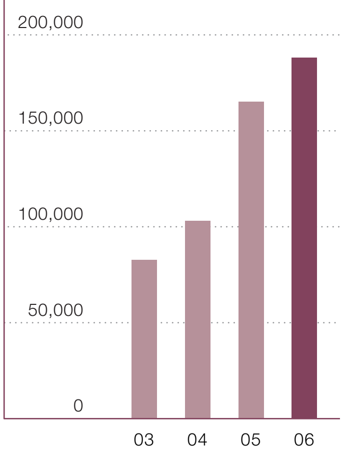
The source of our earning power is an original business model. Since its establishment, the Company has accumulated expertise as a specialist developer of commercial facilities, acquiring premier locations and designing comfortable spaces in creating shopping centers with lasting appeal that meet the needs of customers. We also have a firm reputation for our tenant leasing capabilities, working with tenants to constantly keep up with trends to improve our ability to attract customers.

In operating shopping centers, we work to shorten the construction period, curtail construction costs and pursue greater efficiency in maintenance and administration. Furthermore, we target low cost operations while also maintaining a high level of convenience and safety for customers. By adjusting the tenant mix, we aim to maximize synergies and increase profitability by improving tenants' productivity per unit of floor space. We also increase profitability by remodeling shopping centers and actively adjusting the tenant mix according to shifts in the customer base. Through scrap & build programs, we close unprofitable stores and liquidate assets by selling the land and buildings. Based on our "have-not" management strategy, we are expanding our operations by selling shopping centers and operating them under property management agreements instead. Such schemes allow us to keep our balance sheet trim and strengthen our financial structure while continuing to grow.

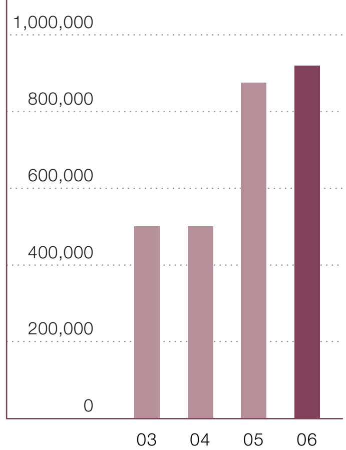
Diamond City also has a strong reputation for shopping-center operating technologies overseas, recently being commissioned to provide consulting services for Dream Mall, a large commercial facility in Taiwan. The Taiwanese companies involved approached Diamond City for these services, indicating the high regard in which the Company's shopping-center management capabilities are held internationally. Domestically, our shopping center network is growing on a nationwide scale. In the past our network development was concentrated in western Japan, but we also have accelerated the pace of openings of shopping centers in eastern Japan. In recognition of this change in market scale, Diamond City moved its head office to Tokyo in 2005.

With all this new expansion, we are also focusing on developing the personnel to support our operations in the future. To this end, we have established the Diamond City Academy within the Company, and are expanding and improving our training programs. We also are actively recruiting young people and women as part of our human resources strategy.

Number of Customers Checked Through Cash Registers
(Thousands of people)



Gross Leasable Area (GLA)
(Square meters)



Return on Investment Performance in Fiscal Year Ended February 28, 2006
(Ratio of operating income to total investment)

Average for 6 Shopping Centers 10.0%

Diamond City Hana (Kyoto)

11.8% (Total investment of ¥8.2 billion)

Diamond City LUCLE (Fukuoka)*

14.2% (Total investment of ¥13.3 billion)

Diamond City KiRiO (Aichi)*

14.6% (Total investment of ¥12.5 billion)

Diamond City SOLEIL (Hiroshima)

9.0% (Total investment of ¥16.5 billion)

Diamond City ARURU (Nara)*

6.1% (Total investment of ¥17.1 billion)

Diamond City prou (Osaka)

7.1% (Total investment of ¥15.2 billion)

*Assets securitized and sold. Total investment figure calculated assuming Company owned shopping center.

2 Partnering for Success—Business alliances with companies in other business sectors

Scheduled to open in November 2006, Diamond City mu: will be a three-core-store mall type of shopping center. It will contain a JUSCO GMS, a Mitsukoshi department store, and one of our original, sophisticated Lifestyle Assortment Stores—an L.A.S. Similarly, Diamond City Sendai Natori Shopping Center (provisional name), which plans to open its doors in March 2007, will be a two-core-store mall type of shopping center with a JUSCO GMS and a Mitsukoshi department store.

Diamond City signed an agreement with Mitsukoshi, Ltd., in November 2005 to collaborate in the development of core stores for shopping centers in the eastern Japan region. Our reasons for inviting Mitsukoshi to work with us were a desire to expand our customer base beyond young families to the 50-year-old or over bracket and to take advantage of synergies regarding the expansion of the market zones around our shopping centers. Diamond City is also boosting leasing to tenants, improving the efficiency with which tenant floor space is utilized.

We are also collaborating with WORLD CO., LTD., which has developed FLAXUS, a new type of store aimed at developing the regional shopping center market. Offering merchandise that proposes a variety of lifestyles, we are developing FLAXUS as one of the main tenants of our L.A.S. format complexes. Using such partnerships, we will continue to offer our customers something new to attract them to our shopping centers.

Our Diamond City prou shopping center has a Hankyu department store.

FLAXUS, one of the main tenants of our L.A.S. format complexes

3

Developing Shopping Centers that Better Your Communities—Opening friendly shopping centers with strong ties to the local community

When the revisions to the three laws governing urban development are enforced, opening large-scale commercial facilities will become more restricted. However, Diamond City will not be affected by this change because we focus on selecting and developing sites on the edge of urban areas and on fitting into the urban development plans of prefectures and local government bodies. Moreover, in cooperation with our tenants, we provide emergency supplies in times of disasters, and some of our shopping centers serve as designated emergency evacuation areas or local disaster preparation centers. In addition to these services, we implement various measures to ensure that people continue to consider our shopping centers an essential part of the local community, such as building police boxes on our properties to provide greater security for all. We believe that our sincere efforts in continually proposing functions that bring us closer to the local community are one of the selling points and competitive strengths of Diamond City.

This produce exhibition hosted by Uki City in Kumamoto Prefecture was held at Diamond City VALUE, with the Company also acting as one of the sponsors. Providing a location for local residents to interact, approximately 20,000 people visited the exhibition over two days.

Diamond City approved of the efforts of local companies in their “New Industry Creating Project,” which was an experimental test of electronic tags being run by the Ministry of Economy, Trade and Industry. Therefore, we cooperated with a shopping support experiment carried out using a robot at Diamond City LUCLE in Fukuoka Prefecture.

In cooperation with Kamimashiki-gun in Kumamoto Prefecture, we held a Kamimashiki Universal Design Workshop at Diamond City CLAIR. During the workshop, we received opinions from local residents on how shopping centers can be made more comfortable and convenient places.

Diamond City ARURU in Nara Prefecture provided a place for the Green Feather Campaign to collect donations. The employees of Diamond City also made donations, assisting with the campaign’s efforts to make the region’s environment “greener.”

Introduction of New Shopping Centers

Universal design, which aims to provide designs that are friendly to all types of people, has been incorporated into Diamond City CLAIR, which opened during the fiscal year under review. As a result, the shopping center boasts a comfortable and environmentally friendly environment for handicapped as well as non-handicapped people, elderly people and children.

We plan to open three shopping centers in the near future: Diamond City mu:, Diamond City Leafa, and Diamond City Sendai Natori Shopping Center (provisional name).

Diamond City CLAIR

This washbasin is set on the side of the stand in consideration of blind people. The positioning also takes into account the needs of people in wheelchairs.

The color of the sign covering the whole wall extends to the floor, thereby leading people to the washrooms. Large signs that are easy to recognize have also been placed at the entrances to the washrooms.

The floor of the mall has both a tile carpet that prevents fatigue when walking for long periods and tile paths that make it easy for people using carts or wheel-chairs to get around.

This toilet is a simple multi-functional booth with a folding door that is easy to operate and lock.

Diamond City mu: (Tachikawa and Musashi Murayama, Tokyo)

• Grand opening scheduled for November 2006
• Site area: approximately 137,000 square meters
• GLA: approximately 86,000 square meters
• Diamond City's first shopping center in Tokyo. The complex will be one of the largest shopping centers in Tokyo, featuring a genuine three-core-store mall comprising a Mitsukoshi department store, a JUSCO GMS, and an L.A.S.

Diamond City Leafa (Tsurumi-ku, Osaka)

• Grand opening scheduled for December 2006
• Site area: approximately 57,000 square meters
• GLA: approximately 53,000 square meters
• Located about seven kilometers east of West Japan Railway Company's JR Osaka Station. Since there is robust condominium development in the area, the population is expected to rise sharply. The shopping center will be Osaka's first mall-type shopping center.

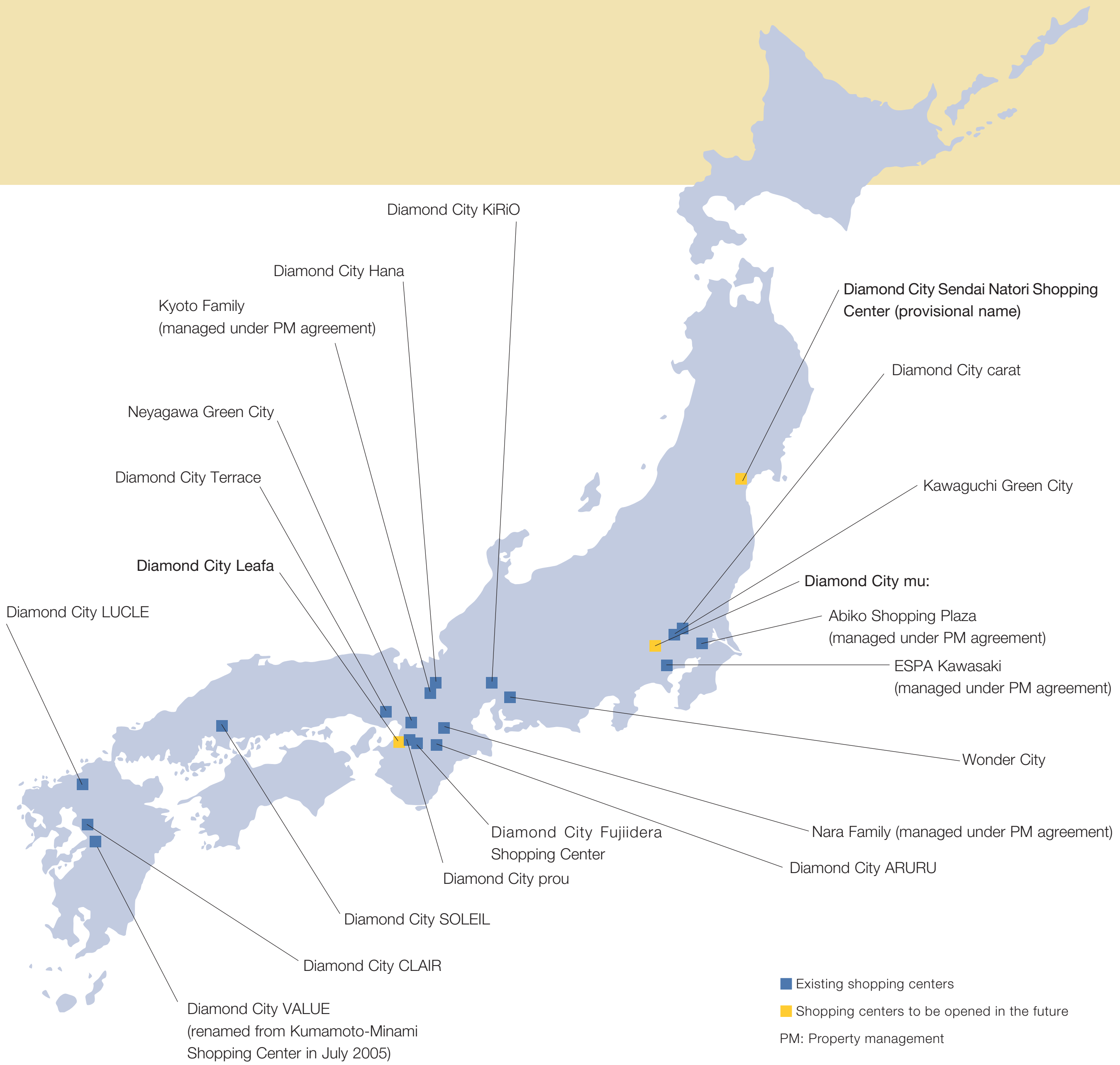
Diamond City Sendai Natori Shopping Center (Provisional name)

• Grand opening scheduled for March 2007
• Site area: approximately 158,000 square meters
• GLA: approximately 75,000 square meters
• Located about five minutes away from the Natori and Sendai Airport exits on the Sendai Tobu Road. Customers are also expected to come by train as the shopping center will be directly connected to Morisekinoshita Station on the Sendai Airport access railway, which is scheduled to begin operations in March 2007.

Shopping Center Network

Shopping Centers Scheduled to Open by February 2008

- Tokyo: Diamond City mu: (scheduled to open in November 2006)
- Osaka: Diamond City Leafa (scheduled to open in December 2006)
- Miyagi: Diamond City Sendai Natori Shopping Center (provisional name; scheduled to open in March 2007)
- Other: Three properties



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)
	2006	2005	2004	2003	2002	2001	2006
For the year:							
Operating revenue	¥ 42,276	¥ 39,305	¥ 18,854	¥ 20,429	¥18,667	¥ 16,532	$364,445
Operating costs	28,248	26,447	12,597	13,914	13,288	12,601	243,516
General and administrative expenses	3,553	2,724	2,249	1,885	1,372	1,309	30,625
Operating income	10,475	10,134	4,008	4,630	4,007	2,622	90,304
Income before income taxes and minority interests	11,638	8,427	4,643	2,803	2,028	1,594	100,328
Net income	6,802	4,754	2,343	1,511	1,034	799	58,637
Capital expenditures	12,986	27,352	23,823	18,945	1,889	10,482	111,945
Depreciation and amortization	3,571	3,103	2,374	3,723	3,600	3,677	30,785
Free cash flows	4,104	8,174	(1,750)	(8,571)	6,741	2,638	35,382
At year-end:							
Total assets	¥111,610	¥114,917	¥ 98,200	¥107,684	¥90,818	¥105,042	$962,153
Shareholders’ equity	41,154	34,297	23,696	21,787	18,002	17,252	354,775
Interest-bearing debt	15,532	19,275	33,422	30,138	23,260	30,281	133,891
Per share data (Yen, U.S. Dollars)**:**							
Net income	¥ 177.06	¥ 132.94	¥ 101.23	¥ 70.61	¥ 49.46	¥ 38.21	$ 1.53
Cash dividends	30.00	20.00	20.00	17.50	12.50	12.50	0.26
Shareholders’ equity	1,075.95	914.30	1,040.00	957.84	861.44	825.47	9.28
Ratio (%):							
ROE	18.0	16.4	10.3	7.6	5.9	4.7	–
Shareholders’ equity ratio	36.9	29.8	24.1	20.2	19.8	16.4	–
ROA	6.0	4.5	2.3	1.5	1.1	0.8	–

Notes: 1. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥116=U.S.$1, the exchange rate prevailing on February 28, 2006.
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 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

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, 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 for the development 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 collaborative payments and shown on the balance sheet as "Guarantee money paid," an item that also includes guarantee deposits.

Guarantee deposits received from tenants are recorded on the balance sheets under liabilities as "Guarantee 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 revenues, 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 the composition of tenants, 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 shopping centers and costs related to shopping center 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 shopping center facilities.

DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

Business Overview

Company Overview

The Japanese economy expanded during the fiscal year under review. Although consumption struggled at the beginning of the fiscal year under unseasonable weather, commencing in summer 2005, personal consumption grew, supported by strong corporate profits and an improvement in the employment environment. In addition, the business boost resulting from the widely publicized "Cool Biz" campaign and strong sales of winter apparel due to some extremely cold winter weather contributed to an improvement in the demand and supply gap. This growth in consumption was enough to suggest some light at the end of the long tunnel of deflation in Japan.

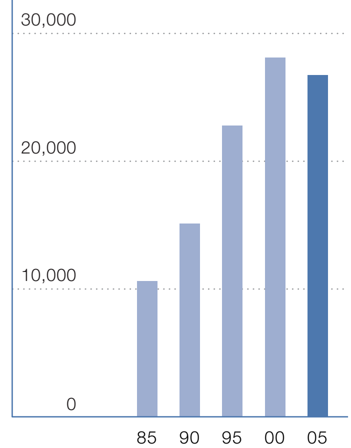
According to a survey by the Japan Council of Shopping Centers, the total sales of shopping centers in 2005, excluding newly opened shopping centers, edged up 0.3% from the previous year, moving into the plus column for the first time in 15 years. Including all shopping centers, total sales climbed 1.3% year on year, posting good growth.

Against this backdrop, proud of its position as Japan's first developer specializing in commercial facilities, Diamond City endeavored through its development, management, and operation activities to make its shopping centers more than just retail commercial facilities. Through such activities as creating local employment opportunities as well as a new lifestyle culture, the Company sought to develop its shopping center business as a contributor to regional communities.

During the fiscal year under review, the Company opened Diamond City CLAIR in Kumamoto Prefecture as scheduled. As Japan's first commercial facility to be developed entirely based on universal design, the new shopping center has been extremely well received in the market, and sales in its first year of operations were 10% greater than the original forecast.

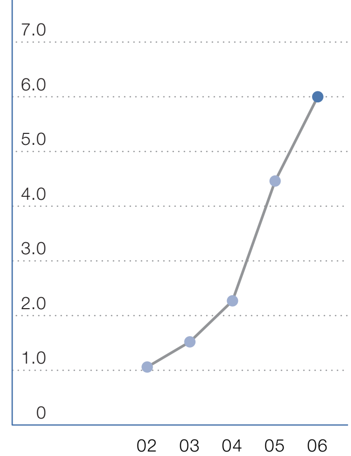
The six shopping centers launched in the previous fiscal year posted firm performances. Bolstered by active turnover of tenants during the fiscal year, their total tenant sales over the full year of operations rose 2.5% compared with the previous fiscal year.

Market Size of Shopping Center Industry
(¥ billions)



(Based on data from the Japan Council of Shopping Centers)

ROA
(%)



Financial Position

Assets

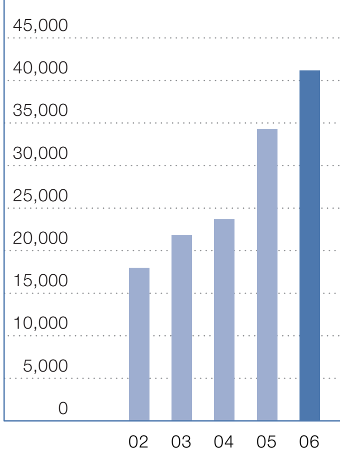
Total assets stood at ¥111,610 million. This represented a decline of ¥3,307 million, or 2.9%, from the ¥114,917 million recorded in the previous fiscal year.

Current assets amounted to ¥8,755 million, dropping ¥6,369 million, or 42.1%, from the ¥15,124 million posted last fiscal year. The decline could principally be attributed to a ¥3,000 million decrease in short-term investments and a ¥3,626 million drop in advances paid due to the settlement of advances paid (down payment for land purchases) upon the start of projects.

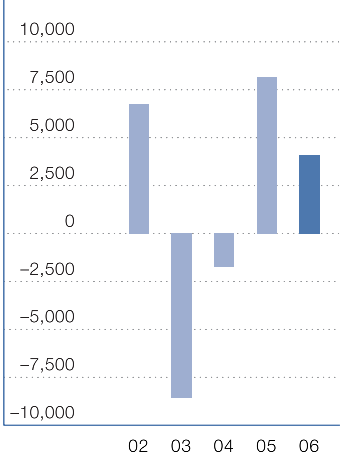
Net property, plant and equipment totaled ¥47,920 million, an increase of ¥3,013 million, or 6.7%, from ¥44,907 million in the previous fiscal year. The main contributor to growth was the ¥11,162 million increase in net property, plant and equipment resulting from the opening of Diamond City CLAIR. Other factors included decreases in net property, plant and equipment of ¥4,558 million from the sale of Kyoto Family and ¥1,257 million from the sale of Diamond City Meisei Shopping Center.

Investments and other assets totaled ¥54,935 million, rising ¥49 million, or 0.1%, from ¥54,886 million in the previous fiscal year.

Shareholders' Equity
(¥ millions)



Free Cash Flows
(¥ millions)



Liabilities

At the end of February 2006, liabilities totaled ¥70,456 million, contracting ¥8,714 million, or 11.0%, from ¥79,170 million in the previous fiscal year. Current liabilities declined from ¥33,315 million in the previous fiscal year to ¥28,004 million, falling ¥5,311 million, or 15.9%. The principal cause of the decrease was a drop of ¥6,335 million in payables–construction due to payments made for the construction of Diamond City prou and other projects.

Total long-term liabilities amounted to ¥42,452 million. This represented a decrease of ¥3,403 million, or 7.4%, from the ¥45,855 million recorded in the previous fiscal year. The decline can be mainly attributed to the ¥3,806 million reduction in long-term debt due to the repayment of loans and other debt.

Shareholders' Equity

Shareholders' equity totaled ¥41,154 million, rising ¥6,857 million, or 20.0% from the ¥34,297 million posted in the previous fiscal year. This increase reflected increases of ¥712 million in both common stock and capital surplus as a result of the exercise of warrants to purchase new common stock and a ¥5,433 million rise in retained earnings due to higher net income.

Consequently, the shareholders' equity ratio at the end of the fiscal year advanced 7.1 percentage points year on year, to 36.9%. Shareholders' equity per share climbed 17.7% from the previous fiscal year to ¥1,075.95. Return on equity (ROE) rose 1.6 percentage points from 16.4% at the end of the previous fiscal year to 18.0%.

Cash Flows

Cash and cash equivalents, end of year amounted to ¥3,335 million, up 14.7% from the end of the previous fiscal year. The net cash flows from Company activities and other factors involved were as follows:

(Cash flow from operating activities)

Net cash provided by operating activities was ¥13,733 million, rising 55.4% year on year. Principal contributors to the increase were a ¥3,626 million decrease in advances paid due to payments made at the start of projects versus an increase of ¥4,764 million in the previous fiscal year and a jump of 38.1% to ¥11,638 million in income before income taxes and minority interests.

(Cash flow from investing activities)

Net cash used in investing activities amounted to ¥9,629 million versus net cash used of ¥662 million in the previous fiscal year. The major factors involved were cash inflows totaling ¥8,764 million from the sale of Kyoto Family and of idle land of Diamond City Meisei Shopping Center. These cash inflows compared with cash inflows of ¥13,036 million in the previous fiscal year from the sale of Diamond City Kumamoto-Minami Shopping Center and income from the sale of the Diamond City Higashisumiyoshi Shopping Center site. Although cash inflows were higher, cash outflows also rose. The Company made a total of ¥19,026 million in construction payments (purchases of property, plant and equipment) for Diamond City prou, which opened in October 2004, and Diamond City CLAIR, which opened in October 2005. Cash outflows in the previous fiscal year were ¥10,421 million.

(Cash flow from financing activities)

Net cash used in financing activities amounted to ¥3,676 million, versus net cash used of ¥8,289 in the previous fiscal year. The chief factors involved were a ¥2,320 million reduction in debt financed primarily with funds received from the sale of Kyoto Family compared with a ¥7,788 million reduction in the previous fiscal year.

Operating Results

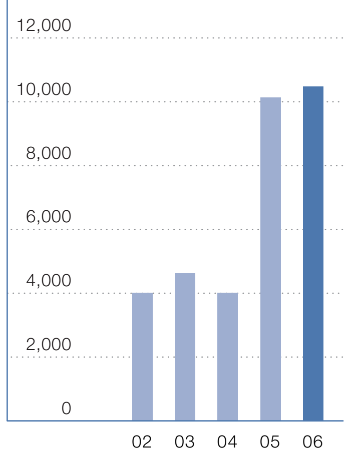
Overview of Operations

Diamond City CLAIR got off to a good start after opening during the fiscal year under review, posting sales for the partial fiscal year 10% higher than originally expected. The six shopping centers opened in the previous fiscal year also posted firm performances, achieving a combined 10.0% return on investment. The six shopping centers opened last year also had an overall approximately 9% turnover of tenants, with the Company striving to further increase the appeal of the shopping centers by varying the types of stores.

The following are the most recent major scrap & build, remodeling, and reorganization activities conducted by the Company.

- In June 2005, the Company closed the Diamond City Meisei Shopping Center due to deterioration in the condition of the facilities and sold the idle land.
- In July 2005, the Company reopened the former Diamond City Kumamoto-Minami Shopping Center as Diamond City VALUE after carrying out a major remodeling of the shopping center, converting it into a retail and amusement specialist.
- In November 2005, the Company commenced a full-scale remodeling of Abiko Shopping Plaza, for which it signed a property management agreement with the owner—Japan Retail Fund Investment Corporation. The Company has introduced 20 new tenants to the 50-tenant complex.
- In December 2005, the Company sold Kyoto Family, selling the property under a real estate investment trust (REIT) scheme to Japan Retail Fund Investment Corporation, and taking back the operation of the shopping center by signing a property management agreement with the investment company.
- In March 2006, the Company absorbed its consolidated subsidiary Diamond Family Co., Ltd., through a merger.

Operating Income
(¥ millions)



Operating Results

Consolidated operating revenue for the fiscal year ended February 28, 2006, the first year of the Company's new medium-term business plan, climbed 7.6% year on year to ¥42,276 million. Operating income rose 3.4%, to ¥10,475 million; income before income taxes and minority interests advanced 38.1%, to ¥11,638 million; and net income soared 43.1%, to ¥6,802 million, exceeding the initial goals of the medium-term business plan, which targeted consolidated operating revenue of ¥42,000 million and net income of ¥6,000 million.

The major factors behind the increases in operating revenue and income were a full-year of operations from the six shopping centers opened in the previous fiscal year and a strong starting performance by Diamond City CLAIR after its launch during the fiscal year under review.

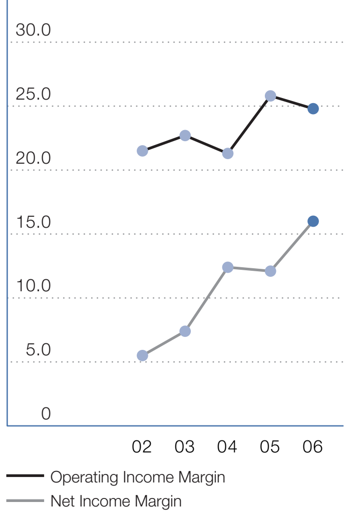
Other income (expenses)—net improved from an expense of ¥1,707 million in the previous fiscal year, to income of ¥1,163 million. The primary cause of the turnaround was the recording of ¥2,136 million in gain on sales of property, plant and equipment of Diamond City Meisei Shopping Center. As a result, other income (expenses)—net improved ¥2,870 million from the previous fiscal year.

Income before income taxes and minority interests totaled ¥11,638 million, up ¥3,211 million, or 38.1%, year on year.

Consequently, net income amounted to ¥6,802 million, up ¥2,048 million, or 43.1%. Basic net income per share of common stock was ¥177.06.

The Company has revised its performance forecasts for the fiscal year ahead upward in consideration of the success of its opening of shopping centers during the period from 2004 to 2005 and its schedule to open three shopping centers in the near future as originally planned. For the fiscal year ending February 28, 2007, the Company estimates that consolidated operating revenue and net income will be ¥47,000 million and ¥7,500 million, respectively.

Operating Income Margin/
Net Income Margin
(%)



Operating Revenue by Shopping Center

	2006	2005	Change	(Millions of yen) YoY (%)
Diamond City Meisei Shopping Center	¥ 316	¥ 1,009	¥ (693)	31.3%
Diamond City Fujiidera Shopping Center	1,041	1,021	20	101.9
Neyagawa Green City	1,077	1,069	8	100.7
Kawaguchi Green City	1,702	1,670	32	101.9
Wonder City	2,345	2,258	87	103.8
Diamond City VALUE	1,422	1,524	(102)	93.3
Diamond City carat	2,992	2,901	91	103.1
Diamond City Terrace	3,881	3,700	181	104.9
Diamond City Hana	2,750	2,691	59	102.2
Diamond City SOLEIL	5,244	5,805	(561)	90.3
Diamond City ARURU	3,363	3,817	(454)	88.1
Diamond City LUCLE	3,972	4,070	(98)	97.6
Diamond City KiRiO	4,030	3,812	218	105.7
Diamond City prou	3,627	1,763	1,864	205.8
Kyoto Family (consolidated subsidiary)	955	1,135	(180)	84.1
Diamond City CLAIR	2,233	–	2,233	–
Others	1,326	1,060	266	125.1
Total	¥42,276	¥39,305	¥2,971	107.6%

Notes: All of the above are names of shopping centers.

1. 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.
2. Diamond City CLAIR opened in 2005 on October 10.
3. Kyoto Family was sold to Japan Retail Fund Investment Corporation on December 21, 2005, and on the same date Diamond City started operating the shopping center under a property management agreement.
4. Diamond City Meisei Shopping Center was closed on June 20, 2005.

New Development Projects

The following shopping centers are presently under development (as of July 2006):

- Diamond City mu: (scheduled to open in November 2006)
- Diamond City Leafa (scheduled to open in December 2006)
- Diamond City Sendai Natori Shopping Center (provisional name; scheduled to open in March 2007)

RISKS TO BUSINESS EXPANSION

RISK FACTORS IN THE BUSINESS DEVELOPMENT OF DIAMOND CITY

The following are risks that could affect Diamond City'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 2006.

Earnings

The retailing industry, the operating domain for Diamond City's shopping center 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 Diamond City's business activities and operating results.

Risks Associated With Fund Procurement and Rising Interest Rates

Diamond City's commercial property development business requires substantial funds for development from the initial phase. During the fiscal year under review, Diamond City's interest-bearing debt was reduced from ¥19,275 million at the end of the previous fiscal year to ¥15,532 million, resulting in a decrease in its interest-bearing debt to total assets from 16.8% to 13.9%. 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 Diamond City's business activities.

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

Risks Associated With Higher Costs

Diamond City's core business is the development, management and operation of shopping centers. During the development phase, either Diamond City or another company may carry the burden of acquiring real estate or paying for construction costs. Where Diamond City 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 Diamond City's operating results.

As a management goal to boost investment efficiency, Diamond City targets an operating income to total investment ratio of 10% by the third anniversary of each shopping center's opening to mitigate risks of a deterioration of profitability.

Risks Associated With Owning Fixed Assets

The land and/or buildings of shopping centers operated by Diamond City are owned by either Diamond City or a third party. At the end of February 2006, Diamond City owned land valued at ¥9,429 million, and buildings and structures of ¥50,197 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

Diamond City'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 shopping centers, and deciding on methods of operation. In addition, other laws applicable to Diamond City's business include the City Planning Law, the Building Standard Law, the Heart Building Law, and the Fire Defense Law.

Furthermore, regulations concerning the opening of large-scale retail stores in urban areas may become stricter as a result of revisions made to the three laws concerning urban development: the City Planning, Large-Scale Retail Store Location, and Central City Invigoration laws.

Diamond City adheres to applicable rules and regulations in conducting commercial property development. However, delays in the development of shopping centers resulting from these laws could adversely affect Diamond City's earnings.

Consolidated Balance Sheets

Diamond City Co., Ltd. and Subsidiary
February 28, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 3,335	¥ 2,907	$ 28,753
Short-term investments (Note 2.b)		3,000	
Receivables — Trade accounts (Note 14)	2,655	2,577	22,887
Advances	1,798	5,424	15,498
Deferred tax assets (Note 9)	523	428	4,513
Other current assets	454	788	3,913
Allowance for doubtful accounts	(10)		(87)
Total current assets	8,755	15,124	75,477
PROPERTY, PLANT AND EQUIPMENT:			
Land	9,429	12,912	81,288
Buildings and structures	50,197	49,446	432,734
Construction in progress	404	409	3,480
Other	4,486	4,335	38,671
Total	64,516	67,102	556,173
Accumulated depreciation	(16,596)	(22,195)	(143,067)
Net property, plant and equipment	47,920	44,907	413,106
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	1,355	478	11,685
Consolidation goodwill	321		2,765
Lease deposits paid (Note 2.f)	42,671	42,819	367,853
Long-term prepaid expenses (Note 2.f)	8,422	8,854	72,603
Deferred tax assets (Note 9)	1,053	988	9,073
Other assets	1,113	1,747	9,591
Total investments and other assets	54,935	54,886	473,570
TOTAL	¥111,610	¥114,917	$962,153

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term borrowings (Note 4)	¥ 1,800	¥ 1,900	$ 15,517
Current portion of long-term debt (Note 4)	3,912	3,749	33,722
Payables:			
Trade accounts(Note 14)	1,646	1,893	14,189
Construction (Note 14)	6,824	13,159	58,826
Deposits received	9,169	8,876	79,040
Income taxes payable	3,218	2,623	27,741
Current portion of lease deposits received (Notes 2.f and 14)	348	340	3,000
Other current liabilities	1,087	775	9,375
Total current liabilities	28,004	33,315	241,410
LONG-TERM LIABILITIES:			
Long-term debt (Note 4)	9,820	13,626	84,652
Liability for retirement benefits (Note 6)	529	416	4,564
Lease deposits received (Notes 2.f and 14)	31,383	31,011	270,543
Long-term unearned income (Note 2.f)	720	802	6,209
Total long-term liabilities	42,452	45,855	365,968
MINORITY INTERESTS		1,450	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 13):			
Common stock,			
authorized, 136,500,000 shares;			
issued, 38,227,031 shares in 2006 and 37,476,497 shares in 2005	8,867	8,155	76,437
Capital surplus	9,807	9,095	84,538
Retained earnings	22,487	17,054	193,851
Net unrealized gain on available-for-sale securities	48	29	419
Treasury stock — at cost, 22,387 shares in 2006 and 16,924 shares in 2005	(55)	(36)	(470)
Total shareholders' equity	41,154	34,297	354,775
TOTAL	¥111,610	¥114,917	$962,153

Consolidated Statements of Income

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING REVENUE (Note 14)	¥42,276	¥39,305	$ 364,445
OPERATING COSTS	28,248	26,447	243,516
GROSS PROFIT	14,028	12,858	120,929
GENERAL AND ADMINISTRATIVE EXPENSES	3,553	2,724	30,625
OPERATING INCOME	10,475	10,134	90,304
OTHER INCOME (EXPENSES):			
Interest and dividend income	499	520	4,302
Interest expense	(448)	(501)	(3,865)
Gain on sales of property, plant and equipment	2,136	664	18,417
Loss on sales and disposal of property, plant and equipment	(167)	(347)	(1,443)
Loss on write-down of property, plant and equipment (Note 5)		(1,782)	
Loss on impairment of long-lived assets (Note 5)	(482)		(4,156)
Other — net (Note 6)	(375)	(261)	(3,231)
Other income (expenses) — net	1,163	(1,707)	10,024
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,638	8,427	100,328
INCOME TAXES (Note 9):			
Current	4,900	3,678	42,244
Deferred	(174)	(77)	(1,501)
Total income taxes	4,726	3,601	40,743
MINORITY INTERESTS IN NET INCOME	110	72	948
NET INCOME	¥ 6,802	¥ 4,754	$ 58,637

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.l and 12):			
Basic net income	¥177.06	¥132.94	$ 1.53
Diluted net income	176.75	122.80	1.52
Cash dividends applicable to the year	30.00	20.00	0.26

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2006 and 2005

	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, 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 8)	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)
Net income				6,802		
Cash dividends, ¥35 per share				(1,322)		
Bonuses to directors and corporate auditors				(47)		
Repurchase of treasury stock	(5)					(19)
Conversion of convertible bonds	750	712	712			
Net increase in unrealized gain on available-for-sale securities					19	
BALANCE, FEBRUARY 28, 2006	38,205	¥8,867	¥9,807	¥22,487	¥48	¥(55)

	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, 2005	$70,299	$78,400	$147,022	$246	$(307)
Net income			58,637		
Cash dividends, $0.30 per share			(11,399)		
Bonuses to directors and corporate auditors			(409)		
Repurchase of treasury stock					(163)
Conversion of convertible bonds	6,138	6,138			
Net increase in unrealized gain on available-for-sale securities				173	
BALANCE, FEBRUARY 28, 2006	$76,437	$84,538	$193,851	$419	$(470)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥11,638	¥8,427	$ 100,328
Adjustments for:			
Income taxes — paid	(4,305)	(2,029)	(37,115)
Depreciation and amortization	3,571	3,103	30,785
Gain on sales of property, plant and equipment	(2,136)	(664)	(18,417)
Loss on impairment of long-lived assets	482		4,156
Write-down of property, plant and equipment		1,782	
Changes in assets and liabilities:			
Increase in receivables — trade accounts	(278)	(1,346)	(2,394)
(Decrease) increase in payables — trade accounts	(296)	935	(2,556)
Increase in deposits received	337	3,733	2,904
Decrease (increase) in advances paid	3,626	(4,764)	31,257
Other — net	1,094	(340)	9,440
Total adjustments	2,095	410	18,060
Net cash provided by operating activities	13,733	8,837	118,388
INVESTING ACTIVITIES:			
Net decrease (increase) in short-term investments	3,000	(3,000)	25,862
Purchases of property, plant and equipment	(19,026)	(10,421)	(164,020)
Proceeds from sales of property, plant and equipment	8,764	13,036	75,551
Proceeds from liquidation of property, plant and equipment		3,644	
Purchase of subsidiary's shares	(1,866)		(16,086)
Lease deposits paid	(53)	(11,468)	(461)
Collection of lease deposits paid	692	234	5,961
Repayment of lease deposits received	(2,756)	(3,804)	(23,755)
Proceeds from lease deposits received	3,188	12,909	27,486
Investment in investment security	(840)		(7,241)
Increase in long-term loan receivables		(500)	
Other	(732)	(1,292)	(6,303)
Net cash used in investing activities	(9,629)	(662)	(83,006)
FINANCING ACTIVITIES:			
Net decrease in short-term borrowings	(100)	(4,150)	(862)
Proceeds from long-term debt	420	480	3,620
Repayment of long-term debt	(2,640)	(4,118)	(22,757)
Dividends paid	(1,337)	(470)	(11,528)
Repurchase of treasury stock	(19)	(31)	(163)
Net cash used in financing activities	(3,676)	(8,289)	(31,690)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	428	(114)	3,692
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,907	3,021	25,061
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,335	¥2,907	$ 28,753
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Convertible bonds converted into common stock	¥ 712	¥3,180	$ 6,138
Convertible bonds converted into capital surplus	712	3,180	6,138

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Diamond City Co., Ltd. and Subsidiary
Years Ended February 28, 2006 and 2005

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 2005 financial statements to conform to the classifications used in 2006.

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 ¥116 to $1, the approximate rate of exchange at February 28, 2006. 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, 2006 and 2005 (together, the "Group").

The excess of cost of the Company's investment in the consolidated subsidiary accounted for by the equity method over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of 5 years.

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 — 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 is from 3 to 30 years.

e. Long –lived Assets — In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, *"Accounting for Impairment of Fixed Assets"*, and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ 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 Group adopted the new accounting standard for impairment of fixed assets as of March 1, 2005. The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate 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 effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended February 28, 2006 by ¥ 482 million ($ 4,156 thousand).

f. 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 make 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.

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 plan was 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 were distributed to the qualified employees.

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

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. 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 are 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.

m. New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, "*Accounting for Business Combinations",* and on December 27, 2005 the ASBJ issued "*Accounting Standard for Business Separations"* and ASBJ Guidance No.10, "*Guidance for Accounting Standard for Business Combinations and Business Separations"*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "*Accounting Standard for Stock Options"* and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses To Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "*Accounting treatment for bonuses to directors and corporate auditors"*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. Investment Securities

The cost and aggregate fair value of marketable and investment securities at February 28, 2006 and 2005 were as follows:

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	¥29	¥82		¥111

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

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Non-current — Equity securities	$251	$707		$958

Investment securities included investment in special purpose companies of ¥1,244 million ($10,727 thousand) and ¥397 million whose fair value was not readily determinable as of February 28, 2006 and 2005, respectively.

4. Short-Term Borrowings and Long-Term Debt

Short-term borrowings at February 28, 2006 and 2005 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 1.26% and 1.14% at February 28, 2006 and 2005, respectively.

Long-term debt at February 28, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured loans from banks and insurance companies, due serially to 2010 with interest rates ranging from 0.76% to 2.45% (2006) and from 0.85% to 2.45% (2005)	¥ 6,232	¥8,234	$ 53,719
Zero coupon bonds with stock conversion rights due 2005		1,641	
Other	7,500	7,500	64,655
Total	13,732	17,375	118,374
Less current portion	(3,912)	(3,749)	(33,722)
Long-term debt, less current portion	¥ 9,820	¥13,626	$ 84,652

Annual maturities of long-term debt as of February 28, 2006 for the next five years and thereafter were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending February 28		
2007	¥ 3,912	$ 33,722
2008	1,747	15,059
2009	1,247	10,748
2010	870	7,500
2011	616	5,310
2012 and thereafter	5,340	46,035
Total	¥13,732	$118,374

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 shares on the Tokyo Stock Exchange for each of the 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 a call option contract on February 3, 2005. The Company decided to redeem and did redeem all the outstanding convertible bonds on March 11, 2005 at a Board of Directors meeting held on February 7, 2005. The amounts of convertible bonds redeemed were ¥217 million ($1,871 thousand).

5. Long-Lived Assets

The Group reviewed its long-lived assets for impairment as of the year ended February 28, 2006 and, as a result, recognized impairment losses on land of ¥482 million ($ 4,156 thousand) as an other expense for intended assets for sale and idle assets.

The Group recognized impairment losses on the following asset categories this fiscal year.

Category	Classification	Location	Millions of Yen	Thousands of U.S. Dollars
Assets to be disposed of at disposition	Land	Tottori city, Tottori	¥263	$1,889
Idle assets	Land	Uki city, Kumamoto	219	2,267
Total			¥482	$4,156

The recoverable amount of the assets to be disposed of at disposition and idle assets was measured by their net selling price at disposition.

In the year ended February 28, 2005, the Company decided 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 in losses.

6. 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. 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 ¥114 million ($985 thousand) and ¥101 million as of February 28, 2006 and 2005, respectively. The payments of retirement benefits to directors and corporate auditors are subject to approval at the shareholder's meeting.

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

The liability for employees' retirement benefits at February 28, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥415	¥315	$3,579
Liability for employees' retirement benefits	¥415	¥315	$3,579

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥111	¥34	$961
Gain or loss on plan assets		(2)	
Contribution to the contributory funded plan		40	
Net periodic retirement benefit costs	¥111	¥72	$961

For the year ended February 28, 2005, the Group also recorded a loss on settlement and revision of severance payment plans of ¥47 million which was included in "other-net" in the consolidated statements of income.

7. 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 qualified for hedge accounting for the year ended February 28, 2006, no disclosures of market value information are presented.

8. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued 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 are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of 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 of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥ 18,861 million ($ 162,591 thousand) as of February 28, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semi annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semi annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for the presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

9. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.7% and 41.8% for the years ended February 28, 2006 and 2005, respectively.

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 40.7%, 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 40.7% as at February 28, 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 28, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
CURRENT:			
Deferred tax assets:			
Accrued enterprise tax and business facility tax	¥ 239	¥ 235	$ 2,059
Accrued bonuses	155	123	1,336
Landholding tax	113	56	974
Other	16	14	144
Deferred tax assets	¥ 523	¥ 428	$ 4,513
NON-CURRENT:			
Deferred tax assets:			
Depreciation	¥ 476	¥ 644	$ 4,104
Impairment loss, including write-down of property, plant and equipment	1,141	941	9,837
Lease deposits received and long-term unearned income	69	58	598
Retirement benefits	210	158	1,420
Other	70	93	991
Deferred tax assets	1,966	1,894	16,950
DEFERRED TAX LIABILITIES:			
Lease deposits paid and long-term prepaid expenses	656	634	5,652
Deferred capital gains on property	225	252	1,937
Other	32	20	288
Deferred tax liabilities	913	906	7,877
Net deferred tax assets	¥1,053	¥ 988	$ 9,073

10. Leases

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

Total rental expenses for the years ended February 28, 2006 and 2005 were ¥14,458 million ($124,636 thousand) and ¥13,174 million, respectively, including ¥366 million ($3,159 thousand) and ¥443 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 and lease payments 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, 2006 and 2005 was as follows:

	Millions of Yen				
	2006				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥3,234	¥114	¥759	¥45	¥4,152
Accumulated depreciation	804	52	471	34	1,361
Net leased property	¥2,430	¥ 62	¥288	¥11	¥2,791

	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

	Thousands of U.S. Dollars				
	2006				
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	$27,879	$987	$6,539	$389	$35,794
Accumulated depreciation	6,929	451	4,060	291	11,731
Net leased property	$20,950	$536	$2,479	$ 98	$24,063

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 322	¥ 364	$ 2,780
Due after one year	2,469	2,782	21,283
Total	¥2,791	¥3,146	$24,063

Lease payments and depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Lease payments	¥366	¥443	$3,159
Depreciation expense	366	443	3,159

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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 12,097	¥ 12,097	$ 104,280
Due after one year	131,737	143,818	1,135,666
Total	¥143,834	¥155,915	$1,239,946

Undiscounted amounts of lease deposits for these non-cancellable operating leases were ¥47,150 million ($406,462 thousand) and ¥47,304 million at February 28, 2006 and 2005, respectively. Discounted amounts of ¥42,104 million ($362,963 thousand) at February 28, 2006 and ¥41,772 million at February 28, 2005 were accounted for as lease deposits paid in the balance sheet.

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 ¥7,000 million ($60,345 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, 2006, 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, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year ended February 28, 2006	Net Income	Weighted-average Shares	EPS	
Basic EPS				
— Net income available to common shareholders	¥6,755	38,149	¥177.06	$1.53
Effect of Dilutive Securities —				
Zero coupon bonds		67		
Diluted EPS				
— Net income for computation	¥6,755	38,216	¥176.75	$1.52
Year ended February 28, 2005				
Basic EPS				
Net income available to common shareholders	¥4,707	35,407	¥132.94	
Effect of Dilutive Securities				
Zero coupon bonds		2,924		
Diluted EPS				
Net income for computation	¥4,707	38,331	¥122.80	

13. Subsequent Events

a. New Parent — Subsidiary Relationship — The Company was an associated company of AEON Co., Ltd. on February 28, 2006. AEON Co., Ltd. acquired additional shares through a tender offer, and owned 60.09% of the Company's voting common stock at May 11, 2006.

As a result, AEON Co., Ltd. became the parent company of the Company.

b. Appropriations of Retained Earnings — The following appropriations of retained earnings at February 28, 2006 were approved at the Company's shareholders meeting held on May 18, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15 ($0.13) per share	¥573	$4,940
Bonuses to directors and corporate auditors	47	409

14. Transactions With Related Parties

The Company had transactions with following related parties.

AEON Co., Ltd.

A shareholder who owns 27.45% and 27.94% of the Company's voting common stock at February 28, 2006 and 2005, respectively.

Mitsubishi Corporation

A shareholder who owns 27.45% and 27.93% of the Company's voting common stock at February 28, 2006 and 2005, respectively.

AEON Kyusyu Co., Ltd.

A subsidiary of AEON Co., Ltd.

Transactions with these related parties for the years ended February 28, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Revenue from leases of shopping centers to AEON Co., Ltd.	¥ 5,663	¥ 6,161	$48,812
Repayment of lease deposits from AEON Co., Ltd.	354	718	3,053
Revenue from sale of fixed assets to AEON Co., Ltd.	3,450		29,741
Purchase of buildings and structures of shopping centers from Mitsubishi Corporation	10,669	16,816	91,970
Revenue from leases of shopping centers to AEON Kyusyu Co., Ltd.	1,131	1,070	9,748
Receipt (repayment) of lease deposit from AEON Kyusyu Co., Ltd.	56	(774)	480

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

The balances due to or from these related parties at February 28, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Receivables — Trade accounts from AEON Co., Ltd.	¥ 148	¥ 197	$ 1,275
Lease deposits received from AEON Co., Ltd.:			
Current-portion	323	323	2,786
Long-term	5,662	6,016	48,812
Payable — Construction to Mitsubishi Corporation	6,226	12,589	53,675
Payable — Trade accounts to Mitsubishi Corporation	37		321
Receivables — Trade accounts from AEON Kyusyu Co., Ltd.	20	7	171
Lease deposits received from AEON Kyusyu Co., Ltd. — Long-term	249	194	2,149

Note: Lease deposits received are at stated amounts.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23 Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81 (3) 3457 7321
Fax: +81 (3) 3457 1694
www.deloitte.com/jp

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. (the "Company") and subsidiary (together the "Group") as of February 28, 2006 and 2005, 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, 2006 and 2005, 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.

As discussed in Note 2.e to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of March 1, 2005.

As discussed in Note 13.a to the consolidated financial statements, AEON Co., Ltd. became the parent company of the Company through a tender offer on May 11, 2006.

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 18, 2006

Member of
Deloitte Touche Tohmatsu

DIRECTORS AND AUDITORS

(As of May 18, 2006)

Chairman	Naoki Hayashi	Managing Director	Yoshishige Ikeda	Director	Masato Murai
President and CEO	Yozo Tai	Director	Motoya Okada	Standing Auditor	Aritsune Hayashi (full-time)
Senior Managing Director	Chitoshi Yamanaka	Director	Masayuki Yoda	Auditor	Hisateru Taniuchi
Managing Director	Makoto Sakamoto	Director	Masahiro Sakabe	Auditor	Seiji Fujii
Managing Director	Kenzo Fujitsuka	Director	Masayuki Moro	Auditor	Norimitsu Yamaguchi

CORPORATE DATA

Name of company:	Diamond City Co., Ltd.
Head office:	4F, Shibuya Minami Tokyu Building, 12-18, Shibuya 3-chome, Shibuya-ku, Tokyo 150-0002, Japan Tel: +81-3-5469-5200 Fax: +81-3-5469-5240
Office: Osaka Office	12F, Kurabo Annex Building, 4-11, Kyutaro-machi 2-chome, Chuo-ku, Osaka 541-0056, Japan Tel: +81-6-6261-9600 Fax: +81-6-6261-9610
Date established:	March 20, 1969
Capital:	¥8,867 million (As of February 28, 2006)
Number of employees:	246 (As of February 28, 2006)
Public listings:	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section
Number of shareholders:	4,653 (As of February 28, 2006)
Transfer agent:	The Mitsubishi UFJ 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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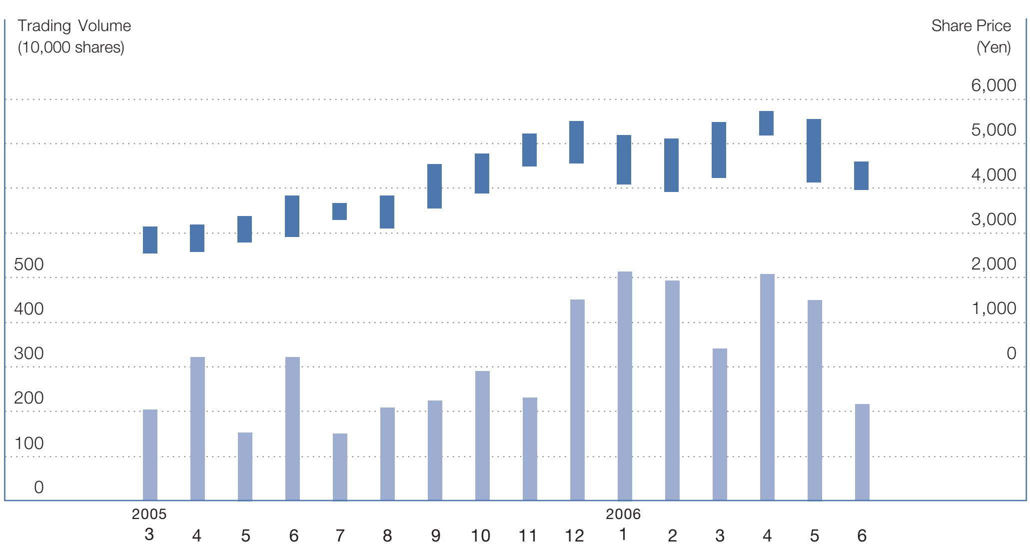

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DIAMOND CITY CO., LTD.

4F, Shibuya Minami Tokyu Bldg., 12-18, Shibuya 3-chome, Shibuya-ku, Tokyo 150-0002, Japan
Tel: 81-3-5469-5200 Fax: 81-3-5469-5240

http://www.diamondcity.co.jp/