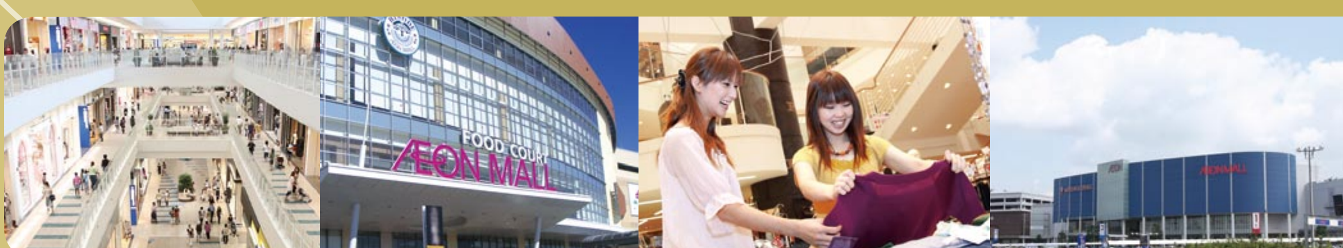
Planting Seeds of Growth
We are ÆON

ÆON MALL CO.,LTD.

2008

Year ended February 20, 2008

ANNUAL REPORT



On August 21, 2007, ÆON Mall Co., Ltd., which has mainly developed suburban malls, and Diamond City Co., Ltd., which specializes in mall development in the areas neighboring large cities, merged to become the new ÆON Mall.

This merger has created a significant synergistic effect. The merger has resulted in a major corporate expansion, with the new company operating a total of 46 malls in the Tokyo metropolitan area and 25 prefectures around Japan as of the close of fiscal 2008 (ended February 20, 2008). Furthermore, through the integration of expertise on location development and tenant leasing capabilities, the Company has been successfully enhancing its cost-competitiveness.

Grounded in this newly gained foundation of solid management and its basic philosophy of "Customers First," ÆON Mall strives to develop malls through efforts based on its management philosophy of creating "Towns with Vitality." Over the next decade, by fiscal 2018, it will strive to meet its "Global 5" management vision.

ÆON MALL CO., LTD.

AUGUST 21, 2007: **MERGER**

ÆON Mall began operations as Japan's top mall development specialist, boasting 44 malls in operation at the time of the merger.

The new company formulated the "Global 5" management vision that sets forth the goal of being ranked one of the top five mall developers* in the world by fiscal 2018. It also announced a Medium-Term Management Plan, which aims to reach ¥2 trillion in retail sales and ¥200,000 million in operating revenue by fiscal 2011.

* A ranking made according to a survey conducted by the International Council of Shopping Centers (ICSC) based on the gross leasing area (GLA).

SEPTEMBER 22, 2007: **ALL MALLS WERE RENAMED ÆON MALL.**

MARCH 20, 2007: **MERGER ANNOUNCEMENT**

ÆON Mall and Diamond City have agreed to merge in a spirit of equal partnership, and upon receiving approval at the annual stockholders' meeting held on May 17, 2007, the two entities commenced the merger process.

ÆON Mall Co., Ltd.: Established in 1911. Entered the mall development business in 1989. Listed on the First Section of the Tokyo Stock Exchange.

Diamond City Co., Ltd.: Established in 1969. Listed on the First Section of the Tokyo Stock Exchange.

ÆON Mall Hanyu

38 large-scale malls

✦ **ÆON MALL HAS ALSO BECOME THE TOP DEVELOPER OF LARGE-SCALE MALLS.**

Thirty-eight of them boast sales floor areas of more than 40,000 m², making ÆON Mall the top developer of large-scale malls.

46 malls

✦ **ÆON MALL HAS MADE A LEAP FORWARD TO BECOME JAPAN'S TOP MALL DEVELOPER.**

Since the merger, two new malls were opened, bringing the total number of ÆON malls to 46 as of February 20, 2008 (the fiscal year-end).

In fiscal 2009, ÆON Mall plans to open four new malls and expand and renovate six existing ones, as well as open its first overseas mall in Beijing.

¥96,806 million

✦ **ÆON MALL DRASTICALLY INCREASED ITS OPERATING REVENUE AND PROFIT IN FISCAL 2008.**

Thanks in part to the merger, ÆON Mall recorded operating revenue of ¥96,806 million, up 55.5% from the previous fiscal year; operating income of ¥31,642 million, up 44.6%; and net income of ¥17,439 million, up 43.2%. Return on assets (ROA) was 10.0%.

NOVEMBER 2007: TWO NEW MALLS OPENED.

ÆON Mall Hanyu (November 2) and
ÆON Mall Hinode (November 23).

TWO MALLS WERE EXPANDED, RENOVATED AND REOPENED.

ÆON Mall Kawaguchi carat (November 23) and
ÆON Mall Chiba NEW TOWN (November 23).

ÆON Mall Hinode

ÆON Mall Kawaguchi carat

ÆON Mall Chiba NEW TOWN

CONTENTS

To Our Shareholders and Investors ------------------------ 3

Consolidated Financial Highlights -------------------------- 5

President's Interview -- 6

Special Feature: An In-Depth Study of ÆON Mall ---- 12

An Overview of the Shopping Mall Business----------- 16

Corporate Social Responsibility (CSR) Activities -----22

Corporate Governance--27

Directors and Corporate Auditors -------------------------30

Financial Section--31

Investor Information --52

Corporate Data ---60

To Our Shareholders and Investors

On August 21, 2007, ÆON Mall Co., Ltd. entered into a merger with Diamond City Co., Ltd. to become the new ÆON Mall Co., Ltd. The first settlement of accounts since the merger shows that we have absorbed the merger costs and recorded an increase in both revenue and income, achieving the best performance in the Company's history.

Noriyuki Murakami
President and CEO

ÆON Mall Co., Ltd. posted a record-setting performance in fiscal 2008, ended February 20, 2008. This is due to its merger with Diamond City Co., Ltd., concluded on August 21, 2007 in the spirit of equal partnership, to begin operations as the new ÆON Mall Co., Ltd. Specifically, we recorded operating revenue of ¥96,806 million (up 55.5% year on year), operating income of ¥31,642 million (up 44.6% year on year), and net income of ¥17,439 million (up 43.2% year on year). Net income per share amounted to ¥115.63 for fiscal 2008. However, since we implemented a two-for-one stock split on February 21, 2007, which brings net income per share to ¥101.50 for fiscal 2007, our actual growth rate was more than 13%.

Immediately following the merger, we changed all of our malls' names to ÆON Mall, reorganizing into a new network of 44 malls nationwide. Only three months following the merger, on November 2, 2007, we opened a new mall, ÆON Mall Hanyu in Saitama Prefecture. On the 23rd of that same month, we opened three malls on the same day, which involved the opening of the new ÆON Mall Hinode in Tokyo and the reopening of the ÆON Mall Kawaguchi carat (Saitama Prefecture) and ÆON Mall Chiba NEW TOWN (Chiba Prefecture) that had gone through expansion and renovation. This accomplishment, too, was made possible by the enhanced capabilities resulting from the merger.

I view this merger as a "merger of hearts," an opportunity to bring together the human resources of the two companies to spread and share each other's professional expertise. This is made evident by our latest record-setting performance, which was recorded after the merger costs were absorbed. Our basic philosophy is "Customers First," and our management philosophy is creating "Towns with Vitality."

These philosophies hold the key to our future growth. Having set our long-term vision, entitled "Global 5," for the next decade ending in February 2018, we will strive to be ranked among the top five mall developers in the world in terms of the floor area of shopping malls we operate and manage. We have begun by launching our Medium-Term Management Plan for fiscal 2009 through fiscal 2011. As a mall developer with a high degree of expertise in the retail business, we will do our utmost to reach our medium-term goals by establishing even better relations with all of our stakeholders including the local communities, the great number of customers who visit our malls, and our tenants. ÆON Mall is promoting the adoption of universal design (UD) so that all of its customers including small children, the elderly, and those with physical disabilities may enjoy shopping "safely, comfortably, and with peace of mind." Placing importance on environmental measures which are of high concern for local residents, we are also working to keep down CO_2 emissions by taking such measures as planting trees, installing solar panels, and providing air conditioning by using ice thermal storage systems. Moreover, to offer our shopping malls as public space for the local communities, we not only hold income tax return services, coming-of-age ceremonies and blood drives, but are also concluding agreements with local authorities to become disaster-prevention facilities.

Such measures have won favorable reviews by external sources. For example, ÆON Mall received first place in the Nikkei Environmental Management Survey (Nihon Keizai Shimbun, Inc.) in the "Warehouse/Real Estate/Other" category, and has been included in "FTSE4Good," an internationally recognized social responsibility investment (SRI) index, for four years in a row.

We at ÆON Mall will continue to work in line with our basic philosophy of "Customers First" and our management philosophy of creating "Towns with Vitality" as we go forth in our effort to develop malls that are loved by our customers. We appreciate your continued patronage and support.

July 2008

村上教行

Noriyuki Murakami
President and CEO

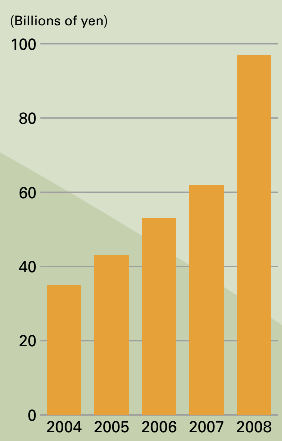
Consolidated Financial Highlights

ÆON Mall Co., Ltd. and Subsidiary
Years ended February 20

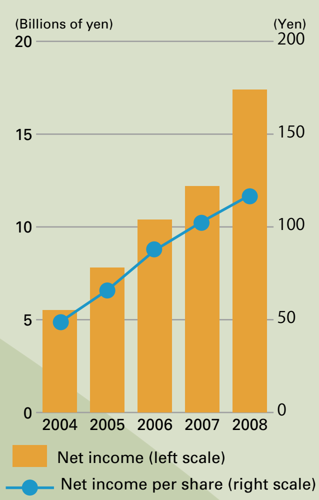
	Millions of Yen (except where noted) 2006	2007	2008	Thousands of U.S. Dollars (except where noted) (Note 1) 2008
For the year:				
Operating revenue	¥ 52,903	¥ 62,253	**¥ 96,806**	**$ 896,771**
Operating income	18,510	21,879	**31,642**	**293,120**
Net income	10,369	12,181	**17,439**	**161,551**
Capital expenditures	31,346	44,548	**37,564**	**347,973**
Depreciation and amortization	7,748	8,611	**10,933**	**101,281**
Free cash flows	3,406	(19,514)	**18,421**	**170,642**
Per share data (yen and U.S. dollars):				
Net income	¥ 85.99	¥ 101.50	**¥ 115.63**	**$ 1.07**
Cash dividends	12.50	15.00	**17.50**	**0.16**
Net assets	408.76	497.50	**675.44**	**6.25**
At year-end:				
Total equity	¥ 49,103	¥ 60,034	**¥122,734**	**$1,136,954**
Total assets	202,132	233,057	**377,661**	**3,498,483**
Ratio (%):				
ROE	23.4%	22.4%	**19.2%**	
ROA	8.9	9.6	**10.0**	
Equity ratio	24.3	25.6	**32.4**	

Note: 1. On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.
2. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥108=U.S.$1, the exchange rate prevailing on February 20, 2008.
3. ÆON Mall carried out a 2-for-1 stock split on February 21, 2007.

■ **Operating revenue**

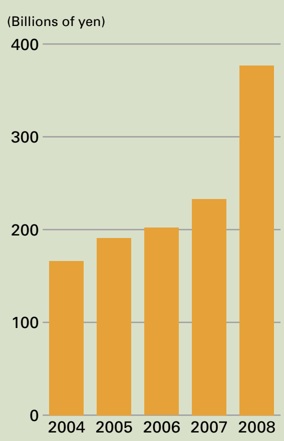


■ **Net income and net income per share**

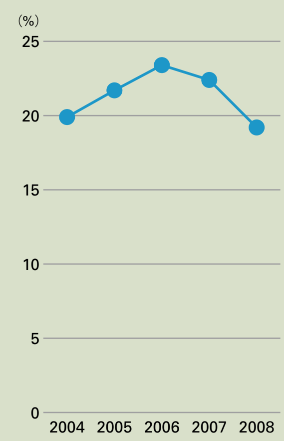


Note: ÆON Mall carried out a 2-for-1 stock split on April 11, 2005 and a 2-for1 stock split on February 21, 2007.

■ **Total assets**



■ **ROE**



President’s Interview

The new ÆON Mall Co., Ltd. has enhanced its organizational capabilities through its successful merger and has further fortified its position as Japan’s leading mall development company. We asked President and CEO Noriyuki Murakami about the Company’s business strategies in support of its goal of creating “Towns with Vitality.”

Question: What are the factors that contributed to the success of ÆON Mall’s merger with Diamond City Co., Ltd.?

Answer: I believe the success is due to the fact that we were able to gain the understanding of the stakeholders and employees regarding our “merger of hearts” policy, which places primary importance on “people.” Based on the belief that a corporation’s strength rests on the capabilities of the employees that work there, we have taken care to promote interpersonal relations. The key was that based on this policy we set the high goal of creating an entirely new company. As a result, not only did we retain all our highly capable executive-level employees, we also succeeded in posting a record-setting performance, even though the environment surrounding the retail industry did not warrant optimism.

Question: How do you evaluate the record-setting performance and the effect of the merger?

Answer: In fiscal 2008 (ended February 20, 2008), we recorded operating revenue of ¥96,806 million (up 55.5% year on year); operating income of ¥31,642 million (up 44.6% year on year), and net income of ¥17,439 million (up 43.2% year on year). Net income per share was ¥115.63. Taking into account the two-for-one stock split that we implemented on February 21, 2007, our income actually increased. Since the formal date of the merger was August 21, 2007, we were able to achieve such numbers thanks to Diamond City’s contributions in just six months.

Following the merger, we first changed all of our malls’ names to ÆON Mall and introduced the policy of “One Company, One System” to promote uniformity of operations and systems within our new company. We worked on mutually spreading and sharing the expertise that the two companies had cultivated over the years as mall developers. In other words, we promoted thorough communication within our new company.

As a result, we succeeded in accomplishing the near-impossible feat of opening four outlets almost simultaneously in November 2007: the new ÆON Mall Hanyu in Saitama Prefecture and ÆON Mall Hinode in Tokyo, and the expanded and renovated ÆON Mall Kawaguchi carat in Saitama Prefecture and ÆON Mall Chiba NEW TOWN in Chiba Prefecture.

I believe that our latest merger has enhanced our organizational capabilities and touched off a chain reaction of successful outcomes.

Question: Please talk about the goals you are aiming for under your long-term vision, "Global 5," and the Medium-Term Management Plan.

Answer: Our long-term vision, "Global 5," was formulated at the time of our merger. It aims to achieve our goal of being ranked among the top five mall developers in the world within the next decade, by the fiscal year ending in February 2018, based on the gross leasing area surveyd by the International Council of Shopping Centers (ICSC). Specifically, the goals listed in the vision are to (1) create a network of 150 malls worldwide, (2) be considered the No. 1 company and/or mall that people wish to work for, (3) become one of a kind in new fields that transcend the conventional regional shopping center (RSC) business model, (4) become everyone's favorite mall through outstanding services filled with "surprises, excitement and fun," and (5) become the global leader in environmentally managed mall development.

To achieve these goals, we are tackling five specific challenges under the Medium-Term Management Plan over the period between fiscal 2009 and fiscal 2011. We will (1) expand new mall openings, (2) enhance the profitability of the malls, (3) accelerate international business expansion, (4) undertake revitalization of businesses and (5) promote activities that help counter global warming.

Moreover, by fiscal 2011, which is the last year of the Medium-Term Management Plan, we plan to open 15 new malls, and as a management index, we will aim to achieve ¥2 trillion in mall retail sales, ¥200,000 million in operating revenue, and ¥60,000 million in ordinary income. Management indexes we have set are 30% for the equity ratio and 10% for ROA (ratio of ordinary profit to total assets).

Question: What are your views on the trends in Japan’s mall sector and ÆON Mall’s strategies?

Answer: The retail sales industry is currently facing a challenging time. Due to the rise in consumer prices triggered by hikes in the prices of crude oil and raw materials, customers are becoming more and more selective about what they buy. To meet this challenge, ÆON Mall will work to create malls that are fresh and highly attractive.

Specifically, we need to enhance our ability to attract specialty shops (tenant leasing) that are aligned with specific market characteristics, and to take appropriate measures to expand and renovate malls in a planned manner and to deal with swift changes of tenants. To enhance mobility and clarify responsibilities, we have reorganized our sales departments into seven regions around Japan from the original five. Also, as part of our revitalization measure, we set up a property management department within the sales headquarters and created a system for reinvigorating our existing malls by providing our long-cultivated expertise on development, operation and management. We also increased the number of employees in charge of tenant leasing by 20%, to 40 people. Further, with a newly established Strategy Division, combining the management planning department and the international business planning department under its control, we will reinforce various aspects of our business through a wide range of measures to further enhance the earning power.

Question: How do you plan to open new malls and revitalize the existing ones?

Answer: The opening of new malls, and expansion and renovation of existing ones, are welcomed by our customers and are an important means of sustaining our growth. We are currently planning to open four new malls, and expand and renovate six existing malls in fiscal 2009.

The new malls in the making are ÆON LakeTown KAZE (Saitama Prefecture), ÆON Mall MiELL Miyakonojo-Ekimae (Miyazaki Prefecture), ÆON Mall Kusatsu (Shiga Prefecture) and ÆON Mall Chikushino (Fukuoka Prefecture). After their opening, the total number of ÆON malls will be 50.

The existing malls that are to be expanded and renovated in turn comprise ÆON Mall Higashiura (Aichi Prefecture), ÆON Mall Suzuka BELLCITY (Mie Prefecture), ÆON Mall Kurashiki (Okayama Prefecture), ÆON Mall Fukuoka LUCLE (Fukuoka Prefecture), ÆON Mall Okazaki (Aichi Prefecture) and ÆON Mall Kashihara ARURU (Nara Prefecture).

Question: What are your strengths as a mall developer experienced in retail sales?

Answer:

ÆON Mall has consistently developed, operated and managed malls from the standpoint of its customers. As the growth potential of the mall business has been attracting attention from many other industry sectors, competition is expected to intensify further in the future. But we at ÆON Mall plan to meet our customers' needs by drawing on our strengths, which are the areas of expertise we have cultivated up to now. What I mean by malls that possess such strengths are those that can provide the types of services tailored to the purchasing needs of the customers and combine the four functions necessary for promoting greater customer satisfaction: shopping, entertainment, communication and corporate social responsibility (CSR).

Specifically, we must bring together, within the mall, shops, restaurants and other venues that offer the kind of shopping enjoyment and entertainment services that match the customers' needs. Another factor to consider is providing a space for communication for the local communities. Many of our malls are being used by the local residents as facilities for submitting absentee ballots during election time, filing income tax returns, holding coming-of-age ceremonies (*seijin shiki*) and providing vocational aid for physically disabled persons. It is also important to offer features that are friendly to people and the environment as part of our CSR efforts.

Question: What are your views on the globalization of Japanese malls and overseas expansion?

Answer:

I believe the relations between Japan and the rest of Asia will become even more close-knit in the future. ÆON Mall is about to embark on a full-fledged effort to create the foundation for the global mall business centered mainly on Asia. To that end, we have established a subsidiary company in Beijing and opened a representative office in Shanghai. We plan to open the ÆON Beijing International Shopping Mall in fiscal 2009 to develop local management expertise and establish a business model for opening many more malls within China.

At the same time, the malls within Japan are also facing the trend toward globalization. As our malls are seeing an increase of customers who are from other countries, we are working to meet their needs by diversifying the product lineup, creating pamphlets in multiple languages for foreigners who live in large numbers in the region and displaying floor guides in three languages: Japanese, English and Chinese. At some of our tenants' shops, more than half of the sales are made to foreign visitors. While ÆON Mall is located in Japan, we are experiencing comprehensive globalization. We believe that the true meaning of globalization is not just to expand business overseas; each mall must, at the same time, take appropriate measures in line with the local characteristics and situations.

Question: Please tell us about your revitalization business for shops other than those at your malls.

Answer: One example of this is our entering into a consulting contract with East Japan Railway Company (JR East) regarding the building affixed to JR Tsuchiura Station in Ibaraki Prefecture. This contract offers an opportunity for JR East to utilize our company's expertise to attract tenants and for us to investigate new business possibilities.

Question: Please discuss in detail the adoption of universal design (UD) in your malls and your environmental policies.

Answer: ÆON Mall has already begun adopting UD in our malls so that all of our customers, including those with young children, the elderly and those with physical disabilities, can have an enjoyable shopping experience. One result of this is signs that are easy to see and understand that we set up based on feedback from visiting customers. We are also working on building "kids' restrooms" and "restrooms for babies that include toilets," which were in high demand, and on installing low-level water fountains that can be reached by young children throughout the mall, in line with standards stipulated in the New Barrier Free Law.

Moreover, as it is upheld in our Medium-Term Management Plan "to promote activities that help counter global warming," promoting environmental policies is one of our corporate philosophies and an important social contribution. We have thus far been implementing a wide range of efforts. For example, we established the ÆON Mall SR Committee, chaired by the president and attended by directors monthly, to formulate codes of conduct and standards related to environmental protection, as well as compliance with laws and regulations.

In addition, we have planted locally indigenous trees within the premises of malls and promoted greening of mall roofs. We have also installed solar energy panels, large-scale ice thermal storage systems designed to effectively utilize night-time electricity and hybrid sunlamps. Furthermore, we use eco-cement, recycled wood for benches within the malls and light emitting diodes (LEDs) that require very little electricity for lighted signs.

Furthermore, we have set up a new preferential system for our stockholders. As one of our complementary products to select from, we now offer a "carbon offset service." By choosing this product, the stockholder receives ri ghts to CO_2 emission that will be transferred to Japan's National Registry free of charge. In other words, the stockholder can contribute to compliance with the Kyoto Protocol. It is our wish, as a corporation that places great value on environmental issues, to win the cooperation of stockholders who have chosen to invest in ÆON Mall not simply to gain a monetary return.

Question: Please tell us about the Company's cash dividend policy for fiscal 2009.

Answer: We recognize that returning profits to our stockholders is a very important issue for management. Regarding profit-sharing, we place value on continuing steady distribution. As for internal reserves, it is our basic policy to effectively invest in them to strengthen our management structure, including new or growing businesses designed to fortify our business foundation. As we will continue to promote the development of new malls and the revitalization of existing ones, we have set the annual dividend payout ratio around 15%.

Cash dividends per share for fiscal 2008 were initially set at ¥15.00 for the year, but subsequently we decided to offer a year-end dividend of ¥10.00. This, together with an interim dividend of ¥7.50, brought the dividend to ¥17.50 per share for the year. For fiscal 2009, current plans call for cash dividends per share of ¥20.00 for the year, comprising an interim dividend of ¥10.00 and a year-end dividend of ¥10.00.

Question: Please tell us about your consolidated financial outlook for fiscal 2009.

Answer: Our consolidated financial outlook for fiscal 2009 envisions operating revenue of ¥130,000 million (up 34.3% year on year), operating income of ¥41,000 million (up 29.6% year on year), and net income of ¥21,000 million (up 20.4% year on year). We anticipate net income per share of ¥115.94 (up from last fiscal year's ¥115.63). Moreover, capital investment is expected to be ¥82,000 million, and depreciation is expected to be ¥15,000 million.

We are confident that we will achieve these numerical targets. We will strive for steady growth as we continue to place people first and develop attractive malls that always keep in mind our customers' perspectives.

Special Feature: An In-Depth Study of ÆON Mall

Shopping malls are finding an increasingly prominent position within Japan's retail industry. ÆON Mall Co., Ltd. is leading this industry as the top mall developer.

The Mall Industry Continues to Evolve

Let us take a brief look at the history of shopping malls in Japan. Before 1969, there were 129 malls in the country. Most of them were so-called Japanese-style malls that were built adjacent to large-scale transportation facilities. For example, they took the form of buildings annexed to train stations, underground arcades, or specialty store malls found near a station in major urban centers. From 1970 onward, malls in urban areas began to compete against those in suburban areas, and eventually mainstream shopping center development began to move to suburban settings (source: *SC White Paper*, Japan Council of Shopping Centers [JCSC]).

This trend became even more apparent in the 1990s. In particular, when the Large Scale Retail Store Law was replaced by the Large Scale Retail Store Location Law in June 2000, there was a surge in the number of large-scale suburban-type malls. Approximately 100 malls have been built every year since then, and by the end of 2007 the total number of malls around the country had reached 2,804.

The ratio of malls' sales volume among all retail sales in Japan has also been increasing every year. Whereas the sales volume of all other business types has remained generally unchanged, malls' share of sales volume has exceeded 20% over the past 20 years.

Among the factors that contributed to the growth of malls was that customers welcomed malls offering a combination of various types of businesses and services, as well as the advancement of motorization and suburban sprawl phenomenon, which have led people, particularly families, to frequent malls that have spacious parking lots. Another major factor is that many leading businesses have switched their expansion strategy to opening new stores in malls.

The most widely popular type of mall in recent years has been one composed of several anchor stores and many specialty store tenants. In addition to general merchandise stores (GMS), we are seeing an increasing number of department stores opening in malls as anchor stores.

ÆON Mall Boasts the Top Share as a Large-Scale Mall

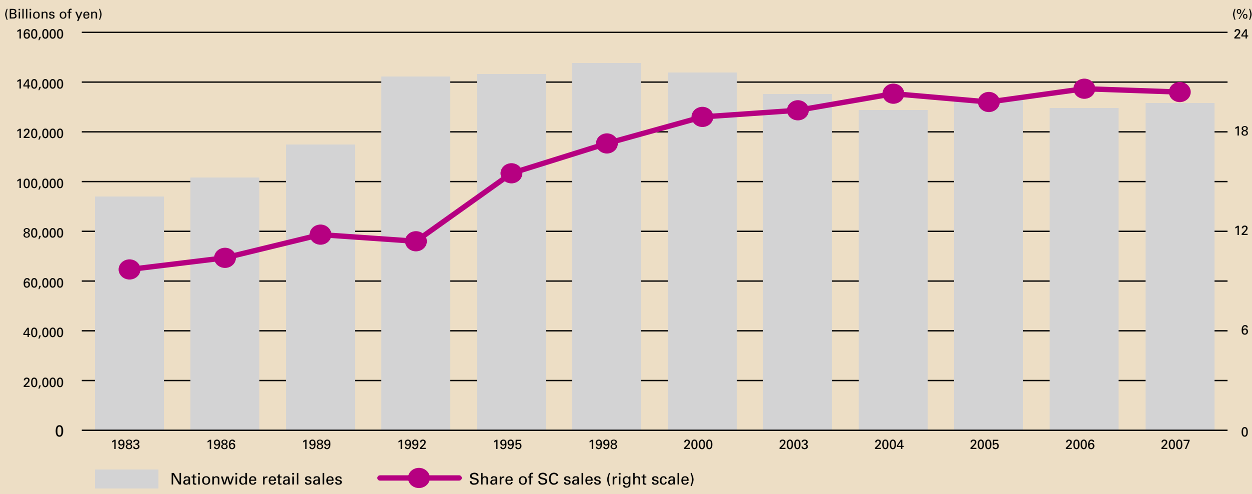
In our industry, many headline-grabbing malls with distinctive features have attracted attention in recent years. At the same time, malls are growing larger in scale. According to the *SC White Paper*, the average retail area per shopping center has grown to 16,673 m^2 in 2007 (up 2.4% from the previous year), and of the 89 new malls built in that year, 31 are large-scale, with a retail area of more than 40,000 m^2.

As of February 20, 2008, the average size of the 46 malls operated by ÆON Mall was 58,000 m^2. According to the nationwide standard for malls, this would fall under the category of large-scale malls. Operating 38% of all large-scale malls that are larger than 40,000 m^2 in size, ÆON Mall boasts the top share in the industry.

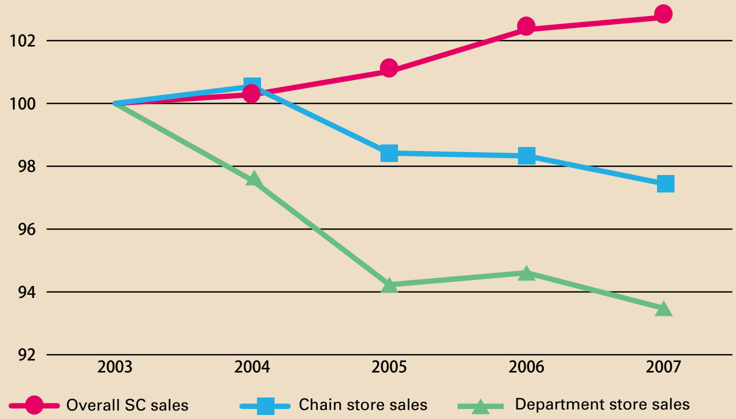
Drawing More Customers by Offering Multiple Functions: Enhancing the Service Department

The customers' purpose for coming to the malls seems to be changing from simply shopping for goods to enjoying the mall itself. As such, ÆON Mall is putting effort into creating a multifunctional facility that not only offers goods for sale, but also eateries, various services, amusement, entertainment, administrative functions, and space for the local community. Specifically, we are increasing the proportion of service-oriented facilities, including fast-food and other forms of restaurants, healthcare facilities, "culture centers" (offering culture-oriented classes and seminars), movie theaters, and video game arcades. ÆON Mall's facilities have also been serving a role as community centers for local residents. For example, ÆON Mall has been cooperating with local governments by offering the ÆON Halls within the shopping malls for use for such events as lectures on income tax returns and drivers' licenses, early voting during elections, and coming-of-age ceremonies. In addition, the malls provide space for other activities such as blood drives operated by the Japanese Red Cross Society as well as festivals and emergency drills in which local residents participate.

■ **Ratio of SC Sales to Nationwide Retail Sales**

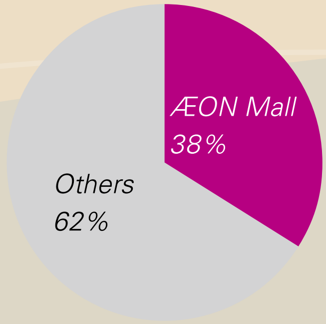


■ **Changes in Sales by Category (2003 = 100)**



■ **ÆON Mall Market Share by Number of Large-Scale SCs**

(Total Floor Space of Commercial Facilities of at Least 40,000m²) (As of February 20, 2008)



Taking advantage of the synergistic effect of its merger in areas of mall development and sales capabilities, ÆON Mall is headed for further growth.

Enhanced Mall Development Capabilities through "Merger = Consolidation of Expertise"

Through this merger, ÆON Mall has created a business structure to maximize its capability to develop malls in suburban areas and satellite towns. By thoroughly understanding the regional needs and special characteristics of specific market areas, we are further strengthening our development capabilities.

Our mall development is based on a format called "two anchors, one mall," in which two or more anchor stores (GMSs, department stores and large-scale retail stores) are connected by a specialty store mall.

The specialty store malls are able to serve multiple purposes, by offering a wide variety of goods and services to meet the diverse needs of daily life, including those related to fashion, assorted goods, restaurants, entertainment and other services. Also at these malls, we have taken care to maintain an air of newness as well as familiarity with our customers by giving equal weight to the concepts of "local tenants," "shops opening for the first time in the region" and "nationwide chains."

Marketing Capabilities Aimed at "Town Development"

We at ÆON Mall see our mall development work as "town development," rather than simply taking it as building a commercial facility. Our mission is to develop malls that have a place at the center of towns: community hubs that are much loved by their residents and grow together with them through mutual cultural interaction. To make this possible, we place importance on connecting with the local communities and administrations, and are working on numerous mall development projects that contribute to the regions' industrial and urban advancement.

To create a mall based on the concept of "town development," it is important to plan a balanced mix of tenants that allows our customers to enjoy their shopping comfortably. To make this possible, we make constant follow-ups after the mall's opening, including prompt reshuffling of shops as well as expansion and renovation of retail floors in a planned manner to meet the needs of the region and thereby respond to changes in the market area.

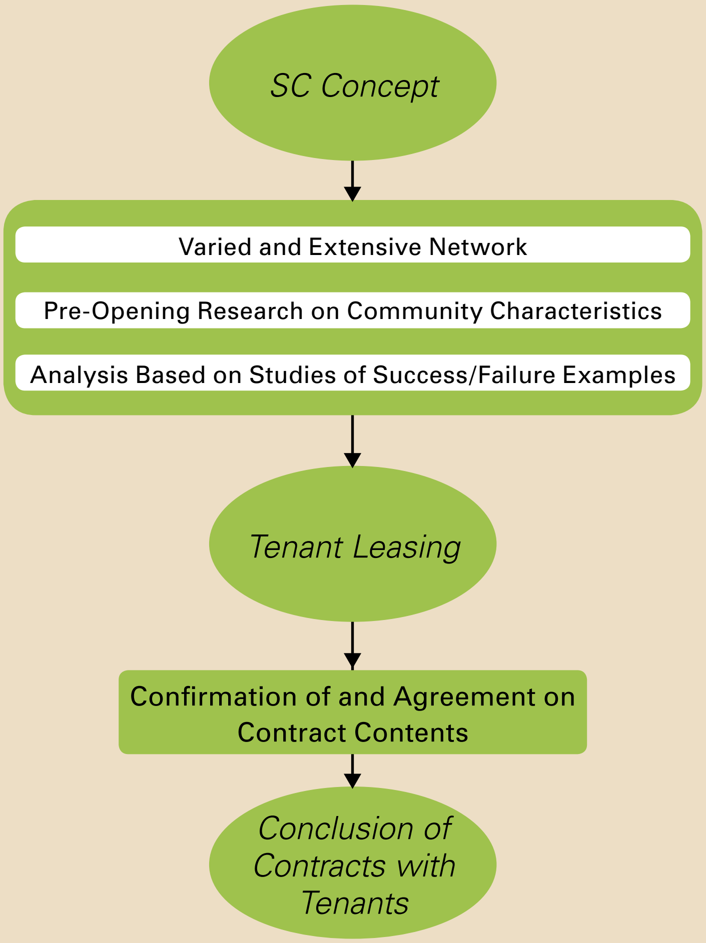
Unique Expertise Cultivated through Experience and Accomplishments

ÆON Mall extensively supports its specialty stores as important business partners, by offering advice on sales floor development and providing sales-related data collected and analyzed through the use of IT. As a result, we are considered to be the "shopping mall at which a great number specialty stores wish to open businesses." We believe this has resulted in an increased number of customers and greater sales at malls.

For example, our process of tenant leasing begins with a decision on a "concept for the mall," after which we investigate the regional needs and the market area characteristics through an extensive network. Upon examining past cases of success and failure, we move onto the stage of "specialty stores recruitment." Before entering into a contract, we check not only the potential tenant's financial factors such as its sales volume, but also its perspective on contributing to the regional community and environmental conservation activities, its stance on service improvement, and its compliance status with respect to various laws. Such processes are based on our own unique expertise cultivated through our experience and achievements thus far, and have allowed us to grow to become a leading Japanese mall developer, covering "site evaluation," "mall planning," "environmental design," "development," "construction," "leasing" and "mall operation."

■ **Concept of SC Development**

■ **Flow of Tenant Leasing**



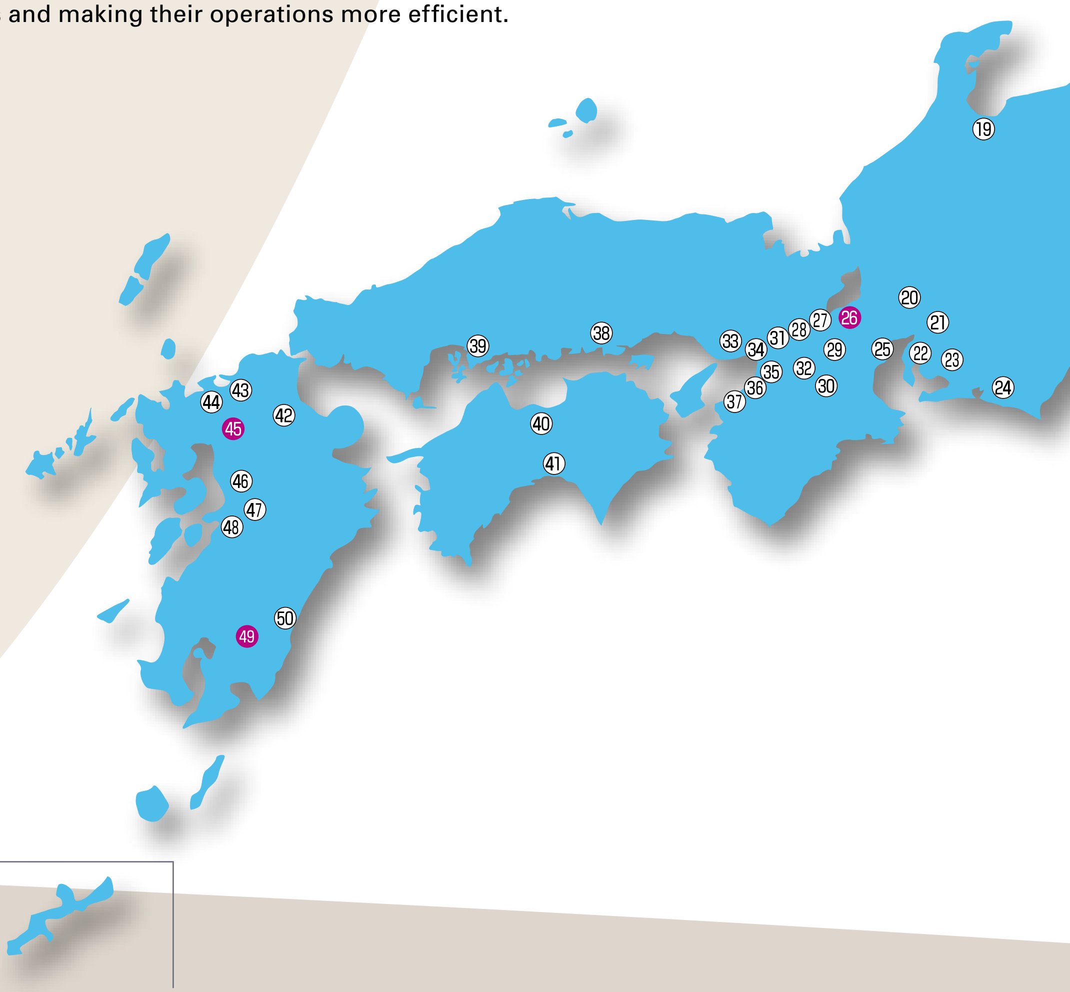
An Overview of the Shopping Mall Business

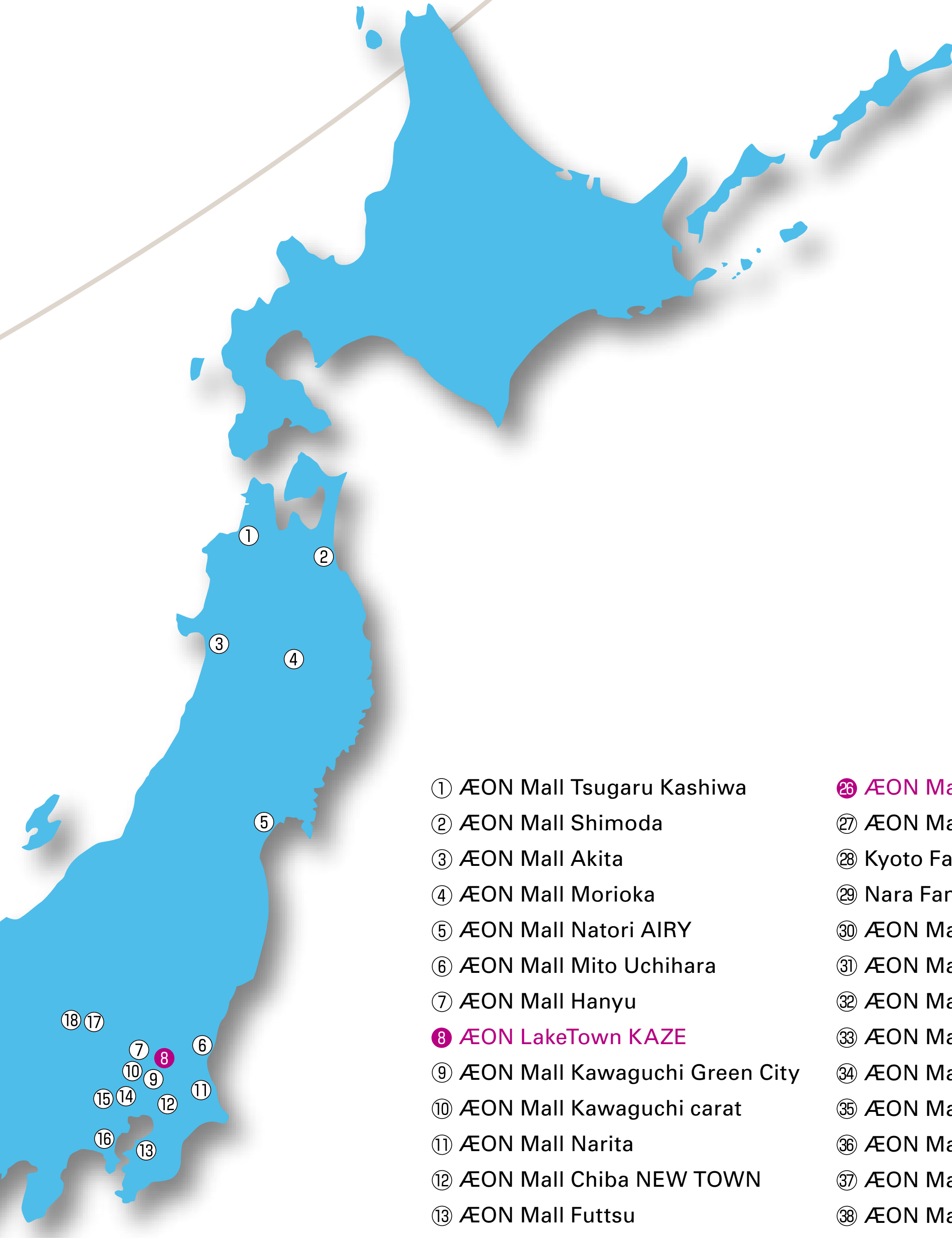
***Leaping forward as a shopping mall developer that specializes in both suburbs and satellite towns, ÆON Mall boasts the top share in the country in the management of large-scale malls having sales floor areas of over 40,000 m²*.**

Continuing to Expand the Development of Shopping Malls

After the merger on August 21, 2007, we opened two new malls to bring the total number of our malls to 46 in Tokyo and the 25 prefectures in Japan by the end of fiscal 2008. In fiscal 2009, ending February 20, 2009, we plan to open four new malls: ÆON LakeTown KAZE(Saitama Prefecture), ÆON Mall Kusatsu (Shiga Prefecture), ÆON Mall Chikushino (Fukuoka Prefecture) and ÆON Mall MiELL Miyakonojo-Ekimae (Miyazaki Prefecture).

We also plan the expansion and renewal of six existing malls within the same fiscal year: ÆON Mall Fukuoka LUCLE, which we reopened after renewal in May 2008, ÆON Mall Kashihara ARURU (Nara Prefecture), ÆON Mall Okazaki (Aichi Prefecture), ÆON Mall Higashiura, ÆON Mall Suzuka BELLCITY and ÆON Mall Kurashiki. We will work to further enhance profitability at other existing malls as well introduce attractive specialty stores, strengthening their competitiveness and making their operations more efficient.





1 ÆON Mall Tsugaru Kashiwa
2 ÆON Mall Shimoda
3 ÆON Mall Akita
4 ÆON Mall Morioka
5 ÆON Mall Natori AIRY
6 ÆON Mall Mito Uchihara
7 ÆON Mall Hanyu
8 ÆON LakeTown KAZE
9 ÆON Mall Kawaguchi Green City
10 ÆON Mall Kawaguchi carat
11 ÆON Mall Narita
12 ÆON Mall Chiba NEW TOWN
13 ÆON Mall Futtsu
14 ÆON Mall Musashimurayama mu
15 ÆON Mall Hinode
16 ÆON Mall Yamato
17 ÆON Mall Ota
18 ÆON Mall Takasaki
19 ÆON Mall Takaoka
20 ÆON Mall Kisogawa KiRiO
21 ÆON Mall Nagoya Wonder City
22 ÆON Mall Higashiura
23 ÆON Mall Okazaki
24 ÆON Mall Hamamatsu Shitoro
25 ÆON Mall Suzuka BELLCITY
26 ÆON Mall Kusatsu
27 ÆON Mall Kyoto Hana
28 Kyoto Family (managed under PM agreement)
29 Nara Family (managed under PM agreement)
30 ÆON Mall Kashihara ARURU
31 ÆON Mall Neyagawa Green City
32 ÆON Mall Fujiidera
33 ÆON Mall Kobe Kita
34 ÆON Mall Itami Terrace
35 ÆON Mall Tsurumi Leafa
36 ÆON Mall Sakaikitahanada prou
37 ÆON Mall Rinku Sennan
38 ÆON Mall Kurashiki
39 ÆON Mall Hiroshima Fuchu SOLEIL
40 ÆON Mall Niihama
41 ÆON Mall Kochi
42 ÆON Mall Sankoh
43 ÆON Mall Nogata
44 ÆON Mall Fukuoka LUCLE
45 ÆON Mall Chikushino
46 Otsu Shopping Plaza
47 ÆON Mall Kumamoto CLAIR
48 ÆON Mall Uki VALUE
49 ÆON Mall MiELL Miyakonojo-Ekimae
50 ÆON Mall Miyazaki

■ Shopping centers to be opened during the fiscal year ending Feburuary 20, 2009

Introduction of New SC

ÆON LakeTown KAZE

(Koshigaya, Saitama Prefecture)

- Grand opening scheduled on October 2, 2008
- Site area: 264,161 m^2 (including MORI area operated by ÆON Co., Ltd.)
- Total floor area: 80,736 m^2 on KAZE
- One of the largest shopping centers in Japan, with a combination of "KAZE" operated by ÆON Mall and "MORI" operated by ÆON Co., Ltd., "KAZE" consists of the three large-scale core tenants and a total of 214 other tenants. With a direct link to "Koshigaya Lake-Town Station," we expect railway users to become the shopping center's customers.

ÆON Mall Kusatsu

(Kusatsu, Shiga Prefecture)

- Grand opening scheduled for the end of 2008
- Site area: 165,410 m^2
- Total floor area: 91,618 m^2
- It houses some 200 specialty stores, including those dealing in apparel and sundries as well as eating and drinking places, and services firms, on top of large-scale stores such as the general merchandise store "SATY" as the core tenant, and a cinema complex and other sub-core tenants.

ÆON Mall MiELL Miyakonojo-Ekimae

(Miyakonojo, Miyazaki Prefecture)

- Grand opening scheduled for the end of 2008
- Site area: 62,576 m^2
- Total floor area: 35,000 m^2
- Within an enormously spacious enclosed mall, we created a high-quality commercial space that provides restaurants and entertainment functions in addition to the enjoyment of shopping. Given the prime location in front of Miyakonojo Station, we expect railway users to become the shopping center's customers.

ÆON Mall Chikushino

(Chikushino, Fukuoka Prefecture)

- Grand opening scheduled for the end of 2008
- Site area: 98,213 m^2
- Total floor area: 75,180 m^2
- It houses some 180 specialty stores, including those dealing in apparel and sundries as well as eating and drinking places, and services firms, on top of large-scale stores such as the general merchandise store "JUSCO" as the core tenant and a cinema complex and others as sub-core tenants.

Organizational Change

We are carrying out expeditious organizational changes to push ahead with the aggressive opening of new malls and enhancement of profitability at existing malls.

The Sales Division organized regional sales departments for the seven regions of Tohoku, Kita Kanto, Minami Kanto, Chubu, Kinki, Chugoku Shikoku and Kyushu to boost mall sales capabilities by streamlining marketing and on-site support. The Sales Division also established the Property Management Sales Department, Marketing Department, SC Support Department and New Store Planning Department as part of efforts to strengthen our mall business.

To enhance the mall development structure, we reshaped the organizational setup for development into four regional ones for East Japan, Chubu, West Japan and Kyushu in a bid to ensure harmonious coexistence with local communities and community-based mall development

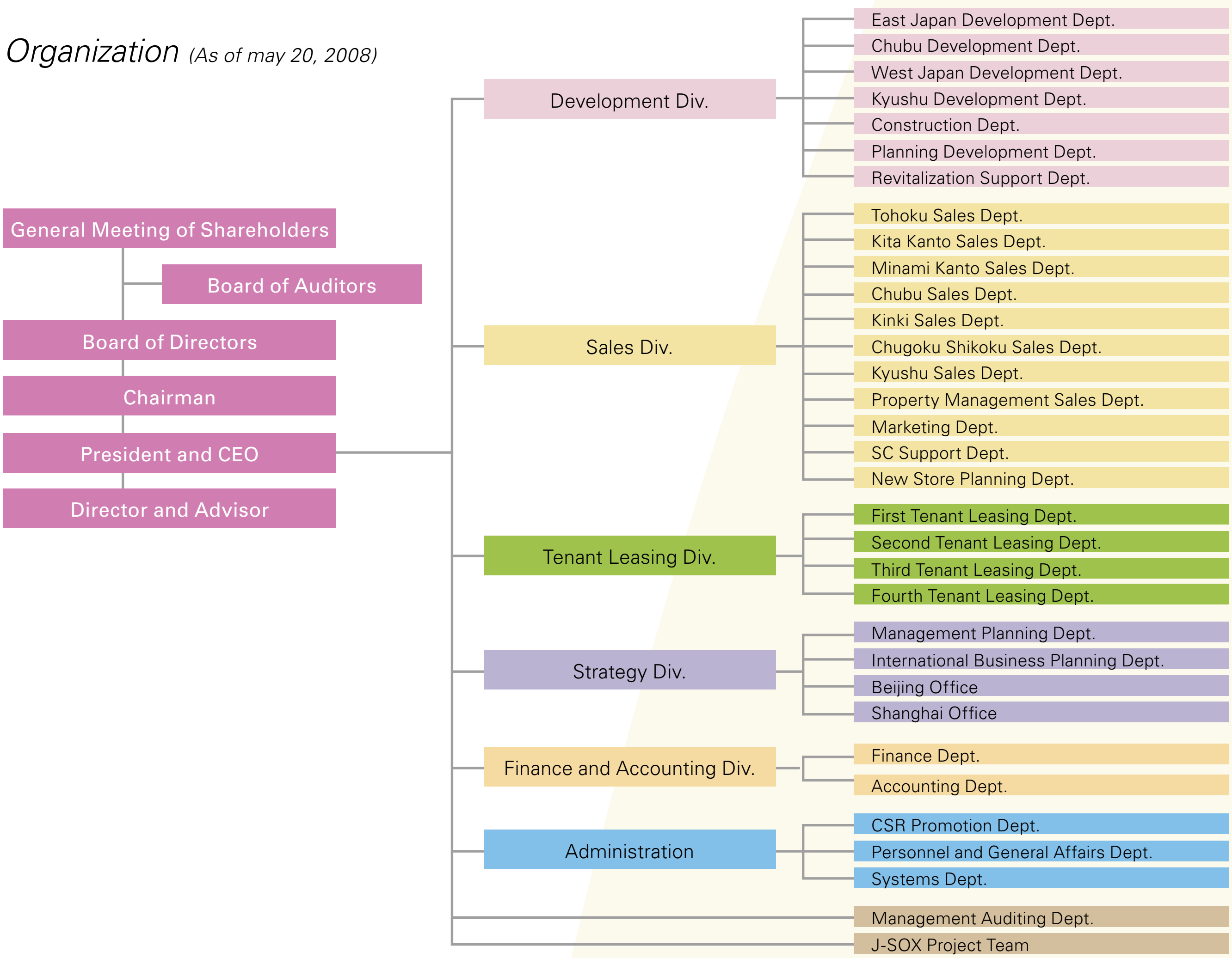
Revitalization Business

We established an in-house section dedicated to revitalization business and are considering providing mall management expertise to station buildings and other commercial facilities of other group brands. Currently, the revitalization project is under way for Tsuchiura Station Building on the Joban Line of East Japan Railway Company (JR East).

Strengthening of International Business

In an effort to develop mall business in China, we plan to open the first location in Beijing in 2008. After opening the Beijing office in 2007 (a local subsidiary was established in May 2008), we established a representative office in Shanghai in March 2008 and will pursue proactive efforts to open a new mall there.

Organization *(As of may 20, 2008)*



External Evaluation

Based firmly on the basic philosophy of “Customers First,” we are managing our operations with the belief that environment-friendly mall development bringing satisfaction to all customers will drive the growth of our business. As shown below, our activities received high marks from various quarters during fiscal 2007:

- Nikkei Environmental Management Survey, ranked 1st in the ”Warehouse/Real Estate/Other“ category (Nihon Keizai Shimbun, Inc.)
- Nikkei Private Sector Multi Evaluation System “PRISM,” 48th among 1,033 companies (Nihon Keizai Shimbun, Inc.)
- International SRI Index “FTSE4Good,” incorporated for the fourth consecutive year
- Winner of the Osaka Fureai Community-Building Grand Prix “Osaka Mayor Award” ÆON Mall Tsurumi Leafa (Osaka City, Osaka Prefecture)
- Winner of the “Kumamoto UD Awards ÆON Mall Kumamoto CLAIR (Kumamoto Prefecture)
- Winner of the SC Grand Prix “People-Friendly SC Award” ÆON Mall Shimoda (Japan Council of Shopping Centers)
- Winner of the Excellent Energy-Saving Equipment “Chairman’s Award” ÆON Mall Natori AIRY (Japan Machinery Federation)

ÆON Mall Tsurumi Leafa
Won the Osaka Mayor Award as a model urban facility for developing a community that is friendly to all people.

ÆON Mall Kumamoto CLAIR
Won the first grand prize of the Kumamoto UD Awards, which promote the expansion of universal design, one of the goals designated by the prefectural administration.

ÆON Mall Shimoda
Won the People-Friendly SC Award for its cooperative efforts with UD facilities and regional NPOs.

ÆON Mall Natori AIRY
Won the Chairman’s Award for installing an air conditioning water circulating system with a high annual energy-saving rate.

Insurance Agency Business

The Insurance Agency Business Division is striving for active sales operations and enhanced services to respond promptly to the diverse needs of customers with the hope of establishing a viable base of profitability. In particular, we are emphasizing the individual insurance sector. Although only two new insurance shops opened at our malls during fiscal 2008, existing insurance shops fared very well. The number of insurance shops came to 33 at the end of fiscal 2008. The Insurance Agency Business Division achieved a substantial increase in revenue as a result of an expansion in the number of contracts thanks to proposal-based sales efforts in the corporate insurance sector.

On February 21, 2008, we transferred our insurance agency business to ÆON Insurance Service Co., Ltd. (formerly NCS Kosan Co., Ltd.) and made it an affiliate under the equity method (with an equity stake of 48.69%).

Expansion and Renewal

ÆON Mall Okazaki

ÆON Mall Okazaki was reopened in September 2000 as a full-fledged regional mall with two anchor stores and one arcade mall by establishing the department store Okazaki Seibu as a new anchor store and an arcade mall made up of 130 specialty stores on a site adjacent to the JUSCO Okazaki South store, which opened in 1995. Under the latest expansion and renewal plan, we will add the entertainment functions such as “cinema complex” and “amusement facilities” and also introduce restaurants and other specialty stores such as ones catering to children-related needs to strengthen service aspects.

ÆON Mall Kashihara ARURU

The latest expansion and renewal plan envisions a revamped, user-friendly one-stop mall with greater convenience by adding some 100 new specialty stores to the anchor JUSCO store and the existing lineup of about 130 specialty stores. The renewal is chiefly aimed at two-generation and three-generation families, centered on our traditional main target of families with members in their 30s, and is designed to propose a new lifestyle with a high-quality mall.

Corporate Social Responsibility (CSR) Activities

Shopping malls are large in scale and their development, management, and operation impact the local communities in various ways. We at ÆON Mall strive to create shopping malls that develop along with their host communities, always considering the balance between "economy," "society" and "environment."

For the Promotion of CSR Activities

We develop, manage and operate large-scale mall complexes for wide trading areas as a specialist mall developer, and are well aware that the establishment of malls can greatly influence the economy, society and the environment of host communities. The growth and development of malls are of importance not only to customers who shop there but also to employees and tenants of malls as well as local economies. To bring smiles and satisfaction to our customers and people in host communities, we will strive to build a relationship of prosperous coexistence between the Company and all stakeholders while seeking to balance the economy, society and the environment.

CSR Promotion Structure

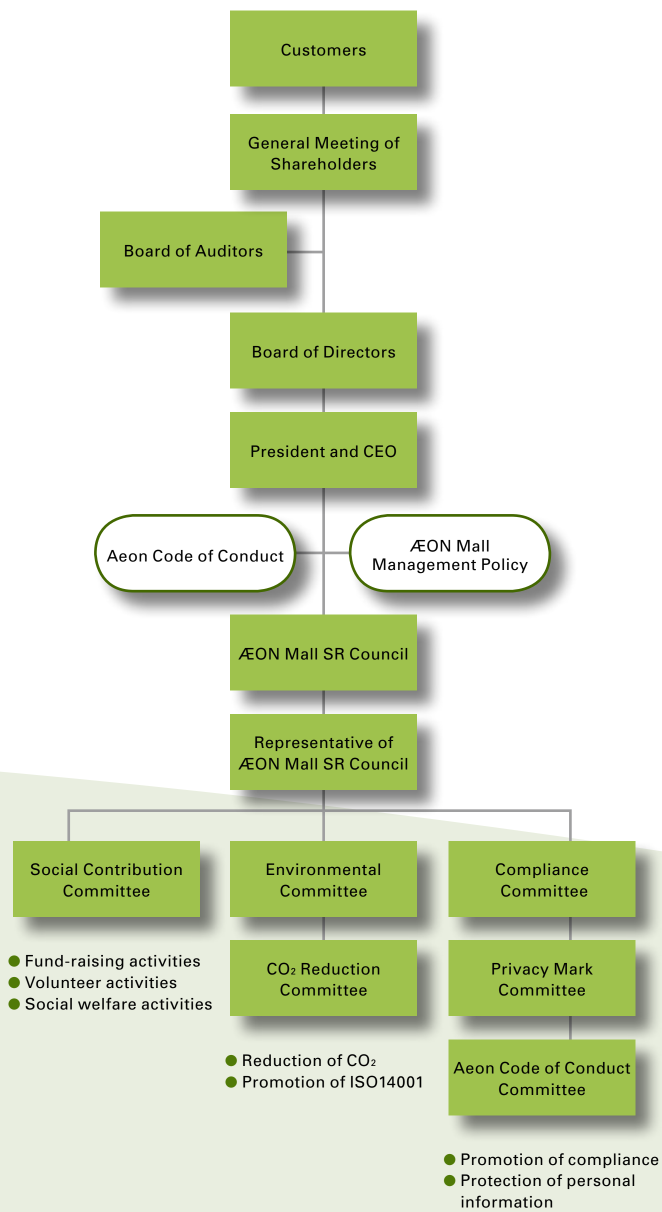
As a way to promote company-wide CSR activities, we hold a monthly meeting of the ÆON Mall SR (Social Responsibility) Council, chaired by the President with directors sitting as council members, to address topics related to compliance, environment conservation and social contributions. The council sets CSR promotion goals, identifies problems for early solution, and ensures the company-wide horizontal sharing of good case examples.

In fiscal 2008, ended February 20, 2008, we recorded steady progress in such areas as promotion of energy-saving initiatives, strengthening of safety and security measures, stepped-up support for specialty stores in malls and responses to the Japanese version of the Sarbanes-Oxley Act (J-SOX) for the improvement of internal controls.

For details, please refer to the ÆON Mall Sustainability Report 2008.

http://www.aeonmall.com/environment/sr.html

CSR Promotion Structure



CSR Activities Targeted at Each Stakeholder

■ Customers

We continue to improve facilities and operations, always from the perspective of customers, in order to realize malls that are easily accessible with high levels of safety, security and amenity.

In terms of mall facilities, we are actively introducing barrier-free and universal design (designs for everyone)-based facilities. We have set up facilities and equipment guided by the principle of “easier and more flexible access,” such as easy-to-understand information signs in malls, priority seats on each floor, and a variety of restrooms from which customers can choose for better comfort. In mall operations, we have set up the Customer Suggestion Box at each mall to make use of customer opinions and address customers’ needs. The President and all directors responsible for respective areas go over all the customer opinions collected, and post our “replies” from each responsible person in SC on the mall premises after considering our responses to customer suggestions.

Informational sign in the mall:
A sign with highly visible colors and a design that can be seen from anywhere in the vicinity

Priority seats:
Lowered and broadened seats for easy sitting

Restrooms:
Different colors are used to distinguish between restroom for men, women, children and any users.

Women’s restroom:
Designed with wide spaces to allow for entrance with strollers.

Information:
High and low counters are provided to accommodate all customers, including children and wheelchair users.

Remote-controlled parking lots for the handicapped:
Registered customers can park using a remote control.

■ Employees

With the belief that the Company’s growth is driven primarily by the strenuous efforts of our employees, we are making multifaceted efforts including those aimed at improving the working environment. In that regard, we are also formulating capacity development programs and fair personnel evaluation systems.

In particular, as part of CSR activities for employees, we are working toward a better work-life balance. In August 2007, we were recognized as the seventh “company friendly to child-raising” in Chiba Prefecture, for our efforts to build comfortable working environments through such measures as helping to make work and child-raising compatible, developing systems to promote child-care leave for fathers and arranging children’s visits to their parents’ workplaces.

Children’s workplace visit

A guidebook that offers support for balancing child-rearing and work is posted on the Company intranet

ÆON Mall is recognized by the Ministry of Health, Labour and Welfare as a company that actively supports the nurturing of future generations.

■ Shareholders and Investors

We believe that information disclosure to and communication with shareholders and investors forms an important part of business management.

Regarding information disclosure, we regularly disclose financial information and present information on the current status and future outlook of our business in a timely manner through annual reports and periodical reports to shareholders as well as via the website message board, “To Our Shareholders.”

As part of communication activities, we hold individual meetings with domestic and overseas institutional investors and also organize on-site tours of malls. Moreover, explanatory meetings for individual investors are held at halls and other spaces in shopping malls.

Tools for individual investors

An institutional meeting, which is held twice a year; at the time of full-year and mid-term financial statement announcements.

An individual investors meeting is scheduled to be held eight times in fiscal 2009 at shopping malls located in the Kanto, Chubu and Kansai regions.

■ Tenants

In the belief that the growth and development of tenants is key to the growth and development of our shopping malls, we assign our sales staff to each shopping mall, and hold monthly meetings of store managers as well as sector-by-sector meetings. We also provide consulting support. For example, we collect information from individual tenants and offer them as useful information to all shops, and give guidance on how to improve business by providing a wide range of data such as market trends and customer requests. Our basic stance on tenant leasing is to divide floor space into three equal parts for locally based shops, newcomers from outside regions and national chains with outlets across the country. Our policy supports local industrial development, with some local companies having achieved nationwide operations using their presence at our malls as the springboard.

Tenant store managers’ meeting

Serving customers with a spirit of gracious hospitality

■ Local Communities

The establishment of a new mall usually creates some 2,000 new jobs locally, generating a huge positive economic impact. We also provide malls as a public space for host communities, allowing local governments to set up outposts such as administrative information bureaus. In addition, we conclude disaster prevention agreements with local governments so that malls can be used as evacuation sites at the time of disaster. Furthermore, we promote activities to help revitalize local economies and societies by sponsoring, among other things, fairs featuring local agricultural products and processed food, traditional events and festivals in mall center courts.

Emergency drill based on a disaster prevention agreement with the local government

Yosakoi festival held at ÆON Mall Kochi

■ Protection of the Global Environment

We believe the ultimate stakeholder is the earth itself. Malls consume a lot of energy and resources, including electricity, gas and water, and also discharge a variety of wastes and carbon dioxide (CO_2). To reduce the environmental footprints of malls, we set environmental goals each year under the basic environmental policy of creating “malls friendly to both people and the environment,” and carry out company-wide activities to achieve those goals. In particular, given that prevention of global warming is a major challenge to humanity, we are mounting full-fledged efforts to reduce CO_2 emissions, guided by the ÆON Mall Environmental Long-Term Plan.

First of all, we are working toward “zero-emission” malls that recycle all waste material discharged. For our facilities, because our malls are large and thus consume a massive amount of electric power, we are trying to make as much use as possible of natural energy while using electricity as efficiently as possible. Specifically, we are introducing more generating equipment that makes use of natural energy like sunlight and wind power, and also utilizes ice thermal storage systems for consuming nighttime power during the daytime as well as sodium-sulfur (NaS) batteries, thereby reducing CO_2 emissions and contributing to electric-load leveling. Furthermore, we use LEDs for external lighting in an effort to reduce electricity consumption. We also promote rooftop gardening as part of efforts to prevent global warming.

Malls also consume large quantities of water, as customers as well as employees spend long hours at our facilities. Accordingly, we have introduced intermediate water usage systems to recycle clean water consumed at malls for use in flush toilets and other purposes. These systems allow malls to reduce some 500 kiloliters of sewage water per day.

We have also earned high marks for introducing the Comprehensive Assessment System for Building Environmental Efficiency (CASBEE*), which rates buildings by examining to what extent considerations are given to the global environment and ambient surroundings.

For our multifaceted efforts for environmental conservation described above, ÆON Mall in November 2007 was ranked first in the “Warehouse/Real Estate/Other” category in the 11th Nikkei Environmental Management Survey, a survey evaluating corporate efforts to make environmental measures compatible with business management. In March 2008, for the fourth consecutive year, ÆON Mall was chosen for the “FTSE4Good,” an internationally recognized SRI index designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies.

*CASBEE (Comprehensive Assessment System for Building Environmental Efficiency): A system to assess environmental efficiency of buildings developed in 2001 by a committee established within the Institute for Building Environment and Energy Conservation at the initiative of the Ministry of Land, Infrastructure, Transport and Tourism.

Rooftop gardening (ÆON Mall Hinode)

Tree planting (ÆON Mall Hanyu)

NaS battery system (ÆON Mall Musashimurayama mu)

Solar power generation panel (ÆON Mall Hanyu)

CSR Topics

■ Ranked "A" by the Sompo Japan Green Open Fund

The Sompo Japan Green Open Fund (nicknamed Buna no Mori) is a stock investment fund that invests mainly in companies listed in Japanese financial and commodities exchanges (and equivalent markets) that proactively address environmental issues. ÆON Mall has been ranked "A" by the Buna no Mori Fund, which features investment in companies with high marks in terms of both environmental consciousness and investment value.

■ Selected by "Trends in CSR Management at Japanese Businesses 2007"

"Trends in CSR Management at Japanese Businesses 2007" is a survey on the provision of corporate information for social responsibility investment (SRI), for which replies were submitted to UBS Global Asset Management, Sumitomo Trust and Banking Co., Ltd., STB Asset Management Co., Ltd., and Daiwa Asset Management Co., Ltd. In the survey, ÆON Mall was chosen as a "company that makes advanced efforts toward socially responsible management." Key items considered by the survey include "environmental management system," "sincerity toward customers" and "active involvement in social activities."

■ Published Sustainability Report 2008 (Japanese Only)

ÆON Mall published *Sustainability Report 2008—Report for the Future* (Japanese only). This report is posted on the Company's website (http://www.aeonmall.com/environment/sr.html).

■ Achieved Highest Rating in the Real Estate Category in the "Eco-Balance" Stock Investment Fund

"Eco-Balance" (nicknamed Umi to Sora) is a stock investment fund that invests primarily in companies involved actively in measures for the prevention of global warming. ÆON Mall received the highest rating in the real estate category. The Eco-Balance monthly report as of the end of December 2007 has the following listing:

Company	Industry	Ratio (%)
ÆON Mall	Real estate	1.0

■ Ranked 1st in the Real Estate Category in the 11th Environmental Management Survey

The Environmental Management Survey covers exchange-listed companies and companies traded on JASDAQ and other stock markets for emerging companies (as of August 1, 2007, for the 11th survey) as well as major unlisted companies. It assesses their initiatives in adopting environmental measures such as efforts to reduce greenhouse gas emissions and waste compatible with efforts to enhance operational efficiency. ÆON Mall ranked first (among 11 responding companies) in the real estate category in the 11th Environmental Management Survey.

	Score	Management and educational systems/ Long-term goals	Anti-pollution measures and disclosure	Resource recycling	Measures to combat global warming
ÆON Mall	388	100	100	88	100
Average score for the industry	185	53	48	50	33

Corporate Governance

Basic Approach to Corporate Governance

Under the basic philosophy of "Customers First," we aim to contribute to the development of society by helping to realize an affluent society and enrich lives. Placing protection of the environment and activities to contribute to society at the core of corporate activities, we follow a basic policy in the mall business, our mainstay operation, of "contributing to the life and culture of communities and to local commercial development through mall development."

We believe that fulfilling our responsibilities to stakeholders including shareholders and customers as well as business partners, local communities and employees through corporate activities guided by these management policies should lead to the long-term and stable enhancement of corporate value. To realize that goal, we strive to boost our competitiveness by upgrading the function of corporate governance and achieve prompt decision-making.

We are also working to further enhance our strength as a dedicated mall developer with roots in the retail business through corporate management led by directors with thorough knowledge of the retail business, and to maintain and reinforce sound management through the adoption of an auditing system. Under this organizational setup, we will move forward to enhance the transparency and efficiency of management, upgrade compliance and risk management, and thereby further improve the corporate governance system.

Our basic policy in the insurance agency business is to "contribute to customers and the development of society by offering risk management and services in response to changing times." We undertake this business through ÆON Insurance Service Co., Ltd. (formerly NCS Kosan Co., Ltd.), an affiliate under the equity method.

Basic Approach to the Internal Control System

1. System for Maintenance and Management of Information Concerning Performance of Duties of Directors

Executive directors maintain and administer documents and other information concerning the execution of their duties in an appropriate manner in accordance with internal rules.

2. System for Ensuring Efficiency in Execution of Duties of Directors

We hold regular meetings of the Board of Directors once a month and extraordinary board meetings in a timely manner as necessary. Matters of importance regarding the Company's management policy and management strategy are discussed at the management meeting beforehand and are implemented with approval of the Board of Directors. As for the actual execution of business operations based on decisions made by the Board of Directors, details of responsibilities and execution procedures are stipulated under organization regulations, rules for the division of duties and rules for job competence.

3. System for Ensuring That Execution of Duties by Employees Conforms to Laws, Regulations and Articles of Incorporation

We put great importance on management in compliance with the ÆON Code of Conduct to build better relations with local communities and fulfill our social responsibility as a good corporate citizen. Moreover, we have prepared a Compliance Manual that covers the ÆON Code of Conduct and the internal whistle-blowing system as well as problems unique to the Company, and use it for in-house training and education.

4. Fundamental Policies and Measures regarding Antisocial Forces

Recognizing that it is our social responsibility as a corporation to eliminate antisocial forces, we cut off all relations with antisocial forces and clearly present to all employees our policy of eliminating absolutely all connections with antisocial forces.

In the event that any unjust demands are made by antisocial forces, we will respond as an organization through the leadership of the Personnel and General Affairs Department which is in charge of general and legal affairs, and by establishing close ties with external experts and investigative authorities regarding matters that include legal civil and criminal liabilities.

5. System for Ensuring Appropriate Business Operations by the Corporate Group Comprising the Parent Company and Subsidiaries

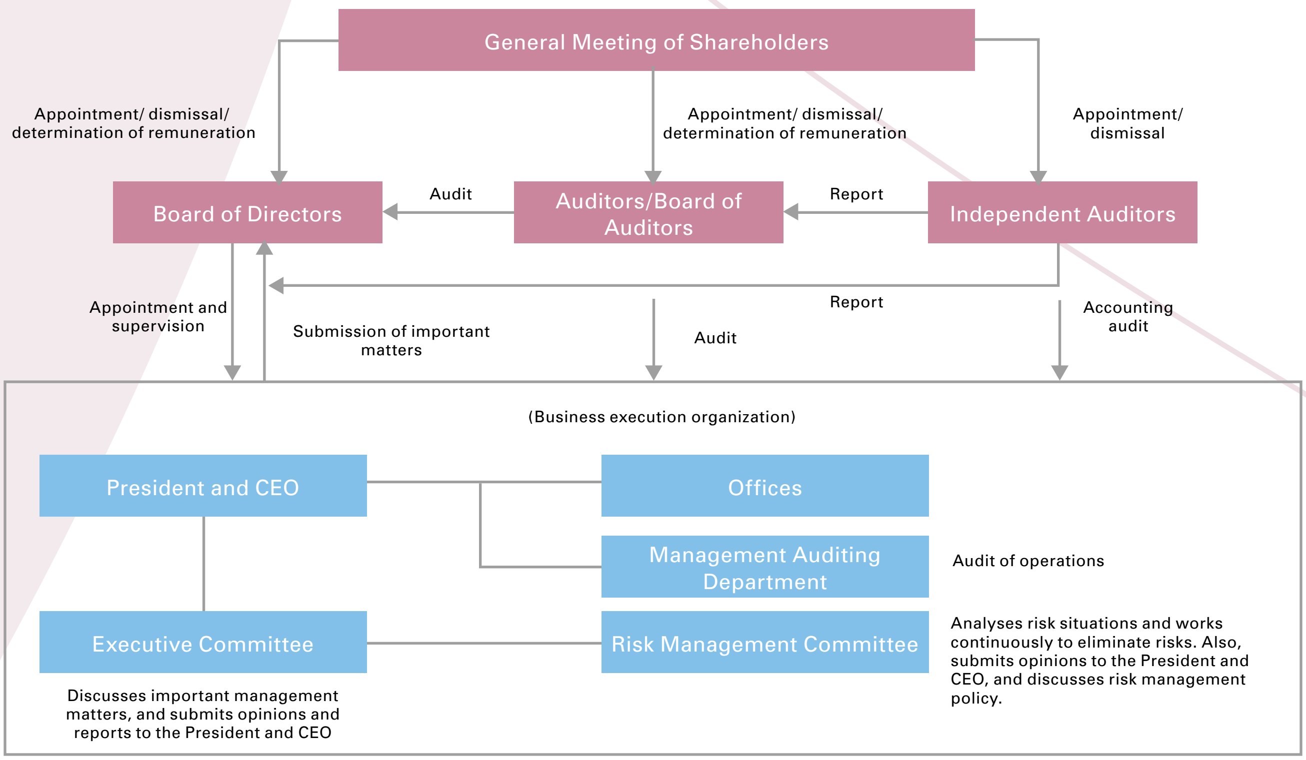
Group companies hold regular joint meetings of relevant officials to consider developments in changes in laws and regulations and responses to them, and to ensure the horizontal spread of case examples conducive to greater efficiency in business operations. However, decisions on specific responses are left to each company depending on its particular circumstances, while ensuring the sharing of relevant information through mutual reporting on respective cases. When there is any possibility of the interests of shareholders of the parent company and the Company coming into conflict over transactions with the parent company or over competition with the parent company, the Company never fails to refer such matters to the Board of Directors for consideration before any decision is taken.

6. System for Ensuring the Effectiveness of the Audit by Auditors, including Independence of the Audit Staff

The Company does not appoint any of its employees as staff members to assist in the operation of auditors. Full-time auditors directly undertake auditing operations, including formulation of an audit plan and audit budget as well as actual auditing, and strive to ensure the effectiveness of auditing operations by regularly receiving and reviewing reports on internal auditing as well as reports from external auditors. If auditors request the assignment of employees to assist them in the execution of their operations, the Company selects and assigns a necessary number of employees upon consultations with the Board of Auditors.

Employees who receive instructions necessary to execute the auditing operations from auditors are not subject to instructions from any other officials of the Company regarding auditors' instructions. The Company also obtains the prior consent of the Board of Auditors regarding transfers, performance evaluation or disciplinary actions in regard to employees assigned to assist in the auditing operations. Directors and employees are also obliged to report to the auditors matters of importance that could have an influence on the Company's business and/or earnings performance, violations of law and other compliance-related problems without delay. Furthermore, when requested by the auditors to submit business reports, directors and employees are required to comply with such requests promptly and honestly.

Corporate Governance Structure



Compliance Performance in Fiscal 2008

■ ÆON Mall SR Council

We have established the ÆON Mall Social Responsibility Council to promote our policies for corporate activities from social, environmental and ethical aspects, and formulated codes of conduct and standards for environmental protection and contributions to society in addition to compliance programs, striving for thorough dissemination, observance and implementation of such rules. We have further strengthened the system for protecting and managing personal information provided by customers in our mall and insurance agency businesses, and have been certified and granted the Privacy Mark.

■ Cooperation between Auditors and Accounting Auditors

The Board of Auditors cooperates closely with accounting auditors through mutual exchanges of information and opinions as necessary to enhance the validity and effectiveness of auditing operations.

■ Cooperation between Auditors and the Internal Audit Division

As the internal audit division, we have established the Management Auditing Department, which is independent from all business-related executive divisions. One full-time official was assigned to the office in the first half of fiscal 2008, which was reinforced to three officials in the second half. They work in close cooperation with the heads of other divisions, and examine and evaluate the effectiveness and efficiency of internal control over a range of business operations to ensure the smooth management and control of business operations. The auditors cooperate with the Management Auditing Department through mutual exchanges of information and opinions as necessary.

■ Directors' Remuneration

Amounts of remuneration for directors and auditors:

Title	Number of recipients	Amount of payment (Thousands of yen)
Director	20	¥281,163
Auditor	4	24,778
Total	24	¥305,941

1. The general meeting of shareholders set the maximum amount of remuneration for directors at ¥600 million per year
   (Resolution adopted at the general meeting of shareholders on May 17, 2007)
   The general meeting of shareholders set the maximum amount of remuneration for auditors at ¥50 million per year
   (Resolution adopted at the general meeting of shareholders on May 8, 2002)
2. The above amounts of payment include ¥130 million in estimated bonus payments to directors (¥130 million to directors) and ¥6,316 million in allowances for retirement benefits for directors.
3. Total amount of remuneration for outside directors and the total amount of remuneration for directors paid by the parent company or subsidiaries of the parent company when directors concurrently serve as directors of the parent company or subsidiaries of the parent company:

	Number of recipients	Amount of remuneration (Thousands of yen)	Directors' remuneration, etc., paid by the parent company or subsidiaries of the parent company (Thousands of yen)
Amount of remuneration for outside directors, etc.	4	¥24,770	¥49,860

■ Risk Management

Respective divisions are responsible for risk management concerning compliance, information management, environment protection and natural disasters, and ensuring that all their employees take necessary measures through the formulation of regulations and guidelines, provision of training and education, preparation and distribution of manuals and/or use of electronic bulletin boards.

Regarding company-wide risks or risks across two or more organizations, the Chief Director of Administration, at the instruction of the President of the Company, has emergency systems in place in accordance with risk management rules for the prompt and adequate transmission of information and other necessary actions in emergency in response to assumed risks.

Directors and Corporate Auditors (As of May 9, 2008)

Senior Managing Director
Chitoshi Yamanaka

Chairman
Naoki Hayashi

President and CEO
Noriyuki Murakami

Senior Managing Director
Yoichi Kimura

Managing Director
Yoshishige Ikeda

Managing Director
Yukio Konishi

Managing Director
Tetsuji Nishio

Managing Director
Hidehiro Hirabayashi

Managing Director
Kenzo Fujitsuka

Director
Masaru Soma

Director
Masato Murai

Director
Yoichi Terazawa

Director and Advisor
Motoya Okada

Director
Hideaki Onishi

Director
Hiroshi Iwamoto

Director
Fujio Takahashi

Director
Kaoru Iwamoto

Corporate Auditor
Aritsune Hayashi

Full-Time Corporate Auditor
Masaru Yokoi

Corporate Auditor
Masato Nishimatsu

Corporate Auditor
Takao Okazaki

Financial Section

Six-Year Financial Summary - - - - - - - - - - - - - - - - - 32
Financial Analysis - 33
Consolidated Balance Sheets - - - - - - - - - - - - - - - - 40
Consolidated Statements of Income - - - - - - - - - - - 42
Consolidated Statements of Changes in Equity - - 43
Consolidated Statements of Cash Flows - - - - - - - - 44
Notes to Consolidated Financial Statements - - - - 46
Independent Auditors' Report - - - - - - - - - - - - - - - 58

Six-Year Financial Summary

ÆON Mall Co., Ltd. and Subsidiary
Years ended February 20

	Millions or Yen (except per share data)						Thousands of U.S. Dollars (except per share data)
	2003	2004	2005	2006	2007	**2008**	**2008**
For the year:							
Operating revenue	¥ 30,836	¥ 35,316	¥ 42,764	¥ 52,903	¥ 62,253	**¥ 96,806**	**$ 896,711**
Operating income	9041	11,407	14,911	18,510	21,879	**31,642**	**293,120**
Net income	3,878	5,577	7,782	10,369	12,181	**17,439**	**161,551**
Operating cash flows	10,824	13,288	22,539	15,687	21,150	**27,169**	**251,679**
Investing cash flows	(4,675)	(14,969)	(17,033)	(12,281)	(40,664)	**(8,747)**	**(81,037)**
Financing cash flows	(2,859)	1,669	(7,164)	1,647	13,224	**(20,441)**	**(189,357)**
Per share data (Yen, U.S. Dollars):							
Net income	¥ 167.73	¥ 188.91	¥ 257.93	¥ 171.99	¥ 203.50	**¥ 115.63**	**$ 1.07**
Cash dividends	25.00	25.00	30.00	25.00	30.00	**17.50**	**0.16**
At year-end:							
Net assets	¥ 23,762	¥ 32,247	¥ 39,343	¥ 49,103	¥ 60,034	**¥122,734**	**$ 1,136,954**
Total assets	154,190	166,799	191,255	202,132	233,057	**377,661**	**3,498,483**
Interesting-bearing debt	70,124	68,977	62,573	65,126	79,859	**84,242**	**780,382**
Ratio(%):							
Equity ratio	15.4	19.3	20.6	24.3	25.6	**32.4**	—
ROE	19.1	19.9	21.7	23.4	22.4	**19.2**	—
PER	13.7	18.5	30.6	28.2	34.9	**32.9**	—

Notes: 1. On August 21, 2007, ÆON Mall Co., Ltd. merged with Diamond City Co., Ltd.
2. U.S. dollar amounts are translated from yen, for the convenience of readers only, at the rate of ¥108=U.S.$1, the exchange rate prevailing on February 20, 2008.
3. ÆON Mall carried out a 2-for-1 stock split on February 21, 2007.

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 2003.

	2003	2004	2005	2006	2007
Net income per share	¥34.62	¥47.22	¥64.48	¥85.99	¥101.50
Cash dividends	¥ 4.84	¥ 6.25	¥ 7.50	¥12.50	¥ 15.00

Financial Analysis

Reference Information on Financial Analysis of ÆON Mall

Impact of Development Investment on Financial Statements

ÆON Mall Co., Ltd.'s basic approach to mall development is to lease land from landowners and then construct and retain ownership of buildings. In this case, most of the total investment made is recorded on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

Depending on the course of negotiations, ÆON Mall may also acquire land from landowners and then construct buildings on purchased land for its own possession. In this case, the total amount of investment by ÆON Mall tends to be the largest, with the risk of land prices falling in the future. Thus, ÆON Mall takes proactive steps to increase the liquidity of real estate it owns.

In the process of the real estate liquidation, ÆON Mall sells land and buildings it owns to exchange-listed real estate investment trusts (REITs) and private funds, and then leases back land and buildings sold in blocks. In this case, ÆON Mall places security deposits with the owners and records them on the asset side of the balance sheet as "fixed leasehold deposits to lessors." ÆON Mall may also acquire part of auxiliary facilities, other than main buildings, and record them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures."

For example, a landlord seeking efficient use of land, such as an old factory site, may retain ownership of the land and buildings erected upon it, which ÆON Mall leases in a package. In this case, ÆON Mall acquires part of the auxiliary facilities, other than main buildings, and records them on the asset side of the balance sheet as "buildings and structures" and "furniture and fixtures." For the purpose of contributing to the construction of the main buildings to be owned by the landlord, ÆON Mall puts up construction cooperation funds to help the landlord and records these funds on the asset side of the balance sheets as "fixed leasehold deposits to lessors," together with security deposits. The construction cooperation funds are fully repaid by the landlord in installments over the lease period.

There is also the case of property management, where the landlord owns land and buildings and ÆON Mall provides mall management expertise. In this case, ÆON Mall obtains management fees with no asset-holding or business risks.

In sum, there are four patterns of mall ownership for ÆON Mall: (1) lease land and own buildings; (2) own both land and buildings; (3) lease both land and buildings; and (4) provide only management expertise (property management).

Meanwhile, ÆON Mall receives security deposits from mall tenants in the above-mentioned cases (1), (2) and (3), and these deposits are recorded on the liability side of the balance sheets as "lease deposits from lessees." Standard security deposits are six months' rent plus the estimated cost of restitution.

Operating Revenue and Operating Costs of ÆON Mall

Operating Revenue

ÆON Mall's operating revenue from operations comprises mainly "income from real estate lease" and "common service fees."

Most "income from real estate lease" comes from "income from fixed rents" and "income from percentage rents," which are determined in accordance with sales achieved by mall tenants.

Rent percentages are determined in consideration of such matters as business categories of tenants, their profitability and market rates for setting up shops. They are typically set at 8% to 15% for merchandising businesses and 10% to 20% for tenants providing food and beverages and services. In many cases, ÆON Mall sets the minimum sales for each tenant on a monthly or yearly basis; therefore, what it receives is essentially "percentage rents" added to the fixed rents.

Most tenant sales are tallied and managed by ÆON Mall, which reimburses them to tenants twice a month after deducting rent and various expenses.

Operating Costs

Operating costs are costs directly related to mall management, consisting of "cost of labor" for employees stationed for mall management and operations and "expenses" related to mall facilities. "Expenses" mainly comprise "facility maintenance expenses," "water, lighting and heating expenses," "rents" paid to owners of mall land and buildings, and "depreciation" for mall facilities.

Management's Discussion and Analysis

Current Status of the Corporate Group

The ÆON Mall Group (ÆON Mall and a consolidated subsidiary) consists of ÆON Mall Co., Ltd., whose parent company is ÆON Co., Ltd., and Shimoda Town Co., Ltd., a consolidated subsidiary. ÆON Mall undertakes mall business and insurance agency business, while Shimoda Town is also engaged in mall business.

ÆON Mall, the core operator of the ÆON Mall Group's developer business, leases mall store buildings and facilities to ÆON Co., Ltd. and ÆON Group companies as well as tenants at large. ÆON Delight Co., Ltd., a subsidiary of ÆON Co., Ltd., provides building maintenance services at mall facilities operated by ÆON Mall.

On February 21, 2008, ÆON Mall transferred its insurance agency business to ÆON Insurance Service Co., Ltd. (formerly NCS Kosan Co., Ltd.). ÆON Insurance Service was established jointly by ÆON Co., Ltd., ÆON Mall and ÆON Credit Service Co., Ltd. as a company to supervise the ÆON Group's insurance business. ÆON Insurance Service is an affiliate of ÆON Mall under the equity method (with an equity stake of 48.69%).

Overview of Business Operations

Business Environment

In the fiscal year ended February 20, 2008, the Japanese economy followed a moderate recovery path, with corporate earnings improving. However, the business outlook became increasingly uncertain, with the subprime loan problem in the United States triggering simultaneous stock market declines around the world and slowing down the U.S. economy considerably.

With soaring prices of crude oil and raw materials sending consumer prices higher, consumers grew increasingly selective in consumption, and the retail industry faced ever-intensifying competition that cut across many sectors.

Under these circumstances, ÆON Mall is striving to create malls that meet the needs of customers and thereby make them most competitive in located areas, giving full play to its expertise as a specialized mall developer well versed in the retail business.

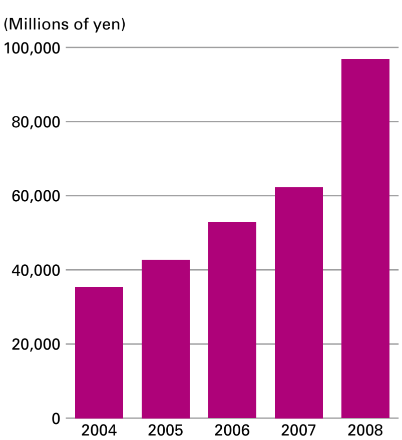
On March 20, 2007, ÆON Mall agreed with Diamond City Co., Ltd. on a merger on an equal footing, with ÆON Mall as a surviving entity, and the agreement was announced on the same day. Following approval of the merger at a general meeting of shareholders held on May 17, 2007, the new ÆON Mall Co., Ltd. made a fresh start on August 21, 2007.

In November 2007, ÆON Mall Hanyu (Saitama Prefecture) was opened as the first mall under the new ÆON Mall, followed by the opening of ÆON Mall Hinode (Tokyo) in the same month. For existing malls, ÆON Mall expanded and renovated ÆON Mall Kawaguchi carat (Saitama Prefecture) and ÆON Mall Chiba NEW TOWN (Chiba Prefecture), also in November 2007.

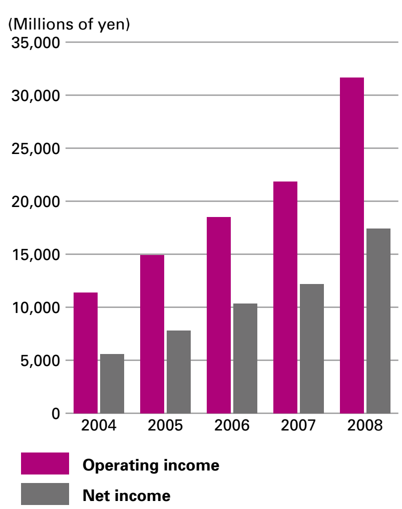
Overview of Earnings

Operating revenue for the fiscal year ended February 20, 2008, totaled ¥96,806 million (up 55.5% in comparison with the previous fiscal year), an increase of ¥34,553 million year on year, due to the addition of operating revenue of ¥26,903 million from Diamond City's 19 malls since August 21, 2007, as well as contributions from five newly opened malls (three malls opened in the previous fiscal year and two malls in the fiscal year under review).

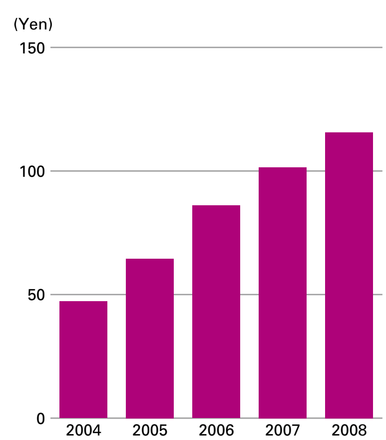
■ Operating revenue



■ Operating income and net income



■ Net income per share



Note: ÆON Mall carried out a 2-for-1 stock split on April 11, 2005 and a 2-for1 stock split on February 21, 2007.

Although business operations expanded, operating costs increased by ¥21,357 million, and selling, general and administrative expenses also rose by ¥3,432 million. Operating income increased ¥9,763 million to ¥31,642 million (up 44.6% year on year).

Other income came to ¥5,905 million, including a gain of ¥2,362 million on sales of property, plant and equipment, ¥1,925 million in compensation money for premature termination in connection with the reconstruction of ÆON Mall Nagoya Wonder City (Aichi Prefecture), ¥921 million in gain on sales of investment securities, and ¥696 million in a gain on liquidation of anonymous association investment.

Other expenses amounted to ¥7,247 million, including ¥1,161 million in loss on sales and disposal of property, plant and equipment ¥978 million in loss on adjustment of fixed leasehold deposits to lessors in connection with reconstruction of ÆON Mall Nagoya Wonder City, and ¥4,735 million in loss on impairment of long-lived assets.

As a result, net income stood at ¥17,439 million (up 43.2% year on year), with basic net income per share amounting to ¥115.63. ÆON Mall carried out a two-for-one stock split on February 21, 2007. Assuming the said stock split had been carried out at the beginning of the fiscal year ended February 20, 2007, net income per share in the previous fiscal year would have totaled ¥101.50. Thus, in effect, net income per share for the fiscal year under review increased year on year.

Financial Conditions

Assets, Liabilities and Net Assets

At the end of the fiscal year ended February 20, 2008, total assets stood at ¥377,661 million, an increase of ¥144,603 million over a year earlier. The merger with Diamond City on August 21, 2007 had the effect of pushing up total assets by ¥140,077 million. Excluding this factor, the year-on-year increase in total assets came to ¥4,526 million.

Total current assets rose ¥6,700 million to ¥17,832 million. Excluding an increase of ¥5,937 million resulting from the merger, the year-on-year rise would have been ¥762 million.

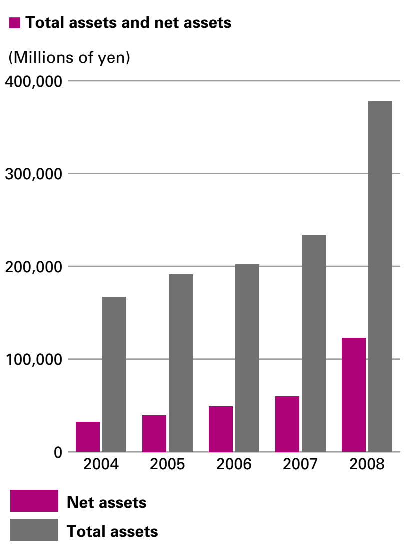
Property, plant and equipment value expanded to ¥359,829 million, an increase of ¥137,903 million over a year earlier. Excluding the merger impact in the amount of ¥134,139 million, the increase would have come to ¥3,764 million. Although property, plant and equipment value suffered a loss of ¥21,946 million due to the liquidation of mall and cinema buildings at ÆON Mall Sakai Kitahanada prou and ÆON Mall Chiba NEW TOWN by ¥10,751 million due to depreciation and a loss of ¥4,735 million on impairment of long-lived assets, the opening of two new malls boosted buildings and other assets.

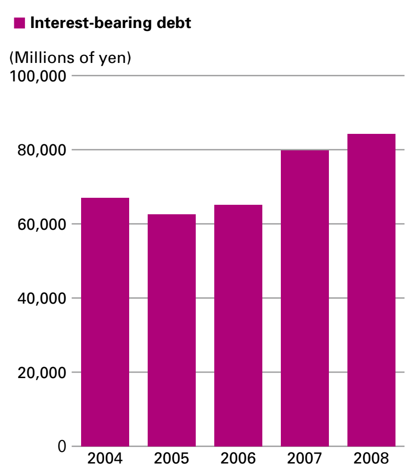
Total liabilities grew by ¥81,904 million from the end of the previous fiscal year to ¥254,927 million. Excluding an increase of ¥90,872 million resulting from the merger, total liabilities, in effect, decreased by ¥8,968 million. The decrease resulted mainly from repayments of ¥17,233 million in interest-bearing debt, funded by cash flows from operating activities and proceeds from liquidation of property, plant and equipment.

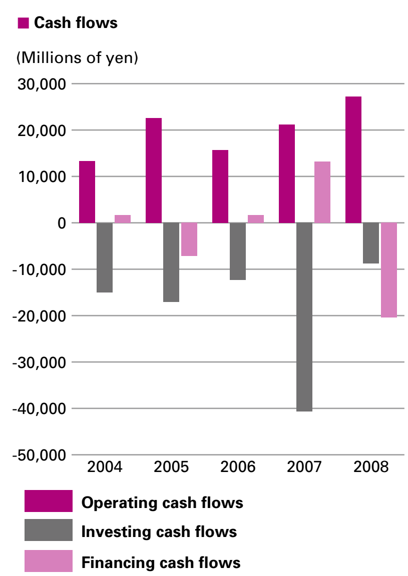
As a result, the ratio of liabilities to total assets declined from 74.2% in the previous fiscal year to 67.5%, and the ratio of interest-bearing debt to total assets also fell from 34.3% to 22.3%, enabling ÆON Mall to further improve its financial standing.

For the purpose of flexible fund-raising, ÆON Mall obtained a credit rating of A+ from Rating and Investment Information, Inc. (R&I) as of April 7, 2008.

Net assets totaled ¥122,734 million, up ¥62,699 million from the previous fiscal year-end, and the equity ratio improved from 25.6% to 32.4%.







Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities came to ¥27,169 million, compared with ¥21,150 million in the previous fiscal year. During the fiscal year under review, the number of malls operated by ÆON Mall increased to 46 due to the merger with Diamond City and two new malls opened (ÆON Mall Hanyu and ÆON Mall Hinode). The net surplus resulted chiefly from ¥29,340 million in income before taxes and minority interests (¥20,637 million in the previous fiscal year) and ¥10,933 million in depreciation (¥8,611 million in the previous fiscal year).

Cash Flows from Investing Activities

Net cash used in investing activities came to ¥8,748 million, compared with ¥40,664 million in net cash used in the previous fiscal year. Spending on purchases of property, plant and equipment amounted to ¥37,564 million (¥44,548 million in the previous fiscal year) due to the opening of new malls, while proceeds from liquidation of property, plant and equipment stood at ¥24,285 million (¥535 million in the previous fiscal year), thanks to the liquidation of mall and cinema buildings at ÆON Mall Chiba NEW TOWN as well as land and buildings of ÆON Mall Sakai Kitahanada prou. Lease deposits from lessees at the newly opened malls amounted to ¥8,724 million (¥9,273 million in the previous fiscal year).

Cash Flows from Financing Activities

Net cash used in financing activities came to ¥20,441 million, compared with ¥13,225 million in net cash provided during the previous fiscal year. During the fiscal year under review, ÆON Mall made no long-term borrowings (¥27,000 million borrowed in the previous fiscal year), while it repaid ¥14,133 million in long-term debt (¥12,768 million repaid in the previous fiscal year).

As a result, cash and cash equivalents amounted to ¥3,199 million at the end of the fiscal year under review, a decrease of ¥36 million from the previous fiscal year.

Impact of Stock Split

ÆON Mall carried out a two-for-one stock split on February 21, 2007. Assuming that the stock split had been carried out at the beginning of the fiscal year ended February 20, 2007, net income per share in the previous fiscal year would have amounted to ¥101.50, with net assets per share of ¥497.50.

Dividend Policy

ÆON Mall recognizes the returning of profits to shareholders as an important management policy. In the distribution of profit, we give priority to the continuation of stable dividends to shareholders. It is also our basic policy to use retained earnings for effective investment to enhance the Company's management structure, including investment in growing sectors and new businesses, to strengthen the foundation for business operations. Given our continued focus on the development of new malls and revitalization of existing malls, we are aiming for an annual payout ratio of 15%.

We initially planned to pay ¥15.00 in cash dividends per share applicable to the year (an interim dividend of ¥7.50 and a year-end dividend of ¥7.50) for the fiscal year ended February 20, 2008. But the Board of Directors at the meeting held on April 7, 2008 decided to offer a year-end dividend of ¥10.00 per share. This brought ÆON Mall's cash dividends applicable to the year to ¥17.50 per share, including an interim dividend of ¥7.50, for the fiscal year under review.

For the fiscal year ending February 20, 2009, ÆON Mall plans to pay ¥20.00 per share in cash dividends applicable to the year.

Outlook for the Coming Year

During the fiscal year ending February 20, 2009, ÆON Mall will open ÆON Mall LakeTown KAZE (Saitama Prefecture), ÆON Mall Kusatsu (Shiga Prefecture) and ÆON Mall Chikushino (Fukuoka Prefecture), as well as ÆON Mall MiELL Miyakonojo-Ekimae (Miyazaki Prefecture), which will be the first case of revitalization (expansion of the existing general merchandise stores [GMS]). For ÆON Mall MiELL Miyakonojo-Ekimae, ÆON Mall acquired the site of Daiei Miyakonojo Store from Daiei, Inc. and constructed a new mall, where Daiei Miyakonojo Store will be an anchor tenant. For new projects in the following year onward, ÆON Mall will identify candidate areas and strive to develop new malls as early as possible.

As for existing malls, we plan to expand and renovate six malls, including ÆON Mall Kashihara ARURU (Nara Prefecture) and ÆON Mall Okazaki (Aichi Prefecture). At existing malls other than these six, too, we will aim for better performance by introducing attractive specialized stores, further strengthening competitiveness of the malls and making their operations more efficient.

In an effort to develop mall business in China, we plan to open the first store in Beijing within 2008. After opening our Beijing office in 2007, we established our Shanghai office in March 2008. We will step up our efforts to open new malls in China.

Going forward, we will further strengthen governance in management and seek to enhance our competitiveness through prompt decision-making, thereby securing stable growth and profitability of our business operations.

For the fiscal year ending February 20, 2009, ÆON Mall expects to report operating revenue of ¥130,000 million (up 34.3% year on year), operating income of ¥41,000 million (up 29.6% year on year) and net income of ¥21,000 million (up 20.4% year on year).

Breakdown of Operating Revenue

SC	Millions of yen			
	2007	**2008**	Increase (decrease)	Change (%)
ÆON Mall Tsugaru Kashiwa	¥ 1,162	**¥ 1,013**	¥ (48)	87.2
ÆON Mall Akita	2,480	**2,478**	(1)	99.9
ÆON Mall Futtsu	1,079	**1,076**	(3)	99.7
ÆON Mall Shimoda	2,021	**2,042**	21	101.1
ÆON Mall Suzuka BELLCITY	2,946	**2,907**	(39)	98.7
ÆON Mall Sankoh	943	**933**	(10)	98.9
ÆON Mall Kurashiki	3,414	**3,475**	60	101.8
ÆON Mall Narita	2,954	**3,386**	432	114.6
ÆON Mall Okazaki	2,421	**2,497**	75	103.1
ÆON Mall Kochi	2,615	**2,712**	97	103.7
ÆON Mall Niihama	1,818	**1,835**	16	100.9
ÆON Mall Higashiura	2,850	**2,852**	2	100.1
ÆON Mall Yamato	1,904	**1,904**	0	100.0
ÆON Mall Takaoka	2,699	**2,657**	(42)	98.4
ÆON Mall Morioka	2,235	**2,122**	(113)	94.9
ÆON Mall Ota	3,626	**3,552**	(74)	98.0
ÆON Mall Hamamatsu Shitoro	3,645	**3,691**	46	101.3
ÆON Mall Rinku Sennan	3,650	**3,744**	93	102.6
ÆON Mall Nogata	2,695	**2,696**	0	100.0
ÆON Mall Miyazaki	3,392	**3,488**	96	102.8
ÆON Mall Mito Uchihara	3,441	**3,568**	126	103.7
Subtotal	¥54,001	**¥54,638**	¥ 637	101.2
ÆON Mall Chiba NEW TOWN (Note 2)	2,459	**2,851**	391	–
ÆON Mall Takasaki (Note 2)	1,319	**3,156**	1,837	–
ÆON Mall Kobe Kita (Note 2)	973	**2,930**	1,956	–
ÆON Mall Hanyu	–	**1,544**	1,544	–
ÆON Mall Hinode	–	**839**	839	–
Subtotal	¥ 4,752	**¥11,322**	¥ 6,569	–
ÆON Mall Fujiidera	–	**496**	496	–
ÆON Mall Neyagawa Green City	–	**511**	511	–
ÆON Mall Kawaguchi Green City	–	**849**	849	–
ÆON Mall Nagoya Wonder City (Note 3)	–	**200**	200	–
ÆON Mall Uki VALUE	–	**661**	661	–
ÆON Mall Kawaguchi carat	–	**1,804**	1,804	–
ÆON Mall Itami Terrace	–	**2,025**	2,025	–
ÆON Mall Kyoto Hana	–	**1,436**	1,436	–
ÆON Mall Hiroshima Fuchu SOLEIL	–	**2,808**	2,808	–
ÆON Mall Kashihara ARURU	–	**1,790**	1,790	–
ÆON Mall Fukuoka LUCLE	–	**2,343**	2,343	–
ÆON Mall Kisogawa KiRiO	–	**2,052**	2,052	–
ÆON Mall Sakaikitahanada prou	–	**2,018**	2,018	–
ÆON Mall Kumamoto CLAIR	–	**1,554**	1,554	–
ÆON Mall Musashimurayama mu	–	**2,327**	2,327	–
ÆON Mall Tsurumi Leafa	–	**1,867**	1,867	–
ÆON Mall Natori AIRY	–	**1,903**	1,903	–
Others	–	**252**	252	–
Subtotal (Note 4)	–	**¥26,903**	¥26,903	–
Subtotal	¥ 1,452	**¥ 1,703**	¥ 251	117.3
Total	¥60,206	**¥94,567**	¥34,360	157.1
Commission of Insurance Agency Businesses	¥ 2,046	**¥ 2,239**	¥ 193	109.4
Total of Operating Revenue	¥62,253	**¥96,806**	¥34,553	155.5

(Note) 1. Figures listed are rounded down to the million.
2. Year-on-year comparison is not available as the mall was opened during the course of the previous fiscal year.
3. Figures are only for the cinema building, as the main building was shut down on August 20, 2007 for reconstruction.
4. This is new because ÆON Mall merged with Diamond City on August 21, 2007.

Risk Factors

In this section, we describe several important matters related to our business operations and financial conditions, which, in our view, might have a significant impact on judgments and decisions by investors. However, we should note that risks and uncertainties surrounding our future earnings and financial conditions are not limited to those described here. References to future prospects made in this section reflect our judgment as of May 13, 2008, when the annual securities report was submitted.

1. Relationship with ÆON Co., Ltd. and Its Affiliates (Hereinafter Referred to as "the ÆON Group Companies")

(1) Risk Involved in Earnings Dependence on ÆON and ÆON Group Companies

Operating revenue from business with ÆON accounted for 14.1% of ÆON Mall's operating revenue in the fiscal year ended February 20, 2008, while the ratio of operating revenue from the ÆON Group companies other than ÆON stood at 12.1%.

In the development of malls, the presence of anchor tenants that can pull in many customers is extremely important. Capitalizing on the close ties with ÆON, ÆON Mall has JUSCO stores operated by ÆON and SATY stores operated by Mycal Corp. as anchor tenants at its malls. We expect JUSCO and SATY stores to be our key tenants at new malls planned for the future. Thus, the relationship between ÆON Mall and ÆON provides a great advantage in drawing anchor tenants in a stable manner in our mall projects. Because of such close ties, however, ÆON Mall's earnings performance may become vulnerable to business results of ÆON and Mycal, and their policies regarding the opening of new stores and shutdown of existing stores.

(2) Risk That Business Growth May Be Constrained by Recruitment

As of February 20, 2008, ÆON Mall's payroll of 618 employees includes 22 on loan from ÆON and ÆON Group companies (14 among the staff of 475 in the mall division and 6 among the staff of 78 in the insurance agency division). All of them commit themselves full-time to ÆON Mall's day-to-day business operations, causing no disruption in the stable execution of business.

The mall development and management tend to require the multifaceted expertise accumulated by particular individuals. At present, ÆON Mall depends on experienced individuals on loan from ÆON to a greater extent.

We will strive to secure qualified people by fostering human resources in-house and also by strengthening recruitment and job-training activities on our own. In the immediate future, however, we expect our dependence on people on loan from ÆON to continue. Thus, in the short run, it is possible that the growth of our mall business may be affected by the personnel policy of ÆON.

(3) Competition with Developers in the ÆON Group

ÆON and LOC Development Co., Ltd. are likewise engaged in mall development within the ÆON Group. Hence, ÆON Mall may have to compete with them in such instances as the selection of sites and composition of tenants.

Should such competition emerge, it may affect ÆON Mall's mall development activities as well as its earnings performance.

2. Regulatory Restrictions

(1) Regulations under the City Planning Law and the Large-Scale Retail Stores Location Law (Hereinafter Referred to as "Large Stores Location Law")

ÆON Mall's mall development and management operations are regulated by the Large Stores Location Law and other laws. Under the Large Stores Location Law, the opening of new stores or store expansions with a total floor space of over 1,000 square meters are subject to regulations by local governments in terms of city planning, public transportation and preservation of the community environment. In addition, from November 2007, the revised City Planning Law restricts areas where large-scale stores with a total floor space of over 10,000 square meters can be established to three use zones, including the commercial zone, prescribed by the City Planning Law. Thus, ÆON Mall's future store opening plans may be affected by these regulations.

(2) Changes in Real Estate-Related Taxes

Changes in real estate-related tax systems, if any, may push up the costs of holding, acquiring and disposing of real estate assets, affecting the ÆON Mall Group's earnings performance.

3. Operational Matters

(1) Periods Required for Mall Development

The development of a mall requires a long period of time as it involves a series of steps, ranging from market research, site selection and negotiations with land owners to acquire land to various legal procedures, store designs and recruitment of tenants. As such, if development projects do not proceed as planned or, even worse are suspended, ÆON Mall's earnings performance may be affected.

(2) Risk of Buildings Being Damaged, Burned Down or Degraded

ÆON Mall's mall operations may be disrupted if buildings and facilities are damaged, destroyed or otherwise degraded by fire, earthquakes or any other unforeseen events. All malls currently operated by ÆON Mall are covered by fire insurance and loss of profit insurance, which compensates for the loss of rents, among others, in the event of fire, flood or other large-scale disasters causing substantial damage. However, as malls are large-scale facilities, there are currently no insurance companies willing to underwrite earthquake insurance policies with economically reasonable terms. Thus, our insurance coverage falls short of compensating a full amount of physical damage caused by earthquakes. Under these circumstances, the ÆON Mall Group's earnings performance may be greatly affected in the event of mall structures being damaged, burned down or otherwise degraded in earthquakes.

(3) Environmental Contamination of Development Areas

ÆON Mall occasionally develops malls on land where industrial plants were previously located. When contaminants are found in an environmental survey, under contract, the cost of removing contaminants is borne by the seller of contaminated land in the case where ÆON Mall purchased the land, and by the landlord in the case where ÆON Mall leases the land. However, if any contaminant is found after the completion of the survey, it would certainly slow down the mall development project there, with the likelihood of an impact on ÆON Mall's earnings.

(4) Risk of Declining Availability of Development Sites

The growth of ÆON Mall's business depends on our ability to continue developing new malls. If the supply of large-scale sites suitable for mall development declines significantly, it may slow down the pace of our mall development activities.

(5) Medium-Term Business Plan (For the Three Years Beginning with the Fiscal Year Ending February 2009)

ÆON Mall's ability to achieve goals under the three-year Medium-Term Business Plan may be affected by possible changes in the environment surrounding Japan's retail and mall businesses, including market entries by out-of-sector and foreign companies, and other factors.

(6) Management of Personal Information

ÆON Mall is striving to ensure the proper management of customers' personal information through such measures as strict compliance based on in-house regulations and the Information Management Manual, in addition to education of employees. Should the leakage of personal information occur in accidents or under other unforeseeable circumstances, however, it could damage the reputation of and confidence in the ÆON Mall Group, eventually affecting its earnings performance.

(7) Overseas Business Development

ÆON Mall is seeking to undertake mall development business in China and other overseas markets as part of its broad business strategy. Overseas business operations may affect our earnings performance because of possible changes in legal regulations related to investment, trade, competition, taxation and foreign exchange, differences in business practices, labor relations, and other political and social factors, on top of overall economic trends and exchange rate fluctuations.

(8) Risk from Competition with Rival Companies

Besides the ÆON Group companies, other developers and general merchandisers are entering the mall business one after another. Intensified competition may adversely affect ÆON Mall's business operations, financial conditions and earnings performance.

(9) Risk Associated with Economic Conditions

Tenants at malls owned and operated by ÆON Mall are mostly retailers and service providers, and demand for their products and services is susceptible to trends in the overall economy and personal consumption in particular. If economic conditions in Japan deteriorate in the future, our business operations may be adversely affected, with the risk of falling values of assets we hold.

4. Financial Matters

(1) Possible Earnings Fluctuations Due to Interest Rate Changes

ÆON Mall has been placing an emphasis on borrowings at fixed interest rates in the procurement of necessary funds from various financial institutions. As of February 20, 2008, the balance of borrowings stood at ¥84,242 million on a consolidated basis, of which ¥65,444 million, or 77.7%, were borrowings at fixed interest rates. Should interest rates rise, it would push up interest paid on floating-rate borrowings as well as costs of refinancing and fund-raising for new projects, with a likely adverse impact on the Company's earnings performance.

(2) Fund-Raising Operations

ÆON Mall occasionally takes on additional debt or increases equity capital for the development of new malls based on its growth strategy. However, we may not be able to raise necessary funds with ideal financing terms in a timely manner, due to the overall business and economic downturn, a possible decline of our credit standing and deteriorating business prospects, among other factors. Further, the possibility cannot be entirely ruled out of ÆON Mall being unable to raise funds at all.

(3) Risk Associated with the Impact of the Impairment Accounting Standard

Based on the "Accounting Standard Regarding Impairment Loss on Fixed Assets" (hereinafter referred to as "the impairment accounting standard"), announced in August 2002, ÆON Mall applies the impairment accounting standard to its accounting of business operations. If individual business establishments incur operating losses, market prices of land held fall sharply, mall facilities become idle due to the withdrawal of tenants, or the business environment deteriorates considerably, the resulting impairment losses may adversely affect ÆON Mall's financial conditions and earnings performance.

Consolidated Balance Sheets

ÆON Mall Co., Ltd. and Subsidiary
February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 3,199**	¥ 3,236	**$ 29,636**
Account receivable:			
Trade accounts (Note 15)	**10,631**	5,888	**98,484**
Allowance for doubtful account	**(21)**	(1)	**(191)**
Deferred tax assets (Note 11)	**1,173**	497	**10,862**
Prepaid expenses and other (Note 4)	**2,850**	1,512	**26,398**
Total current assets	**17,832**	11,132	**165,189**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Notes 5 and 7)	**91,568**	65,945	**848,240**
Buildings and structures (Notes 5 and 7)	**251,547**	177,108	**2,330,211**
Machinery and equipment	**928**	359	**8,603**
Furniture and fixtures	**14,199**	8,017	**131,529**
Construction in progress (Note 5)	**4,344**	2,267	**40,237**
Total	**362,585**	253,696	**3,358,820**
Accumulated depreciation	**(82,836)**	(54,499)	**(767,354)**
Net property, plant and equipment	**279,749**	199,197	**2,591,466**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**1,750**	2,804	**16,210**
Lease deposits paid (Notes 2.h and 15)	**60,633**	14,369	**561,677**
Long-term prepaid to lessors (Note 2.h)	**10,066**	3,778	**93,251**
Deferred tax assets (Note 11)	**4,733**	68	**43,845**
Other	**2,898**	1,709	**26,845**
Total investments and other assets	**80,080**	22,728	**741,828**
TOTAL	**¥ 377,661**	¥ 233,057	**$ 3,498,483**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	**¥ 11,455**	¥ 2,155	**$ 106,114**
Current portion of long-term debt (Note 7)	**12,482**	13,090	**115,631**
Payables:			
Trade accounts (Note 15)	**15,502**	4,022	**143,603**
Other payable	**18,961**	8,515	**175,645**
Deposits received	**18,679**	11,349	**173,032**
Income taxes payable	**10,487**	5,216	**97,149**
Accrued expenses	**1,785**	567	**16,529**
Current portion of lease deposits from lessees (Note 2.h)	**1,184**	1,215	**10,972**
Other	**3,057**	663	**28,316**
Total current liabilities	**93,592**	46,792	**866,991**
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	**60,305**	64,614	**558,637**
Liability for retirement benefits (Note 8)	**198**	238	**1,834**
Lease deposits from lessees (Notes 2.h and 15)	**99,708**	61,093	**923,654**
Long-term unearned income (Note 2.h)	**1,124**	286	**10,413**
Total long-term liabilities	**161,335**	126,231	**1,494,538**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 9, 13 and 15)			
EQUITY (Notes 10 and 16):			
Common stock—authorized, 320,000,000 shares in 2008 and 160,000,000 shares in 2007; issued, 181,127,507 shares in 2008 and 60,011,232 shares in 2007	**16,663**	7,796	**154,358**
Capital surplus	**16,972**	7,165	**157,218**
Retained earnings	**88,466**	43,785	**819,513**
Net unrealized gain on available-for-sale securities	**252**	972	**2,336**
Treasury stock—at cost, 4,373 shares in 2008 and 8,792 shares in 2007	**(14)**	(15)	**(131**
Total	**122,339**	59,703	**1,133,294**
Minority interests	**395**	331	**3,660**
Total equity	**122,734**	60,034	**1,136,954**
TOTAL	**¥ 377,661**	¥ 233,057	**$ 3,498,483**

Consolidated Statements of Income

ÆON Mall Co., Ltd. and Subsidiary
Years Ended February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING REVENUE (Note 15)	**¥96,806**	¥62,253	**$896,771**
OPERATING COSTS	**56,410**	35,053	**522,558**
Gross profit	**40,396**	27,200	**374,213**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 15)	**8,754**	5,321	**81,093**
Operating income	**31,642**	21,879	**293,120**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**377**	137	**3,491**
Interest expense	**(1,557)**	(1,253)	**(14,421)**
Gain on sales of property, plant and equipment	**2,362**	62	**21,883**
Loss on sales and disposal of property, plant and equipment	**(1,161)**	(284)	**(10,755)**
Loss on impairment of long-lived assets (Note 5)	**(4,735)**		**(43,865)**
Other—net	**2,412**	96	**22,341**
Other expenses—net	**(2,302)**	(1,242)	**(21,326)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**29,340**	20,637	**271,794**
INCOME TAXES (Note 11):			
Current	**14,612**	8,695	**135,354**
Deferred	**(2,781)**	(308)	**(25,758)**
Total income taxes	**11,831**	8,387	**109,596**
MINORITY INTERESTS IN NET INCOME	**70**	69	**647**
NET INCOME	**¥ 17,439**	¥ 12,181	**$ 161,551**

	Yen		U.S. Dollars
	2008	2007	2008
PER SHARE OF COMMON STOCK (Notes 2.p and 14):			
Basic net income	**¥115.63**	¥ 101.50	**$ 1.07**
Cash dividends applicable to the year	**17.50**	15.00	**0.16**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

ÆON Mall Co., Ltd. and Subsidiary
Years Ended February 20, 2008 and 2007

	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	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2006	60,003	¥ 7,796	¥ 7,165	¥ 33,153	¥ 1,003	¥ (14)	¥ 49,103		¥ 49,103
Reclassified balance as of February 21, 2006 (Note 2.k)								¥ 268	268
Net income				12,181			12,181		12,181
Cash dividends, ¥25.0 per share				(1,500)			(1,500)		(1,500)
Bonuses to directors and corporate auditors				(49)			(49)		(49)
Purchase of treasury stock	(1)					(1)	(1)		(1)
Net change in the year					(31)		(31)	63	32
BALANCE, FEBRUARY 20, 2007	60,002	7,796	7,165	43,785	972	(15)	59,703	331	60,034
Net income				**17,439**			**17,439**		**17,439**
Cash dividends, ¥45.0 per share				**(3,273)**			**(3,273)**		**(3,273)**
Purchase of treasury stock	**(4)**					**(15)**	**(15)**		**(15)**
Merger of Diamond City Co., Ltd. (Note 3)	**61 ,123**	**8,867**	**9,807**	**30,515**		**16**	**49,205**		**49,205**
Stock splits (Note 10)	**60,002**								
Net change in the year					**(720)**		**(720)**	**64**	**(656)**
BALANCE, FEBRUARY 20, 2008	**181,123**	**¥ 16,663**	**¥ 16,972**	**¥ 88,466**	**¥ 252**	**¥ (14)**	**¥ 122,339**	**¥ 395**	**¥ 122,734**

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, FEBRUARY 20, 2007	$ 72,221	$ 66,376	$405,604	$9,006	$(144)	$ 553,063	$3,068	$ 556,131
Net income			**161,551**			**161,551**		**161,551**
Cash dividends, $0.42 per share			**(30,320)**			**(30,320)**		**(30,320)**
Purchase of treasury stock					**(136)**	**(136)**		**(136)**
Merger of Diamond City Co., Ltd. (Note 3)	**82,137**	**90,842**	**282,678**	**1**	**149**	**455,807**		**455,807**
Stock splits (Note 10)								
Net change in the year				**(6,671)**		**(6,671)**	**592**	**(6,079)**
BALANCE, FEBRUARY 20, 2008	**$154,358**	**$157,218**	**$ 819,513**	**$2,336**	**$(131)**	**$1,133,294**	**$3,660**	**$1,136,954**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Mall Co., Ltd. and Subsidiary
Years Ended February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 29,340	¥20,637	$ 271,794
Adjustments for:			
Income taxes—paid	(11,492)	(8,016)	(106,457)
Depreciation and amortization	10,933	8,611	101,281
Gain on sales of property, plant and equipment	(2,362)	(62)	(21,883)
Loss on impairment of long-lived assets	4,735		43,865
Changes in assets and liabilities:			
(Increase) decrease in receivables—trade accounts	535	(126)	4,957
Increase (decrease) in payables—trade accounts	(1,620)	292	(15,012)
Increase (decrease) in deposits received	(1,404)	1,739	(13,007)
Increase (decrease) in allowance for doubtful account	9	(3)	81
Increase in liability for retirement benefits	88	106	816
Other—net	(1,593)	(2,028)	(14,756)
Total adjustments	(2,171)	513	(20,115)
Net cash provided by operating activities	27,169	21,150	251,679
INVESTING ACTIVITIES:			
Net decrease (increase) in short-term investments	260	(260)	2,409
Purchases of property, plant and equipment	(37,564)	(44,548)	(347,973)
Proceeds from sales of property, plant and equipment	24,285	535	224,966
Lease deposits to lessors	(4,112)	(3,226)	(38,096)
Reimbursement of lease deposits to lessors	4,971	2,296	46,054
Repayment of lease deposits from lessees	(5,454)	(3,848)	(50,527)
Proceeds from lease deposits from lessees	8,724	9,273	80,811
Purchases of investment security	(42)	(14)	(385)
Proceeds from sales of investment security	1,103	63	10,215
Other	(919)	(935)	(8,511)
Net cash used in investing activities	(8,748)	(40,664)	(81,037)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	(3,100)	500	(28,717)
Proceeds from long-term debt		27,000	
Repayment of long-term debt	(14,133)	(12,768)	(130,922)
Dividends paid	(3,279)	(1,506)	(30,376)
Purchase of treasury stock	(15)	(1)	(136)
Other	86		794
Net cash provided by (used in) financing activities	(20,441)	13,225	(189,357)
FORWARD	¥ (37)	¥(6,289)	$ (340)

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
FORWARD	**¥ (37)**	¥ (6,289)	**$ (340)**
CASH AND CASH EQUIVALENTS INCREASED BY MERGER	**1,983**		**18,375**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(37)**	(6,289)	**(340)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**3,236**	9,525	**29,976**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 3,199**	¥ 3,236	**$ 29,636**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Assets acquired and liabilities assumed in merger (Note 3):			
Current assets	**¥ 5,937**		**$ 55,001**
Property, plant and equipment	**75,740**		**701,621**
Investments and other assets	**58,400**		**540,996**
Current liabilities	**46,943**		**434,861**
Long-term liabilities	**43,929**		**406,943**

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

ÆON Mall Co., Ltd. and Subsidiary
Years Ended February 20, 2008 and 2007

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 Financial Instruments and Exchange Law (formerly, 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 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ÆON Mall 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 ¥108 to $1, the approximate rate of exchange at February 20, 2008. 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.

On August 21, 2007, the Company merged with Diamond City Co., Ltd., a subsidiary of ÆON Co., Ltd., The Company was the surviving company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of February 20, 2008 and 2007 include the accounts of the Company and its sole subsidiary (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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. Business Combination—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." These new accounting pronouncements were 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.

The detail information concerning the carrying amounts of assets and liabilities involved in the merge, see Note 3.

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.

c. 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.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of 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.

e. Allowance for Doubtful Account—The allowance for doubtful account is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Group is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 39 years for buildings and structures, and from 2 to 20 years for furniture and fixtures.

g. Long-lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance 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.

h. Lease Deposits to Lessors and Lease Deposits from Lessees—Certain shopping centers operated by the Company are generally leased under 20-year lease agreements. The lease agreements require that the Company make a lease deposit to the lessor.

The Company receives lease deposits from tenants (lessees) of the shopping centers generally under 20-year lease agreements.

i. Retirement and Pension Plans—The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

Liability for employees' retirement benefits is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

Effective May 17, 2007, the Company terminated its unfunded retirement allowance plan for all directors and corporate auditors. The outstanding balance of retirement allowances for directors and corporate auditors as of February 20, 2008 was reclassified to the long-term liabilities (¥128 million) in the year ended February 20, 2008.

j. Stock Options—On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, "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 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.

The Company applied this accounting standard for stock options to those granted on and after May 1, 2006.

k. Presentation of Equity—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of February 20, 2007 were reclassified as separate components of equity as of February 21, 2007 in the consolidated statement of changes in equity.

l. 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. All other leases are accounted for as operating leases.

m. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

n. 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.

o. Derivatives and Hedging Activities—The Company uses interest rate swaps to manage its exposures to fluctuations in interest rates. They are utilized by the Company to reduce interest rate risk. The Company 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 consolidated 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.

p. 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 exercised or converted into common stock, retroactively adjusted for stock splits. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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

q. New Accounting Pronouncements

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

3. BUSINESS COMBINATION

On August 21, 2007, the company, a subsidiary of ÆON Co., Ltd., merged with Diamond City Co., Ltd. ("Diamond City"), a subsidiary of ÆON Co., Ltd., and recognized the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer as a merger between entities under common control in accordance with "Accounting Standard for Business Combinations" and "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The details of assets and liabilities which were inherited from Diamond City are as follows:

	Millions of Yen	Thousands of U.S. Dollars
August 20, 2007		
Current assets	¥ 5,937	$ 55,001
Fixed assets	134,140	1,242,610
Total assets	¥140,077	$1,297,611
Current liabilities	¥(46,943)	$ (434,861)
Long-term liabilities	(43,929)	(406,943)
Total liabilities	¥(90,872)	$ (841,804)

To complete the merger, the Company issued 61,123 thousand shares (not retroactively adjusted for stock splits), which were allotted to shareholders listed in Diamond City's final roster of shareholders as of the day prior to the merger date (i.e. August 21, 2007), at the rate of 0.80 share of the Company's common stock for each share of Diamond City common stock held. Due to this issuance of new shares, the Company's common stock and capital surplus increased by ¥8,867 million ($82,137 thousand) and ¥9,807 million ($90,842 thousand), respectively.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Short-term investments—Time deposits		¥ 260	
Investment securities:			
Marketable equity securities	**¥ 853**	¥2,215	**$ 7,905**
Other	**897**	589	**8,305**
Total	**¥1,750**	¥2,804	**$16,210**

The carrying amounts and aggregate fair values of investment securities at February 20, 2008 and 2007 were as follows:

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**¥ 429**	**¥ 510**	**¥ (86)**	**¥ 853**

	Millions of Yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	¥ 578	¥1,690	¥ (53)	¥2,215

	Thousands of U.S. Dollars			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	**$3,972**	**$4,732**	**$ (799)**	**$7,905**

Available-for-sale securities whose fair value is not readily determinable as of February 20, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	**¥546**	¥589	**$ 5,058**
Investment in special purpose companies	**351**		**3,247**

Proceeds and gross realized gains of sales of available-for-sale securities for the years ended February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Proceeds	**¥ 1,103**	¥ 63	**$10,215**
Gross realized gains	**922**	60	**8,538**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of February 20, 2008 and 2007, and, as a result, recognized impairment losses of ¥4,735 million ($43,865 thousand) on the following group long-lived assets in 2008 and no impairment loss was recognized in 2007.

Use	Type of Assets	Location	Millions of Yen	Thousands of U.S. Dollars
Shopping center	Land, buildings and structures and others	Osaka	¥2,262	$20,955
Shopping center	Land, buildings and and structures	Miyazaki	2,073	19,201
Idle assets	Land, buildings and structures	Tottori	137	1,269
Idle assets	Land	Kumamoto	263	2,440
Total			¥4,735	$43,865

The Group mainly categorizes shopping centers as standard unit, which is the minimum cash-generating unit, and idle assets as individual independent units. The book values of the shopping centers which incurred or are expected to incur continuous operating losses and idle assets which are not scheduled to be used were reduced to recoverable amounts, and such deducted amounts were recorded as impairment losses as other expenses. The recoverable amount of the asset groups is measured as net selling price. The net selling price for land is measured based on evaluations based on real estate appraisal value.

The breakdown of impairment loss for the year ended February 20, 2008 was as follows:

Type	Millions of Yen	Thousands of U.S. Dollars
Land	¥3,237	$29,989
Buildings and structures	1,496	13,860
Other	2	16
Total	¥4,735	$43,865

6. FIXED LEASEHOLD DEPOSITS TO LESSORS

The Company has securitized certain amounts of fixed leasehold deposits to lessors by transferring these deposits to an unconsolidated special purpose entity, J-one Assets Corporation. The aggregate amounts of securitized deposits as of February 20, 2008 and 2007 were ¥1,603 million ($14,865 thousand) and ¥2,003 million, respectively. This special purpose entity has options to sell the transferred deposits back to ÆON Co., Ltd., the Company's parent company, in certain cases including lessors' insolvency. In that case, ÆON Co., Ltd. has its option to sell it to the Company.

When the special purpose entity exercises its put options, it also cancels interest rate swap agreements, which it entered into with financial institutions for hedging interest exposures, incorporated in these transactions and such the cancellation gains or losses are borne by ÆON Co., Ltd. When ÆON Co., Ltd. used the option, such cancellation gains or losses are borne by the Company. The unrealized loss on these interest rate swap agreements as of February 20, 2008 and 2007 was ¥102 million ($940 thousand) and ¥103 million, respectively.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 20, 2008 and 2007 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term borrowings ranged from 1.50% to 2.12% and 1.37% to 2.05% at February 20, 2008 and 2007, respectively.

Long-term debt at February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Loans from banks and insurance companies, due through 2023 with interest rates ranging from 0.62% to 6.00% (2008) and from 0.61% to 6.00% (2007):	**¥ 72,787**	¥ 77,704	**$ 674,268**
Less current portion	**(12,482)**	(13,090)	**(115,631)**
Long-term debt, less current portion	**¥ 60,305**	¥ 64,614	**$ 558,637**

Annual maturities of long-term debt as of February 20, 2008 were as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 12,482	$ 115,631
2010	20,179	186,925
2011	7,250	67,156
2012	4,912	45,505
2013	4,405	40,810
2014 and thereafter	23,559	218,241
Total	¥ 72,787	$674,268

The carrying amounts of assets pledged as collateral for short-term borrowings, and the above collateralized long-term debt and other at February 20, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 35,808	$ 331,709
Buildings and structures—net of accumulated depreciation	83,364	772,247
Total	¥119,172	$1,103,956

Collateralized short-term bank loans, long-term debt and other at February 20, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2008	**2008**
Short-term bank loans	**¥ 3,355**	**$ 31,079**
Current portion of long-term debt	**9,511**	**88,104**
Other current liabilities	**856**	**7,930**
Long-term debt	**40,394**	**374,190**
Lease deposits from lessees	**14,763**	**135,927**
Total	**¥68,879**	**$637,230**

8. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees, directors and corporate auditors, except that the Company ceased the severance payments for the directors and corporate auditors effective May 17, 2007.

The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

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 Company. 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 liability for employees' retirement benefits at February 20, 2008 and 2007 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Projected benefit obligation	**¥(1,584)**	¥(1,569)	**$(14,673)**
Fair value of plan assets	**971**	1,002	**8,994**
Unrecognized actuarial gain	**415**	457	**3,845**
Net liability	**¥ (198)**	¥ (110)	**$ (1,834)**

The components of net periodic retirement benefit costs for the years ended February 20, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Service cost	**¥ 32**	¥ 34	**$ 301**
Interest cost	**38**	38	**349**
Expected return on plan assets	**(19)**	(23)	**(178)**
Recognized actuarial gain	**71**	75	**657**
Other	**105**	42	**976**
Total	**227**	166	**2,105**
Loss on change in pension plan	**79**		**731**
Net periodic costs	**¥306**	¥166	**$2,836**

Assumptions used for the years ended February 20, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	**2.4%**	2.4%
Expected rate of return on plan assets	**1.92%**	2.31%
Recognition period of actuarial gain/loss	**10 years**	10 years

The liability for retirement benefits at February 20, 2007 for directors and corporate auditors is ¥128 million.

9. COMMITMENTS

The Company has agreements with Petrus Funding Corporation, an unconsolidated SPE, under which it is committed to execute loans as the first back-up line. At February 20, 2008, the total unused credit available to SPE is ¥550 million ($5,092 thousand).

10. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

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

Semiannual 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. The Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of 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 equity or deducted directly from stock acquisition rights.

On February 21, 2007, the Company made a 2-for-1 stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on January 9, 2007.

11. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended February 20, 2008 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 20, 2008 and 2007 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Current:			
Deferred tax assets:			
Accrued enterprise tax	**¥ 790**	¥ 390	**$ 7,319**
Other	**383**	107	**3,543**
Deferred tax assets	**¥ 1,173**	¥ 497	**$ 10,862**
Non-current:			
Deferred tax assets:			
Property, plant and equipment	**¥5,305**	¥1,133	**$ 49,138**
Long-term prepaid expenses	**180**	149	**1,665**
Liability for retirement benefits	**80**		**745**
Other	**671**	155	**6,219**
Deferred tax assets	**6,236**	1,437	**57,767**
Deferred tax liabilities:			
Lease deposits paid and long-term prepaid expenses	**465**		**4,307**
Deferred capital gains on property	**386**	180	**3,576**
Special depreciation on property	**480**	525	**4,442**
Unrealized gain on available-for-sale securities	**172**	664	**1,597**
Deferred tax liabilities	**1,503**	1,369	**13,922**
Net deferred tax assets	**¥4,733**	¥ 68	**$ 43,845**

The difference between the statutory tax rate and the effective tax rate for the years ended February 20, 2008 and 2007 is less than 5%, so the reconciliation difference is omitted.

12. LEASES

a. Lessee

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

Total rental expenses including lease payments under finance lease for the years ended February 20, 2008 and 2007 were ¥14,458 million ($124,636 thousand) and ¥13,174 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense and other information of finance lease that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 20, 2008 and 2007 was as follows:

	Millions of Yen		
	2008		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥ 180**	**¥ 2,116**	**¥ 2,296**
Accumulated depreciation	**128**	**926**	**1,054**
Net leased property	**¥ 52**	**¥ 1,190**	**¥ 1,242**

	Millions of Yen		
	2007		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 179	¥ 1,541	¥ 1,717
Accumulated depreciation	109	866	975
Net leased property	¥ 67	¥ 675	¥ 742

	Thousands of U.S. Dollars		
	2008		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**$1,670**	**$19,597**	**$21,267**
Accumulated depreciation	**1,186**	**8,575**	**9,761**
Net leased property	**$ 484**	**$11,022**	**$11,506**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 402**	¥ 295	**$ 3,725**
Due after one year	**847**	462	**7,841**
Total	**¥1,249**	¥ 757	**$11,566**

Depreciation expense, interest expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Depreciation expense	**¥413**	¥396	**$3,823**
Interest expense	**17**	40	**156**
Total	**¥430**	¥436	**$3,979**
Lease payments	**¥462**	¥443	**$4,278**

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

The minimum rental commitments under noncancelable operating leases at February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 22,795**	¥ 5,251	**$ 211,070**
Due after one year	**203,249**	52,104	**1,881,935**
Total	**¥226,044**	¥57,355	**$2,093,005**

b. Lessor

The Company leases certain store space to tenants and other assets.

Future rental revenues from subleases under finance leases for the years ended February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Due within one year	**¥ 5,559**		**$ 51,493**
Due after one year	**34,055**		**315,470**
Total	**¥39,614**		**$366,963**

13. DERIVATIVES

The Company enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged liabilities.

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

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

The interest rate swap contracts which are qualified for hedge accounting and are reflected on the consoliated balance sheet at the years end, are not subject to the disclosure of market value information.

14. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 20, 2008 and 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended February 20, 2008	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥17,439**	**150,816**	**¥115.63**	**$ 1.07**
Year Ended February 20, 2007				
Basic EPS—Net income available to common shareholders	¥12,181	60,003	¥203.00	

Diluted net income per share is not disclosed because there is no potential dilution existing.

The Company conducted the two-for-one share split of the Company's common stock on February 21, 2007. Assuming that the share split was conducted at the beginning of the year, per share data for the fiscal year ended February 20, 2006, is as follows:

	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted-average Shares	EPS
Year Ended February 20, 2007			
Basic EPS—Net income available to common shareholders	¥12,181	120,006	¥101.50

15. RELATED PARTIES TRANSACTIONS

Transactions with the parent company and its subsidiary for the years ended February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Revenue from leases of shopping centers to ÆON Co., Ltd. (the parent company)	**¥13,692**	¥ 9,612	**$126,836**
Pledge of collateral for ÆON Co., Ltd.	**12,632**	13,061	**117,019**
Cost from maintenance of shopping centers to ÆON Delight Co., Ltd. (its subsidiary)	**6,293**	5,410	**58,293**
Proceeds from sales of investment security to ÆON Delight Co., Ltd.		63	
Gain on sales of investment security to ÆON Delight Co., Ltd.		60	

Note: These transactions are on an arm's length basis and in the normal course of business.

The balances due to or from the parent company and its subsidiary at February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Receivables—Trade accounts from ÆON Co., Ltd.	**¥ 1,166**	¥ 866	**$ 10,797**
Lease deposits received from ÆON Co., Ltd.	**17,360**	14,159	**160,815**
Payables—Trade accounts from ÆON Delight Co., Ltd.	**592**	514	**5,484**

Note: Lease deposits received are at stated amounts.

16. SUBSEQUENT EVENT

a. Appropriations of Retained Earnings

The following appropriation of retained earnings at February 20, 2008 was approved at the Company's board meeting held on April 7, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.09) per share	¥1,811	$16,778

b. Stock Option

The following stock option of the Company was approved at the Board of Directors meeting on April 4, 2008.

Stock Option	Persons Granted	Number of Options Granted	Exercise Price	Exercise Period
2007 Stock Option	20 directors	20,200 shares	¥1($0.01)	From May 21, 2008 to May 20, 2023

c. Issue of Bond

The Company as of Augsut 6, 2008 issued as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unsecured 1.6% domestic bonds due 2013	¥10,000	$92,635

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ÆON Mall Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ÆON Mall Co., Ltd. (the "Company") and subsidiary as of February 20, 2008 and 2007, and the related consolidated statements of income, changes in 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 ÆON Mall Co., Ltd. and subsidiary as of February 20, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

May 9, 2008 (August 6, 2008 as to Note 16.c)

Investor Information (As of February 20, 2008)

Shares

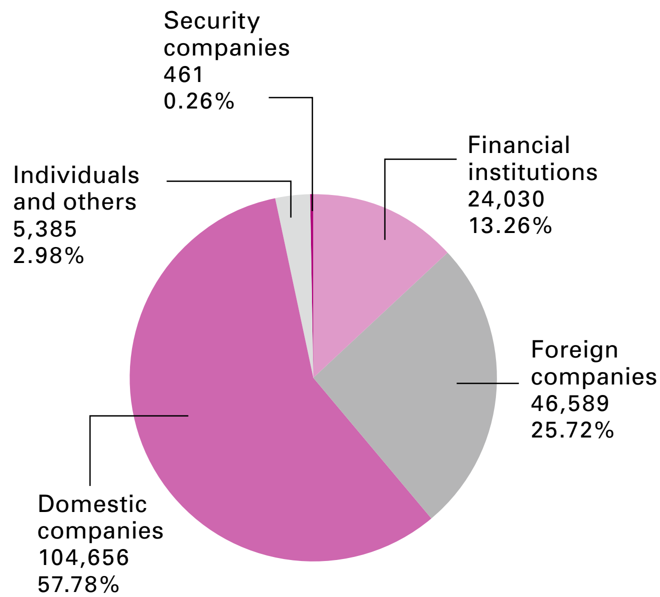
Number of Shares Authorized	320,000,000
Number of Shares Outstanding	181,127,507
Number of Shareholders	7,573

Note: On February 21, 2007, the Company made a two-for-one stock split by way of a free share distribution as the record date of February 20, 2008. On August 21, 2007, the Company merged with Diamond City Co., Ltd.

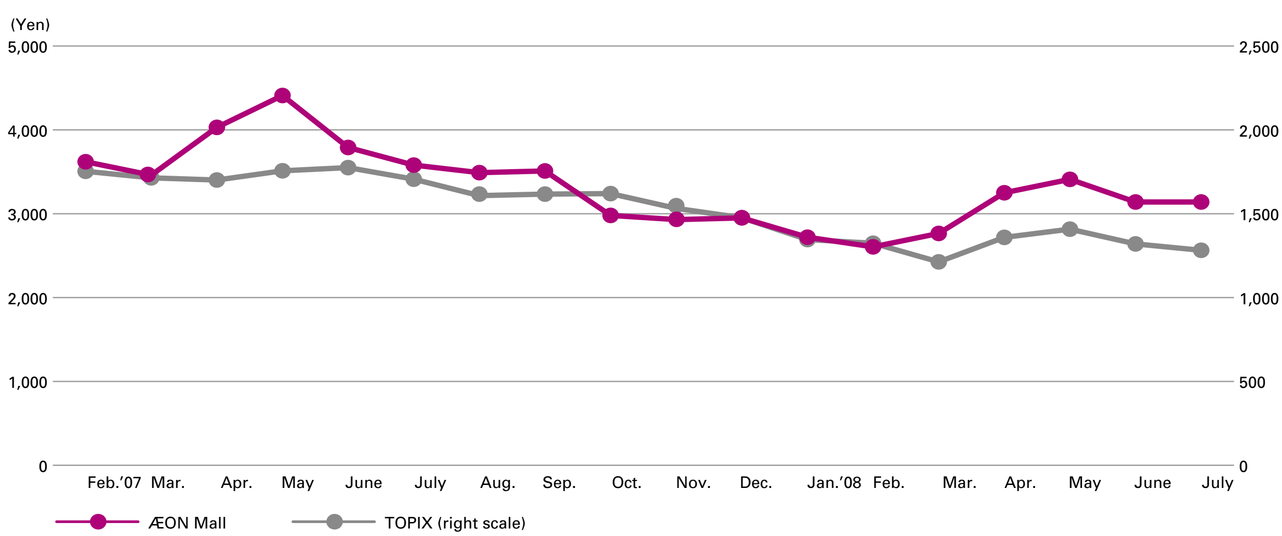
Major Shareholders

	Number of shares (Thousands)	Percentage of voting rights (%)
ÆON Co., Ltd	101,057	55.79
State Street Bank and Trust Company	9,879	5.45
Japan Trustee Services Bank Ltd. (Trust Account)	3,505	1.93
Japan Master Trust Bank of Japan, Ltd. (Trust Account)	2,582	1.42
The Bank of New York Treaty JASDEC Account	2,121	1.17
Bank of New York Tax Treaty JASDEC OMNIBUS TWO	2,001	1.10
The Norinchukin Bank	1,925	1.06
Mellon Bank NA as Agent for its Client Melon OMNIBUS US Pension	1,924	1.06
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1,683	0.92
The Dai-ichi Mutual Life Insurance Company	1,491	0.82

Distribution of Shares (Thousands of shares)



Share Prices



Corporate Data (As of February 20, 2008)

Company Name	ÆON Mall Co., Ltd.
Date Established	November 12, 1911
Headquarters	1-5-1, Nakase, Mihama-ku, Chiba 261-8539, Japan Tel: 81-(43)-212-6450 Fax: 81-(43)-212-6737
Offices	
Tokyo Office	Toyosu TK Building 4F, 1-9-4, Edagawa, Koto-ku, Tokyo 135-0051, Japan
Tohoku Office	ÆON Mall Morioka, 4-7-1, Maegata, Morioka-shi, Iwate 020-0148, Japan
Nagoya Office	Daitokai Building 9F, 3-22-8, Meieki, Nakamura-ku, Nagoya-shi, Aichi 450-0002, Japan
Osaka Office	Kurabo Annex Building 12F, 2-4-11, Kyutaromachi, Chuo-ku, Osaka 541-0056, Japan
Fukuoka Office	Yamazen Building 3F, 2-9-11, Hakataekiminami, Hakata-ku, Fukuoka 812-0016, Japan
Beijing Office	Room 1201 East Ocean Center, No. 24A Jian Guo Men Wai Avenue, Chaoyang District, Beijing 100004, People's Republic of China
Shanghai Office	Metro Plaza Room No. 2606-2607No. 555, Loushanguan Road, Changning District, Shanghai 200051, People's Republic of China
Capital Stock	¥16,663 million (as of February 20, 2008)
Number of Shopping Malls	46 (as of February 20, 2008)
Number of Employees	668 (as of February 20, 2008)
Stock Listing	Tokyo Stock Exchange, First Section
Transfer Agent	Mizuho Trust and Banking Co., Ltd. 2-1, Yaesu 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan
Independent Auditors	Deloitte Touche Tohmatsu 13-23, Shibaura 4-chome, Minato-ku, Tokyo 108-8530, Japan

For further information, please contact the Investor Relations section of the Management Planning Department at the ÆON Mall Co., Ltd. Head Office.

1-5-1, Nakase, Mihama-ku, Chiba 261-8539, Japan
E-mail: amirdept@aeonmall.com
http://www.aeonmall.com

ÆON MALL CO., LTD.

1-5-1 Nakase, Mihama-ku,
Chiba-shi, Chiba 261-8539, Japan
http://www.aeonmall.com

Printed in Japan