

Japan Retail Fund Investment Corporation

First Accounting Period Financial Report

**For the Period from September 14, 2001 (Date of
Incorporation) to August 31, 2002**

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Japan Retail Fund Investment Corporation:

We have audited the accompanying balance sheet of Japan Retail Fund Investment Corporation as of August 31, 2002, and the related statements of income and retained earnings and cash flows for the period from September 14, 2001, the date of incorporation, to August 31, 2002, all expressed in Japanese yen. Our audit was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Japan Retail Fund Investment Corporation as of August 31, 2002 and the results of its operations and its cash flows for the period from September 14, 2001 to August 31, 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 2(a)).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying financial statements.

ChuoAoyama Audit Corporation.

Tokyo, Japan

November 20, 2002

JAPAN RETAIL FUND INVESTMENT CORPORATION

BALANCE SHEET

As of August 31, 2002

	(¥ in millions)	(US\$ in thousands)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	¥ 1,753	\$ 14,859
Rental receivables	45	383
Consumption tax refundable	729	6,182
Prepaid expenses and other assets	<u>23</u>	<u>198</u>
<i>Total current assets</i>	2,550	21,622
Non-current assets:		
Property and equipment, at cost:		
Land	26,353	223,423
Buildings	14,233	120,671
Building improvements	948	8,037
Machinery and equipment	<u>65</u>	<u>557</u>
	41,599	352,688
Less: Accumulated depreciation	<u>(285)</u>	<u>(2,419)</u>
<i>Net property and equipment</i>	41,314	350,269
Other assets:		
Long-term prepaid expenses	38	324
Organization costs	111	944
Other	<u>51</u>	<u>430</u>
<i>Total other assets</i>	<u>200</u>	<u>1,698</u>
TOTAL ASSETS	<u>¥ 44,064</u>	<u>\$ 373,589</u>

The accompanying notes form an integral part of these financial statements.

JAPAN RETAIL FUND INVESTMENT CORPORATION

BALANCE SHEET

As of August 31, 2002

	(¥ in millions)	(US\$ in thousands)
<u>LIABILITIES AND UNITHOLDERS' EQUITY</u>		
Current liabilities:		
Short-term debt	¥ 4,830	\$ 40,949
Accounts payable	129	1,095
Rent received in advance	130	1,104
Accrued expenses and other liabilities	<u>169</u>	<u>1,433</u>
<i>Total current liabilities</i>	5,258	44,581
Non-current liabilities:		
Long-term debt	4,170	35,354
Tenant leasehold and security deposits	10,229	86,723
Other	<u>51</u>	<u>430</u>
<i>Total non-current liabilities</i>	<u>14,450</u>	<u>122,507</u>
TOTAL LIABILITIES	<u>19,708</u>	<u>167,088</u>
Unitholders' equity:		
Unitholders' capital, 2,000,000 units authorized, 52,400 units issued and outstanding	23,662	200,614
Retained earnings	<u>694</u>	<u>5,887</u>
TOTAL UNITHOLDERS' EQUITY	<u>24,356</u>	<u>206,501</u>
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	<u>¥ 44,064</u>	<u>\$ 373,589</u>

The accompanying notes form an integral part of these financial statements.

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF INCOME AND RETAINED EARNINGS
For the Period from September 14, 2001 (date of incorporation)
to August 31, 2002

	(¥ in millions)	(US\$ in thousands)
Revenues:		
Rental and other operating revenues	¥ 1,350	\$ 11,451
Operating expenses:		
Property-related expenses	327	2,778
Asset management fees	122	1,032
Custodian fees	6	52
General administration fees	25	210
Other	<u>29</u>	<u>247</u>
	<u>509</u>	<u>4,319</u>
Operating income	841	7,132
Non-operating expenses:		
Interest expense	39	334
Offering costs	80	678
Amortization of organization costs	14	118
Other non-operating expenses	<u>12</u>	<u>100</u>
	<u>145</u>	<u>1,230</u>
Income before income taxes	696	5,902
Income taxes	<u>2</u>	<u>15</u>
Net income	694	5,887
Retained earnings at beginning of period	<u>—</u>	<u>—</u>
Retained earnings at end of period	<u>¥ 694</u>	<u>\$ 5,887</u>

The accompanying notes form an integral part of these financial statements.

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Period from September 14, 2001 (date of incorporation)
to August 31, 2002

	(¥ in millions)	(US\$ in thousands)
Cash Flows from Operating Activities:		
Income before income taxes	¥ 696	\$ 5,902
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation	285	2,419
Amortization of organization costs	14	118
Interest expense	39	334
Changes in assets and liabilities:		
Rental receivables	(45)	(383)
Consumption tax refundable	(729)	(6,182)
Accounts payable	129	1,095
Rent received in advance	130	1,104
Accrued expenses and other liabilities	169	1,433
Others, net	<u>(102)</u>	<u>(871)</u>
Sub-total	586	4,969
Cash payments of organization costs	<u>(125)</u>	<u>(1,062)</u>
Net cash provided by operating activities	461	3,907
Cash Flows from Investing Activities:		
Purchases of property and equipment	(41,599)	(352,688)
Proceeds from tenant leasehold and security deposits	<u>10,229</u>	<u>86,723</u>
Net cash used in investing activities	<u>(31,370)</u>	<u>(265,965)</u>
Cash Flows from Financing Activities:		
Proceeds from short-term debt	4,830	40,949
Proceeds from long-term debt	4,170	35,354
Proceeds from issuance of investment units	<u>23,662</u>	<u>200,614</u>
Net cash provided by financing activities	<u>32,662</u>	<u>276,917</u>
Net change in cash and cash equivalents	1,753	14,859
Cash and cash equivalents at beginning of period	<u>—</u>	<u>—</u>
Cash and cash equivalents at end of period	<u>¥ 1,753</u>	<u>\$ 14,859</u>

The accompanying notes form an integral part of these financial statements.

JAPAN RETAIL FUND INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the Period from September 14, 2001 (date of incorporation)
to August 31, 2002

Note 1 – Organization

Japan Retail Fund Investment Corporation (the “Company”), a real estate investment corporation, with initial capital of ¥200 million (US\$1,696 thousand), was established on September 14, 2001, under the Law Concerning Investment Trusts and Investment Corporations of Japan, or (the “Investment Trust Law”). The sponsors of the Company are Mitsubishi Corporation, UBS Asset Management (Japan) Ltd. and Mitsubishi Corp.-UBS Realty Inc. The Company was formed to invest primarily in retail real estate in Japan. On March 12, 2002, the Company raised ¥23.46 billion (US\$198.92 million) through an initial public offering of investment units.

As of August 31, 2002, the Company had a portfolio of four retail properties. All the properties were acquired on March 13, 2002, the day after the Company was listed on the J-REIT section of the Tokyo Stock Exchange. Substantial operations of the Company were commenced from this date.

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company maintains its accounts and records in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Investment Trust Law, the Japanese Commercial Code, the Securities and Exchange Law of Japan and related regulations, which are different in certain respects from the application and disclosure requirements of International Accounting Standards or accounting principles and practices generally accepted in the United States of America.

The accompanying financial statements are a translation of the financial statements of the Company, which were prepared in accordance with Japanese GAAP and are presented in the Securities Registration Statement of the Company filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made from financial statements issued domestically in order to present them in a form, that is more familiar to readers outside Japan.

The financial statements are not intended to present the financial position, and the results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company's first fiscal period began on September 14, 2001, the date of incorporation, and ended on August 31, 2002. The Company's fiscal period is a six-month period which ends respectively at the end of each February and August of each year.

Although the Company's first fiscal period began on September 14, 2001, when the Company was incorporated, the Company only had substantial operations for 172 days during this fiscal period, from March 13, 2002 when the Company acquired its four current properties.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of price fluctuation, and which expire within three months from date of acquisition.

(c) Property and Equipment

Property and equipment is recorded at cost. Depreciation of property and equipment, except for land, is calculated on a straight-line basis over the estimated useful lives of the assets as stated below:

Buildings	6-39 years
Building improvements	10-50 years
Machinery and equipment	6-10 years

(d) Organization Costs

Organization costs are amortized over a period of approximately five years, comprised of nine fiscal periods, with an equal amount amortized in each fiscal period.

(e) Unit Issuance Costs

Underwriters' commissions related to the issuance of unitholders' equity are offset directly against proceeds raised. Other offering costs associated with the issuance of investment units are charged as expenses when incurred.

(f) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rate.

(g) Taxes on Property and Equipment

Property and equipment are subject to various taxes annually, such as property taxes and urban planning taxes. An owner of a property is registered in the record maintained by the local government in each jurisdiction, and the taxes are imposed on the owner registered in the record as of January 1st based on the assessment made by the local government.

Under the above tax rule, a seller of a property at the time of disposal is liable to for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes so calculated from the acquisition date until the end of the calendar year is capitalized as a cost of the property in accordance with generally accepted accounting principles in Japan. In subsequent calendar years, such taxes on property and equipment are charged as operating expenses as incurred.

For the period ended August 31, 2002, taxes on property and equipment capitalized amounted to ¥279 million (US\$2,368 thousand).

(h) Revenue Recognition

Revenue from the leasing of retail space is recognized on a straight-line accrual basis over the life of each lease.

(i) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan and through which the Company holds all of its real property, all accounts of assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant balance sheet and income statement accounts of the Company in proportion to the percentage interest of the trust that such trust beneficiary interest represents.

(j) Per Unit Information

The net asset value per unit as of August 31, 2002 is ¥464,824 (US\$3,941) and net income per unit for the period from September 14, 2001 to August 31, 2002 is ¥26,905 (US\$228).

The computation of net income per unit is based on the weighted average number of investment units outstanding during the period, which was 25,809 units.

Note 3 – U.S. Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥117.95 = US\$ 1, the effective rate of exchange prevailing at August 31, 2002, as quoted by the Bank of Tokyo-Mitsubishi, Ltd. The inclusion of such U.S. dollar amounts is solely for the convenience of the reader and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

Note 4 – Bank Borrowings and Credit Facilities

On March 13, 2002, the Company obtained a secured credit facility from a bank syndicate led by the Bank of Tokyo-Mitsubishi, at which time, the Company drew down ¥9 billion (US\$76.30 million) in connection with the purchase of its four current retail properties. Of the ¥9 billion in borrowings, ¥4.83 billion (US\$40.95 million) will mature on December 30, 2002 and the remaining ¥4.17 billion (US\$35.35 million) will mature on March 13, 2007. In addition, the Company was also provided in May 2002 with a stand-by facility of ¥800 million (US\$6,783 thousand), with no drawdowns on this facility as of August 31, 2002.

Interest on these borrowings is paid quarterly in arrears. Both the short-term and long-term loans have a floating rate structure, and the interest rate was 1.1% as of August 31, 2002, for both loans. The average interest rates for the period from March 13, 2002 to August 31, 2002 for the short-term and long-term (before swap contract) loans were 1.1% and 0.6% respectively. On July 18, 2002, the Company entered into a swap agreement which fixed the interest rate of its long-term loan at 1.1%.

Note 5 – Unitholders' Equity

The Company issues only non-par value units in accordance with the Investment Trust Law, and the entire amount of the issue price of new units is designated as stated capital. The Company is required to maintain net assets of at least ¥50 million (US\$424 thousand), as required pursuant to the Investment Trust Law.

Note 6 – Cash Distributions

On November 20, 2002, in accordance with the distribution policy prescribed in the Company's articles of incorporation, the Company distributed approximately 100% of its distributable income for the first fiscal period (equivalent to ¥13,252 (US\$112) per investment unit) to its unitholders. The Company intends to make regular distributions to unitholders with respect to its semi-annual fiscal periods, ending at the end of February and August of each year.

Note 7 – Breakdown of Property-Related Expenses

Property-related expenses for the period from March 13, 2002 (acquisition date of the properties) to August 31, 2002 consist of the following:

	(¥ in millions)	(US\$ in thousands)
Property management fees	¥ 14	\$ 118
Repairs and maintenance	1	9
Insurance	6	57
Other property-related expenses	21	175
Depreciation	<u>285</u>	<u>2,419</u>
Total property-related expenses	<u>¥ 327</u>	<u>\$ 2,778</u>

Note 8 – Income Taxes

The effective tax rate on the Company's income is approximately 0.26% for the period from September 14, 2001 (date of incorporation) to August 31, 2002. The difference between the statutory tax rate and the Company's effective tax rate is reconciled as follows:

	<u>Rate</u>
Statutory effective tax rate	39.39 %
Deductible cash distributions	(39.29)
Other	<u>0.16</u>
Effective tax rate	<u>0.26 %</u>

Note 9 – Leases

The Company leases its properties to retail tenants, with future contracted rental revenues (exclusive of the recovery of utility and other charges) summarized as follows:

	(¥ in millions)	(US\$ in thousands)
Due within one year	¥ 3,134	\$ 26,570
Due after one year	<u>40,807</u>	<u>345,969</u>
Total	<u>¥ 43,941</u>	<u>\$ 372,539</u>

Note 10 – Related-Party Transactions

(a) *Real estate acquisitions:*

On March 13, 2002, the Company acquired four retail properties from Mitsubishi Corporation and affiliates of Mitsubishi Corporation for ¥40,917 million (US\$346,901 thousand). The purchase price of each of these properties was determined in part with reference to an independently appraised value.

(b) *Issuance and purchase of investment units*

On September 14, 2001, the Company issued 400 units including 200 units to Mitsubishi Corporation and 200 units to Mitsubishi Corp.-UBS Realty Inc., and ¥200 million (US\$1,696 thousand) of capital contributions were provided.

On March 12, 2002, Mitsubishi Corporation acquired 5,000 units as part of the Company's initial public offering at an aggregated purchase price of ¥2,350 million (US\$19,924 thousand).

(c) *Fees paid to the asset manager*

Fees paid to the asset manager, Mitsubishi Corp.-UBS Realty Inc., are comprised of asset management as well as acquisition fees. Asset management fees in an aggregated amount of ¥122 million (US\$1,032 thousand) were paid by the Company during the period. These fees are calculated at 0.6% of the Company's total assets.

Acquisition fees in an aggregated amount of ¥327 million (US\$2,772 thousand) were paid by the Company during the period. These fees are calculated at 0.8% of the purchase price of the property acquired. Such acquisition fees are capitalized as part of the acquisition cost of the properties.

(d) *Property management fees*

The Company utilizes Diamond City Co., Ltd., an affiliate of Mitsubishi Corporation, as property manager for one of its four properties, pursuant to a cancelable property management agreement. Fees paid to Diamond City Co., Ltd. during this period amounted to ¥3 million (US\$25 thousand).

Note 11 – Property Information

(a) Details of the Company's property portfolio as of August 31, 2002 are as follows:

<u>Name of Property</u>	<u>Location of Property</u>	<u>Leasable</u>	<u>Net Book Value</u>		<u>Appraisal Value</u>		<u>Rental Income as</u>
		<u>Space</u> <u>(m²)</u>	<u>¥ in millions</u>	<u>US\$ in</u> <u>thousands</u>	<u>¥ in millions</u>	<u>US\$ in</u> <u>thousands</u>	<u>Percentage of</u> <u>Total Revenue</u> <u>(%)</u>
Sendai	35-40, 57, 5 Minami						
Nakayama	Nakayama 1-chome,	46,248.96	10,301	87,335	10,200	86,477	32.4
Shopping Center	Izumi-ku, Sendai-city, Miyagi						
ESPA Kawasaki	1 & 2 Oda-sakae 2-chome,						
	Kawasaki-ku, Kawasaki-city,	56,891.15	8,216	69,659	8,117	68,817	19.5
	Kanagawa						
Osaka	4-12 Minamisenba 3-chome,						
Shinsaibashi	Chuo-ku, Osaka-city, Osaka	13,666.96	14,404	122,115	14,500	122,934	29.0
Building							
JUSCO Chigasaki	5-16 Chigasaki 3-chome,						
Shopping Center	Chigasaki-city, Kanagawa	63,652.33	8,393	71,160	8,290	70,284	19.1
Total		180,459.40	41,314	350,269	41,107	348,512	100.0

Notes:

- (i) The four properties above are held by the Company in the form of trust beneficiary interests. Except for ESPA Kawasaki, in which the Company has an 80.37% interest, the other three properties are wholly owned by the Company.
- (ii) Each of the properties were appraised by Japan Real Estate Institute, an independent appraisal firm as at August 31, 2002 in accordance with the guidelines issued by the Japanese Association of Real Estate Appraisers. The appraisal value for ESPA Kawasaki was ¥10,100 million.
- (iii) As of August 31, 2002, the occupancy rate of each property was 100%.
- (iv) The Company's property portfolio is comprised entirely of retail properties.

(b) Geographical composition of the Company's property portfolio as of August 31, 2002 is as follows:

<u>Region</u>	<u>Net Book Value</u> <u>(¥ in millions)</u>	<u>Net Book Value</u> <u>(US\$ in thousands)</u>	<u>Percentage of Total</u> <u>Assets (%)</u>
Tokyo metropolitan area	¥16,609	\$140,819	40.2
Osaka metropolitan area	14,404	122,115	34.9
Other metropolitan areas (each of which have populations over 1 million)	10,301	87,335	24.9
Total	¥41,314	\$350,269	100.0

(c) Details on the financial results of each property from March 13, 2002 to August 31, 2002:

(¥ in millions)

<u>Name of Property</u>	<u>Sendai Nakayama Shopping Center</u>	<u>ESPA Kawasaki</u>	<u>Osaka Shinsaibashi Building</u>	<u>JUSCO Chigasaki Shopping Center</u>	<u>Total</u>
Rental revenue	<u>¥437</u>	<u>¥264</u>	<u>¥391</u>	<u>¥258</u>	<u>¥1,350</u>
Property-related expenses					
Property management fees	4	3	4	3	14
Repair and maintenance	—	—	1	—	1
Insurance and trust fees	11	9	3	4	27
Depreciation					
Buildings	61	58	78	59	256
Building improvements	15	5	2	3	25
Machinery & equipment	—	3	—	1	4
Total property-related expenses	<u>91</u>	<u>78</u>	<u>88</u>	<u>70</u>	<u>327</u>
Operating income from property leasing activities	<u>¥346</u>	<u>¥186</u>	<u>¥303</u>	<u>¥188</u>	<u>¥1,023</u>
Property-level net operating income (1)	<u>¥422</u>	<u>¥252</u>	<u>¥383</u>	<u>¥251</u>	<u>¥1,308</u>

(US\$ in thousands)

<u>Name of Property</u>	<u>Sendai Nakayama Shopping Center</u>	<u>ESPA Kawasaki</u>	<u>Osaka Shinsaibashi Building</u>	<u>JUSCO Chigasaki Shopping Center</u>	<u>Total</u>
Rental revenue	<u>\$3,710</u>	<u>\$2,238</u>	<u>\$3,317</u>	<u>\$2,186</u>	<u>\$11,451</u>
Property-related expenses					
Property management fees	33	25	34	26	118
Repair and maintenance	—	—	9	—	9
Insurance and trust fees	93	72	31	36	232
Depreciation					
Buildings	521	487	663	504	2,175
Building improvements	128	45	15	23	211
Machinery & equipment	—	25	—	8	33
Total property-related expenses	<u>775</u>	<u>654</u>	<u>752</u>	<u>597</u>	<u>2,778</u>
Operating income from property leasing activities	<u>\$2,935</u>	<u>\$1,584</u>	<u>\$2,565</u>	<u>\$1,589</u>	<u>\$8,673</u>
Property-level net operating income (1)	<u>\$3,584</u>	<u>\$2,141</u>	<u>\$3,243</u>	<u>\$2,124</u>	<u>\$11,092</u>

(1) Calculated as income from property leasing activities adjusted for depreciation.

(d) Other Data:

<u>Name of Property</u>	<u>Sendai Nakavama</u> <u>Shopping Center</u>	<u>ESPA</u> <u>Kawasaki</u>	<u>Osaka</u> <u>Shinsaibashi</u> <u>Building</u>	<u>JUSCO Chigasaki</u> <u>Shopping Center</u>
Operating days during the first accounting period	172	172	172	172
Occupancy rate	100%	100%	100%	100%
Number of tenants	2	1	1	1
JRF ownership	100%	80.37%	100%	100%
Ownership structure	Sole owner	Joint owner	Sole owner	Sole owner

Note 12 – Subsequent Events

The Company is not aware of any circumstances that may have a material impact on the Company's financial position after the period end.