

Japan Retail Fund Investment Corporation

Financial Statements
For the six months ended
August 31, 2006

Report of Independent Auditors

To the Board of Directors of
Japan Retail Fund Investment Corporation

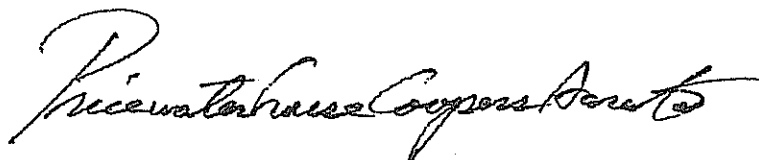
We have audited the accompanying balance sheet of Japan Retail Fund Investment Corporation ("the Company") as of August 31, 2006, and the related statements of income, changes in unitholders' equity and cash flows for the six months ended August 31, 2006, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of August 31, 2006, and the results of its operations and its cash flows for the six months ended August 31, 2006 in conformity with accounting principles generally accepted in Japan.

As described in Note 15, issuance of additional units, the settlement of lawsuit and issuance of unsecured corporate bonds are stated as significant subsequent events.

The U.S. dollar amounts in the accompanying financial statements with respect to the six months ended August 31, 2006 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the financial statements.



December 18, 2007

JAPAN RETAIL FUND INVESTMENT CORPORATION
BALANCE SHEET
As of August 31, 2006

	<u>August 31, 2006</u> <u>(¥ in millions)</u>	<u>August 31, 2006</u> <u>(US\$ in thousands)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	15,431	131,551
Rental receivables	621	5,294
Consumption tax refundable	991	8,448
Prepaid expenses and other assets	486	4,143
<i>Total current assets</i>	17,529	149,437
Non-current assets:		
Property and equipment, at cost:		
Land (Note 4)	224,234	1,911,628
Buildings (Note 4)	145,775	1,242,753
Building improvements (Note 4)	6,630	56,521
Machinery and equipment (Note 4)	604	5,149
Furniture and fixtures (Note 4)	1,380	11,764
	378,623	3,227,817
Less: Accumulated depreciation	(12,996)	(110,792)
<i>Net property and equipment</i>	365,626	3,117,016
Other assets:		
Leasehold rights	6,672	56,879
Other intangible assets	170	1,449
Lease deposits	3,103	26,453
Investment	814	6,939
Long-term prepaid expenses	130	1,108
Bonds issuance costs	99	843
Other	227	1,935
<i>Total other assets</i>	11,219	95,643
TOTAL ASSETS	394,376	3,362,114

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

JAPAN RETAIL FUND INVESTMENT CORPORATION
BALANCE SHEET
As of August 31, 2006

	<u>August 31, 2006</u> <u>(¥ in millions)</u>	<u>August 31, 2006</u> <u>(US\$ in thousands)</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Short-term debt (Note 5)	82,070	699,658
Current amount of tenant leasehold and security deposits	4,515	38,491
Accounts payable	920	7,843
Rent received in advance	1,341	11,432
Deposits received	1,004	8,559
Accrued expenses and other liabilities	866	7,382
<i>Total current liabilities</i>	<hr/> 90,718	<hr/> 773,384
Non-current liabilities:		
Long-term debt (Note 5)	5,000	42,625
Bonds issued – unsecured (Note 6)	45,000	383,631
Tenant leasehold and security deposits	66,985	571,057
<i>Total non-current liabilities</i>	<hr/> 116,985	<hr/> 997,314
TOTAL LIABILITIES	<hr/> 207,703	<hr/> 1,770,699
Net Asset:		
Unitholders' capital, 2,000,000 units authorized; 302,502 units (as of August 31, 2006) issued and outstanding	181,557	1,547,800
Retained earnings	5,115	43,606
TOTAL NET ASSETS	<hr/> 186,672	<hr/> 1,591,406
TOTAL LIABILITIES AND NET ASSETS	<hr/> 394,376	<hr/> 3,362,114

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

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF INCOME
For the six months ended
August 31, 2006

	<u>March 1, 2006 to</u> <u>August 31, 2006</u> <u>(¥ in millions)</u>	<u>March 1, 2006 to</u> <u>August 31, 2006</u> <u>(US\$ in thousands)</u>
Operating revenues		
Rental and other operating revenues (Note 10)	14,998	127,860
	14,998	127,860
Operating expenses		
Property-related expenses (Note 10)	7,519	64,100
Asset management fees	1,186	10,110
Custodian fees	58	494
General administration fees	109	929
Other	120	1,023
	8,995	76,683
	6,003	51,176
Operating income		
Non-operating revenues		
Non-operating revenues	2	17
Non-operating expenses		
Interest expense	285	2,429
Corporate bonds interest	308	2,625
Offering costs	146	1,244
Amortization of organization costs	13	110
Amortization of bonds issuance costs	39	332
Other non-operating expenses	91	775
	5,120	43,648
Income before income taxes		
Income taxes (Note 11)	5	42
	5,114	43,597
Net income		
Retained earnings at beginning of period	-	-
Retained earnings at end of period	5,115	43,606

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

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY
For the six months ended
August 31, 2006

	<u>Unitholders' equity</u>			<u>Total Net assets</u>
	<u>Unitholders' capital</u>	<u>Retained earnings</u>	<u>Total Unitholders'</u>	<u>(¥ in millions)</u>
	<u>(¥ in millions)</u>	<u>(¥ in millions)</u>	<u>equity</u>	
			<u>(¥ in millions)</u>	
Balance as of				
February 28, 2006	181,557	4,795	186,352	186,352
<u>Changes during the period</u>				
Cash distribution declared	-	(4,794)	(4,794)	(4,794)
Net income	-	5,114	5,114	5,114
<u>Total changes during the period</u>	-	320	320	320
Balance as of				
August 31, 2006	181,557	5,115	186,672	186,672

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

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF CHANGES IN UNITHOLDERS' EQUITY
For the six months ended
August 31, 2006

	<u>Unitholders' equity</u>			<u>Total Net assets</u>
	<u>Unitholders' capital</u>	<u>Retained earnings</u>	<u>Total Unitholders'</u>	<u>(US\$ in thousands)</u>
	<u>(US\$ in thousands)</u>	<u>(US\$ in thousands)</u>	<u>equity</u>	
			<u>(US\$ in thousands)</u>	
Balance as of				
February 28, 2006	1,547,800	40,878	1,588,678	1,588,678
<u>Changes during the period</u>				
Cash distribution declared	-	(40,869)	(40,869)	(40,869)
Net income	-	43,597	43,597	43,597
<u>Total changes during the period</u>	-	2,728	2,728	2,728
Balance as of				
August 31, 2006	1,547,800	43,606	1,591,406	1,591,406

JAPAN RETAIL FUND INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the six months ended
August 31, 2006

	<u>March 1, 2006 to</u> <u>August 31, 2006</u> <u>(¥ in millions)</u>	<u>March 1, 2006 to</u> <u>August 31, 2006</u> <u>(US\$ in thousands)</u>
Cash Flows from Operating Activities:		
Income before income taxes	5,120	43,648
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation	2,894	24,671
Amortization of organization costs	13	110
Amortization of bonds issuance costs	39	332
Loss on disposal of fixed assets	54	460
Interest expense	594	5,063
Changes in assets and liabilities:		
Increase in Rental receivables	(10)	(85)
Increase in Consumption tax refundable	(968)	(8,252)
Increase in Accounts payable	89	758
Increase in Rent received in advance	329	2,804
Increase in Deposits received	116	988
Increase in Accrued expenses and other liabilities	107	912
Other, net	(113)	(963)
Sub total	8,267	70,477
Interest received	1	8
Interest paid	(525)	(4,475)
Income taxes paid	-	-
Net cash provided by operating activities	7,743	66,010
Cash Flows from Investing Activities:		
Purchases of property and equipment	(64,871)	(553,034)
Payments of tenant leasehold and security deposits	(1,306)	(11,133)
Proceeds from tenant leasehold and security deposits	6,950	59,249
Payments of deposits and others	(10)	(85)
Proceeds from deposits and others	20	170
Net cash used in investing activities	(59,217)	(504,833)
Cash Flows from Financing Activities:		
Proceeds from short-term debt	75,570	644,245
Repayments of short-term debt	(18,500)	(157,715)
Repayments of long-term debt	(9,170)	(78,175)
Distribution payments	(4,796)	(40,886)
Net cash provided by financing activities	43,103	367,459
Net change in cash and cash equivalents	(8,370)	(71,355)
Cash and cash equivalents at beginning of period	23,801	202,907
Cash and cash equivalents at end of period	15,431	131,551

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

JAPAN RETAIL FUND INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
For the six months ended August 31, 2006

Note 1 – Organization

Japan Retail Fund Investment Corporation (the “Company”), a real estate investment corporation, with initial capital of ¥200 million, was established on September 14, 2001, under the Law Concerning Investment Trusts and Investment Corporations of Japan (the “Investment Trust Law”). The sponsors of the Company are Mitsubishi Corporation, UBS Global Asset Management (Japan) Ltd. and Mitsubishi Corp.-UBS Realty Inc. The Company was formed to invest primarily in retail properties in Japan. On March 12, 2002, the Company raised ¥23.46 billion through an initial public offering of 52,000 investment units.

On March 13, 2002, the day after the Company was listed on the J-REIT section of the Tokyo Stock Exchange, four retail properties were acquired, and operations of the Company commenced on this date.

On March 4, 2003, the Company completed its second public offering of 95,000 investment units at a price of ¥521,228 per unit. 67,910 of such units were issued in connection with a Japanese Primary Offering, and the remaining 27,090 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. Net proceeds of approximately ¥47.7 billion from the second offering was used to acquire five retail properties with an aggregate purchase price of ¥67.9 billion.

On March 26, 2003, the Company issued 5,102 units in connection with the underwriter stabilization activities within the Japanese Secondary Offering, generating net proceeds of ¥2.6 billion.

Subsequent to that, the Company acquired one retail property during the six months ended August 31, 2003 by utilizing internal cash and six retail properties during the six months ended February 29, 2004 by utilizing bank borrowings from a bank syndicate.

On March 2, 2004, the Company completed its third public offering totaling 67,000 new investment units at a price of ¥654,910 per unit. 44,300 of such units were issued in connection with a Japanese Primary Offering, and the remaining 22,700 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. Net proceeds of approximately ¥42.3 billion from the third offering was used to acquire two retail properties on March 2, 2004 for an aggregate purchase price of ¥23.8 billion and to partially repay the outstanding short-term borrowings incurred in connection with the acquisition of six retail properties during the six months ended February 29, 2004.

Subsequent to the third offering, the Company acquired two retail properties during the six months ended August 31, 2004 by utilizing internal cash and bank borrowings.

On March 8, 2005, the Company completed its fourth public offering totaling 56,000 new investment units at a price of ¥798,700 per unit. 32,200

of such units were issued in connection with a Japanese Primary Offering and 23,800 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. On March 29, 2005, the Company issued 4,000 investment units domestically in connection with the exercise of an over-allotment option. Total net proceeds of approximately ¥46 billion from these offerings were used to acquire four retail properties and repay a portion of the outstanding short-term borrowings.

Subsequently, the Company acquired four properties by utilizing internal cash and bank borrowings. The Company acquired eight properties in total during the six months ended August 31, 2005.

On September 14, 2005, the Company completed its fifth public offering totaling 23,000 new investment units at a price of ¥861,300 per unit. 11,600 of such units were issued in connection with a Japanese Primary Offering, and the remaining 11,400 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. Net proceeds of approximately ¥19 billion were used to repay the Company's outstanding short term borrowings incurred in connection with the acquisitions of four properties during the preceding fiscal period.

Subsequent to that, the Company acquired two properties by utilizing internal cash and bank borrowings during the six months ended February 28, 2006. On February 8, 2006, the Company sold the building and the land leasehold rights for a 30-year period of Esquisse Omotesando to a third party developer for ¥2.15 billion. After taking into account the net book value of the building and various costs associated with the disposal, a loss of ¥16 million was incurred by the Company.

The Company acquired three additional properties by utilizing internal cash and bank borrowings during the six months ended August 31, 2006.

As of August 31, 2006, the Company's portfolio contained thirty-seven properties.

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 Corporate Law of Japan, the Securities and Exchange Law of Japan, and other related regulations, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards or accounting principles 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 format 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.

Amounts less than ¥1 million and US\$ 1 thousand have been omitted. As a result, the total shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid and readily convertible to cash, have a low risk of price fluctuation, and mature within three months from the 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	2-39 years
Building improvements	2-60 years
Machinery and equipment	3-17 years
Furniture and fixtures	2-39 years

(d) Organization Costs and Bonds Issuance Costs

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

Bonds issuance costs are amortized over a period of three years with an equal amount amortized over six fiscal periods.

(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 basis of assets and liabilities utilizing the applicable statutory 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 rules, a seller of a property at the time of disposal is liable 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 calculated from the acquisition date to 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, half of such taxes on property and equipment for each calendar year are charged as operating expenses in each fiscal period.

Taxes on property and equipment capitalized was ¥363 million (US\$3,094 thousand) for the six months ended August 31, 2006.

(h) Revenue Recognition

Revenue from the leasing of retail space is recognized on an accrual basis over the life of each lease. Revenue includes fixed rental revenues, variable rental revenues, sales-based rental revenues, recoveries of utility charges and other income.

(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 estate, 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) Accounting Treatment of Equipment Leases

With respect to lease commitments relating to equipment utilized by the Company, which have the characteristics of finance leases but for which ownership of the leased property is not transferred to the Company during the lease term, such leased property is not capitalized in accordance with generally accepted accounting principles in Japan, and related rental expenses are charged to income in the periods in which they are incurred.

(k) Per Unit Information

The net asset value per unit as of August 31, 2006 was ¥617,095 (US\$5,260). Net income per unit for the six months ended August 31, 2006 was ¥16,908 (US\$144).

(l) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires an impairment loss to be recognized on certain assets, such as fixed assets, intangible assets, and investments, individually or as a group, as the difference between the carrying amount and the fair value of the asset using a discounted cash flow model. The standard requires that an assessment for impairment be carried out on an asset whenever events or changes in circumstances indicate that the carried amount may not be recoverable. The Company adopted the new standard for impairment of long-lived assets beginning for the six months ended February 28, 2005.

(m) Accounting Treatment of Investment in Tokumei Kumiai

Investment in Tokumei Kumiai agreements ("TK") is carried at cost and presented in the Company's financial statements using the equity method of accounting. Under the equity method, the initial and additional subsequent investment in a TK is recorded at cost, and its carrying value at balance date is adjusted for the Company's share of the undistributed earnings or losses and distributions received from the underlying TK entity.

(n)Accounting Standards for Presentation of Net Assets in the Balance Sheet.

Effective for the six months ended August 31, 2006, the Company adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Statement No.5, December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan Guidance No.8, December 9, 2005). Under the former accounting standard, net assets was referred to as unitholders’ equity. Under the previous form of presentation, total unitholders’ equity as of August 31, 2006 was ¥186,672 million.

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 ¥117.3 = US\$1, the effective rate of exchange prevailing at August 31, 2006. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended August 31, 2006 is solely for the convenience of readers outside Japan and is not intended to imply that Japanese yen amounts have been or could have been converted, realized, or settled in U.S. dollars at that or any other rate.

Note 4 – Schedule of Property and equipment

(i) Schedule of Property and equipment as of August 31, 2006 consisted of the follows:

(¥ in millions)

	Beginning Balance	Increase	Decrease	Ending Balance	Accumulated Depreciation		Net Property and equipment
					Accumulated Depreciation	Depreciation	
Land	188,740	35,494	-	224,234	-	-	224,234
Buildings	117,886	27,947	58	145,775	11,709	2,614	134,065
Building improvements	6,165	464	-	6,630	866	171	5,763
Machinery and equipment	405	198	-	604	82	22	521
Furniture and fixtures	1,210	174	4	1,380	337	74	1,042
Total	314,408	64,278	62	378,623	12,996	2,882	365,626

(US\$ in thousands)

	Beginning Balance	Increase	Decrease	Ending Balance	Accumulated Depreciation		Net Property and equipment
					Accumulated Depreciation	Depreciation	
Land	1,609,036	302,591	-	1,911,628	-	-	1,911,628
Buildings	1,004,995	238,252	494	1,242,753	99,820	22,284	1,142,924
Building improvements	52,557	3,955	-	56,521	7,382	1,457	49,130
Machinery and equipment	3,452	1,687	-	5,149	699	187	4,441
Furniture and fixtures	10,315	1,483	34	11,764	2,872	630	8,883
Total	2,680,375	547,979	528	3,227,817	110,792	24,569	3,117,016

Note 5 – Bank Borrowings and Credit Facilities

As of August 31, 2006, the Company was provided with back up facilities and credit facilities totaling ¥93.80 billion and ¥ 82.07 billion, respectively, and was drawn down as of the period end. Short-term and long-term borrowing outstanding, respectively, was ¥82.07 billion and ¥5 billion. Average interest rates ranged from 0.4% to 1.5% for this period.

Note 6 – Corporate Bonds

As of August 31, 2006, ¥45 billion of unsecured corporate bonds were issued and outstanding. Details of the issuance are as follows:

- (i) ¥20 billion of 5-year bonds, issued on February 9, 2005, maturing on February 9, 2010 with a coupon of 0.74%
- (ii) ¥15 billion of 10-year bonds, issued on February 9, 2005, maturing on February 9, 2015 with a coupon of 1.73%
- (iii) ¥10 billion of 10-year bonds, issued on February 22, 2006, maturing on February 22, 2016 with a coupon of 2.02%

Note 7 – Collateral

Certain properties and beneficiary interests in trusts (comprising properties and cash) with an aggregate book value of ¥189 billion (US\$ 1,611million) were pledged as collateral to secure liabilities totaling ¥55 billion (US\$ 468 million) for the six months ended August 31, 2006. Certain lands located in Wonder City was pledged as collateral to secure the payment of retirement benefits to employees of Aitex Co., Ltd, the property manager of Wonder City, for a total amount of ¥350 million as of August 31, 2006.

Note 8 – 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\$426 thousand) as required pursuant to the Investment Trust Law.

The units issued and outstanding were 302,502 units as of August 31, 2006 (see Note 1).

Note 9 – Cash Distributions

In accordance with the distribution policy described in the Company's articles of incorporation, the Company intends to distribute approximately 100% of its distributable income for the six months ended August 31, 2006 (equivalent to ¥16,909 (US\$144) 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.

The following distributions from retained earnings of the Company were declared for the six months ended August 31, 2006:

	<u>Six months ended</u> <u>August 31, 2006</u> (¥ in millions)	<u>Six months ended</u> <u>August 31, 2006</u> (US\$ in thousands)
Retained earnings at the end of period	5,115	43,606
Cash distribution declared	<u>(5,115)</u>	<u>(43,606)</u>
Retained earnings carried forward	<u>—</u>	<u>—</u>

Note 10 – Breakdown of Rental and Other Operating Revenues and Property-Related Expenses

Rental and other operating revenues and property-related expenses for the six months ended August 31, 2006 consist of the following:

	<u>Six months ended</u> <u>August 31, 2006</u> (¥ in millions)	<u>Six months ended</u> <u>August 31, 2006</u> (US\$ in thousands)
Rental and other operating revenues:		
Rental and parking revenue	13,693	116,734
Common area charges	646	5,507
Other	658	5,609
Total rental and other operating revenues	14,998	127,860
Property-related expenses:		
Property management fees	518	4,416
Facility management fees	623	5,311
Utilities	830	7,075
Property-related taxes	1,233	10,511

Repair and maintenance	81	690
Insurance	56	477
Trust fees	108	920
Rent expense (i)	712	6,069
Other	405	3,452
Depreciation	2,894	24,671
Loss on disposal of fixed assets	54	460
Total property-related expenses	7,519	64,100
Operating income from property leasing activities	7,478	63,751

Note:

(i) Rent expense represents payments to the owners of the buildings and/or land in which the Company has leasehold rights.

Note 11 – Income Taxes

The effective tax rates on the Company's income as well as applicable statutory tax rates are reflected as follows:

	<u>Six months ended</u>
	<u>August 31, 2006</u>
	<u>Rate</u>
Statutory effective tax rate	42.05
Deductible cash distributions	(42.01)
Change in valuation allowance (for deferred tax assets)	0.05
Other	0.01
Effective tax rate	<u>0.10</u>

The Company has a policy of making distributions in excess of 90% of distributable income for the fiscal period to qualify for conditions set forth in the Special Taxation Measures Law of Japan to achieve a deduction of distributions for income tax purposes. Based on such policy, the Company treated the distributions as a tax allowable distribution as defined in the Special Taxation Measures Law of Japan.

Note 12 – Leases

(a) Lease Rental Revenues

The Company leases its properties to retail tenants. Future minimum rental revenues pursuant to existing rental contracts as of August 31, 2006 (exclusive of the recovery of utility and other charges) scheduled to be received are summarized as follows:

	<u>Six months ended</u>	<u>Six months ended</u>
	<u>August 31, 2006</u>	<u>August 31, 2006</u>
	(¥ in millions)	(\$ in thousands)
Due within one year	20,969	178,763
Due after one year	<u>135,797</u>	<u>1,157,689</u>
Total	<u>156,767</u>	<u>1,336,462</u>

(b) Lease Commitments

Lease expenses incurred in connection with various finance leases on equipment utilized by the Company (see Note 2(j)) amounted to ¥20 million (US\$ 170 thousand) for the six months August 31, 2006.

Future minimum lease payments required under the terms of these finance leases as of, August 31, 2006 are as follows:

	<u>Six months ended</u>	<u>Six months ended</u>
	<u>August 31, 2006</u>	<u>August 31, 2006</u>
	(¥ in millions)	(US\$ in thousands)
Due within one year	21	179
Due after one year	<u>47</u>	<u>400</u>
Total	<u>69</u>	<u>588</u>

Additional financial information related to the Company's lease commitments, assuming they were capitalized (see Note 2(j)), is as follows:

	<u>Six months ended</u>	<u>Six months ended</u>
	<u>August 31, 2006</u>	<u>August 31, 2006</u>
	(¥ in millions)	(US\$ in thousands)
Furniture and fixtures, at cost	53	451
Machinery and equipment, at cost	38	323
Accumulated depreciation of furniture and fixtures	17	144
Accumulated depreciation of machinery and equipment	5	42
Net book value	<u>69</u>	<u>588</u>

Depreciation expense would be ¥20 million (US\$170 thousand) for the six months ended August 31, 2006. This depreciation amount is calculated utilizing the straight-line method over the term of the lease based on the acquisition cost which is equivalent to the total lease payments.

Given that the value of the leased assets is not deemed material, interest implicit in these leases is included in minimum lease payments and in the

cost of these assets provided in the disclosures above.

Note 13 – Related-Party Transactions

(a) Real estate acquisitions

There were no related-party transactions during the six months ended August 31, 2006.

(b) Issuance and purchase of investment units

There were no issuance and purchase of investment units to/from related parties during the six months ended August 31, 2006.

(c) Fees paid to the asset manager

Fees paid to the asset manager, Mitsubishi Corp.-UBS Realty Inc., are comprised of asset management fees and acquisition fees. Asset management fees in the aggregate amount of ¥1,186 million (US\$10,110 thousand) were paid by the Company for the six months ended August 31, 2006. These fees are calculated at 0.6% of the Company's total assets. Acquisition fees amounting to ¥492 million (US\$ 4,194 thousand) were paid by the Company for the six months ended August 31, 2006. 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 utilized Diamond City Co., Ltd., an affiliate of Mitsubishi Corporation, as the property manager for four of its properties for the six months ended August 31, 2006. Fees paid to Diamond City Co., Ltd. for the six months ended August 31, 2006 amounted to ¥121million. However, Mitsubishi Corporation, the parent company of Mitsubishi Corp.-UBS Realty Inc., had transferred its shares of Diamond City Co., Ltd. to another company in 2006. Accordingly, Diamond City Co., Ltd. is no longer a related party under the Investment Trust Law as of August 31, 2006.

(e) Brokerage fees

The Company paid brokerage fees to Mitsubishi Corporation totaling ¥282 million (US\$2,404 thousand) for the six months ended August 31, 2006.

(f) Other

The Company paid repair and maintenance costs to Mitsubishi Corporation totaling ¥25 million (US\$213 thousand) for the six months ended August 31, 2006. The ending balance of accrued repair and maintenance cost included in accounts payable was nil as of August 31, 2006.

Note 14 – Contingent Liabilities

Daiei, Inc. and Seibu Department Stores, Ltd. ("Seibu") filed a lawsuit against the former owner of Higashi-Totsuka Aurora City and are seeking to reduce its monthly rent. The Company has succeeded this pending lawsuit from the former owner.

Should Seibu's claim be successful, the Company will be liable for ¥1,371 million (US\$11,687 thousand) plus interest, which represents the

reduction of monthly rent from June 2003 to August 2006. The lawsuit was settled on October 31, 2006, and the details are described in Note 15 of the financial statements.

Should Daiei, Inc.'s claim be successful, the Company will be liable for ¥414 million (US\$3,529 thousand) plus interest, which represents the reduction of monthly rent from November 2003 to August 2006.

At present, the Company is unable to predict the outcome of the above lawsuits.

Note 15 – Subsequent Events

On September 21, 2006, the Company issued a total of 78,000 new investment units at a price of ¥852,600 per unit, of which 40,000 units were issued domestically and 38,000 units were issued overseas pursuant to Rule 144A under the U.S. Securities Act of 1933. Details are as follows:

Total number of units offered:	78,000 units
Offer price per unit:	¥852,600
Total amount of offerings:	¥66,502,800,000
Price per unit to underwriter:	¥823,890
Net proceeds:	¥64,263,420,000

On September 27, 2006, the Company issued an additional 6,000 investment units domestically in connection with the exercise of an over-allotment option. Details are as follows:

Total number of units offered:	6,000 units
Over-allotment price:	¥823,890
Net proceeds:	¥4,943,340,000

As a result of the issuance of additional units, the Company had total equity of ¥250 billion (US\$2,131 thousand), with 386,502 units outstanding, as of September 28, 2006.

As described in Note 14 of the financial statements, Seibu, the lessee of Higashi-Totsuka Aurora City, filed a lawsuit against the Company for reduction of its monthly rent. On October 31, 2006, the Company reached a settlement that Seibu's monthly rent will be reduced after November 2006, while the portion of the Annex's first floor that have been leased to Seibu will be returned and the Company will succeed the sub-lease contracts between the Company and its existing subtenants.

The rental revenues earned from the entire property was ¥1,337 million (US\$11,398 thousand) for the six months ended August 31, 2006, before the settlement. However, rental revenues will be ¥1,193 million (US\$10,170 thousand) for the six months ended February 28, 2007, and ¥1,303 million (US\$11,108 thousand) from the six months ended August 31, 2007 and onwards.

The Company issued unsecured corporate bonds totaling ¥55 million (US\$468 thousand) to pay a portion of short-term debt. Details of the issuance were as follows:

- (i) ¥20 billion of 5-year bonds, issued on December 22, 2006, maturing on December 22, 2011 with a coupon of 1.6%
- (ii) ¥20 billion of 5-year bonds, issued on May 23, 2007, maturing on May 23, 2012 with a coupon of 1.6%
- (iii) ¥15 billion of 10-year bonds, issued on May 23, 2007, maturing on May 23, 2017 with a coupon of 2.17%

Japan Retail Fund Investment Corporation

THE PORTFOLIO
As of August 31, 2006

Property Information

(a) Details of the Company's property portfolio as of August 31, 2006 are as follows:

<u>Name of Property</u>	<u>Location of Property</u>	<u>Leasable Area</u>	<u>Net book Value</u>		<u>Appraisal Value</u>		<u>Rental Income as Percentage of Total Revenue (%)</u>
		<u>(m²)</u>	<u>(¥ in millions)</u>	<u>(US\$ in thousands)</u>	<u>(¥ in millions)</u>	<u>(US\$ in thousands)</u>	
Sendai Nakayama Shopping Center	35-40, 57, 5 Minami Nakayama 1-chome, Izumi-ku, Sendai-city, Miyagi	46,248.96	9,764	83,239	12,600	107,416	3.1
ESPA Kawasaki	1 & 2 Oda-sakae 2-chome, Kawasaki-ku, Kawasaki-city, Kanagawa	56,891.15	9,578	81,653	11,800	100,596	2.3
8953 Osaka Shinsaibashi Building	4-12 Minamisenba 3-chome, Chuo-ku, Osaka-city, Osaka	13,666.96	13,799	117,638	15,000	127,877	2.7
JUSCO Chigasaki Shopping Center	5-16 Chigasaki 3-chome, Chigasaki-city, Kanagawa	63,652.33	7,919	67,510	8,710	74,254	1.8
Nara Family	4-1, Saidaiji Higashimachi 2-chome, Nara-city, Nara	85,224.76	31,629	269,641	35,100	299,232	14.8
Hakata Riverain	3-1, Shimokawabata-cho, Hakata-ku, Fukuoka-city, Fukuoka	25,742.72	12,616	107,553	13,200	112,531	7.3
Abiko Shopping Plaza	11-1, Abiko 4-chome, Abiko-city, Chiba	42,642.36	10,723	91,415	13,800	117,647	4.7
Ito-Yokado Narumi	232, Urasato 3-chome, Midori-ku, Nagoya-city, Aichi	50,437.91	8,195	69,863	9,410	80,221	2.2
8953 Minami Aoyama Building	8-5, Minami Aoyama 5-chome, , Minato-ku, Tokyo	1,540.98	5,367	45,754	6,240	53,196	1.1
Ito-Yokado Yabashira	15-8, Higure 1-chome, Matsudo -city, Chiba	21,581.65	1,613	13,751	2,070	17,647	0.5
Ito-Yokado Kamifukuoka-higashi	1-30, Ohara 2-chome, Fujimino-city, Saitama	28,316.18	6,778	57,783	8,080	68,883	1.7
Ito-Yokado Nishikicho 8953	12-1, Nishikicho 1-chome, Warabi-city, Saitama	73,438.52	12,907	110,034	16,000	136,402	3.0
Daikanyama Building	35-17, Ebisu-nishi 1-chome, Shibuya-ku, Tokyo	574.46	1,264	10,775	1,510	12,872	0.4
8953 Harajuku FACE Building	32-5, Jingu-mae 2-chome, Shibuya-ku, Tokyo	1,477.62	2,773	23,640	3,390	28,900	0.6
AEON Higashiura Shopping Center	62-1, Higashisakaemachi, Ogawa-aza, Ohaza, Higashiuramachi, Chitagun, Aichi	100,457.69	6,497	55,387	8,420	71,781	2.5
AEON Kashiihama Shopping Center	12-1, Kashiihama 3-chome, Higashi-ku, Fukuoka-city, Fukuoka	109,616.72	13,335	113,682	14,500	123,614	3.2

AEON Sapporo Naebo Shopping Center	1-1, Higashinaebo Nijo 3-chome, Higashi-ku, Sapporo-city, Hokkaido	74,625.52	8,807	75,080	10,400	88,661	2.5
Site of former Esquisse Omotesando	10-1, Jingumae 5-chome, Shibuya-ku, Tokyo	1,768.78	14,901	127,033	15,200	129,582	1.3
Esquisse Omotesando Annex	1-17 Jingu-mae 5-chome, Shibuya-ku, Tokyo	540.78	890	7,587	1,110	9,462	0.2
Ito-Yokado Tsunashima	8-1 Tsunashima-Nishi 2-chome, Kohoku-ku, Yokohama-city, Kanagawa	16,549.50	5,103	43,503	5,720	48,763	1.2
Bic Camera Tachikawa	12-2 Akebono-cho 2-chome, Tachikawa-city, Tokyo	20,983.43	12,185	103,878	13,100	111,679	2.6
Itabashi SATY	6-1 Tokumaru 2-chome, Itabashi-ku, Tokyo	72,253.88	12,546	106,956	14,000	119,352	4.3
8953 Kita Aoyama Building	14-8 Kita Aoyama 3-chome Minato-ku, Tokyo	492.69	1,007	8,584	1,230	10,485	0.2
AEON Yamato Shopping Center	2-6 Shimotsuruma, 1-chome Yamato-city, Kanagawa	85,226.68	17,002	144,944	20,300	173,060	3.7
SEIYU Hibarigaoka	9-8, Sumiyoshi-cho 3-chome Nishi-Tokyo-city, Tokyo	19,070.88	5,918	50,451	7,460	63,597	1.7
Tobata SATY	2-2 Shioi-cho Tobata-ku, Kita-Kyushu-city Fukuoka	93,258.23	6,328	53,947	7,360	62,745	2.1
Jusco City Takatsuki	47-2 Haginoshō 3-chome, Takatsuki-city, Osaka	77,267.23	11,604	98,925	12,600	107,416	2.7
8953 Jiyugaoka Building	9-17 Jiyugaoka 2-chome, Meguro-ku, Tokyo	1,814.10	2,699	23,009	3,199	27,271	0.6
Wonder City	40 Nihocho, Nishi-ku, Nagoya-city, Aichi	72,109.77	16,409	139,889	18,300	156,010	4.3
Jusco City Yagoto Shopping Center	2-1 Ishizaka, Kojimachi-aza, Showa-ku, Nagoya-city, Aichi	63,778.44	3,934	33,537	4,160	35,464	1.1
Jusco Naha Shopping Center	10-2 Kanagusuku, 5-chome, Naha-city, Okinawa	79,090.48	11,014	93,895	11,900	101,449	2.6
Cheers Ginza	9-5 Ginza 5-chome, Chuo-ku, Tokyo	1,686.58	4,216	35,942	4,190	35,720	0.7
Jusco City Nishi-Otsu	11-1, Ohjigaoka 3-chome Otsu-city, Shiga	62,717.26	13,558	115,583	13,100	111,679	2.5
Kyoto Family	1-1 Ikejiri-cho, Yamanouchi, Ukyo-ku, Kyoto-city, Kyoto	25,603.95	5,599	47,732	6,020	51,321	4.5
Higashi-Totsuka Aurora City	535-1,536-1,537-1,9 Shinano-cho Totsuka-ku, Yokohama-city, Kanagawa	152,473.76	52,449	447,135	50,500	430,520	8.4
Omiya SATY	574-1 Kushibiki-cho, 2-chome, Kita-ku, Saitama-city, Saitama	75,344.90	6,410	54,646	6,350	54,134	0.5
Loc City Ogaki	233-1 Mitsuduka-cho, Aza-Nakajima, Ogaki-city, Gifu	57,500.35	5,114	43,597	5,180	44,160	0.4

Total	<u>1,775,668.16</u>	<u>372,469</u>	3,175,353	<u>411,209</u>	3,505,618	<u>100</u>
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Notes:

Each of the properties above is held by the Company in the form of trust beneficiary interests. The Company's property portfolio is comprised entirely of retail properties. The properties were appraised either by Japan Real Estate Institute, CB Richard Ellis, or Daiwa Real Estate Appraisal Co., Ltd., all independent appraisal firms, in accordance with the guidelines issued by the Japanese Association of Real Estate Appraisal. Please refer to (C) for the occupancy rate of each property as of August 31, 2006.

(b) A geographical breakdown of the Company's property portfolio as of August 31, 2006 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</u> <u>of Total</u> <u>Assets</u> <u>(%)</u>
Tokyo metropolitan area	194,260	1,656,095	52.2
Osaka metropolitan area	116,342	991,832	31.2
Other metropolitan areas (each of which have populations over one million)	<u>61,865</u>	<u>527,408</u>	<u>16.6</u>
Total	<u>372,469</u>	<u>3,175,353</u>	<u>100</u>

(c) Occupancy rates for the six months ended August 31, 2006 is as follows:

<u>Name of Property</u>	<u>Operating days</u> <u>during the fiscal</u> <u>period</u>	<u>Occupancy Rate</u>	<u>Number of</u> <u>tenant</u>
Sendai Nakayama Shopping Center	184	100.0%	2
ESPA Kawasaki	184	100.0%	1
8953 Osaka Shinsaibashi Building	184	100.0%	1
JUSCO Chigasaki Shopping Center	184	100.0%	1
Nara Family	184	99.9%	134
Hakata Riverain	184	94.7%	73
Abiko Shopping Plaza	184	100.0%	53
Ito-Yokado Narumi	184	100.0%	1
8953 Minami Aoyama Building	184	100.0%	3
Ito-Yokado Yabashira	184	100.0%	1
Ito-Yokado Kamifukuoka-higashi	184	100.0%	1

Ito-Yokado Nishikicho	184	100.0%	1
8953 Daikanyama Building	184	100.0%	1
8953 Harajuku FACE Building	184	100.0%	5
AEON Higashiura Shopping Center	184	100.0%	1
AEON Kashiihama Shopping Center	184	100.0%	1
AEON Sapporo Naebo Shopping Center	184	100.0%	1
Site of former Esquisse Omotesando	184	100.0%	1
Esquisse Omotesando Annex	184	100.0%	2
Ito-Yokado Tsunashima	184	100.0%	1
Bic Camera Tachikawa	184	100.0%	2
Itabashi SATY	184	100.0%	1
8953 Kita Aoyama Building	184	100.0%	2
AEON Yamato Shopping Center	184	100.0%	1
SEIYU Hibarigaoka	184	100.0%	1
Tobata SATY	184	100.0%	1
Jusco City Takatsuki	184	100.0%	1
8953 Jiyugaoka Building	184	100.0%	11
Wonder City	184	100.0%	26
Jusco City Yagoto Shopping Center	184	100.0%	2
Jusco Naha Shopping Center	184	100.0%	1
Cheers Ginza	184	100.0%	9
Jusco City Nishi-Otsu	184	100.0%	1
Kyoto Family	184	99.8%	66
Higashi-Totsuka Aurora City	161	100.0%	2
Omiya SATY	70	100.0%	1
Loc City Ogaki	37	100.0%	1

Note:

Each of the properties above was 100% owned by the Company as of August 31, 2006.