

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
MORI TRUST Sogo Reit, Inc.

We have audited the accompanying balance sheets of MORI TRUST Sogo Reit, Inc. as of September 30, 2007 and March 31, 2007, and the related statements of income and retained earnings, changes in net assets, and cash flows for the six-month periods then ended, all expressed in 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 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 financial statements referred to above present fairly, in all material respects, the financial position of MORI TRUST Sogo Reit, Inc. at September 30, 2007 and March 31, 2007, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying financial statements with respect to the six-month period ended September 30, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young Shin Nihon*

December 10, 2007

FINANCIAL STATEMENTS

BALANCE SHEETS

As of September 30, 2007 and March 31, 2007

|   | September 30, 2007  | March 31, 2007      | September 30, 2007     |
|---|---------------------|---------------------|------------------------|
|   | Thousands of yen    |                     | U.S. dollars (Note 1)  |
| <b>Assets</b>                                     |                     |                     |                        |
| <b>Current Assets:</b>                            |                     |                     |                        |
| Cash and cash equivalents (Note 11)               | ¥7,535,653          | ¥9,186,658          | \$65,362,587           |
| Rental and other receivables                      | 40,793              | 35,233              | 353,828                |
| Other current assets                              | 29,601              | 44,617              | 256,758                |
| Total current assets                              | <u>7,606,047</u>    | <u>9,266,508</u>    | <u>65,973,173</u>      |
| <b>Property and Equipment, at Cost: (Note 3)</b>  |                     |                     |                        |
| Buildings and structures including trust accounts | 35,614,397          | 34,166,049          | 308,911,413            |
| Machinery and equipment                           | 129,414             | 53,821              | 1,122,509              |
| Tools, furniture and fixtures                     | 15,354              | 11,312              | 133,175                |
| Land including trust accounts                     | 128,854,043         | 112,102,220         | 1,117,651,513          |
| Construction in progress                          | 5,369               | -                   | 46,569                 |
| Less: accumulated depreciation                    | <u>(4,595,376)</u>  | <u>(3,846,586)</u>  | <u>(39,859,275)</u>    |
| Net property and equipment                        | 160,023,201         | 142,486,816         | 1,388,005,904          |
| <b>Investments and Other Assets:</b>              |                     |                     |                        |
| Deposits  | 10,000              | 10,000              | 86,738                 |
| Other   | 276                 | 276                 | 2,394                  |
| Total investments and other assets                | <u>10,276</u>       | <u>10,276</u>       | <u>89,132</u>          |
| <b>Total Assets</b>                               | <u>¥167,639,524</u> | <u>¥151,763,600</u> | <u>\$1,454,068,209</u> |
| <b>Liabilities</b>                                |                     |                     |                        |
| <b>Current Liabilities:</b>                       |                     |                     |                        |
| Accounts payable                                  | ¥237,562            | ¥97,074             | \$2,060,562            |
| Short-term loans (Note 4)                         | 24,500,000          | 19,000,000          | 212,507,590            |
| Distributions payable                             | 10,400              | 13,264              | 90,207                 |
| Consumption taxes payable                         | 52,207              | 193,121             | 452,833                |
| Rents received in advance (Note 9)                | 903,052             | 824,774             | 7,832,871              |
| Accrued expenses and other current liabilities    | 172,516             | 250,946             | 1,496,368              |
| Total current liabilities                         | <u>25,875,737</u>   | <u>20,379,179</u>   | <u>224,440,431</u>     |
| <b>Long-Term Liabilities:</b>                     |                     |                     |                        |
| Long-term loans (Note 5)                          | 46,500,000          | 38,500,000          | 403,330,731            |
| Leasehold and security deposits (Note 9)          | <u>12,181,495</u>   | <u>9,884,995</u>    | <u>105,659,596</u>     |
| Total long-term liabilities                       | 58,681,495          | 48,384,995          | 508,990,327            |
| <b>Total Liabilities</b>                          | <u>84,557,232</u>   | <u>68,764,174</u>   | <u>733,430,758</u>     |
| <b>Net Assets: (Note 6)</b>                       |                     |                     |                        |
| Shareholders' equity:                             |                     |                     |                        |
| Shares authorized: 2,000,000 shares               |                     |                     |                        |
| Shares issued and outstanding: 160,000 shares     | 80,000,000          | 80,000,000          | 693,902,333            |
| Retained earnings                                 | 3,082,292           | 2,999,426           | 26,735,118             |
| <b>Total Net Assets</b>                           | <u>83,082,292</u>   | <u>82,999,426</u>   | <u>720,637,451</u>     |
| <b>Total Liabilities and Net Assets</b>           | <u>¥167,639,524</u> | <u>¥151,763,600</u> | <u>\$1,454,068,209</u> |

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

## STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six-month periods ended September 30, 2007 and March 31, 2007

|   | April 1, 2007 to<br>September 30, 2007 | October 1, 2006 to<br>March 31, 2007 | April 1, 2007 to<br>September 30, 2007 |
|---|--|--------------------------------------|--|
|   | Thousands of yen                       |                                      | U.S. dollars (Note 1)                  |
| <b>Operating Revenues:</b>                          |  |                                      |  |
| Rental revenues (Notes 9 and 10)                    | ¥5,351,252                             | ¥4,957,479                           | \$46,415,575                           |
| <b>Operating Expenses:</b>                          |  |                                      |  |
| Property-related expenses (Note 10)                 | 1,557,826                              | 1,395,241                            | 13,512,234                             |
| Asset management fees                               | 178,268                                | 164,911                              | 1,546,255                              |
| Custodian and administrative service fees           | 53,790                                 | 44,656                               | 466,562                                |
| Other operating expenses                            | 72,002                                 | 62,208                               | 624,529                                |
| <b>Operating Income</b>                             | <b>3,489,366</b>                       | <b>3,290,463</b>                     | <b>30,265,995</b>                      |
| <b>Non-Operating Revenues:</b>                      |  |                                      |  |
| Interest income                                     | 14,274                                 | 8,721                                | 123,805                                |
| Other non-operating revenues                        | 1,774                                  | 1,966                                | 15,388                                 |
| <b>Non-Operating Expenses:</b>                      |  |                                      |  |
| Interest expense                                    | 422,200                                | 300,256                              | 3,662,068                              |
| Other non-operating expenses                        | -                                      | 491                                  | -                                      |
| <b>Income before Income Taxes</b>                   | <b>3,083,214</b>                       | <b>3,000,403</b>                     | <b>26,743,120</b>                      |
| <b>Income Taxes: (Note 7)</b>                       |  |                                      |  |
| Current   | 987                                    | 1,017                                | 8,561                                  |
| Deferred  | 1                                      | (1)                                  | 13                                     |
| <b>Net Income</b>                                   | <b>3,082,226</b>                       | <b>2,999,387</b>                     | <b>26,734,546</b>                      |
| <b>Retained Earnings at the Beginning of Period</b> | <b>66</b>                              | <b>39</b>                            | <b>571</b>                             |
| <b>Retained Earnings at the End of Period</b>       | <b>¥3,082,292</b>                      | <b>¥2,999,426</b>                    | <b>\$26,735,117</b>                    |

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

## STATEMENTS OF CHANGES IN NET ASSETS

For the six-month periods ended September 30, 2007 and March 31, 2007

|   | Thousands of yen |               |                   |             | U.S. dollars      |
|---|------------------|---------------|-------------------|-------------|-------------------|
|   | Shares           | Common shares | Retained earnings | Total       | (Note 1)<br>Total |
| <b>Balance as of September 30, 2006</b> | 160,000          | ¥80,000,000   | ¥3,692,039        | ¥83,692,039 |                   |
| Cash dividends paid                     | -                |               | (3,692,000)       | (3,692,000) |                   |
| Net income                              | -                |               | 2,999,387         | 2,999,387   |                   |
| <b>Balance as of March 31, 2007</b>     | 160,000          | 80,000,000    | 2,999,426         | 82,999,426  | \$719,918,691     |
| Cash dividends paid                     | -                |               | (2,999,360)       | (2,999,360) | (26,015,786)      |
| Net income                              | -                |               | 3,082,226         | 3,082,226   | 26,734,546        |
| <b>Balance as of September 30, 2007</b> | 160,000          | ¥80,000,000   | ¥3,082,292        | ¥83,082,292 | \$720,637,451     |

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

## STATEMENTS OF CASH FLOWS

For the six-month periods ended September 30, 2007 and March 31, 2007

|   | April 1, 2007 to<br>September 30, 2007 | October 1, 2006 to<br>March 31, 2007 | April 1, 2007 to<br>September 30, 2007 |
|---|--|--------------------------------------|--|
|   | Thousands of yen                       |                                      | U.S. dollars (Note 1)                  |
| <b>Cash Flows from Operating Activities:</b>                    |  |                                      |  |
| Income before income taxes                                      | ¥3,083,214                             | ¥3,000,403                           | \$26,743,120                           |
| Depreciation and amortization                                   | 748,790                                | 733,525                              | 6,494,842                              |
| Interest income   | (14,274)                               | (8,721)                              | (123,805)                              |
| Interest expense  | 422,200                                | 300,256                              | 3,662,068                              |
| Changes in assets and liabilities:                              |  |                                      |  |
| Rental and other receivables                                    | (5,560)                                | 6,354                                | (48,222)                               |
| Consumption taxes refundable                                    | -                                      | 143,417                              | -                                      |
| Accounts payable and accrued expenses                           | 88,759                                 | (243,994)                            | 769,867                                |
| Consumption taxes payable                                       | (140,914)                              | 143,150                              | (1,222,253)                            |
| Rents received in advance                                       | 78,278                                 | (1,805)                              | 678,960                                |
| Other   | 46,397                                 | (56,859)                             | 402,438                                |
| Subtotal  | 4,306,890                              | 4,015,726                            | 37,357,015                             |
| Interest received   | 13,203                                 | 8,721                                | 114,523                                |
| Interest paid   | (405,925)                              | (282,830)                            | (3,520,906)                            |
| Income taxes paid   | (1,869)                                | (2,344)                              | (16,209)                               |
| Net cash provided by operating activities                       | 3,912,299                              | 3,739,273                            | 33,934,423                             |
| <b>Cash Flows from Investing Activities:</b>                    |  |                                      |  |
| Purchases of property and equipment including trust accounts    | (18,233,444)                           | (396,240)                            | (158,152,870)                          |
| Repayment of leasehold and security deposits                    | (287,724)                              | -                                    | (2,495,660)                            |
| Proceeds from leasehold and security deposits                   | 2,460,088                              | 4,620                                | 21,338,261                             |
| Net cash used in investing activities                           | (16,061,080)                           | (391,620)                            | (139,310,269)                          |
| <b>Cash Flows from Financing Activities:</b>                    |  |                                      |  |
| Net increase (decrease) in short-term loans                     | 5,500,000                              | (2,500,000)                          | 47,705,785                             |
| Proceeds from long-term loans                                   | 8,000,000                              | 8,000,000                            | 69,390,233                             |
| Repayment of long-term loans                                    | -                                      | (5,500,000)                          | -                                      |
| Distributions paid to shareholders                              | (3,002,224)                            | (3,690,802)                          | (26,040,627)                           |
| Net cash provided by (used in) financing activities             | 10,497,776                             | (3,690,802)                          | 91,055,391                             |
| <b>Net Change in Cash and Cash Equivalents</b>                  | (1,651,005)                            | (343,149)                            | (14,320,455)                           |
| <b>Cash and Cash Equivalents at the Beginning of Period</b>     | 9,186,658                              | 9,529,807                            | 79,683,042                             |
| <b>Cash and Cash Equivalents at the End of Period (Note 11)</b> | ¥7,535,653                             | ¥9,186,658                           | \$65,362,587                           |

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

## NOTES TO FINANCIAL STATEMENTS

For the six-month periods ended September 30, 2007 and March 31, 2007

### 1. ORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

#### Organization

MORI TRUST Sogo Reit, Inc. (“MTR”), a Japanese real estate investment corporation, was incorporated on October 2, 2001 under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. MTR was originally formed by Mori Trust Co., Ltd., and commenced operations on March 28, 2002 by acquiring a property. MTR is provided professional asset management services of properties of varied types by a licensed asset management company, MORI TRUST Asset Management Co., Ltd. (“MTAM”). MTAM is currently owned 65% by Mori Trust Co., Ltd., 10% by PARCO Co., Ltd., 10% by SOMPO JAPAN INSURANCE INC., 5% by Sumitomo Mitsui Banking Corporation, 5% by The Bank of Tokyo-Mitsubishi UFJ, Ltd., and 5% by Mizuho Corporate Bank, Ltd. On February 13, 2004, MTR was listed on the J-REIT section of the Tokyo Stock Exchange (securities code: 8961). As of September 30, 2007, MTR owned a portfolio of 12 properties with a total rentable area of 415,293.05 sq. meters occupied by 29 tenants. The occupancy rate was 99.9%.

#### Basis of presentation of financial statements

MTR maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), including provisions set forth in the Investment Trust Law, the Securities and Exchange Law of Japan and the related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying financial statements are a translation of the financial statements of MTR, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of MTR filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications have been made to the financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to financial statements include information which might not be required under Japanese GAAP but is presented herein as additional information. Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥115.29 = U.S.\$1.00, the foreign exchange rate prevailing on September 30, 2007, has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that or any other rate. MTR does not prepare consolidated financial statements as it has no subsidiaries.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Property and equipment

Property and equipment is stated at cost less accumulated depreciation. The costs of land, buildings and building improvements include the purchase prices of properties, legal fees and acquisition costs. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets ranging as follows:

|  |              |
|--|--------------|
| Buildings including trust accounts.....  | 3 - 41 years |
| Structures including trust accounts..... | 2 - 20 years |
| Machinery and equipment.....             | 3 - 8 years  |
| Tools, furniture and fixtures.....       | 3 - 8 years  |

Expenditures for repairs and maintenance are charged to income as incurred. Significant renewals and betterments are capitalized.

#### Revenue recognition

Revenues from leasing of investment properties are recognized as rent accrued over the lease period.

#### Taxes on property and equipment

Property and equipment is subject to property taxes and city planning taxes on a calendar year basis. These taxes are generally expensed during the period. The sellers of the properties were liable for property taxes for the calendar year including the period from the date of purchase by MTR through the end of the year since the taxes were imposed on the registered owners as of January 1, based on assessments made by local governments. MTR paid amounts equivalent to the property taxes to the respective sellers applicable to the period commencing from the dates of purchase of the respective properties by MTR through the year end and included these amounts in the purchase prices of the respective properties and capitalized them as cost of such properties. The amount of such taxes included in the costs of real estate acquisition was ¥39,751 thousand (\$345 thousand) for the six-month period ended September 30, 2007.

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks and short-term investments which are highly liquid, readily convertible to cash and with an insignificant risk of price fluctuation, and with an original maturity of three months or less.

### Accounting Treatment of Beneficiary Interests in Trust Assets including Real Estate

For trust beneficiary interests in real estate, all accounts of assets and liabilities within assets in trust as well as all income generated and expenses incurred from assets in trust are recorded in the relevant balance sheet and statement of income accounts.

### Consumption taxes

Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of income and retained earnings. The consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld is included in current assets and the excess of amounts withheld over payments is included in current liabilities.

## 3. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2007 and March 31, 2007 consisted of the following:

|                                   | Thousands of yen         |              |                      |              | U.S. dollars             |                 |
|-----------------------------------|--------------------------|--------------|----------------------|--------------|--------------------------|-----------------|
|                                   | As of September 30, 2007 |              | As of March 31, 2007 |              | As of September 30, 2007 |                 |
|                                   | Acquisition Cost         | Book Value   | Acquisition Cost     | Book Value   | Acquisition Cost         | Book Value      |
| Land                              | ¥112,996,043             | ¥112,996,043 | ¥96,244,220          | ¥96,244,220  | \$980,102,725            | \$980,102,725   |
| Buildings and structures          | 27,898,396               |              | 26,482,999           |              | 241,984,520              |                 |
| Accumulated depreciation          | (4,085,467)              | 23,812,929   | (3,557,989)          | 22,925,010   | (35,436,434)             | 206,548,086     |
| Machinery and equipment           | 129,414                  |              | 53,821               |              | 1,122,509                |                 |
| Accumulated depreciation          | (45,902)                 | 83,512       | (39,240)             | 14,581       | (398,147)                | 724,362         |
| Tools, furniture and fixtures     | 15,354                   |              | 11,312               |              | 133,175                  |                 |
| Accumulated depreciation          | (2,778)                  | 12,576       | (1,809)              | 9,503        | (24,097)                 | 109,078         |
| Construction in progress          | 5,369                    | 5,369        | -                    | -            | 46,569                   | 46,569          |
| Land in trust                     | 15,858,000               | 15,858,000   | 15,858,000           | 15,858,000   | 137,548,788              | 137,548,788     |
| Buildings and structures in trust | 7,716,001                |              | 7,683,050            |              | 66,926,893               |                 |
| Accumulated depreciation          | (461,229)                | 7,254,772    | (247,548)            | 7,435,502    | (4,000,597)              | 62,926,296      |
| Total                             |                          | ¥160,023,201 |                      | ¥142,486,816 |                          | \$1,388,005,904 |

## 4. SHORT-TERM LOANS

Short-term loans at September 30, 2007 and March 31, 2007 consisted of the following:

|   | Thousands of yen         |                      | U.S. dollars             |
|---|--------------------------|----------------------|--------------------------|
|   | As of September 30, 2007 | As of March 31, 2007 | As of September 30, 2007 |
| Unsecured loans from banks and trust banks with floating interest rates, due on August 31, 2007   | -                        | ¥16,000,000          | -                        |
| Unsecured loans from banks and trust banks with floating interest rates, due on February 29, 2008 | ¥9,000,000               | 3,000,000            | \$78,064,013             |
| Unsecured loans from banks and trust banks with floating interest rates, due on August 29, 2008   | 15,500,000               | -                    | 134,443,577              |
| Total   | ¥24,500,000              | ¥19,000,000          | \$212,507,590            |

The annual interest rates on short-term loans outstanding were floating rates ranging from 0.84% to 1.04% and from 0.66% to 0.81% at September 30, 2007 and March 31, 2007, respectively. Use of the above funds includes acquisition of real estate or beneficiary interests.

The Company has committed lines of credit of ¥10,000 million (\$86,738 thousand) in the aggregate with one bank to reduce a refinancing risk. The aggregate unused amount of such committed lines of credit was ¥10,000 million (\$86,738 thousand) at September 30, 2007.

## 5. LONG-TERM LOANS

Long-term loans at September 30, 2007 and March 31, 2007 consisted of the following:

| Lender                                     | Thousands of yen         |                      | U.S. dollars             |                      | Average interest rate (%) (1) | Due on            | Use of funds | Note |
|--|--------------------------|----------------------|--------------------------|----------------------|-------------------------------|-------------------|--------------|------|
|  | As of September 30, 2007 | As of March 31, 2007 | As of September 30, 2007 | As of March 31, 2007 |                               |                   |              |      |
| Nippon Life Insurance Company              | ¥3,000,000               | ¥3,000,000           | \$ 26,021,337            |                      | 1.29                          | February 27, 2009 |              |      |
| Shinsei Bank, Limited                      | 3,000,000                | 3,000,000            | 26,021,337               |                      | 1.22                          | August 31, 2009   |              |      |
| Mitsubishi UFJ Trust & Banking Corporation | 2,000,000                | 2,000,000            | 17,347,558               |                      | 1.24                          | August 31, 2009   |              |      |
| The Chiba Bank, Ltd.                       | 1,000,000                | 1,000,000            | 8,673,779                |                      | 1.20                          | August 31, 2009   |              |      |
| The Sumitomo Trust & Banking Co., Ltd.     | 1,000,000                | 1,000,000            | 8,673,779                |                      | 1.24                          | August 31, 2009   |              |      |
| Sumitomo Mitsui Banking Corporation        | 5,000,000                | 5,000,000            | 43,368,897               |                      | 1.15                          | February 26, 2010 |              |      |
| Nippon Life Insurance Company              | 3,000,000                | 3,000,000            | 26,021,337               |                      | 1.09                          | February 26, 2010 |              |      |
| Mitsubishi UFJ Trust & Banking Corporation | 3,000,000                | -                    | 26,021,337               |                      | 1.39                          | February 26, 2010 |              |      |
| The Sumitomo Trust & Banking Co., Ltd.     | 2,500,000                | 2,500,000            | 21,684,449               |                      | 1.37                          | February 26, 2010 |              |      |
| The Dai-ichi Mutual Life Insurance Company | 2,000,000                | 2,000,000            | 17,347,558               |                      | 1.09                          | February 26, 2010 |              |      |
| Shinsei Bank, Limited                      | 3,000,000                | -                    | 26,021,337               |                      | 1.59                          | February 28, 2011 | (2)          | (3)  |
| Development Bank of Japan                  | 2,500,000                | 2,500,000            | 21,684,449               |                      | 1.65                          | February 28, 2011 |              |      |
| Development Bank of Japan                  | 2,000,000                | 2,000,000            | 17,347,558               |                      | 1.46                          | February 28, 2011 |              |      |
| Shinsei Bank, Limited                      | 2,000,000                | 2,000,000            | 17,347,558               |                      | 1.55                          | February 28, 2011 |              |      |
| Nippon Life Insurance Company              | 1,000,000                | 1,000,000            | 8,673,779                |                      | 1.46                          | February 28, 2011 |              |      |
| The Hachijuni Bank, Ltd.                   | 1,000,000                | 1,000,000            | 8,673,779                |                      | 1.55                          | February 28, 2011 |              |      |
| Development Bank of Japan                  | 1,000,000                | 1,000,000            | 8,673,779                |                      | 1.68                          | August 31, 2011   |              |      |
| Development Bank of Japan                  | 4,000,000                | 4,000,000            | 34,695,117               |                      | 1.44                          | February 29, 2012 |              |      |
| Development Bank of Japan                  | 2,000,000                | -                    | 17,347,558               |                      | 1.74                          | February 29, 2012 |              |      |
| The Dai-ichi Mutual Life Insurance Company | 2,500,000                | 2,500,000            | 21,684,449               |                      | 1.92                          | February 28, 2014 |              |      |
| Total long-term loans                      | ¥46,500,000              | ¥38,500,000          | \$ 403,330,731           |                      | -                             | -                 |              |      |

(1) Average interest rate for each loan has been rounded to the second decimal place.

(2) Use of the above funds includes acquisition of real estate or beneficiary interests.

(3) The above loans are unsecured and non-guaranteed with fixed interest rates.

(4) The total amounts of long-term loans repayable expected to be repaid during each of the 5 years subsequent to the current balance sheet date are summarized as follows:

| Amount of loans | (Thousands of yen) | 1 to 2 years   | 2 to 3 years  | 3 to 4 years  | 4 to 5 years |
|-----------------|--------------------|----------------|---------------|---------------|--------------|
|                 |                    | (U.S. dollars) | ¥10,000,000   | ¥15,500,000   | ¥12,500,000  |
|                 |                    | \$86,737,792   | \$134,443,577 | \$108,422,240 | \$52,042,675 |

## 6. NET ASSETS

MTR is required to maintain net assets of at least ¥50 million (\$434 thousand) as required pursuant to the Investment Trust Law.

## 7. INCOME TAXES

At September 30, 2007 and March 31, 2007, MTR's deferred tax assets consisted mainly of enterprise tax payable which is not deductible for tax purposes. A reconciliation of the tax rate differences between the adjusted statutory tax rate and the effective tax rate for the six months ended September 30, 2007 and March 31, 2007 was as follows:

|                                  | April 1, 2007 to<br>September 30, 2007 | October 1, 2006 to<br>March 31, 2007 |
|----------------------------------|--|--------------------------------------|
| Statutory tax rate               | 39.39%                                 | 39.39%                               |
| Deductible dividend distribution | (39.38%)                               | (39.38%)                             |
| Per capita inhabitants' taxes    | 0.02%                                  | 0.02%                                |
| Effective tax rate               | 0.03%                                  | 0.03%                                |

MTR is subject to Japanese corporate income taxes on all of its taxable income. However, under the Special Taxation Measures Law (STML) of Japan, an investment corporation is allowed to deduct dividends of accounting profits, or dividend distributions, paid to investors from its taxable income if certain tax requirements are satisfied. Such tax requirements include dividend distributions in excess of 90% of the investment corporation's taxable income for the accounting period as stipulated in Article 67-15 of the STML. Based on the distribution policy provided by its Articles of Incorporation, MTR makes a dividend distribution of approximately 100% of retained earnings in the amount of ¥3,082,240 thousand (\$26,734,669) at September 30, 2007 and treats it as a tax deductible dividend. MTR does not distribute dividends in excess of accounting profit in accordance with its Articles of Incorporation.

## 8. PER SHARE INFORMATION

The following table summarizes information about net assets per share and net income per share at September 30, 2007 and March 31, 2007 and for the six-month periods then ended:

|                                    | Yen                                    |                                      | U.S. dollars                           |
|------------------------------------|--|--------------------------------------|--|
|                                    | April 1, 2007 to<br>September 30, 2007 | October 1, 2006 to<br>March 31, 2007 | April 1, 2007 to<br>September 30, 2007 |
| Net assets per share at period end | ¥519,264                               | ¥518,746                             | \$4,504                                |
| Net income per share               | 19,263                                 | 18,746                               | 167                                    |
| Weighted-average number of shares  | 160,000                                | 160,000                              | 160,000                                |

In calculating net assets per share, the amount of the net assets has been adjusted for the cash distribution declared in the subsequent period. Net income per share is computed by dividing net income by the weighted-average number of shares outstanding during each period. Diluted net income per share has not been presented since no warrants or convertible bonds were outstanding during the period.

## 9. RELATED PARTY TRANSACTIONS

MTR entered into the following related party transactions:

### (1) Parent company and major corporate shareholders

|  | April 1, 2007 to September 30, 2007                                    |  |
|--|--|--|
|  | (a)  | (b)  |
| Party type                             | Other related company *  | Parent company of other related company                        |
| Party name                             | Mori Trust Co., Ltd.   | Mori Trust Holdings Inc.                                       |
| Address                                | Tokyo, Japan   | Tokyo, Japan   |
| Capital                                | ¥10,000,000 thousand (\$86,737,792)                                    | ¥1,000,000 thousand (\$8,673,779)                              |
| Business                               | Urban development; property ownership, leasing and management          | Shareholder in group companies; property ownership and leasing |
| Percentage of voting rights held       | Direct 30.0%   | -  |
| Concurrent board appointment           | -  | -  |
| Business relationship                  | Leasing  | Purchasing   |
| Details of transactions                | Rental revenues  | Purchase of a property   |
| Transaction amount                     | ¥1,322,199 thousand (\$11,468,462)                                     | ¥18,000,000 thousand (\$156,128,025)                           |
| Account name and balance at period end | Rents received in advance:<br>¥231,385 thousand (\$2,006,981)          | -  |
|  | Leasehold and security deposits:<br>¥3,434,625 thousand (\$29,791,176) | -  |

|  | October 1, 2006 to March 31, 2007                             |  |
|--|---|--|
|  | (a)   |  |
| Party type                             | Other related company *                                       |  |
| Party name                             | Mori Trust Co., Ltd.  |  |
| Address                                | Tokyo, Japan  |  |
| Capital                                | ¥10,000,000 thousand  |  |
| Business                               | Urban development; property ownership, leasing and management |  |
| Percentage of voting rights held       | Direct 30.0%  |  |
| Concurrent board appointment           | -   |  |
| Business relationship                  | Leasing   |  |
| Details of transactions                | Rental revenues   |  |
| Transaction amount                     | ¥1,322,198 thousand   |  |
| Account name and balance at period end | Rents received in advance:<br>¥231,384 thousand               |  |
|  | Leasehold and security deposits:<br>¥3,230,136 thousand       |  |

\* MTR deemed Mori Trust Co., Ltd. to be an "other related company" under Article 8 of Regulations Concerning Financial Statements.

(2) Directors and major individual shareholders: None applicable

(3) Subsidiaries: None applicable

(4) Sister companies: None applicable

## 10. BREAKDOWN OF PROPERTY-RELATED REVENUES AND EXPENSES

A breakdown of property-related revenues and expenses for the six-month periods ended September 30, 2007 and March 31, 2007 is summarized as follows:

Rental revenues and property-related expenses

|                            | Thousands of yen                       |                                      | U.S. dollars                           |
|----------------------------|--|--------------------------------------|--|
|                            | April 1, 2007 to<br>September 30, 2007 | October 1, 2006 to<br>March 31, 2007 | April 1, 2007 to<br>September 30, 2007 |
| Rental Revenues:           | ¥5,351,252                             | ¥4,957,479                           | \$46,415,575                           |
| Rental revenues            | 5,090,450                              | 4,715,961                            | 44,153,440                             |
| Common charges             | 110,963                                | 110,963                              | 962,472                                |
| Parking revenues           | 6,670                                  | 6,600                                | 57,854                                 |
| Other rental revenues      | 143,169                                | 123,955                              | 1,241,809                              |
| Property-Related Expenses: | 1,557,826                              | 1,395,241                            | 13,512,234                             |
| Property management fees   | 120,275                                | 114,920                              | 1,043,237                              |
| Utilities                  | 122,963                                | 108,466                              | 1,066,555                              |
| Property and other taxes   | 489,555                                | 350,065                              | 4,246,293                              |
| Casualty insurance         | 28,169                                 | 27,989                               | 244,329                                |
| Repairs and maintenance    | 40,612                                 | 51,083                               | 352,253                                |
| Depreciation               | 748,790                                | 733,525                              | 6,494,842                              |
| Other rental expenses      | 7,462                                  | 9,193                                | 64,725                                 |
| Profit                     | ¥3,793,426                             | ¥3,562,238                           | \$32,903,341                           |

## 11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of September 30, 2007 and March 31, 2007 were as follows:

|                                     | Thousands of yen            |                         | U.S. dollars                |
|-------------------------------------|-----------------------------|-------------------------|-----------------------------|
|                                     | As of September<br>30, 2007 | As of March 31,<br>2007 | As of September<br>30, 2007 |
| Cash and bank deposits              | ¥6,517,851                  | ¥8,165,804              | \$56,534,398                |
| Cash in trust and deposits in trust | ¥1,017,802                  | ¥1,020,854              | \$8,828,189                 |
| Cash and cash equivalents           | ¥7,535,653                  | ¥9,186,658              | \$65,362,587                |

## 12. LEASES

MTR leases properties and earns rental revenues. Future lease revenues subsequent to September 30, 2007 and March 31, 2007, under non-cancelable operating leases were as follows:

|                     | Thousands of yen         |                      | U.S. dollars             |
|---------------------|--------------------------|----------------------|--------------------------|
|                     | As of September 30, 2007 | As of March 31, 2007 | As of September 30, 2007 |
| Due within one year | ¥8,006,844               | ¥8,186,929           | \$69,449,597             |
| Due after one year  | 53,799,416               | 57,018,329           | 466,644,250              |
| Total               | ¥61,806,260              | ¥65,205,259          | \$536,093,847            |

## 13. SUBSEQUENT EVENT

### DISTRIBUTION OF RETAINED EARNINGS

On November 21, 2007, the Board of Directors approved a resolution for the payment of a cash distribution of ¥19,264 per share, aggregating to ¥3,082 million (\$26,734 thousand), to its shareholders of record as of September 30, 2007.