

New City Residence

New City Residence Investment Corporation

SEMI-ANNUAL REPORT FOR THE PERIOD
SEPTEMBER 1ST 2007 TO FEBRUARY 29TH 2008



New City Residence

New City Residence Investment Corporation



Message from the Top

New City Residence Investment Corporation (New City Residence) has successfully closed its accounts for its 6th period ended on February 29, 2008. We thank you, our investors, for your support in making this possible.

This period featured intense fluctuations in the market. The global adjustments in the financial markets triggered by the subprime mortgage crisis also had an immense impact on Japanese financial markets since last summer and led to J-REITs entering a severe phase. Simultaneously, the rapid credit crunch has also led to a sudden contraction of the real estate investment market.

On the other hand, the rental housing market has performed admirably. Strong rental demand backed by the continued shift of the population to central Tokyo and steep rise in for-sale condominium prices has enabled New City Residence to post steady cash flow from its high-quality residences centered in downtown Tokyo.

During this period, New City Residence acquired seven properties for 13.3 billion yen and sold three properties for 6.7 billion yen as we continued on our quest to expand our portfolio and further improve its quality. The size of our portfolio as of the end of the period has grown to 108 properties with a total acquisition price of 189.3 billion yen and 6,875 leasable units. As a result, we were able to post increases in both revenues and

profits during the 6th period with operating revenues of 6,252 million yen (9.1% period-on-period increase), net income of 2,453 million yen (11.7% period-on-period increase) and distribution per unit of 14,954 yen.

The following is a list of management highlights for the 6th period.

- ▶ Achieved target asset size of 200 billion yen as of the end of 2007 on a contract basis
- ▶ Heightened occupancy rates: Posting an end-of-period overall portfolio occupancy of 93.8% (92.0% at end of previous period) and property occupancies were solidly maintained at around 95% once stabilized
- ▶ Our core target investment area, Tokyo Central Area (8 wards), comprises about 57% of our overall investment area – in line with our aim to build a portfolio with “close,” “new” and “large” properties as core assets
- ▶ Average unit price of rent for the overall portfolio was 11,110 yen per tsubo: Targeting zones with a deep layer of rental demand
- ▶ Announced Eco Declaration: Commencing environmentally friendly measures
- ▶ Promoted brand strategy: Expanding of the tenant service program
- ▶ Reinforced financial strategy: Refinancing of secured long-term borrowings (3 years) to unsecured long-term borrowings (5 years)
- ▶ Raised rating: Receiving a higher rating by Moody's from A3 to A2

Some keys for us in the 7th period are as follows.

Steps to Achieve Financial Stability

Our greatest theme for the 7th period is the improvement of financial stability. One of the measures implemented within this strategy was the 5.1 billion yen equity financing conducted through a third-party allotment in May. In addition to this capital, we will apply funds from the planned sale of properties in the future to repay short-term borrowings and lower our risks related to refinancing.

Strengthen Competitiveness of Portfolio

The pivot or focus of our growth strategies will be transferred from external growth to internal growth. New City Residence is working to raise the NOI return on our portfolio by improving occupancy rates, lowering intermediary commissions by reducing the number of units being newly leased and reducing property operating expenses by reviewing building management costs. We will also strengthen our competitiveness through property replacements.

Contribution to Revenues by NCR Ikebukuro Precious Tower (tentative name)

New City Residence plans to acquire the NCR Ikebukuro Precious Tower (tentative name), which is to become a core property in our portfolio, by no later than the end of October for about 27.7 billion yen. It is a landmark tower condominium in a key downtown Tokyo area with 32 floors and a total of 404 leasable units and the contribution to revenues by improved occupancy rate of this property will lead to an expansion in cash flow.

New City Residence will resolutely implement the above measures in the 7th period. I am personally confident that their implementation will lead us to the next stage of strong growth.

Thank you for your unwavering support and continued commitment.

Jun Arai
Executive Director, New City Residence Investment Corporation
President, CBRE Residential Management K.K.

Financial Highlights

Summary of 2nd to 6th Period Results

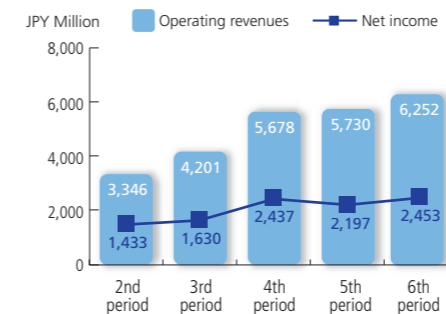
	2nd Period (ended Feb 28, 2006)	3rd Period (ended Aug 31, 2006)	4th Period (ended Feb 28, 2007)	5th Period (ended Aug 31, 2007)	6th Period (ended Feb 29, 2008)
Operating period	181 days	184 days	181 days	184 days	182 days
Operating revenues	3,346 million yen	4,201 million yen	5,678 million yen	5,730 million yen	6,252 million yen
Income before income taxes	1,435 million yen	1,635 million yen	2,442 million yen	2,199 million yen	2,456 million yen
Net income	1,433 million yen	1,630 million yen	2,437 million yen	2,197 million yen	2,453 million yen
NOI (Note 1)	2,637 million yen	3,293 million yen	3,615 million yen	4,122 million yen	4,327 million yen
FFO (Note 2)	1,934 million yen	2,282 million yen	3,175 million yen	3,044 million yen	3,373 million yen
Total cash distribution	1,433 million yen	1,630 million yen	2,437 million yen	2,197 million yen	2,453 million yen
Total assets	135,663 million yen	164,094 million yen	181,509 million yen	195,685 million yen	202,743 million yen
Total interest-bearing liabilities	66,900 million yen	94,600 million yen	90,300 million yen	104,350 million yen	111,195 million yen
Unitholders' equity	66,539 million yen	66,756 million yen	88,242 million yen	88,006 million yen	88,245 million yen
LTV (Note 3)	49.3%	57.6%	49.7%	53.3%	54.8%
Outstanding investment units issued	122,612 units	122,612 units	164,068 units	164,068 units	164,068 units
Distribution per unit	11,692 yen	13,302 yen	14,858 yen	13,393 yen	14,954 yen
Unitholders' equity per unit	542,687 yen	544,451 yen	537,843 yen	536,404 yen	537,859 yen
FFO per unit	15,774 yen	18,616 yen	19,351 yen	18,555 yen	20,562 yen

Note 1: NOI = Rental income for the period (rental revenues – rental expenses) + depreciation for the period

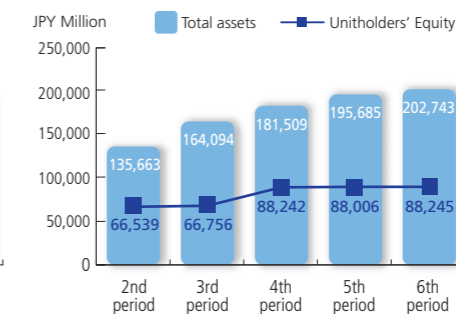
Note 2: FFO = Net income for the period + depreciation for the period

Note 3: LTV (Loan to value ratio) = Total interest bearing liabilities/total assets at end of period

Operating Revenues and Net Income



Total Assets and Unitholders' Equity



Issuer Ratings

(as of February 29, 2008)

Rating Agency	Issuer Rating	Rating Outlook
Moody's Investors Service, Inc.	A2	Stable
Rating and Investment Information, Inc.	A+	Stable

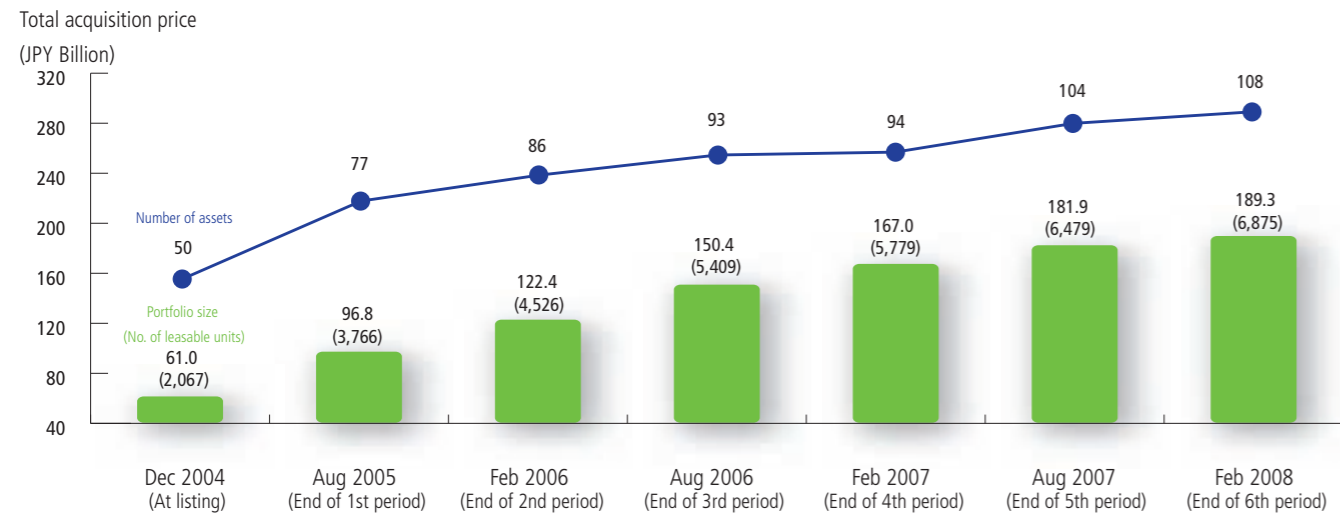
Note: Moody's rating was upgraded to A2 from A3 in December 2007.

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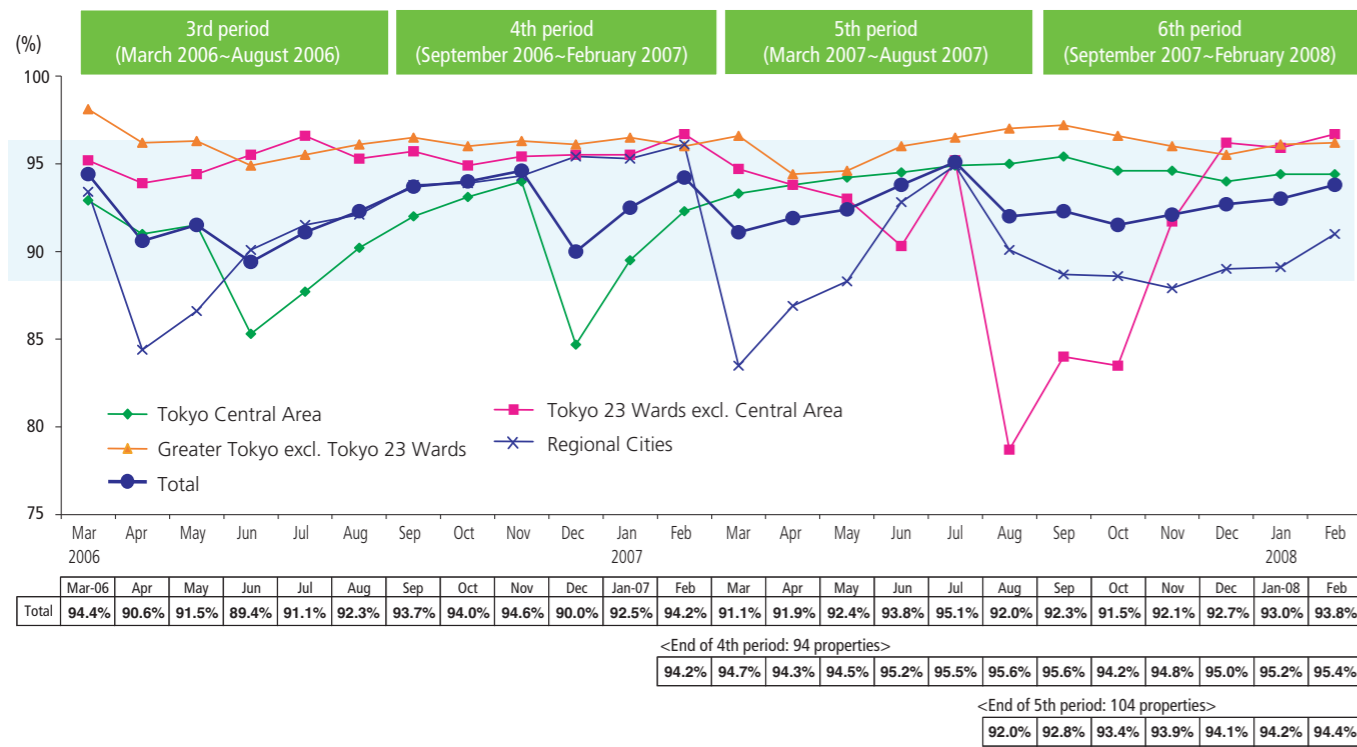
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Portfolio Growth and Occupancy Rate

Portfolio Growth



Occupancy Rate by Area



Note: "Tokyo Central Area" comprises Minato, Shibuya, Shinjuku, Chiyoda, Chuo, Shinagawa, Toshima and Meguro Wards. "Tokyo 23 Wards excluding Tokyo Central Area" comprises all Tokyo 23 wards excluding the aforementioned 8 wards. "Greater Tokyo excluding Tokyo 23 Wards" comprises Tokyo Prefecture (excluding Tokyo 23 wards), and Kanagawa, Chiba and Saitama Prefectures. "Regional Cities" comprises all other areas excluding the aforementioned.

"Close," "New" and "Large" Properties as Core Assets

"Close," "New" and "Large" Rental Residences

"Close"

Locations close to business zones.

Properties must be close to CBDs (central business district) as well as a short distance from railway stations.

"New"

Buildings constructed based on recent regulations.

Properties must comply with the most recent/newest standards for earthquake resistance, building specifications and security facilities.

"Large"

Properties having well-equipped common spaces that only large properties can afford.

Properties must have well-equipped common spaces including hotel-like entrance halls, concierge services and lounges with excellent views.

Note 1: The asset management company partially revised its Management Guidelines on March 1, 2008.
 Note 2: The revised Management Guidelines designate Minato, Shibuya, Shinjuku, Chiyoda, Chuo, Shinagawa, Toshima and Meguro Wards as the Tokyo Central Area, and positions it as the core focus area of the portfolio.

Tokyo Central Area and Core Assets

New City Residence owns "close," "new" and "large" core assets located in the Tokyo Central Area, as indicated in the table below.

NCR Ikebukuro Precious Tower (tentative name) (to be acquired)

Location: 3-21-13, Nishi Ikebukuro, Toshima-Ku, Tokyo
 Acquisition price: 27,691 million yen
 Acquisition date: To be acquired by October 31, 2008
 Number of units: 404 units
 Structure, floors: RC, 32F/B2F
 Completion date: December 2006

Catherina Mita Towersuite (NCR)

Location: 4-16-1, Shiba, Minato-Ku, Tokyo (West Ark)
 4-16-2, Shiba, Minato-Ku, Tokyo (East Ark)
 Acquisition price: 16,200 million yen
 Acquisition date: December 22, 2006
 Number of units: 264 units (compartmentalized ownership equity of 34.5%),
 Structure, floors: RC, 36F/B2F (East Ark)
 RC, 28F/B2F (West Ark)
 Completion date: August 2006

Core assets (orange dots)
Other properties (blue dots)

NCR Takanawa

Location: 2-17-12, Takanawa, Minato-Ku, Tokyo
 Acquisition price: 10,995 million yen
 Acquisition date: January 11, 2006
 Number of units: 169 units
 Structure, floors: SRC, 12F
 Completion date: August 2005

NCR Shinagawa Seaside Tower

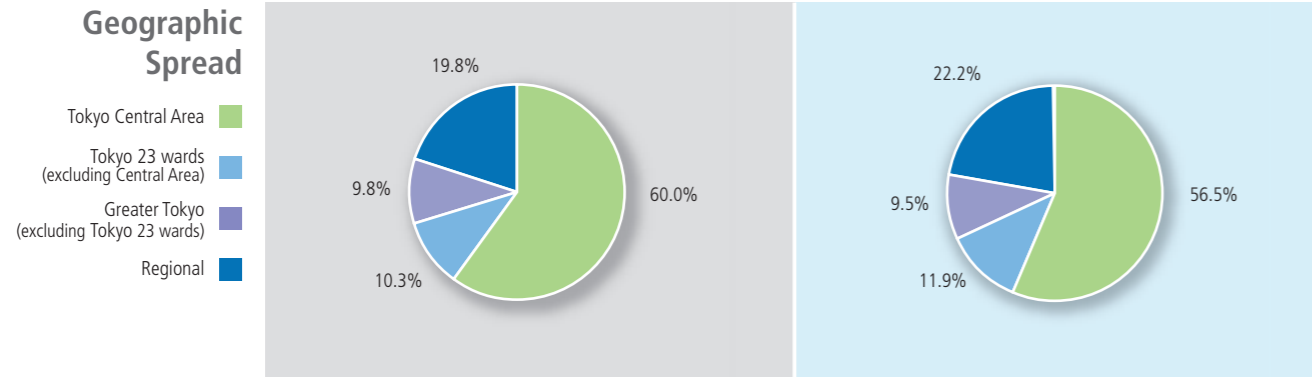
Location: 4-10-18, Higashi-Shinagawa, Shinagawa-Ku, Tokyo
 Acquisition price: 9,350 million yen
 Acquisition date: June 30, 2006
 Number of units: 208 units
 Structure, floors: RC, 25F/B2F
 Completion date: November 2005

Diversification Highlights

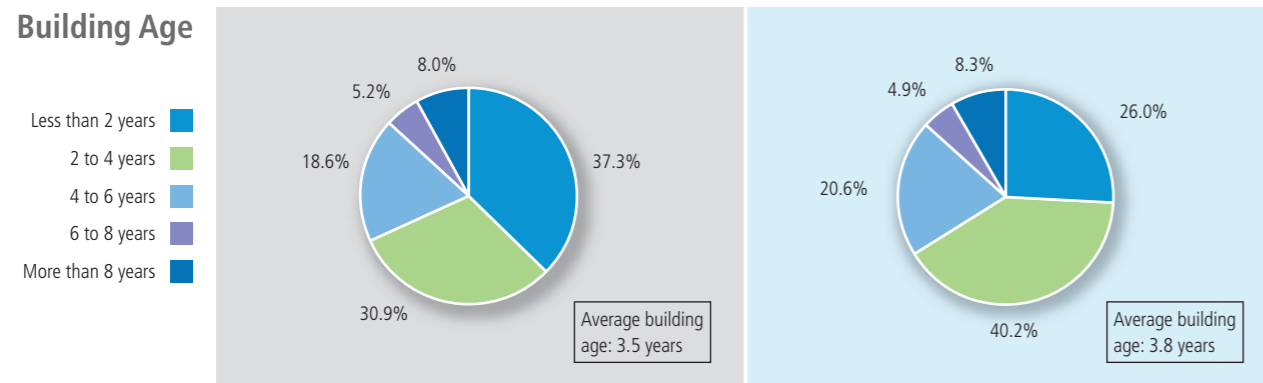
	5th Period (as of August 31, 2007)	6th Period (as of February 29, 2008)
No. of Properties (properties)	104	108
Portfolio Size (JPY billion)	181.9	189.3
No. of Leasable Units (units)	6,479	6,875
PML (%)	2.5	2.5

Note: PML, or probable maximum loss, refers to the probability of the maximum loss from an earthquake and in this case the level of damage that may result from the assumed maximum earthquake size (large earthquake that occurs once every 475 years = large earthquake with 10% or greater probability of occurring within 50 years) assumed for the assumed scheduled use period expressed as a percentage (%) of the replacement cost of the expenses expected to be required to restore the damages.

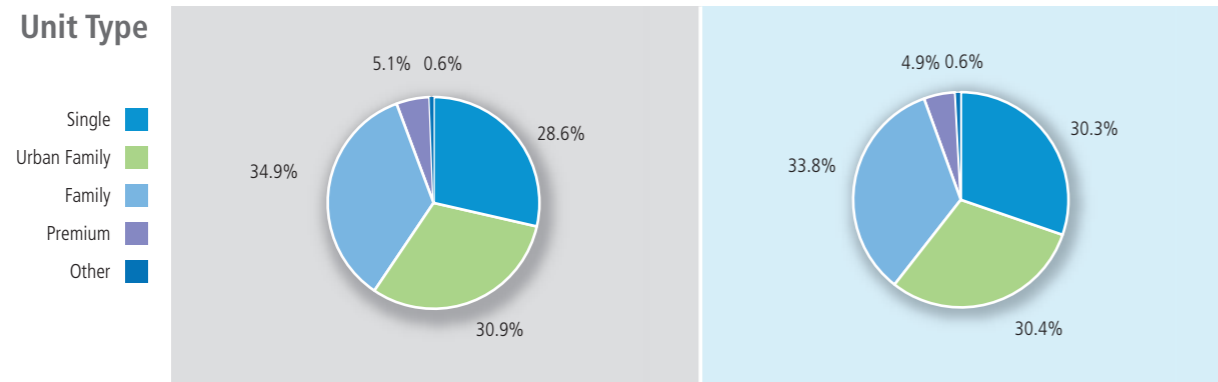
Geographic Spread



Building Age



Unit Type



Note 1: Ratios of building age and geographic spread are based upon acquisition price. That of unit type is based on net rentable area.

Note 2: Other in the unit type includes non-residential-use areas such as retail outlets, offices and other commercial spaces.

Note 3: "Tokyo Central Area" comprises Minato, Shibuya, Shinjuku, Chiyoda, Chuo, Shinagawa, Toshima and Meguro Wards. "Tokyo 23 Wards excluding Tokyo Central Area" comprises all Tokyo 23 wards excluding the aforementioned 8 wards. "Greater Tokyo excluding Tokyo 23 Wards" comprises Tokyo Prefecture (excluding Tokyo 23 wards), and Kanagawa, Chiba and Saitama prefectures. "Regional Cities" comprises all other areas excluding the aforementioned.

Note 4: Figures are rounded to the nearest first decimal point. Thus, the above sums may not necessarily be 100%.

Note 5: CBRE Residential Management K.K. (asset management company) changed part of the Management Guidelines on March 1, 2008. Geographical spread is based on the Management Guidelines after the change.

Rent Trends of New and Renewed Contracts

Rent Trends

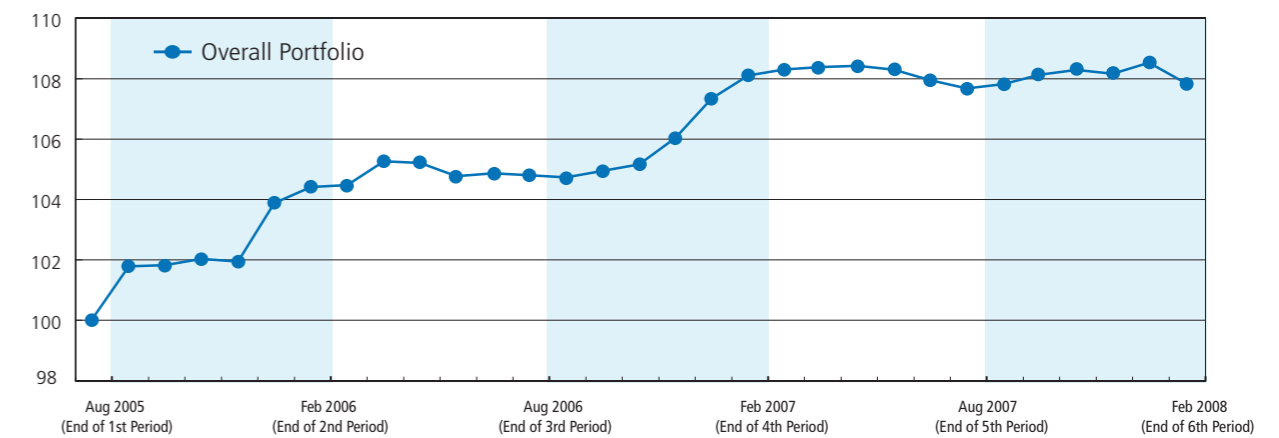
Comparing new rents to old rents at the time of tenant replacement (new leases) and renewals



Note 1: The number in parentheses is the number of units.

Note 2: The percentages represent the proportion of the total number of units.

Unit Price of Rent Per Tsubo (occupied area basis)



Note 1: Entered figures are indexes calculated by setting the unit price of rent per tsubo (rent per 3.3m²) at the end of August 2005 (end of 1st period) as 100. Assets already sold have been excluded.

Note 2: Based on leased space exclusive of space for shops and offices.

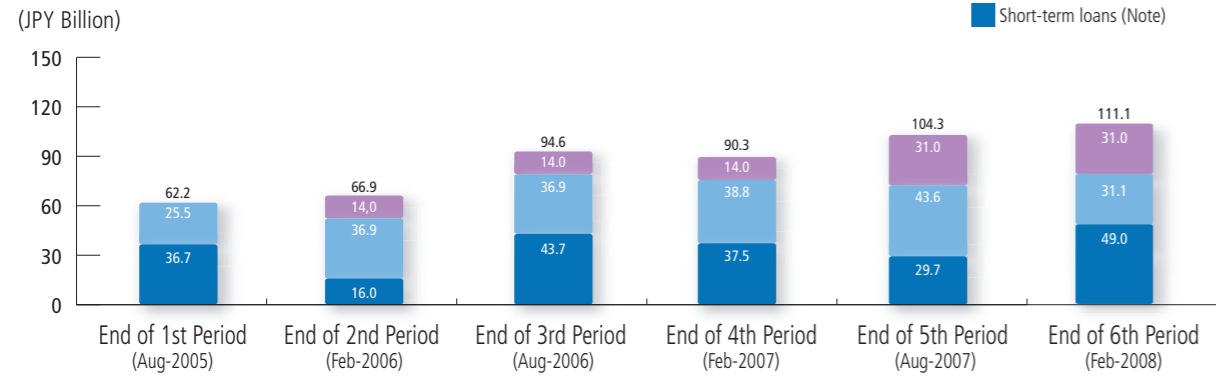
Note 3: Figures have been rounded to the first decimal place.

Financial Strategy

Financial Strategy for 6th Fiscal Period

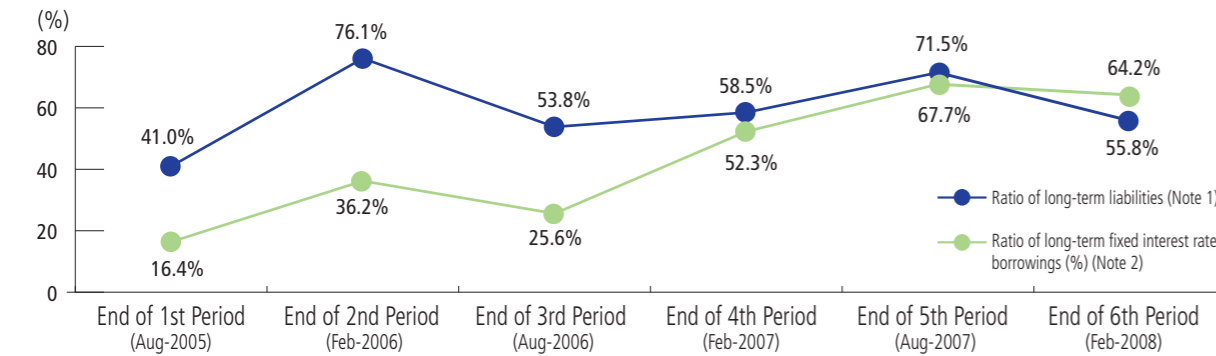
- Extended and spread out repayment dates**
 Reduction of refinancing risks – Refinancing from secured long-term borrowing (3 years) to unsecured long-term borrowing (5 years)
- Diversified procurement means and spread out lenders**
 Securing financing mobility and stability – Expanding correspondent financial institutions, issuance of investment corporation bonds
- Promoted shift to loans with fixed interest rates**
 Reduction of the risk that interest rates will rise – Purchased interest rate swaps
- Received improved ratings**

Interest-bearing Debt



Note: Short-term loans include long-term loans payable due within one year.

Ratios of Long-term Fixed Interest Rate Borrowings and Long-term Liabilities



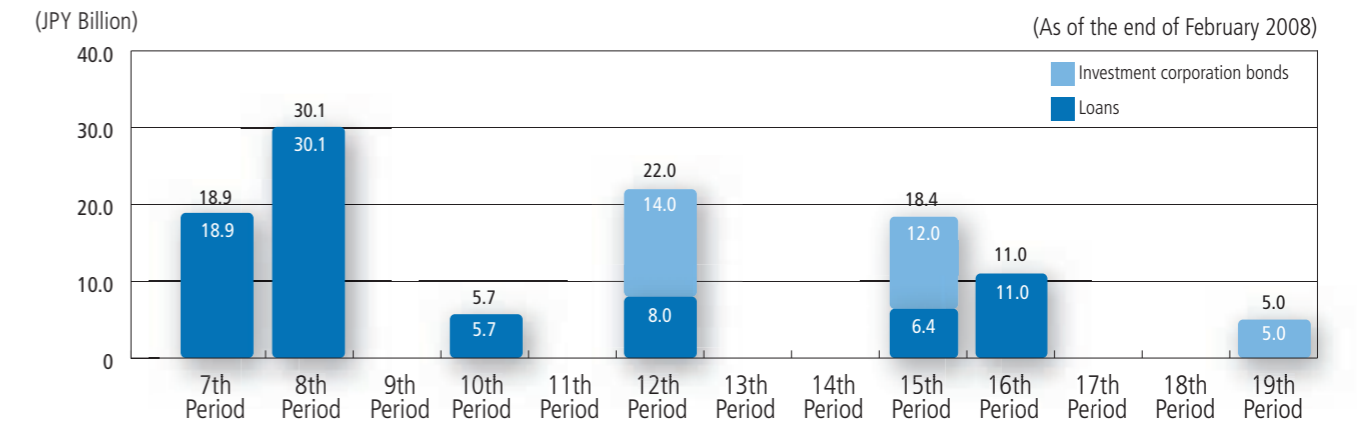
Note 1: Interest-bearing liabilities with 1 year or more remaining until the repayment date expressed as a percentage of the balance of interest-bearing liabilities.

Note 2: Interest-bearing liabilities with fixed interest rates (including the recent interest rate swap agreement) expressed as a percentage of the balance of interest-bearing liabilities.

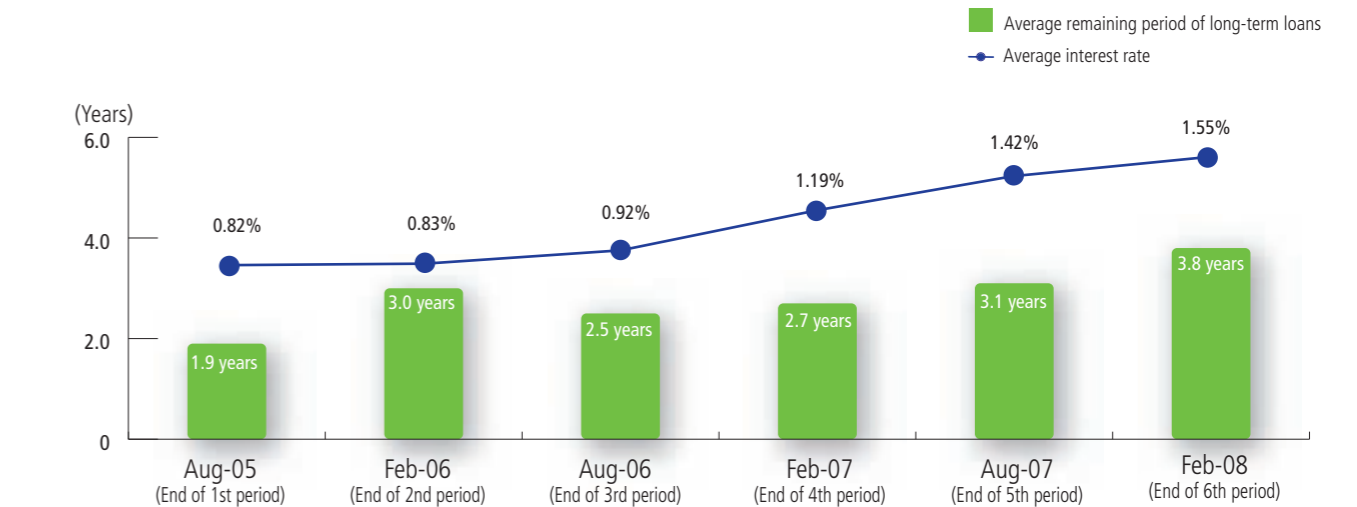
Note 3: The figures have been rounded to the first decimal place.

Financial Strategy (2)

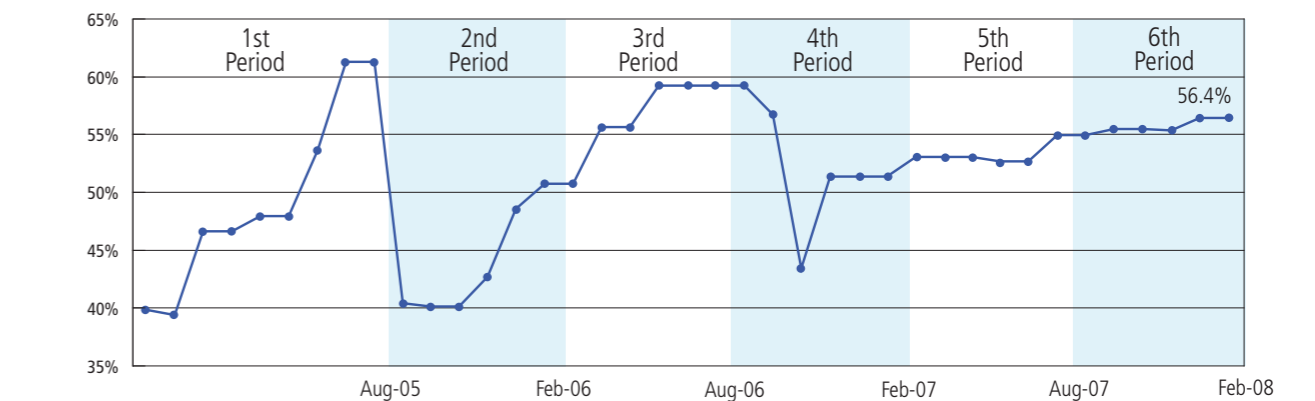
Diversification of Maturity Dates



Average Remaining Loan Periods and Changes in Average Interest Rate



Changes in LTV Ratios



Note : LTV (Loan to Value Ratio) = Total interest-bearing liabilities / (Total interest-bearing liabilities + Unitholders' capital)

Eco Declaration Issued

Eco Declaration

We propose "leading to the future" as a new value of rental housing.

New City Residence is convinced that if we are conscious of our imminent environment then it will alleviate environmental issues on a global scale. Consequently, while enhancing New City Residence's value as an investment corporation engaged in the rental housing business through the provision of residential space in which tenants can lead an affluent lifestyle, we will seek to contribute to realizing a sustainable society by promoting environmental actions together with tenants.



This mark symbolizes the stance of environmental initiatives launched by New City Residence. This mark is used with activities related to environmental services conducted by New City Residence.

Environmental Action Plan

1. "Environment" shall be added as a focus of investment in order to promote investment in environmentally-friendly rental housing, and efforts shall be made to develop housing with relatively low environmental loads and enrich portfolio assets.
2. Living styles that make effective use of resources and energy shall be proposed by offering "environmental services" for tenants that emphasize sharing and other use values.
3. In addition to, of course, complying with environmental laws and regulations, business shall be advanced with a conscious awareness of social responsibilities, and measures shall be taken that are intended to minimize environmental loads associated with business activities and raising environmental awareness with the partners that are engaged in the business.

Environmental Services

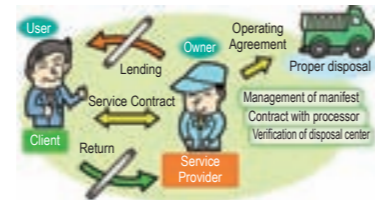
Car Sharing

In the car sharing service, New City Residence provides cars that tenants can jointly use. New City Residence not only believes the service is economical and convenient, but hopes that it will deepen environmental consciousness.



Akari Anshin Service (fluorescent lamp recycling)*

Lighting in common spaces at properties owned by New City Residence is provided by using fluorescent lamps and incandescent lamps rented by the service provider. After lamps are used for their full life, they are returned to the service provider for recycling in an appropriate manner. Furthermore, the fluorescent and incandescent lamps use recycled glass.



* Akari Anshin Service is a registered trademark of Matsushita Electric Industrial Co., Ltd., and the service is currently in application for a business model patent.

Bicycle Sharing

New City Residence provides a bicycle sharing service in which tenants can jointly use bicycles in a casual manner. With the service, New City Residence supports the reduced use of resources and energy in daily situations.

Increased Greenery

New City Residence provides tenants with ambience and comfort by building an environment in which they can sense "greenery." New City Residence is working to provide more greenery to meet the requirements for "living with nature near at hand," in a manner suitable to the situation.



Note: The environmental services are provided through New City Property Services K.K.

Brand Strategy

Tenant Service Programs that Support Living in Rental Housing

New City Club Off

Tenants living in New City Residence properties can use services at discount rates.

[Service menu]

- Resorts
- Entertainment
- Gourmet
- Leisure
- Esthetics
- Sports, etc



New City Residence Card

Tenants will be issued an exclusive "New City Residence" credit card upon application.

[Benefits]

- Bonus or mileage point system linked to the payment of rent
- Automatic bank account debit for the payment of rent
- Guarantor not required for leases, etc.



New City 24

New City 24 is New City Residence's around-the-clock call center staffed by dedicated maintenance personnel ready to assist tenants with everything from water leaks and air conditioning problems to questions from new tenants before moving in.



Coordination

New City Patrol

New City Patrol comprises a team of building and security professionals that make monthly inspections of New City Residence properties from the perspective of the tenant, confirming the proper upkeep of the exterior, cleaning, building management, and security features.



Reporting

New City Reform

Unit renovations are provided under a central structure handling everything from orders to construction via New City Residence's property manager, New City Property Services K.K., and a partner company (within the Tokyo Metropolitan Area and Osaka Area).

Reformation and renovation case
Tatami unit



Living Option

A variety of services are provided in relation to clothing, meals and living.

[Services]

- Home delivery of food
- Cleaning of clothes
- Housecleaning
- Furniture and home appliance rentals
- Shopping services, etc. (through direct contracts between tenants and service companies)



Welcome Kit

Upon signing of new rental contracts, tenants are given booklets describing available services and providing useful information.

[Content]

- Maps of surrounding area
- Schedule chart for moving in
- Contacts for inquiries
- Available services
- Questionnaire postcard, etc.



Exclusive Website for Tenants

Useful information can be obtained through the exclusive tenant homepage, which also serves as a communication conduit between tenants and property management.



New City Residence Events

Soccer and pet events have been held.



Note 1: The tenant service programs are provided through New City Property Services K.K., a main property management company for New City Residence.

Note 2: The tenant service programs are not provided at all of the properties and real estate in trusts that New City Residence owns. At some properties, a limited number of service programs are provided.

R-26 NCR Higobashi Tower



Location	1-2-24, Tosabori, Nishi-ku Osaka-shi
Acquisition price	4,200 million yen
Acquisition date	October 19, 2007
Structure, floors	RC, 21F/B1F
NRA	6,230.20m ²
Number of units	194 units
Unit type	S (69%), UF (31%)
Completion date	March 2007
Appraisal value	4,200 million yen (CR 5.0% (NCF))

C-39 NCR Shinjuku



Location	2-6-11, Shinjuku, Shinjuku-ku, Tokyo
Acquisition price	3,597 million yen
Acquisition date	January 30, 2008
Structure, floors	RC, 15F/ B1F
NRA	3,150.80m ²
Number of units	122 units
Unit type	S (76%),UF (22%), other (2%)
Completion date	November 2007
Appraisal value	3,650 million yen (CR 4.5% (NCF))

M-30 NCR Yoga



Location	1-3-12, Tamagawadai, Setagaya-ku, Tokyo
Acquisition price	1,305 million yen
Acquisition date	October 19, 2007
Structure, floors	RC, 9F
NRA	1,472.38m ²
Number of units	45 units
Unit type	S (47%), UF (53%)
Completion date	June 2007
Appraisal value	1,310 million yen (CR 4.8% (NCF))

*Appraisal values are based on the appraisal reports as of the date of acquisition. Cap rates are based on net cash flow.

*Appraisal values are based on the appraisal reports as of the date of acquisition. Cap rates are based on net cash flow.

Acquisitions in the 6th Period (continued)

M-31 NCR Sumiyoshi



Location	2-8-11, Sumiyoshi, Koto-ku, Tokyo
Acquisition price	1,170 million yen
Acquisition date	October 31, 2007
Structure, floors	SRC, 11F
NRA	1,362.60m ²
Number of units	60 units
Unit type	S (100%)
Completion date	September 2007
Appraisal value	1,170 million yen (CR 4.7% (NCF))

R-17 NCR Maruyama Urasando



Location	21-1-47, Minami Nijo Nishi, Chuo-ku, Sapporo-shi, Hokkaido
Acquisition price	486 million yen
Acquisition date	September 27, 2007
Structure, floors	RC, 10F
NRA	1,522.89m ²
Number of units	36 units
Unit type	UF (42%), F (58%)
Completion date	August 2007
Appraisal value	517 million yen (CR 5.8% (NCF))

M-35 NCR Oshiage

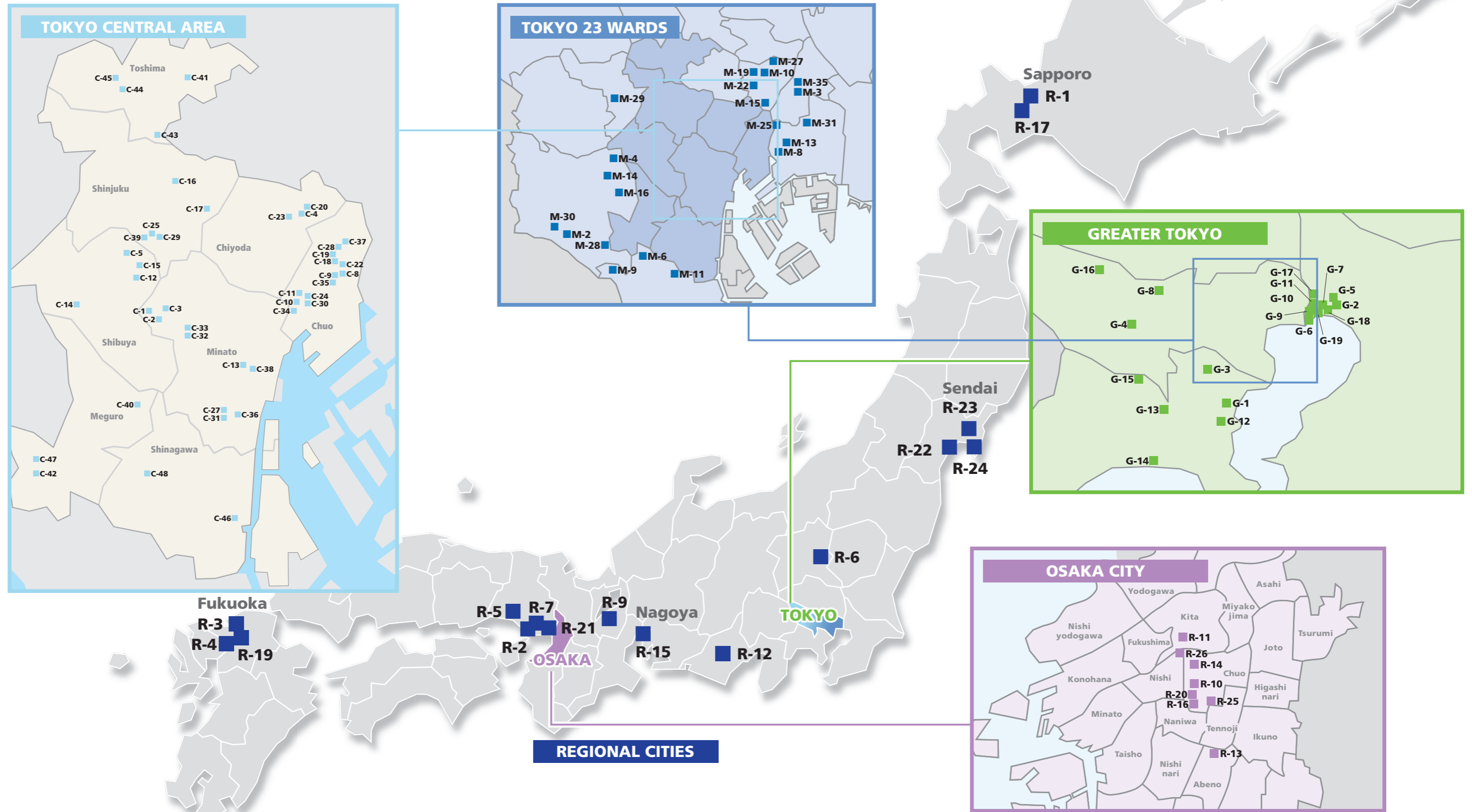


Location	3-5-2, Mukoujima, Sumida-ku, Tokyo
Acquisition price	1,267 million yen
Acquisition date	December 19, 2007
Structure, floors	RC, 11F
NRA	1,785.24m ²
Number of units	60 units
Unit type	S (58%), UF (42%)
Completion date	August 2007
Appraisal value	1,280 million yen (CR 5.0% (NCF))

R-19 NCR Hakataeki Higashi



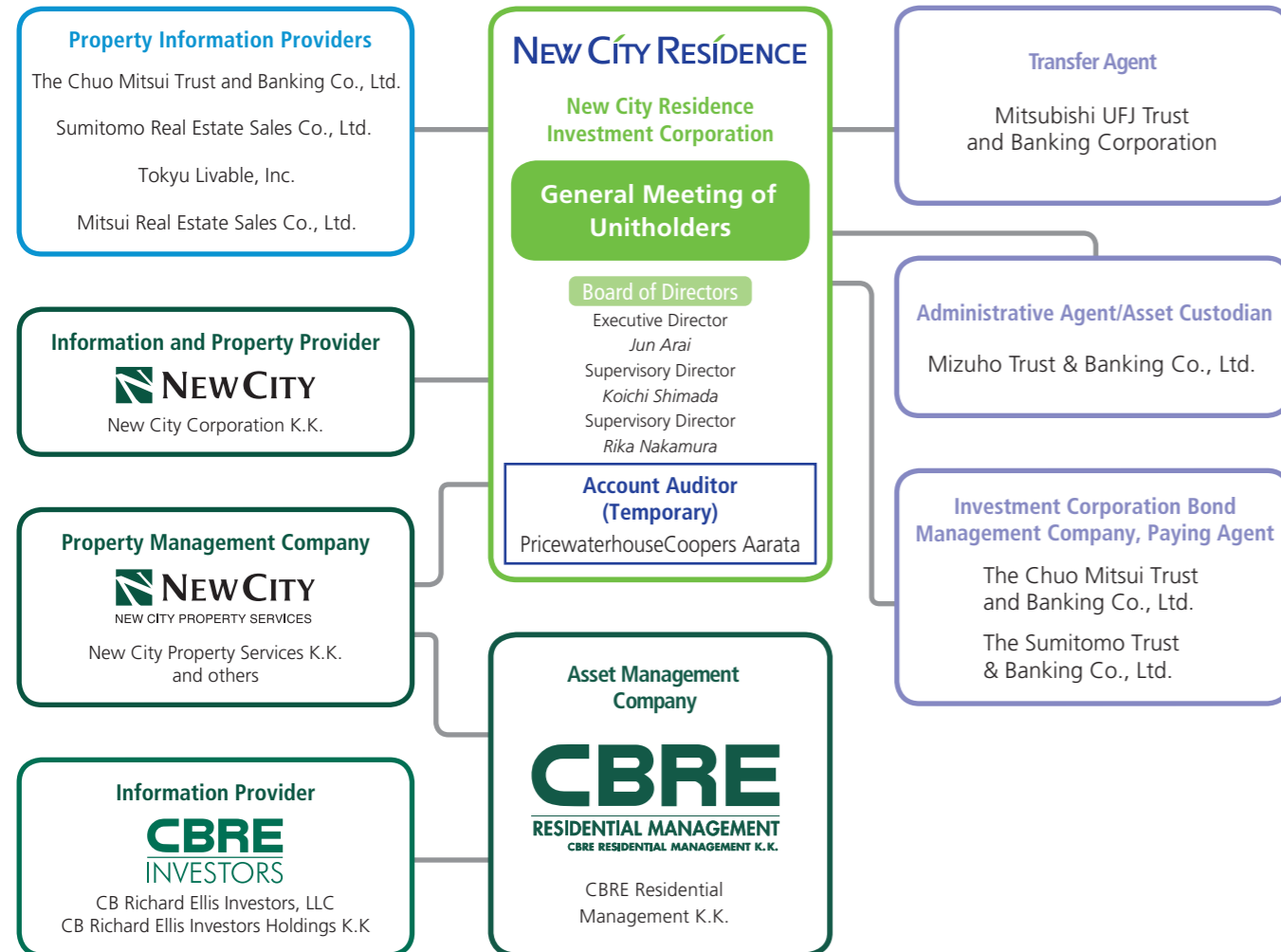
Location	5-31, Hie-cho, Hakata-ku, Fukuoka-shi, Fukuoka Prefecture
Acquisition price	1,230 million yen
Acquisition date	November 30, 2007
Structure, floors	RC, 10F
NRA	3,061.60m ²
Number of units	115 units
Unit type	S (81%), UF (19%)
Completion date	November 2007
Appraisal value	1,250 million yen (CR 5.5% (NCF))



Note 1: "Tokyo Central Area" comprises Minato, Shibuya, Shinjuku, Chiyoda, Chuo, Shinagawa, Toshima and Meguro Wards. "Tokyo 23 Wards excl. Central Area" comprises the 23 wards excluding the aforementioned 8 wards. "Greater Tokyo excl. Tokyo 23 Wards" comprises the Tokyo Metropolitan Area excluding the 23 wards, but including Kanagawa, Chiba, and Saitama prefectures. "Regional Cities" comprises all other areas excluding the aforementioned.

Overview of New City Residence

Investment Corporation Structure



Notes to the Investment Corporation Structure

ASSET MANAGEMENT COMPANY: CBRE Residential Management K.K. provides services including matters relating to the management of investment assets and the procurement of funds by New City Residence, submitting reports on investment assets to New City Residence and establishing asset management plans.

ADMINISTRATIVE AGENT/ASSET CUSTODIAN: Mizuho Trust & Banking Co., Ltd. undertakes administration related to the issuance of investment units, administration of accounting matters and tax payments, preparation of accounting records and financial statements and other services.

TRANSFER AGENT: Mitsubishi UFJ Trust and Banking Corporation administers the register of unitholders and payment of distributions to unitholders under the storage transfer system of the Japan Securities Depository Center, Inc., and provides certain other services concerning unitholders.

INVESTMENT CORPORATION BOND MANAGEMENT COMPANY AND PAYING AGENT: The Chuo Mitsui Trust and Banking Co., Ltd. and The Sumitomo Trust & Banking Co., Ltd. receive payments, preserve debt, conduct management functions related to investment corporation bonds, repayment of principal to the investment corporation creditor of the investment corporation bonds and payment of interest on these bonds.

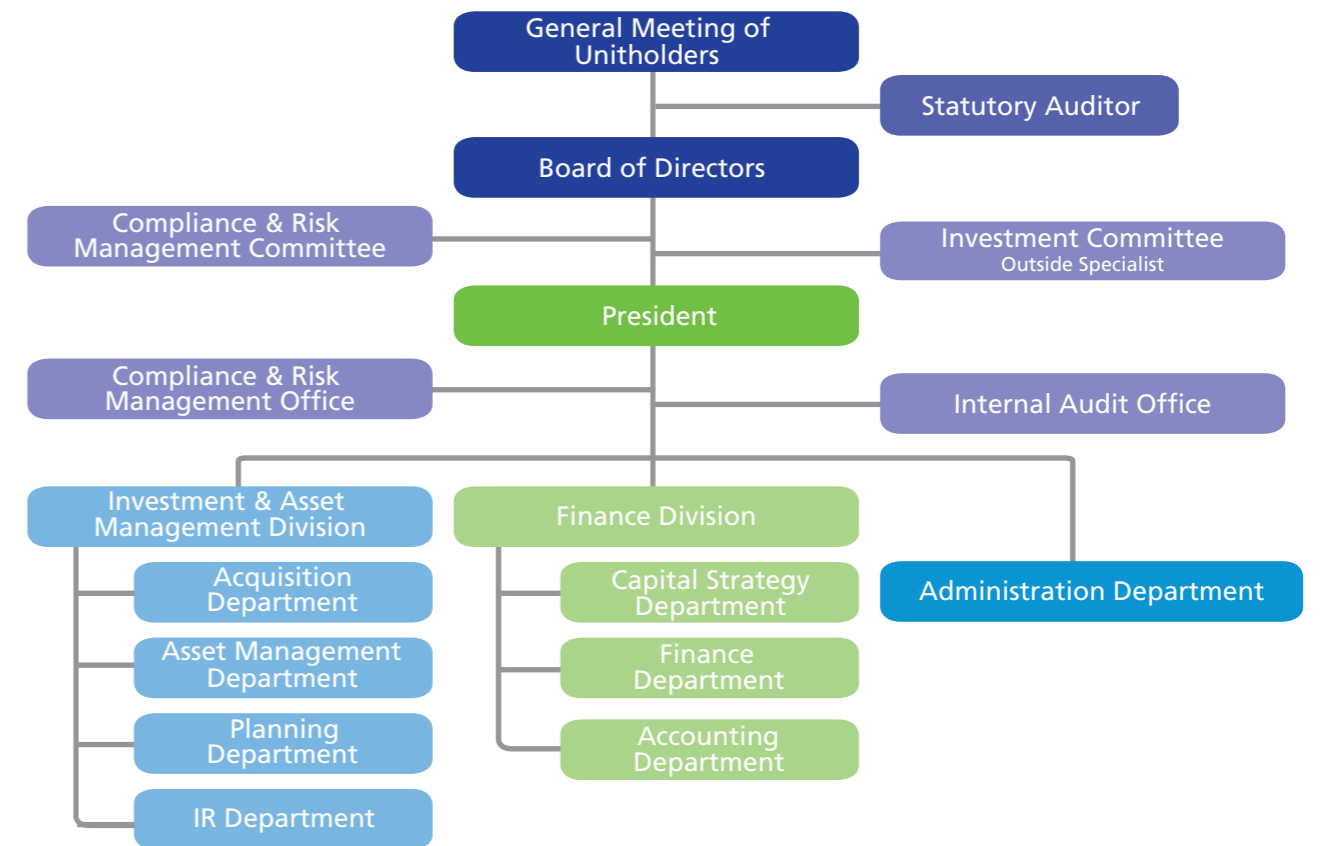
INFORMATION AND PROPERTY PROVIDER: New City Corporation K.K. provides New City Residence with real estate information concerning properties for acquisition, in addition to other business support.

INFORMATION PROVIDER: CB Richard Ellis Investors LLC and CB Richard Ellis Investors Holdings K.K. provide certain information and advice in support of CBRE Residential Management K.K.

PROPERTY MANAGEMENT COMPANY: New City Property Services K.K. and other companies provide services including the administration of repairs, maintenance, renovation, improvements and inspection on a limited basis, the purchase and supervision of installation and related work regarding equipment, fixtures, materials and consumables; leasing management service administration; lease execution and maintenance, and collection of lease payments and overdue rent.

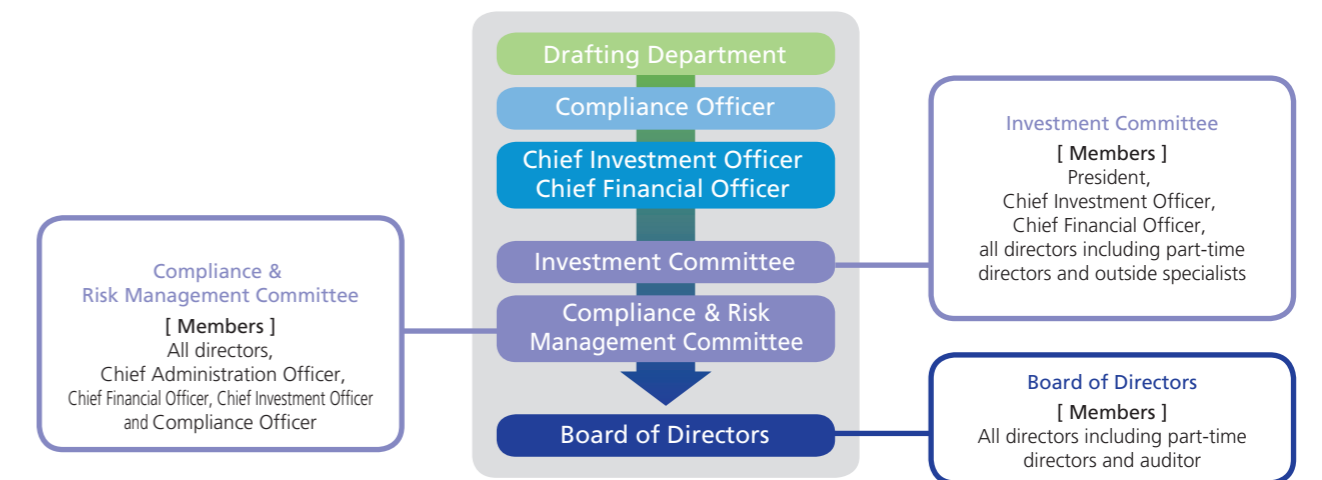
PROPERTY INFORMATION PROVIDER: The Chuo Mitsui Trust and Banking Co., Ltd., Sumitomo Real Estate Sales Co., Ltd., Tokyu Livable, Inc. and Mitsui Real Estate Sales Co., Ltd. provide information relating to real estate held by, or to be developed and held by third parties.

Organizational Chart of Asset Management Company



Governance for Conflicts of Interest

A three-layer check system, including outside personnel, has been established to monitor transactions between stakeholders. The stakeholders are defined in the Investment Trust Law of Japan as shareholders with a 10% or more share of the asset management company, or those who have established special-purpose vehicles on behalf of asset management affiliates.



In addition to the efforts to conform to legal requirements, the asset management company has established provisions in its internal rules that relate to behavior and transactions with extended interested parties, including the Management Guidelines and the Committee Rules. These provisions have been established to better allow the asset management company to fulfill its responsibilities in the management of investment assets.



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NEW CITY RESIDENCE

New City Residence Investment Corporation



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Report of Independent Auditors

To the Board of Directors of New City Residence Investment Corporation

We have audited the accompanying balance sheets of New City Residence Investment Corporation (the "Company") as of February 29, 2008 and August 31, 2007 and the related statements of income, changes in unitholders' equity and cash flows for each of the six months ended February 29, 2008 and August 31, 2007, 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 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 the Company as of February 29, 2008 and August 31, 2007 and the results of its operations and its cash flows for each of the six months ended February 29, 2008 and August 31, 2007 in conformity with accounting principles generally accepted in Japan.

As disclosed in Note 2 of the financial statements, in accordance with the amended Japanese tax law, properties and equipment acquired on or after April 1, 2007 are depreciated with a residual value of one yen recognized at the end of the useful life. In addition, as disclosed in Note 2 of the financial statements, effective March 1, 2007, the Company adopted a new accounting standard, "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006), which allows investment corporation bond issuance costs to be amortized over the term of the bond using the straight line method. Furthermore, as disclosed in Note 18 of the financial statements, the Company transferred the trust beneficiary rights of certain properties and issued new investment units through third-party allocation.

PricewaterhouseCoopers Aarata

June 4, 2008

Item	As of February 29, 2008		As of August 31, 2007	
	Thousands of yen		Thousands of yen	
Assets				
Current assets:				
Cash and bank deposits	¥	4,409,348	¥	4,245,687
Cash and bank deposits in trust (Note 5)		3,731,835		4,076,730
Rental receivables		106,486		119,610
Prepaid expenses		34,703		33,124
Consumption tax refundable		90,838		41,731
Other current assets		31,060		51,866
Allowance for doubtful receivables		(2,203)		(4,917)
Total current assets		8,402,069		8,563,834
Fixed assets:				
Property and equipment, at cost:				
Land including trust accounts (Notes 4, 5)		119,405,383		115,105,970
Buildings including trust accounts (Notes 4, 5)		74,495,320		71,007,807
Other tangible assets including trust accounts (Notes 4, 5)		2,990,565		2,726,564
Accumulated depreciation (Note 4)		(3,890,760)		(3,081,700)
Total property and equipment		193,000,508		185,758,642
Intangible assets:				
Leasehold interests in trust		913,996		913,996
Other intangible assets		4,444		4,875
Total intangible assets		918,440		918,871
Investments and other assets				
Deposits		11,484		11,454
Long-term prepaid expenses		106,370		108,445
Reserve for repairs and maintenance		210,441		197,441
Derivative assets		—		12,110
Total investments and other assets		328,296		329,453
Total fixed assets		194,247,245		187,006,967
Deferred assets				
Bond issuance costs		93,688		114,657
Total deferred assets		93,688		114,657
Total assets	¥	202,743,003	¥	195,685,458
Liabilities and Unitholders' Equity				
Liabilities				
Current liabilities:				
Trade payables	¥	284,071	¥	222,623
Short-term loan payable (Note 7)		27,100,000		17,500,000
Long-term loan payable due within one year (Notes 5, 7)		21,995,000		12,200,000
Other payables		410,386		571,083
Accrued expenses		337,962		283,164
Accrued income taxes		3,205		1,484
Rents received in advance		548,013		508,475
Deferred tax liabilities (Note 13)		776		7,274
Other current liabilities		47,037		42,084
Total current liabilities		50,726,453		31,336,189
Long-term liabilities				
Investment corporation bonds (Note 8)		31,000,000		31,000,000
Long-term loan payable (Notes 5, 7)		31,100,000		43,650,000
Deferred tax liabilities (Note 13)		—		4,770
Leasehold and security deposits		326,982		262,001
Leasehold and security deposits in trust		1,343,994		1,425,269
Derivative liabilities		—		477
Total long-term liabilities		63,770,977		76,342,519
Total liabilities		114,497,430		107,678,709
Unitholders' Equity (Note 6)				
Unitholders' capital		85,791,179		85,791,179
Units authorized - 2,000,000 units				
Units issued and outstanding - 164,068 units as of February 29, 2008 and August 31, 2007				
Unappropriated income		2,453,542		2,197,443
Unrealized gain		851		18,126
Unrealized gain from deferred hedge transactions		—		—
Total unitholders' equity		88,245,573		88,006,749
Total liabilities and unitholders' equity	¥	202,743,003	¥	195,685,458

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

Statements of Income

Item	For the six months ended February 29, 2008	For the six months ended August 31, 2007
	Thousands of yen	Thousands of yen
Operating Revenues:		
Rental revenues (Note 9)	5,647,172	5,328,215
Gain on sale of properties (Note 10)	605,587	401,893
Total operating revenues	¥ 6,252,759	¥ 5,730,109
Operating Expenses:		
Property operating expenses (Note 9)	2,239,639	2,053,080
Asset management fees	542,312	508,953
Custodian fees	12,284	11,575
Administrative service fees	31,755	19,945
Officers' salaries	4,200	4,200
Other operating expenses	187,782	154,325
Total operating expenses	3,017,975	2,752,080
Operating income	3,234,784	2,978,028
Non-Operating Income		
Interest income	1,371	1,452
Other non-operating income (Note 11)	158,451	2,090
Non-Operating Expenses		
Interest expense on loans	522,000	423,048
Financing related expenses	71,885	98,049
Interest expense on bonds	271,577	238,862
Amortization of bond issuance costs	20,968	19,041
Other non-operating expenses	51,634	3,402
Ordinary income	2,456,541	2,199,166
Income before income taxes	2,456,541	2,199,166
Income taxes: (Note 13)		
Current	3,212	1,501
Deferred	(133)	287
Net income	2,453,461	2,197,377
Income carried forward	81	65
Unappropriated income	¥ 2,453,542	¥ 2,197,443

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

Statements of Changes in Unitholders' Equity

For the six months ended August 31, 2007 and February 29, 2008

	Unitholders' capital	Unappropriated income	Unrealized gain from deferred hedge transactions	Total
	Thousands of yen	Thousands of yen	Thousands of yen	Thousands of yen
Balance as of February 28, 2007	¥ 85,791,179	¥ 2,437,788	¥ 13,906	¥ 88,242,874
Cash dividends paid	–	(2,437,722)	–	(2,437,722)
Net income	–	2,197,377	–	2,197,377
Changes in unrealized gain on interest-rate swap	–	–	4,219	4,219
Balance as of August 31, 2007	¥ 85,791,179	¥ 2,197,443	¥ 18,126	¥ 88,006,749
Cash dividends paid	–	(2,197,362)	–	(2,197,362)
Net income	–	2,453,461	–	2,453,461
Changes in unrealized gain on interest-rate swap	–	–	(17,274)	(17,274)
Balance as of February 29, 2008	¥ 85,791,179	¥ 2,453,542	¥ 851	¥ 88,245,573

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

Statements of Cash Flows

Item	For the six months ended	
	February 29, 2008	August 31, 2007
	Thousands of yen	Thousands of yen
Cash Flows from Operating Activities		
Income before income taxes	¥ 2,456,541	¥ 2,199,166
Depreciation	920,186	846,941
Amortization of long-term prepaid expenses	32,922	37,129
Amortization of bond issuance costs	20,968	19,041
Interest income	(1,371)	(1,452)
Interest expense	793,577	661,911
(Increase) Decrease of rental receivables	(66,557)	(59,078)
(Increase) Decrease of consumption tax refundable	(49,107)	(41,731)
Increase (Decrease) of trade payables	61,448	(32,456)
(Decrease) Increase of other payables	(51,739)	79,510
(Decrease) of consumption tax payable	–	(32,675)
Increase of rents received in advance	39,538	72,324
Long-term prepaid expenses	(30,847)	(29,418)
Decrease of property and equipment due to sale (including trust accounts)	6,021,259	2,846,117
Others, net	(2,076)	48,773
Subtotal	10,144,743	6,614,103
Interest income received	1,371	1,452
Interest expense paid	(738,779)	(533,959)
Income taxes paid	(1,491)	(5,000)
Net cash provided by operating activities	9,405,842	6,076,595
Cash Flows from Investing Activities		
Purchases of property and equipment in trust	(166,313)	(34,696)
Purchases of property and equipment	(14,122,368)	(17,912,736)
Purchases of intangible assets	–	(57)
Proceeds from deposits	–	39
Payments for deposits	(30)	(1,220)
Proceeds from leasehold and security deposits in trust	132,967	174,178
Payments for leasehold and security deposits in trust	(148,569)	(141,721)
Payments for restricted bank deposits in trust	(132,295)	(193,045)
Proceeds from restricted bank deposits in trust	219,084	214,842
Proceeds from leasehold and security deposits	102,852	68,760
Payments for leasehold and security deposits	(23,863)	(16,384)
Payments for restricted bank deposits	(109,456)	(79,432)
Proceeds from restricted bank deposits	63,877	31,966
Payments for reserve for repairs and maintenance	(13,135)	(13,135)
Net cash used in investing activities	(14,197,250)	(17,902,643)
Cash Flows from Financing Activities		
Proceeds from short-term loan payable	17,900,000	9,200,000
Repayment of short-term loan payable	(8,300,000)	(17,000,000)
Proceeds from long-term loan payable	11,000,000	6,400,000
Repayment of long-term loan payable	(13,755,000)	(1,550,000)
Proceeds from issuance of investment corporation bonds	–	17,000,000
Payments of bond issuance costs	–	(97,093)
Payment of dividends	(2,193,616)	(2,429,259)
Net cash provided by investing activities	4,651,383	11,523,646
Net change in cash and cash equivalents	(140,024)	(302,401)
Cash and cash equivalents at the beginning of period	6,535,761	6,838,162
Cash and cash equivalents at the end of period (Note 3)	¥ 6,395,736	¥ 6,535,761

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

Notes to Financial Statements

1. Organization and Basis of Presentation

◆ Organization

New City Residence Investment Corporation (“NCRI”) was established on September 27, 2004 and is based on the Investment Trust and Investment Corporation Law (Law No. 198 of 1951, including amendments thereafter; hereinafter, “ITL”). On December 15, 2004, NCRI listed in the Real Estate Investment Trust section of the Tokyo Stock Exchange (TSE), Securities Code: 8965. NCRI is dedicated to the management of residential properties.

Asset management services are provided by CBRE Residential Management K.K. (the “Asset Manager”). The Asset Manager is composed of the following shareholders: CB Richard Ellis Investors Holdings K.K. (42.5%), New City Corporation K.K. (42.5%), CSK Holdings Corporation (10.0%), Mizuho Trust & Banking Co., Ltd. (2.5%), and Mitsubishi UFJ Trust and Banking Corporation (2.5%).

Since NCRI went public, it has increased its property holdings. As of the end of February 2008, NCRI owns a total of 108 properties worth 189 billion yen (approximately 3 times its IPO level).

◆ Basis of presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law, and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter “Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of the International Financial Reporting Standards.

The accompanying financial statements have been restructured and translated into English from the financial statements of NCRI prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan.

Amounts less than 1 thousand yen 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.

2. Summary of Significant Accounting Policies

◆ Cash and cash equivalents

Cash and cash equivalents presented in the statements of cash flows consist of cash on hand, cash held in trust, deposits that can be withdrawn at any time, and short-term investments with maturities of three months or less from the date of acquisition. Cash and cash equivalents are readily convertible and represent only minimal risk of value fluctuation.

◆ Property and equipment (including assets held in trust)

Property and equipment are carried at cost, less accumulated depreciation. Depreciation of property and equipment, except for land, is computed by using the straight-line method. Estimated useful lives of principal property and equipment are as follows:

Buildings	2–65 years
Structures	10–65 years
Machinery and equipment	17–30 years
Tools, furniture and fixtures	2–30 years

In accordance with the amended Japanese tax law, properties and equipment acquired on or after April 1, 2007 are depreciated with a residual value of one yen recognized at the end of the useful life. The impact of this change in accounting policy is immaterial for the six months ended August 31, 2007.

Properties and equipment acquired before March 31, 2007 are depreciated over their taxable lives, with a residual value of 5% of the acquisition cost. However, in accordance with the amended Japanese tax law, effective from the six months ended February 29, 2008, after these properties and equipment have been depreciated down to the residual value of 5% of the acquisition costs, the remaining amounts are depreciated, beginning in the following fiscal year, over five years with a residual value of one yen. The impact of this change is immaterial for the six months ended February 29, 2008.

Notes to Financial Statements

◆Intangible assets

Other intangible assets are depreciated using the straight-line method.

◆Long-term prepaid expenses

Long-term prepaid expenses are depreciated using the straight-line method and are comprised of deferred financing costs and other items.

◆Bond issuance costs

Effective March 1, 2007, NCRI adopted a new accounting standard, "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No. 19 issued by the Accounting Standards Board of Japan on August 11, 2006), which allows bond issuance costs to be amortized over the term of the bond using the straight line method.

Bond issuance costs recorded as of and before February 28, 2007 were amortized over three years based on the previous accounting rule in accordance with the transition measurement of Practical Solution No. 19.

◆Allowances

To cover possible credit losses, an allowance for doubtful receivables is provided for any amount deemed uncollectible. The allowance is calculated on the basis of historical default rates for normal claims or on the basis of individual assessments on specific claims on debtors threatened with bankruptcy.

◆Revenue recognition

Real estate rental revenue is recognized on an accrual basis based on the lease agreement.

◆Property-related taxes

Property-related taxes including city planning taxes, depreciable property taxes, and other taxes are imposed on property on a calendar year basis. The amount of such taxes assessed in the period is charged to income as property operating expenses. Under the Japanese tax rule, the seller of the property at the time of disposal is liable for property-related taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. In accordance with Japanese business practice, the seller, however, is reimbursed by the purchase of the property for the accrued property-related tax liabilities, and the amount of the settlement reflects this adjustment. NCRI is allocated the portion of the property-related taxes for the period from the purchase date of each property through the end of the calendar year. Capitalized property-related taxes are 4,887 thousand yen for the period ended February 29, 2008 and 9,517 thousand yen for the period ended August 31, 2007, respectively.

◆Derivatives and hedge accounting

The derivative transactions utilized by NCRI are interest rate swaps. Pursuant to NCRI's policy on interest rate swap transactions, NCRI enters into derivative transactions solely for the purpose of hedging the risks of interest rate fluctuations, which is defined in the Articles of Incorporation. NCRI does not enter into such transactions for speculative or trading purposes.

Derivative transactions, except as discussed below, are measured at fair value. Gains and losses on derivatives are deferred until the maturity of the hedged transactions and are recognized as either an asset or liability (known as "deferred hedge treatment").

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not measured at fair value. The net amount to be paid or received under the swap agreements is recognized in interest expense or income as incurred.

NCRI evaluates the effectiveness of hedging instruments by comparing the cumulative fluctuations in cash flows of the hedged items with that of the hedging instruments. However, hedge effectiveness is not evaluated for interest rate swap transactions that meet the criteria for the simplified method.

◆Accounting method for beneficiary interests in trust assets including real estate

Regarding trust beneficiary rights in trust assets, including real estate, all asset and liability accounts within the trust assets and all income and expense accounts generated by or incurred from the trust assets are recorded in the relevant account items of the balance sheets and the statement of income and retained earnings.

◆Accounting for consumption taxes

Consumption taxes are excluded from transaction amounts. However, non-deductible consumption taxes on fixed assets are included in the acquisition costs of the respective assets.

3. Cash and Cash Equivalents

Cash and cash equivalents as of February 29, 2008 and August 31, 2007 consisted of the following:

	(Thousands of yen)	
	As of February 29, 2008	As of August 31, 2007
Cash and bank deposits	¥4,409,348	¥4,245,687
Cash and bank deposits in trust	3,731,835	4,076,730
Bank deposits retained for repayment of leasehold and security deposits	(357,363)	(311,784)
Bank deposits in trust retained for repayment of leasehold and security deposits in trust	(1,388,083)	(1,474,871)
Cash and cash equivalents	¥6,395,736	¥6,535,761

4. Schedule of Tangible Assets of Property and Equipment

Tangible assets as of February 29, 2008 and August 31, 2007 consisted of the following:

	As of February 29, 2008			As of August 31, 2007		
	Acquisition Costs	Accumulated Depreciation	Book Value	Acquisition Costs	Accumulated Depreciation	Book Value
Land	¥34,766,934	¥-	¥34,766,934	¥26,135,278	¥-	¥26,135,278
Land in trust	84,638,448	-	84,638,448	88,970,691	-	88,970,691
Land including trust accounts	119,405,383	-	119,405,383	115,105,970	-	115,105,970
Buildings	24,635,831	(626,025)	24,009,806	19,514,342	(358,582)	19,155,759
Buildings in trust	49,859,488	(3,034,889)	46,824,599	51,493,465	(2,552,931)	48,940,534
Buildings including trust accounts	74,495,320	(3,660,914)	70,834,405	71,007,807	(2,911,513)	68,096,294
Structures	230,983	(4,219)	226,764	174,700	(2,270)	172,430
Machinery and equipment	451,058	(17,117)	433,940	409,816	(10,450)	399,366
Tools, furniture and fixtures	782,835	(53,432)	729,402	622,434	(33,461)	588,973
Structures in trust	491,972	(20,776)	471,196	500,751	(16,913)	483,837
Machinery and equipment in trust	605,360	(49,928)	555,432	605,360	(40,464)	564,896
Tools, furniture and fixtures in trust	428,354	(84,371)	343,982	413,500	(66,626)	346,873
Other tangible assets including trust accounts total	2,990,565	(229,846)	2,760,718	2,726,564	(170,186)	2,556,377
Total	¥196,891,268	¥(3,890,760)	¥193,000,508	¥188,840,342	¥(3,081,700)	¥185,758,642

5. Pledged Assets and Secured Loans

As of February 29, 2008 and August 31, 2007, the following assets were pledged as collateral for the following loans:

Pledged assets:	(Thousands of yen)	
	As of February 29, 2008	As of August 31, 2007
Cash and bank deposits in trust	¥1,170,140	¥2,147,202
Buildings in trust	15,111,578	26,659,739
Structures in trust	199,862	277,819
Machinery and equipment in trust	46,208	71,892
Tools, furniture and fixtures in trust	110,529	135,141
Land in trust	23,597,120	46,556,988
Total	¥40,235,439	¥75,848,783

Loans secured by the pledged assets:	(Thousands of yen)	
	As of February 29, 2008	As of August 31, 2007
Long-term loan payable due within one year	¥17,995,000	¥12,200,000
Long-term loan payable	–	19,550,000
Total	¥17,995,000	¥31,750,000

6. Unitholders' Equity (stipulated in Paragraph 4, Article 67 of the ITL)

NCRI issues only non-par value investment units in accordance with the Investment Trust Law of Japan. The entire amount of the issue price of the new units is designated as state capital. The Company is required to maintain net assets of at least 50,000 thousand yen as required by the Investment Trust Law of Japan.

7. Short-Term Loans and Long-Term Loans

Short-term loans and long-term loans as of February 29, 2008 and August 31, 2007 consisted of the following:

	As of February 29, 2008		As of August 31, 2007	
	Amount (Thousands of yen)	Interest rate (%)	Amount (Thousands of yen)	Interest rate (%)
Short-term loan payable				
Unsecured loan due on November 30, 2007 with floating rate	–	–	2,099,610	1.11%
Unsecured loan due on December 13, 2007 with floating rate	–	–	688,940	1.11%
Unsecured loans due on December 21, 2007 with floating rate	–	–	5,511,450	1.11%
Unsecured loans due on March 31, 2008 with floating rate	4,400,000	1.30%	4,400,000	1.17%
Unsecured loans due on March 31, 2008 with floating rate	1,800,000	1.30%	1,800,000	1.17%
Unsecured loan due on March 31, 2008 with floating rate	2,250,000	1.30%	2,250,000	1.17%
Unsecured loan due on March 31, 2008 with floating rate	750,000	1.30%	750,000	1.17%
Unsecured loans due on October 17, 2008 with floating rate	4,500,000	1.30%	–	–
Unsecured loan due on March 31, 2008 with floating rate	2,100,000	1.27%	–	–
Unsecured loan due on March 31, 2008 with floating rate	700,000	1.30%	–	–
Unsecured loan due on March 31, 2008 with floating rate	1,400,000	1.34%	–	–
Unsecured loan due on March 31, 2008 with floating rate	4,100,000	1.34%	–	–
Unsecured loans due on January 30, 2009 with floating rate	3,700,000	1.18%	–	–
Unsecured loans due on April 24, 2008 with floating rate	1,400,000	1.21%	–	–
Sub total	27,100,000		17,500,000	
Long-term loan payable due within one year				
Secured loans due on December 17, 2007	–	–	12,200,000	0.90%
Secured loans due on September 21, 2008	17,995,000	1.27%	–	–
Unsecured loan due on December 18, 2008	4,000,000	1.19%	–	–
Sub total	21,995,000		12,200,000	
Long-term loan payable				
Secured loans due on September 21, 2008	–	–	19,550,000	1.22%
Unsecured loan due on December 18, 2008	–	–	4,000,000	1.03%
Unsecured loans due on December 18, 2009	5,700,000	1.28%	5,700,000	1.12%
Unsecured loans due on December 17, 2010	8,000,000	1.80%	8,000,000	1.80%
Unsecured loans due on March 26, 2012	6,400,000	1.95%	6,400,000	1.50%
Unsecured loans due on December 17, 2012	11,000,000	1.75%	–	–
Sub total	31,100,000		43,650,000	
Total	80,195,000		73,350,000	

NCRI had commitment lines of credit of 7,000 million yen with certain financial institutions as of February 29, 2008 and August 31, 2007. The unused amount of such commitment lines of credit was 5,600 million yen and 7,000 million yen as of February 29, 2008 and August 31, 2007, respectively.

The anticipated maturities of long-term loans for the following four years ended February 28 starting in 2010 were as follows:

	(Thousands of yen)
2010	¥5,700,000
2011	¥8,000,000
2012	–
2013	¥17,400,000

8. Investment Corporation Bonds

Details of total investment corporation bonds outstanding are summarized as follows:

	As of February 29, 2008		As of August 31, 2007	
	Amount	Interest rate	Amount	Interest rate
First series of unsecured investment corporation bonds due on February 24, 2011	14,000,000	1.61%	14,000,000	1.61%
Second series of unsecured investment corporation bonds due on April 12, 2012	12,000,000	1.79%	12,000,000	1.79%
Third series of unsecured investment corporation bonds due on April 11, 2014	5,000,000	2.15%	5,000,000	2.15%

The anticipated maturities of these bonds for the following four years ended February 28 starting in 2010 were as follows:

	(Thousands of yen)
2010	–
2011	¥14,000,000
2012	–
2013	¥12,000,000

9. Rental Revenues and Expenses

Rental revenues and expenses for the six months ended February 29, 2008 and August 31, 2007 were as follows:

	As of February 29, 2008	As of August 31, 2007
A. Real estate rental revenues		
Rent	¥5,231,568	¥4,907,248
Parking lot income	166,643	160,198
Incidental income	15,053	13,437
Other rental revenues	233,906	247,330
Subtotal	5,647,172	5,328,215
B. Property operating expenses		
Repairs and maintenance	342,708	315,332
Utilities	80,820	67,954
Property management fee	153,692	144,697
Property related taxes	169,430	164,699
Insurance	12,152	11,559
Broker fee, advertising fee and others	413,971	365,558
Trust fee	45,377	47,563
Depreciation and amortization	920,186	846,941
Allowance for doubtful accounts	1,013	2,772
Other rental expenses	100,286	86,001
Subtotal	¥2,239,639	¥2,053,080
C. Real estate rental business profit (A-B)	¥3,407,532	¥3,275,134

10. Breakdown of Gain on Sale of Properties

Gains on sales of properties for the six months ended February 29, 2008 and August 31, 2007 were as follows:

	February 29, 2008	August 31, 2007
C-6 New City Residence Shinjuku Ichibankan		
Proceeds from sale of properties	¥2,181,844	–
Cost of properties sold	(1,990,630)	–
Other sales expenses	(14,458)	–
Gain on sale of property	¥176,754	–
C-7 New City Residence Shinjuku Nibankan		
Proceeds from sale of properties	¥979,423	–
Cost of properties sold	(896,934)	–
Other sales expenses	(13,284)	–
Gain on sale of property	¥69,204	–
C-26 New City Residence Sasazuka		
Proceeds from sale of properties	¥3,507,258	–
Cost of properties sold	(3,133,694)	–
Other sales expenses	(13,935)	–
Gain on sale of property	¥359,628	–
C-21 New City Residence Jinbocho		
Proceeds from sale of properties	–	¥3,275,000
Cost of properties sold	–	(2,845,467)
Other sales expenses	–	(27,639)
Gain on sale of property	–	¥401,893

11. Other Non-Operating Income

Other non-operating income for the six months ended February 29, 2008 included 154,224 thousand yen in consumption tax refunds.

12. Per Unit Information

The following table summarizes the net income per unit for the six months ended February 29, 2008 and August 31, 2007 and the unitholders' equity per unit as of February 29, 2008 and August 31, 2007.

	For the six months ended February 29, 2008	For the six months ended August 31, 2007
Net income per unit	¥14,953	¥13,393
Weighted-average number of units	164,068 units	164,068 units

	As of February 29, 2008	As of August 31, 2007
Unitholders' equity per unit	¥537,859	¥536,404

Net income per unit is calculated by dividing net income by the weighted daily average number of units.

Diluted net income per unit is not presented since no warrants and convertible bonds were outstanding during the six months ended February 29, 2008 and August 31, 2007.

13. Income Taxes

Income taxes in Japan applicable to NCRI consist of corporate income tax, enterprise tax and inhabitant tax. The following is a reconciliation between the statutory income tax rate in Japan and the effective tax rate reflected in the accompanying financial statements for the six months ended February 29, 2008 and August 31, 2007:

	(%)	
	As of February 29, 2008	As of August 31, 2007
Statutory income tax rate	39.39%	39.39%
Deductible dividend payments	(39.34)	(39.36)
Other	0.08	0.05
Effective tax rate	0.13%	0.08%

Under NCRI's distribution policy, cash distributions are made in excess of 90% of distributable income as defined in the Special Taxation Measures Law of Japan for the fiscal period to qualify for conditions as set forth in the Special Taxation Measures Law to achieve a deduction of cash distributions for income tax purposes. Based on such policy, NCRI treated the cash distributions as taxable distributions as defined in the Special Taxation Measures Law.

The tax effects of significant temporary differences that resulted in net deferred tax assets or liabilities as of February 29, 2008 and August 31, 2007 were as follows:

	(Thousands of yen)	
	February 29, 2008	August 31, 2007
Current liabilities		
Deferred tax assets		
Enterprise taxes	179	45
Bad-debt loss	3,920	1,897
Allowance for doubtful accounts	868	1,936
Gross deferred tax assets	4,967	3,880
Valuation allowance	(4,788)	(3,834)
Total deferred tax assets	179	45
Deferred tax liabilities		
Unrealized gain from deferred hedge transactions	955	7,320
Total deferred tax liabilities	955	7,320
(Net deferred tax liabilities)	776	7,274
Long-term liabilities		
Deferred tax liabilities		
Unrealized gain from deferred hedge transactions	-	4,770
Total deferred tax liabilities	-	4,770
(Net deferred tax liabilities)	-	4,770

Impact of Possible Corporation Tax Rate Change after Settlement Date

Due to the Provisional Measures Law Concerning Special Local Corporation Tax (Law No. 25 of 2008) announced on April 30, 2008, the standard tax rate on business taxes based on income has been reduced and new special local corporation tax is levied. In accordance with this, the effective statutory tax rate for the deferred tax assets and liabilities related to temporary differences which are expected to be dissolved on and after March 1, 2009 will be charged. However, the change to the effective statutory tax rate will have minimal impact on NCRI's deferred tax assets and liabilities.

14. Leases

NCRI operates its properties that are rented to tenants on lease terms of two years generally, with monthly payments due in advance. As of February 29, 2008 and August 31, 2007, the future lease revenue under non-cancelable operating leases was as follows:

	(Thousands of yen)	
	For the six months ended February 29, 2008	For the six months ended August 31, 2007
Due within 1 year	¥174,975	¥253,571
Due after 1 year	361,210	448,698
Total	¥536,185	¥702,269

15. Derivatives

NCRI had the following derivatives contracts outstanding as of February 29, 2008 and as of August 31, 2007:

	February 29, 2008		August 31, 2007	
	Notional amount	Fair value	Notional amount	Fair value
Interest rate swap: Fixed rate payable and floating rate receivable	¥40,400,000	¥(306,250)	¥39,600,000	¥(51,430)

Interest rate swap transactions are exposed to interest rate fluctuation risks. Credit risk is recognized as immaterial because transactions are only entered into with financial institutions that have high credit ratings. Risk management for the periods is conducted based on the asset management procedures of the asset management company.

16. Related Party Transactions

Jun Arai, who holds no voting rights of New City Residence Investment Corporation, is the Executive Director of NCRI and President of CBRE Residential Management K.K.

CBRE Residential Management K.K. has entered into an asset management agreement subject to the conditions set forth in the Articles of Incorporation of New City Residence Investment Corporation. Management fees payable and incurred as of February 29, 2008 and August 31, 2007 and for the periods then ended were as follows:

	(Thousands of yen)	
	February 29, 2008	August 31, 2007
Management fees payable	¥326,800	¥395,713
Asset management fees for the period	674,865	686,096

132,552 thousand yen and 177,143 thousand yen relating to the acquisition of properties for the six months ended February 29, 2008 and August 31, 2007, respectively, were included in asset management fees in the table above and were capitalized as acquisition costs of the respective property.

17. Distribution Information

Pursuant to the distribution policy set forth in Article 35, Paragraph 1 of NCRI's Articles of Incorporation, the maximum distribution amount cannot exceed unappropriated income, and this amount must exceed 90% of the "distributable income" which is defined in Article 67-15 of the Special Taxation Measures Law of Japan. No cash distributions exceeding unappropriated income as set forth in Article 35, Paragraph 1 (2) of NCRI's Articles of Incorporation were made.

Based on this policy, the board of directors of NCRI resolved on April 22, 2008 and October 24, 2007 to make cash distributions of 2,453,472,872 yen and 2,197,362,724 yen for 164,068 units to unitholders of record on February 29, 2008 and August 31, 2007, respectively.

Income carried forward after distributions for the six months ended February 29, 2008 and August 31, 2007 were as follows:

	(Thousands of yen)	
	February 29, 2008	August 31, 2007
Unappropriated income	¥2,453,542	¥2,197,443
Cash distribution declared	2,453,472	2,197,362
Income carried forward	69	81
Cash distribution declared per unit	¥14,954	¥13,393

Principal Investment Information

18. Subsequent Events

Transfer of assets

- (i) NCRI transferred its trust beneficiary rights in New City Residence Mita to Y.K. M C Okinawa for 1,060 million yen on March 25, 2008. The resulting gain on the sale of the property is approximately 54 million yen, which will be included in operating revenues. The transfer price excluded real estate tax, city-planning tax, and consumption tax.
- (ii) NCRI transferred its trust beneficiary rights in New City Residence Gakugeidaigaku for 1,350 million yen on May 13, 2008. The resulting gain on its sale of the property is approximately 82 million yen, which will be included in operating revenues. The transfer price excluded real estate tax, city-planning tax, and consumption tax. NCRI has been unable to obtain the approval of the buyer to disclose the buyer's information. Therefore, NCRI has not disclosed the buyer.
- (iii) NCRI transferred its trust beneficiary rights in New City Residence Senzokukoen for 860 million yen on May 13, 2008. The resulting loss on the sale of the property is approximately 74 million yen, which will be included in operating revenues. The transfer price excluded real estate tax, city-planning tax, and consumption tax. NCRI has been unable to obtain the approval of the buyer to disclose the buyer's information. Therefore, NCRI has not disclosed the buyer.

Issuance of new investment units

At the Board of Directors meeting held on April 22, 2008, NCRI resolved to issue new investment units through a third-party allocation for the purpose of repaying loans and acquiring new properties. NCRI completed the third-party allocation of 18,000 units on May 14, 2008, the payment due date, at an issue price of 285,579 yen per unit. The total proceeds from this third-party allocation were 5,140,422 thousand yen. As a result of the issuance of new investment units, the unitholders' capital was 90,931,601,400 yen with 182,068 units outstanding as of May 14, 2008. The outline of the issuance of new investment units was as follows:

Number of new investment units issued	18,000 units
Issue price per unit	¥ 285,579 per unit
Total issue price	¥ 5,140,422,000
Payment due date	May 14, 2008
Dividend starting date	March 1, 2008
Allottee	Funds managed by Fidelity Investments Japan Limited Funds managed by Fidelity Investments Management (Hong Kong) Limited

Composition of Unitholders

(as of February 29, 2008)

Number of units owned - 164,068

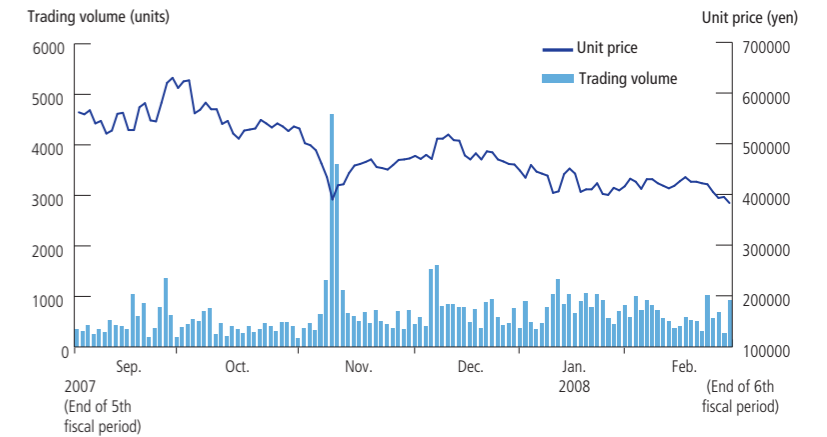
Overseas investors	69,434 units	42.3%
Financial institutions (including financial instruments firms)	71,344 units	43.5%
Other domestic corporations	6,420 units	3.9%
Individuals & others	16,870 units	10.3%

Number of units owned - 6,737

Financial institutions (including financial instruments firms)	112	1.7%
Other domestic corporations	111	1.6%
Overseas investors	144	2.1%
Individuals & others	6,370	94.6%

Investment Unit Performance

Note : Unit prices are closing basis.



Principal Unitholders

Name	Investment Units Held	Percentage Share
Japan Trustee Services Bank, Ltd. (Trust Account)	12,149 units	7.40%
NikkoCiti Trust and Banking Corporation (Investment Trust Account)	12,019 units	7.32%
CGML-IPB Customer Collateral Account	7,052 units	4.29%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,845 units	4.17%
Goldman Sachs International	5,281 units	3.21%
North Pacific Bank, Ltd.	5,090 units	3.10%
Trust & Custody Services Bank, Ltd. (Investment Trust Account)	5,033 units	3.06%
The Bank of New York, Treaty JASDEQ Account	4,517 units	2.75%
Morgan Stanley & Co. International plc.	4,325 units	2.63%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	3,808 units	2.32%
Total	66,119 units	40.30%

Note: Percentage Share shall indicate the number of investment units held as a percentage of the total number of investment units issued and outstanding

Corporate Data (as of February 29, 2008)

Corporate Office: 1-10-6, Roppongi, Minato-ku, Tokyo 106-0032, Japan

Date of Incorporation: September 27, 2004

Capital: ¥85,791,179,400 (164,068 units)

Stock Listing: Tokyo Stock Exchange

Security Code: 8965

Contact: For further information, please contact our asset management company or visit our website.

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