

## Financial Statements

(4th Fiscal Period: From August 1, 2013 to January 31, 2014)  
(3rd Fiscal Period: From February 1, 2013 to July 31, 2013)

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## KENEDIX RESIDENTIAL INVESTMENT CORPORATION

### Balance Sheets

As of January 31, 2014 and July 31, 2013

	Fourth Fiscal Period as of January 31, 2014	Third Fiscal Period as of July 31, 2013
	(in thousands of yen)	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits	¥2,159,067	¥507,327
Cash and deposits in trust	2,390,548	637,662
Operating accounts receivable	16,105	4,399
Prepaid expenses	7,282	9,925
Deferred tax assets	20	17
Consumption taxes receivable	128,539	-
Other	3,835	-
<b>Total current assets</b>	<b>4,705,396</b>	<b>1,159,330</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Land	2,787,377	2,787,377
<b>Buildings in trust</b>	<b>41,974,471</b>	<b>14,727,699</b>
Accumulated depreciation	(990,705)	(460,294)
Buildings in trust, net	40,983,766	14,267,405
<b>Structures in trust</b>	<b>294,631</b>	<b>118,904</b>
Accumulated depreciation	(18,270)	(8,531)
Structures in trust, net	276,361	110,373
<b>Machinery and equipment in trust</b>	<b>672,252</b>	<b>318,149</b>
Accumulated depreciation	(30,908)	(16,176)
Machinery and equipment in trust, net	641,344	301,973
<b>Tools, furniture and fixtures in trust</b>	<b>11,525</b>	<b>5,715</b>
Accumulated depreciation	(268)	(106)
Tools, furniture and fixtures in trust, net	11,257	5,609
Land in trust	56,889,348	13,766,910
Construction in progress in trust	1,567	-
<b>Total property, plant and equipment, net</b>	<b>101,591,020</b>	<b>31,239,647</b>
<b>Investments and other assets</b>		
Investment securities	405,922	405,922
Lease and guarantee deposits	10,983	10,156
Long-term prepaid expenses	489,832	93,439
Other	20,054	39,498
<b>Total investments and other assets</b>	<b>926,791</b>	<b>549,015</b>
<b>Total noncurrent assets</b>	<b>102,517,811</b>	<b>31,788,662</b>
<b>Deferred assets</b>		
Deferred organization costs	29,327	34,628
Investment unit issuance costs	148,462	43,010
<b>Total deferred assets</b>	<b>177,789</b>	<b>77,638</b>
<b>Total assets</b>	<b>¥107,400,996</b>	<b>¥33,025,630</b>

	Fourth Fiscal Period as of January 31, 2014	Third Fiscal Period as of July 31, 2013
	(in thousands of yen)	
<b>LIABILITIES</b>		
Current liabilities		
Operating accounts payable	¥222,805	¥57,096
Short-term loans payable	-	2,830,000
Current portion of long-term loans payable	7,200,000	5,500,000
Accounts payable-other	126,021	49,025
Accrued expenses	6,932	405
Income taxes payable	706	944
Accrued consumption taxes	-	1,837
Advances received	492,315	160,145
Deposits received	40,000	9,671
<b>Total current liabilities</b>	<b>8,088,779</b>	<b>8,609,123</b>
Noncurrent liabilities		
Long-term loans payable	48,000,000	10,000,000
Tenant leasehold and security deposits in trust	1,103,240	245,321
<b>Total noncurrent liabilities</b>	<b>49,103,240</b>	<b>10,245,321</b>
<b>Total liabilities</b>	<b>57,192,019</b>	<b>18,854,444</b>
<b>NET ASSETS</b>		
Unitholders' equity		
Unitholders' capital	48,592,740	13,773,456
Surplus		
Unappropriated retained earnings	1,632,542	406,661
<b>Total surplus</b>	<b>1,632,542</b>	<b>406,661</b>
<b>Total unitholders' equity</b>	<b>50,225,282</b>	<b>14,180,117</b>
Valuation and translation adjustments		
Deferred gains or losses on hedges	(16,305)	(8,931)
<b>Total valuation and translation adjustments</b>	<b>(16,305)</b>	<b>(8,931)</b>
<b>Total net assets</b>	<b>50,208,977</b>	<b>14,171,186</b>
<b>Total liabilities and net assets</b>	<b>¥107,400,996</b>	<b>¥33,025,630</b>

See accompanying notes to the financial statements.

## KENEDIX RESIDENTIAL INVESTMENT CORPORATION

### Statements of Income and Retained Earnings

For the period from August 1, 2013 to January 31, 2014 and the period from February 1, 2013 to July 31, 2013

	Fourth Fiscal Period from August 1, 2013 to January 31, 2014	Third Fiscal Period from February 1, 2013 to July 31, 2013
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate	¥3,312,813	¥1,018,433
Other lease business revenue	283,257	117,076
Dividends income	20,095	-
Total operating revenues	3,616,165	1,135,509
Operating expenses		
Expenses related to rent business	1,230,091	442,619
Asset management fees	136,124	70,886
Asset custody fees	7,400	2,075
Administrative service fees	21,965	11,018
Directors' compensation	4,500	4,500
Other operating expenses	90,742	51,247
Total operating expenses	1,490,822	582,345
Operating income	2,125,343	553,164
Non-operating income		
Interest income	210	38
Total non-operating income	210	38
Non-operating expenses		
Interest expenses	227,924	74,611
Derivatives-related expenses	12,070	11,913
Borrowing expenses	211,369	41,593
Amortization of deferred organization costs	5,301	5,215
Amortization of investment unit issuance costs	35,373	12,298
Total non-operating expenses	492,037	145,630
Ordinary income	1,633,516	407,572
Income before income taxes	1,633,516	407,572
Income taxes		
Current	1,016	952
Deferred	(3)	(0)
Total income taxes	1,013	952
Net income	1,632,503	406,620
Retained earnings brought forward	39	41
Unappropriated retained earnings	¥1,632,542	¥406,661

See accompanying notes to the financial statements.

## KENEDIX RESIDENTIAL INVESTMENT CORPORATION

### Statements of Changes in Net Assets

For the period from August 1, 2013 to January 31, 2014 and the period from February 1, 2013 to July 31, 2013

	Unitholders' equity					Valuation and translation adjustments	Total net assets
	Surplus					Deferred gains or losses on hedges	
	Unitholders' capital	Unappropriated retained earnings	Total surplus	Total unitholders' equity			
(in thousands of yen)							
Balance as of January 31, 2013	¥ 13,773,456	¥ 463,620	¥ 463,620	¥ 14,237,076	¥ (24,023)		¥ 14,213,053
Changes of items during the period							
Dividends from surplus	-	(463,579)	(463,579)	(463,579)	-		(463,579)
Net income	-	406,620	406,620	406,620	-		406,620
Net changes of items other than unitholders' equity	-	-	-	-	15,092		15,092
Total changes of items during the period	-	(56,959)	(56,959)	(56,959)	15,092		(41,867)
Balance as of July 31, 2013	13,773,456	406,661	406,661	14,180,117	(8,931)		14,171,186
Changes of items during the period							
Issuance of new investment units	34,819,284	-	-	34,819,284	-		34,819,284
Dividends from surplus	-	(406,622)	(406,622)	(406,622)	-		(406,622)
Net income	-	1,632,503	1,632,503	1,632,503	-		1,632,503
Net changes of items other than unitholders' equity	-	-	-	-	(7,374)		(7,374)
Total changes of items during the period	34,819,284	1,225,881	1,225,881	36,045,165	(7,374)		36,037,791
Balance as of January 31, 2014	¥ 48,592,740	¥ 1,632,542	¥ 1,632,542	¥ 50,225,282	¥ (16,305)		¥ 50,208,977

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

For the period from August 1, 2013 to January 31, 2014 and the period from February 1, 2013 to July 31, 2013

	Fourth Fiscal Period from August 1, 2013 to January 31, 2014	Third Fiscal Period from February 1, 2013 to July 31, 2013
	(in thousands of yen)	
Net cash provided by (used in) operating activities		
Income before income taxes	¥1,633,516	¥407,572
Depreciation and amortization	555,044	194,877
Amortization of deferred organization costs	5,301	5,215
Amortization of investment unit issuance costs	35,373	12,298
Interest income	(210)	(38)
Interest expenses	227,924	74,611
Derivatives-related expenses	12,070	11,913
Decrease (increase) in operating accounts receivable	(11,706)	1,104
Decrease (increase) in consumption taxes refund receivable	(128,539)	-
Decrease (increase) in prepaid expenses	2,643	(5,689)
Increase (decrease) in operating accounts payable	138,383	23,036
Increase (decrease) in accounts payable-other	77,004	7,207
Increase (decrease) in accrued consumption taxes	(1,837)	(2,321)
Increase (decrease) in advances received	332,170	2,506
Decrease (increase) in long-term prepaid expenses	(396,393)	29,233
Other, net	26,184	657
<b>Subtotal</b>	<b>2,506,927</b>	<b>762,181</b>
Interest income received	210	38
Interest expenses paid	(221,397)	(74,630)
Income taxes paid	(944)	(946)
<b>Net cash provided by (used in) operating activities</b>	<b>2,284,796</b>	<b>686,643</b>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(70,879,091)	(11,690)
Purchase of investment securities	-	(405,012)
Payments for lease and guarantee deposits	(1,006)	-
Proceeds from collection of lease and guarantee deposits	179	-
Repayments of tenant leasehold and security deposits in trust	(85,024)	(41,264)
Proceeds from tenant leasehold and security deposits in trust	942,943	46,569
<b>Net cash provided by (used in) investing activities</b>	<b>(70,021,999)</b>	<b>(411,397)</b>
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	-	2,830,000
Decrease in short-term loans payable	(2,830,000)	(3,000,000)
Proceeds from long-term loans payable	39,700,000	-
Proceeds from issuance of investment units	34,678,458	-
Dividends paid	(406,629)	(462,889)
<b>Net cash provided by (used in) financing activities</b>	<b>71,141,829</b>	<b>(632,889)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,404,626</b>	<b>(357,643)</b>
Cash and cash equivalents at the beginning of period	1,144,989	1,502,632
<b>Cash and cash equivalents at the end of period</b>	<b>¥4,549,615</b>	<b>¥1,144,989</b>

See accompanying notes to the financial statements.

## Notes to Financial Statements

For the period from August 1, 2013 to January 31, 2014 and the period from February 1, 2013 to July 31, 2013

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Residential Investment Corporation ("the Investment Corporation") was established on November 15, 2011 under the Act on Investment Trusts and Investment Corporations of Japan ("the Investment Trust Act"). On April 26, 2012, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange (Securities Code: 3278) with a total of 74,690 investment units issued and outstanding. Subsequently, the Investment Corporation additionally issued 165,000 investment units on August 6, 2013 through public offerings, including a global offering, and 1,182 investment units on September 4, 2013 by way of a third-party allotment. As a result, as of January 31, 2014, the end of the fourth fiscal period, the number of investment units issued and outstanding totaled 241,622 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (Note) ("the Asset Management Company"). The Investment Corporation entrusts the Asset Management Company to manage its assets and, in collaboration with the Asset Management Company, the Investment Corporation strives to maximize cash distributions to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts the basic policy of conducting a dynamic and flexible investment stance that seeks to respond to its environment and market trends, and endeavors to ensure a timely response to opportunities. (Note: Effective from October 1, 2013, the Asset Management Company for the Investment Corporation, Kenedix Residential Partners, Inc. was merged integrated with Kenedix Advisors, Inc. and with Kenedix Office Partners, Inc., and it was the surviving entity. Kenedix Residential Partners, Inc. was renamed Kenedix Real Estate Fund Management, Inc. as part of the merger.)

During the fourth fiscal period, the Investment Corporation acquired 60 properties on August 7, 2013 (total acquisition price of ¥68,556 million) and has a portfolio comprised of 80 properties, etc. (total acquisition price of ¥99,031 million) as of as of January 31, 2014 the end of the fourth fiscal period.

The occupancy rate of the overall portfolio (excluding land with leasehold interest) was 95.9% as of January 31, 2014, and 96.2% as of July 31, 2013, the end of the third fiscal period. Furthermore, the occupancy rate of the overall portfolio (including land with leasehold interest) was 96.0% as of January 31, 2014, and 96.6% as of July 31, 2013.

During the fourth fiscal period, the Investment Corporation procured funds of ¥34,819 million through a public offering, etc. for the purpose of acquiring the properties mentioned above, and unitholders' capital reached ¥48,593 million as of January 31, 2014. In addition, with borrowings of ¥37,700 million made on August 7, 2013, the balance of borrowings as of January 31, 2014 was ¥55,200 million (long-term loans payable of ¥48,000 million and current portion of long-term loans payable of ¥7,200 million).

#### Basis of Presentation

The Investment Corporation 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 Act, the Companies Act of Japan, the Financial Instruments and Exchange Act of Japan and 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 audited financial statements of the Investment Corporation, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of the Investment Corporation filed with the Kanto Local Finance Bureau. 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. In addition, the notes to financial statements include certain information that might not be required under Japanese GAAP but is presented herein as additional information.

The Investment Corporation fiscal period is a six-month period which ends at the end of January or July. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Securities

Other securities without market value are stated using the moving average cost method. Equity investments in an anonymous association are stated, the amount equivalent to the corresponding equity interests including net amount of gain or loss from the anonymous association.

### (B) Property and Equipment (including trust assets)

Property and equipment are stated at cost. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets ranging as stated below:

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
Buildings	3-62 years	3-62 years
Structures	3-25 years	3-25 years
Machinery and equipment	8-30 years	8-30 years
Tools, furniture and fixtures	30 years	30 years

### (C) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized by the straight-line method.

### (D) Deferred Organization Costs

Deferred organization costs are amortized over a period of 5 years under the straight-line method.

### (E) Unit Issuance Costs

Unit issuance costs are amortized over a period of 3 years under the straight-line method.

### (F) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate, which are commonly utilized in the ownership of commercial properties in Japan, all relevant assets and liabilities in trust are recorded on the balance sheet and the statement of income and retained earnings.

### (G) Revenue Recognition

Operating revenues consist of rental revenues including base rents and common area charges, and other operating revenues including parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease.

### (H) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. These taxes are generally charged to operating expenses for the period, for the portion of such taxes corresponding to said period. Under Japanese tax regulations, the seller of the property is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is reimbursed by the purchaser for these accrued property-related tax liabilities.

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the



property-related taxes are capitalized as part of the acquisition costs of the related properties. Capitalized property-related taxes amounted to ¥115,840 thousand as of January 31, 2014. There were no capitalized property-related taxes as of July 31, 2013.

**(I) Income Taxes**

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory tax rates.

**(J) Consumption Taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.

**(K) Derivative Financial Instruments**

The Investment Corporation enters into derivative transactions to hedge risks prescribed in its Articles of Incorporation based on its risk management policies. The Investment Corporation hedges interest rate volatility risk of its interest payments on its borrowings by utilizing interest rate cap transactions and interest rate swap transactions as hedging instruments.

As for the method of assessment of the effectiveness of the hedge in the period from the inception of the hedge to the time of judgment of its effectiveness, the cumulative changes in cash flow of the hedged items and hedging instruments are compared and a judgment is made based on changed amount, etc. However, an assessment of the effectiveness of hedging activities is omitted in the case of interest rate swaps that meet the requirements for special treatment. Furthermore, assessment of the effectiveness of hedging activities is omitted in the case of interest rate caps that do not meet the requirements for special treatment as the important conditions regarding hedged items and hedging instruments are the same and are clearly expected to have the effect of limiting the impact of interest rate volatility within a certain range on an ongoing basis.

**(L) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, deposits placed with banks and short-term investments which are highly liquid, readily convertible to cash and with insignificant risk of market value fluctuation, with maturities of three months or less from the date of purchase.

**(M) Presentation of Amounts**

Amounts are truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts are rounded to the nearest million in the accompanying financial statements. Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

### 3. ASSETS PLEDGED AS COLLATERAL AND SECURED LIABILITIES

Assets pledged as collateral and relevant secured liabilities as of January 31, 2014 and July 31, 2013 are as follows:

Assets pledged as collateral	As of January 31, 2014	As of July 31, 2013
	(in thousands of yen)	
Cash and deposits in trust	¥ -	¥637,662
Buildings in trust	-	14,267,405
Structures in trust	-	110,373
Machinery and equipment in trust	-	301,973
Tools, furniture and fixtures in trust	-	5,609
Land in trust	-	13,766,910
Total	-	29,089,932
Secured liabilities		
Short-term loans payable	-	2,830,000
Current portion of long-term loans payable	-	5,500,000
Long-term loans payable	-	10,000,000
Total	¥ -	¥18,330,000

### 4. NET ASSETS

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Act. The entire amount of the issue price of new units is designated as stated capital. The Investment Corporation is required to maintain net assets of at least ¥50 million as required by the Investment Trust Act.

## 5. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES

Rental and other operating revenues and property-related expenses for the periods from August 1, 2013 to January 31, 2014 and from February 1, 2013 to July 31, 2013 consist of the following:

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
(in thousands of yen)		
Rental and other operating revenues:		
Rental revenues	¥3,070,936	¥884,944
Rental revenues from limited proprietary rights of land	78,310	78,310
Common area charges	163,567	55,179
Subtotal	3,312,813	1,018,433
Others:		
Parking space rental revenues	120,609	40,673
Miscellaneous	162,648	76,403
Subtotal	283,257	117,076
Total rental and other operating revenues	¥3,596,070	¥1,135,509
Property management fees and facility management fees		
Property management fees and facility management fees	¥279,243	¥84,438
Utilities	67,739	16,378
Taxes	59,821	59,696
Repairs and maintenance	127,176	37,244
Insurance	5,650	2,230
Trust fees	33,078	8,700
Depreciation	555,044	194,877
Others	102,340	39,056
Total property-related expenses	¥1,230,091	¥442,619

## 6. UNITHOLDERS' EQUITY

Total number of authorized investment units and total number of investment units issued and outstanding are as follows:

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
Total number of authorized investment units	5,000,000	5,000,000
Total number of investment units issued and outstanding	241,622	75,440

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of January 31, 2014 and July 31, 2013:

	As of January 31, 2014	As of July 31, 2013
(in thousands of yen)		
Cash and deposits	¥2,159,067	¥507,327
Cash and deposits in trust	2,390,548	637,662
Cash and cash equivalents	¥4,549,615	¥1,144,989

## 8. LEASES

The Investment Corporation, as lessor, has entered into leases whereby fixed monthly rents are due in advance with a lease term of generally two years for residential properties. The future minimum rental revenues under existing non-cancelable operating leases as of January 31, 2014 and July 31, 2013 are as follows:

	As of January 31, 2014	As of July 31, 2013
	(in thousands of yen)	
Due in 1 year	¥414,896	¥204,105
Due after 1 year	6,042,971	5,884,373
Total	¥6,457,867	¥6,088,478

## 9. FINANCIAL INSTRUMENTS

### (A). Overview

#### (1) Policy for financial instruments

The Investment Corporation procures funds for asset acquisitions, repairs, payment of distributions, repayment of loans, etc. through loans from financial institutions, issuance of investment units and other means. With regard to the procurement of interest-bearing debts, the Investment Corporation ensures that it can effectively combine stable long-term funds with flexible short-term funds. Management of surplus funds is undertaken through various bank deposits focusing on safety, liquidity and effectiveness. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and other risks and does not enter into derivative transactions for speculative or trading purposes.

#### (2) Types of financial instruments and related risk

Bank deposits are for managing the Investment Corporation's surplus funds and are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer and interest rate fluctuation risk.

Borrowings, which are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 7 years and 6 months as of January 31, 2014, the end of the fourth fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

#### (3) Risk management for financial instruments

##### a. Credit risk

While bank deposits are exposed to credit risk such as the bankruptcy of financial institutions at which funds are deposited, such risk is monitored by deposits in non-interest bearing ordinary savings accounts or with financial institutions with credit ratings above a certain level. Investment securities represent equity investments in an anonymous association and are exposed to credit risk of the issuer and interest rate fluctuation risk. To manage this credit risk, the Investment Corporation regularly evaluates the results of operations and the financial condition of the issuer, etc. In utilizing derivatives, the Investment Corporation aims to mitigate counterparty risk such as by transacting with financial institutions with favorable ratings.

##### b. Market risk

While borrowings with floating rates are exposed to interest rate volatility risk, such risk is monitored by adjusting the rate of the balance of borrowings with floating rates against the total borrowings according to the financial environment, interest rate forecasts by continuous monitoring, etc. and by using derivatives, etc. A risk management policy is established with regard to the execution and management of derivatives and such transactions are conducted based on this policy.

##### c. Liquidity risk

Though borrowings are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by diversifying financial institutions. Liquidity risk is also managed by such means as regularly checking the balance of cash reserves.

#### (4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different fair value.

### (B). Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet and estimated fair value are shown in the following table.

As of January 31, 2014

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥ 2,159,067	¥ 2,159,067	¥ -
(2) Cash and deposits in trust	2,390,548	2,390,548	-
Subtotal	4,549,615	4,549,615	-
(1) Short-term loans payable	-	-	-
(2) Current portion of long-term loans payable	7,200,000	7,200,000	-
(3) Long-term loans payable	48,000,000	48,085,192	85,192
Subtotal	55,200,000	55,285,192	85,192
Derivative transactions	¥20,054	¥20,054	¥ -

As of July 31, 2013

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥507,327	¥507,327	¥ -
(2) Cash and deposits in trust	637,662	637,662	-
Subtotal	1,144,989	1,144,989	-
(1) Short-term loans payable	2,830,000	2,830,000	-
(2) Current portion of long-term loans payable	5,500,000	5,500,000	-
(3) Long-term loans payable	10,000,000	10,000,000	-
Subtotal	18,330,000	18,330,000	-
Derivative transactions	¥39,498	¥39,498	¥ -

Note 1: Methods to determine the estimated fair value of financial instruments and matters related to derivative transactions

#### Assets

(1) Cash and deposits and (2) Cash and deposits in trust

Since these items are settled in a short period of time, their carrying amount approximates fair value.

#### Liabilities

(1) Short-term loans payable

Since these items are settled in a short period of time with floating interest rates, their carrying amount approximates fair value.

(2) Current portion of long-term loans payable and (3) Long-term loans payable

Among these items, the fair value of loans payable with fixed interest rates is calculated based on the present value, which is the total amount of principal and interest discounted by the estimated interest rate to be applied in the event that the Investment Corporation conducts new borrowings of the same type. As for the fair value of loans payable with floating interest rates, it is based on the carrying amount since market interest rates are reflected in the short term and the fair value is believed to approximate the carrying amount as the credit standing of the Investment Corporation has not changed significantly since the loans were made. (However, the fair value of long-term loans payable subject to the special treatment for interest-rate swaps is based on the present value of the total of principal and interest, accounted for together with the applicable interest-rate swaps, discounted by the estimated interest rate to be applied in the event that the Investment Corporation conducts new borrowings of the same type.)

#### Derivative transactions

Please refer to Note 10 "DERIVATIVE TRANSACTIONS".

Note 2: Financial instruments whose fair values are recognized to be extremely difficult to grasp

(in thousands of yen)

Classification	As of January 31, 2014	As of July 31, 2013
Investment securities *	405,922	405,922

\*Fair values of investment securities are not subject to disclosure of fair value as they have no market value and their fair values are recognized to be extremely difficult to grasp.

Note 3: Redemption schedule for financial assets with maturities

As of January 31, 2014

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Cash and deposits	¥2,159,067	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	2,390,548	-	-	-	-	-
Total	¥4,549,615	¥ -	¥ -	¥ -	¥ -	¥ -

As of July 31, 2013

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Cash and deposits	¥507,327	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	637,662	-	-	-	-	-
Total	¥1,144,989	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable

As of January 31, 2014

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Short-term loans payable	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	7,200,000	12,000,000	12,000,000	11,000,000	11,000,000	2,000,000
Total	¥ 7,200,000	¥ 12,000,000	¥ 12,000,000	¥ 11,000,000	¥ 11,000,000	¥ 2,000,000

As of July 31, 2013

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(in thousands of yen)						
Short-term loans payable	¥2,830,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	5,500,000	6,500,000	3,500,000	-	-	-
Total	¥8,330,000	¥6,500,000	¥3,500,000	¥ -	¥ -	¥ -

## 10. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate cap transactions and interest-rate swap transactions as of January 31, 2014 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥10,000,000	¥20,054	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥29,500,000	¥29,500,000	*	-
	Total		¥39,500,000	¥39,500,000	¥20,054	-

\*Interest rate swaps for which the special treatment is applied are accounted for together with the underlying hedged item. As a result, their fair value is included in the fair value of the hedged long-term loans payable.

The contract amount and the fair value of interest-rate cap contracts as of July 31, 2013 are shown in the following table.

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥10,000,000	¥39,498	Based on the amount provided by counterparty financial institutions

## 11. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥1,632 million and ¥407 million for the periods ended January 31, 2014 and July 31, 2013, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on the Investment Corporation's income were 0.06% and 0.23% for the periods ended January 31, 2014 and July 31, 2013, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
Statutory tax rate	36.59%	36.59%
Deductible cash distributions	(36.56)	(36.50)
Others	0.03	0.14
Effective tax rate	0.06%	0.23%

The significant components of deferred tax assets and liabilities as of January 31, 2014 and July 31, 2013 are as follows:

	As of January 31, 2014	As of July 31, 2013
	(in thousands of yen)	
Deferred tax assets:		
Enterprise tax payable	¥20	¥17
Deferred gains or losses on hedges	5,847	3,855
Subtotal deferred tax assets	5,867	3,872
Valuation allowance	5,847	3,855
Total deferred tax assets	¥20	¥17



## 12. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

Third Fiscal Period (February 1, 2013 to July 31, 2013) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

2. Affiliated companies and other

Third Fiscal Period (February 1, 2013 to July 31, 2013) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

3. Fellow subsidiary companies and other

Third Fiscal Period (February 1, 2013 to July 31, 2013) and Fourth Fiscal Period (August 1, 2013 to January 31, 2014): Not applicable

4. Directors, major individual unitholders and other

Fourth Fiscal Period (August 1, 2013 to January 31, 2014)									
Classification	Name	Principal business / Position	Ratio of voting rights held (%)	Relationship		Nature of transaction	Transaction amount (in thousands of yen) (Note 3) (Note 4)	Account	Balance at the end of period (in thousands of yen) (Note 4)
				Position held concurrently	Relation to the entity				
Directors and Close Relatives	Akira Tanaka	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	Possession of Right 0.0% (Direct)	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc. (Note 1)	Relation to the entity	Payment of asset management fee to Kenedix Residential Partners, Inc. (Note 2)	¥821,684	Accounts payable-other	¥90,487

Note 1: Kenedix Residential Partners, Inc., as the successor company merged with Kenedix Advisors, Inc. and Kenedix Office Partners, Inc. as of October 1, 2013, and changed its corporate name to Kenedix Real Estate Fund Management, Inc. Furthermore, Ryosuke Homma was appointed as CEO and President of Kenedix Real Estate Fund Management, Inc., as of October 1, 2013. The transaction amount and the balance at the end of period indicate the Fourth Fiscal Period amounts applicable to Kenedix Residential Partners, Inc. up to September 31, 2013 and after October 1, 2013 with Kenedix Real Estate Fund Management, Inc., on and after October 1, 2013.

Note 2: Akira Tanaka serves as a representative of the third party (Kenedix Residential Partners, Inc.), and the asset management fee is established in the Articles of Incorporation of the Investment Corporation.

Note 3: Asset management fee includes ¥685,560 thousand related to the acquisition of investment securities and is accounted for in the book value for the individual assets.

Note 4: Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

Third Fiscal Period (February 1, 2013 to July 31, 2013)									
Classification	Name	Principal business / Position	Ratio of voting rights held (%)	Relationship		Nature of transaction	Transaction amount (in thousands of yen) (Note 3)	Account	Balance at the end of period (in thousands of yen) (Note 3)
				Position held concurrently	Relation to the entity				
Directors and Close Relatives	Akira Tanaka	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	—	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	Relation to the entity	Payment of asset management fee to Kenedix Residential Partners, Inc. (Note 1)	¥74,886	Accounts payable-other	¥22,577

Note 1: Akira Tanaka serves as a representative of the third party (Kenedix Residential Partners, Inc.), and the asset management fee is established in the Articles of Incorporation of the Investment Corporation.

Note 2: Asset management fee includes ¥4,000 thousand related to the acquisition of investment securities and is accounted for in the book value for the assets.

Note 3: Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

### 13. INVESTMENT AND RENTAL PROPERTIES

The Investment Corporation owns real estate for rental purposes in the Tokyo Metropolitan Area and other regional areas for the purpose of generating rental revenues.

The book value and fair value concerning the above real estate for rental purposes are as follows.

	Fourth Fiscal Period from August 1, 2013 to January 31, 2014	Third Fiscal Period from February 1, 2013 to July 31, 2013
	(in thousands of yen)	
Book value		
Balance at the beginning of period	¥31,239,647	¥31,418,684
Changes during the period	70,351,373	(179,037)
Balance at the end of period	101,591,020	31,239,647
Fair value at the end of period	¥103,878,000	¥32,180,000

Note 1: Book value excludes accumulated depreciation from acquisition costs.

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the third fiscal period, the principal decrease was depreciation (¥194,877 thousand) and during the fourth fiscal period, the principal increase was the acquisition of 60 properties in real estate trust beneficiary interests (¥70,859,613 thousand) and the principal decrease was depreciation (¥555,044 thousand).

Note 3: The fair value is the appraisal value or the survey value determined by outside appraisers.

Income and loss in the fiscal periods ended January 31, 2014 and July 31, 2013 for real estate for rental purposes is listed in Note "5. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."

### 14. SEGMENT INFORMATION

Segment information for the period ended from August 1, 2013 to January 31, 2014 and from February 1, 2013 to July 31, 2013 is as follows:

(A) Segment information

Disclosure is omitted because the real estate leasing business is the Investment Corporation's sole business and it has no reportable segment subject to disclosure.

(B) Related information

(1) Information about each product and service

Disclosure is omitted because net sales to external customers for a single product/service category account for over 90% of the operating revenue on the statement of income and retained earnings.

(2) Information about each geographic area

(a) Net sales

Disclosure is omitted because net sales to external customers in Japan account for over 90% of the operating revenue on the statement of income and retained earnings.

(b) Property, plant and equipment

Disclosure is omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information about each major customer

Disclosure is omitted because net sales to a single external customer account for less than 10% of the operating revenue on the statement of income and retained earnings.

## 15. PER UNIT INFORMATION

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
Net asset value per unit	¥207,800	¥187,847
Net income per unit	¥6,890	¥5,389
Weighted average number of units (units)	236,920	75,440

The weighted average number of units outstanding of 236,920 and 75,440 were used for the computation of the amount of net income per unit as of January 31, 2014 and July 31, 2013.

Net income per unit after adjusting for residual units is not included because there were no residual investment units.

The basis for calculating net income per unit is as follows:

	From August 1, 2013 to January 31, 2014	From February 1, 2013 to July 31, 2013
Net income (in thousands of yen)	¥1,632,503	¥406,620
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥1,632,503	¥406,620
Weighted average number of units during the period (units)	236,920	75,440

## 16. SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

## 17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of January 31, 2014:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥2,787,377	¥ -	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,787,377	-	-	2,787,377	-	-	2,787,377	
Buildings in trust	14,727,699	27,246,772	-	41,974,471	990,705	530,412	40,983,766	
Structures in trust	118,904	175,727	-	294,631	18,270	9,739	276,361	
Machinery and equipment in trust	318,149	354,103	-	672,252	30,908	14,731	641,344	
Tools, furniture and fixtures in trust	5,715	5,810	-	11,525	268	162	11,257	
Land in trust	13,766,910	43,122,438	-	56,889,348	-	-	56,889,348	
Construction in progress in trust	-	1,567	-	1,567	-	-	1,567	
Sub total	28,937,377	70,906,417	-	99,843,794	1,040,151	555,044	98,803,643	
Total	¥31,724,754	¥70,906,417	¥ -	¥102,631,171	¥1,040,151	¥555,044	¥101,591,020,	

Note : The amount of increase during the period is primarily attributable to the acquisition of the real estate properties and capital expenditures.

Property, plant and equipment consists of the following as of July 31, 2013:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥2,787,377	¥ -	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,787,377	-	-	2,787,377	-	-	2,787,377	
Buildings in trust	14,715,539	12,160	-	14,727,699	460,294	184,888	14,267,405	
Structures in trust	118,485	419	-	118,904	8,531	3,440	110,373	
Machinery and equipment in trust	316,924	1,225	-	318,149	16,176	6,474	301,973	
Tools, furniture and fixtures in trust	3,679	2,036	-	5,715	106	75	5,609	
Land in trust	13,766,910	-	-	13,766,910	-	-	13,766,910	
Sub total	28,921,537	15,840	-	28,937,377	485,107	194,877	28,452,270	
Total	¥ 31,708,914	¥15,840	¥ -	¥31,724,754	¥485,107	¥194,877	¥31,239,647	

Note : The amount of increase during the period is primarily attributable to capital expenditures.

## 18. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consists of the following as of January 31, 2014:

Classification	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 9)	Use	Remarks
Lender								
(in thousands of yen)								
Short-term loans payable	Sumitomo Mitsui Banking Corporation (Note 7)	¥1,000,000	¥ -	¥1,000,000	-	0.649%	April 30, 2014	
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 7)	1,000,000	-	1,000,000	-	0.649%	April 30, 2014	(Note 6) Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 8)	830,000	-	830,000	-	1.100%	April 30, 2014	
	Sub total	2,830,000	-	2,830,000	-			
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000			
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000	0.799%	April 30, 2014	
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000			(Note 6) Unsecured/ Non-guaranteed
	Sumitomo Mitsui Banking Corporation (Note 2)	-	600,000	-	600,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	-	600,000	-	600,000	0.549%	August 31, 2014	
	Aozora Bank, Ltd. (Note 2)	-	500,000	-	500,000			
Sub total	5,500,000	1,700,000	-	7,200,000				
Long-term loans payable	Aozora Bank, Ltd. (Note 2)	2,000,000	-	-	2,000,000			
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000	1.060%	April 30, 2015	(Note 6) Unsecured/ Non-guaranteed
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000			
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000			

Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.014%	April 30, 2016
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000		
Sumitomo Mitsui Banking Corporation	-	1,750,000	-	1,750,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,500,000	-	1,500,000		
Aozora Bank, Ltd.	-	500,000	-	500,000		
Resona Bank, Ltd.	-	500,000	-	500,000		
Sumitomo Mitsui Trust Bank, Limited	-	500,000	-	500,000	0.599%	August 31, 2015
Mizuho Trust & Banking Co., Ltd.	-	500,000	-	500,000		
Mizuho Bank, Ltd.	-	250,000	-	250,000		
Sumitomo Mitsui Banking Corporation	-	3,000,000	-	3,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,000,000	-	2,000,000		
Aozora Bank, Ltd.	-	1,000,000	-	1,000,000		
Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000	0.787%	August 31, 2016
Resona Bank, Ltd.	-	500,000	-	500,000		
Mizuho Bank, Ltd.	-	500,000	-	500,000		
Mizuho Trust & Banking Co., Ltd.	-	500,000	-	500,000		
Sumitomo Mitsui Banking Corporation	-	4,000,000	-	4,000,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,500,000	-	2,500,000		
Aozora Bank, Ltd.	-	1,500,000	-	1,500,000	0.910%	August 31, 2017

Resona Bank, Ltd.	-	1,000,000	-	1,000,000		
Sumitomo Mitsui Trust Bank, Limited	-	1,000,000	-	1,000,000		
Mizuho Bank, Ltd.	-	500,000	-	500,000		
Mizuho Trust & Banking Co., Ltd	-	500,000	-	500,000		
Sumitomo Mitsui Banking Corporation	-	3,250,000	-	3,250,000		
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	2,000,000	-	2,000,000		
Aozora Bank, Ltd.	-	1,000,000	-	1,000,000		
Resona Bank, Ltd.	-	500,000	-	500,000	1.052%	August 31, 2018
Sumitomo Mitsui Trust Bank, Limited	-	500,000	-	500,000		
Mizuho Trust & Banking Co., Ltd	-	500,000	-	500,000		
Mizuho Bank, Ltd.	-	250,000	-	250,000		
Development Bank of Japan Inc.	-	3,000,000	-	3,000,000	1.088% (Note 5)	August 31, 2018
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,000,000	-	1,000,000	1.109%	January 31, 2021
Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	1.221%	July 31, 2021
Sub total	10,000,000	38,000,000	-	48,000,000		
Total	¥18,330,000	¥39,700,000	¥2,830,000	¥55,200,000		

Note1 : Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled for the next five years after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
	(in thousands of yen)			
Long-term loans payable	¥12,000,000	¥12,000,000	¥11,000,000	¥11,000,000

Note 2: Of the long-term loans payable conducted during the fiscal period, these were listed in the current portion of long-term loans payable.

Note 3: All debts except for the following Note5 are borrowing at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate swap transactions and interest rate cap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate swaps and interest rate caps are indicated.

Note 5: Borrowings is applied at a fixed rate.

Note 6: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (additional expenses are included) and repayment of debts.

Note 7: Early repayment was made on January 31, 2014.

Note 8: Early repayment was made on August 7, 2013.

Note 9: Except for the above (Note 7 and 8), all the repayment methods of debt financing are lump-sum repayments on the due date.



Short-term debt and long-term debt consists of the following as of July 31, 2013:

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 8)	Use	Remarks
(in thousands of yen)									
Short-term loans payable	Sumitomo Mitsui Banking Corporation	¥1,000,000	¥ -	¥1,000,000	¥ -	0.769%	April 30, 2013	(Note 5)	Secured/ Non-guaranteed (Note 9)
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	1,000,000	-				
	Sumitomo Mitsui Banking Corporation	1,000,000	-	1,000,000	-	1.169%	April 30, 2013 (Note 6)		
	Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.650%	April 30, 2014		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	-	1,000,000	-	1,000,000	0.650%	April 30, 2014		
	Sumitomo Mitsui Banking Corporation	-	830,000	-	830,000	1.100%	April 30, 2014 (Note 7)		
	Sub Total	3,000,000	2,830,000	3,000,000	2,830,000				
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation (Note 2)	2,000,000	-	-	2,000,000	0.809%	April 30, 2014	(Note 5)	Secured/ Non-guaranteed (Note 9)
	Aozora Bank, Ltd. (Note 2)	1,500,000	-	-	1,500,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Note 2)	1,000,000	-	-	1,000,000				
	Resona Bank, Ltd. (Note 2)	1,000,000	-	-	1,000,000				
	Sub Total	5,500,000	-	-	5,500,000				
Long-term loans payable	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	1.060%	April 30, 2015	(Note 5)	Secured/ Non-guaranteed (Note 9)
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000				
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000				
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000				

Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000					Secured/ Non-guaran teed (Note 5)
The Bank of Tokyo-Mitsubishi UFJ ,Ltd.	1,000,000	-	-	1,000,000	1.053%	April 30, 2016			(Note 9)
Sub total	10,000,000	-	-	10,000,000					
Total	¥ 18,500,000	¥2,830,000	¥3,000,000	¥18,330,000					

Note 1: Annual repayments of long-term loans payable (except for current portion of long-term loans payable) scheduled for the next five years after the balance sheet date are as follows:

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
	(in thousands of yen)			
Long-term loans payable	¥6,500,000	¥3,500,000	¥ -	¥ -

Note 2: Borrowings listed in the current portion of long-term payable were listed in long-term payable in the previous fiscal period.

Note 3: All debts are borrowings at a floating rate.

Note 4: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate cap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate caps are indicated.

Note 5: All debts were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate (ancillary expenses are included) and repayment of debts.

Note 6: ¥170 million was repaid on March 31, 2013 and ¥830 million was repaid on the final principal repayment date.

Note 7: ¥100 million will be repaid on March 31, 2014 and ¥730 million will be repaid on the final principal repayment date. Also, if an early repayment is made on the principal of the short-term borrowing before March 31, 2014, the amount of repayment of principal with March 31, 2014 as the principal repayment date will be the amount where the total of the principal of the short-term borrowing repaid based on the said early repayment is deducted from the scheduled principal repayment amount of ¥100 million.

Note 8: Except for the above (Note 6 and 7), all the repayment methods of debt financing are lump-sum repayments on the due date.

Note 9: The assets that are pledged as collateral are KDX Daikanyama Residence, KDX Yoyogi Residence, KDX Odemma Residence, KDX Iwamoto-cho Residence, KDX Bunkyo Sengoku Residence, KDX Azumabashi Residence, KDX Shimura Sakaue Residence, KDX Musashi Nakahara Residence, KDX Chiba Chuo Residence, KDX Kawaguchi Saiwai-cho Residence, KDX Toyohira Sanjo Residence, KDX Jozenji Dori Residence, KDX Izumi Residence, KDX Chihaya Residence, KDX Sakaisuji Hommachi Residence, KDX Shimmachi Residence, KDX Takarazuka Residence and KDX Shimizu Residence, for a total of 18 properties.

## 19. DISTRIBUTIONS

	Fourth Fiscal Period (From August 1, 2013 to January 31, 2014)	Third Fiscal Period (From February 1, 2013 to July 31, 2013)
I. Retained earnings at the end of period	¥1,632,542,142	¥406,661,143
II. Total distributions	¥1,632,398,232	¥406,621,600
Distributions per unit	¥6,756	¥5,390
III. Retained earnings brought forward to the next period	¥143,910	¥39,543
Method of calculating distribution amount	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥1,632,398,232 which is the maximum integral multiple to 241,622 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the fourth fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥406,621,600 which is the maximum integral multiple to 75,440 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the third fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>

## Independent Auditor's Report

The Board of Directors  
Kenedix Residential Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Investment Corporation, which comprise the balance sheet as at January 31, 2014, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Residential Investment Corporation as at January 31, 2014, and its financial performance and cash flows for the fiscal periods then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young Shin Nihon LLC*

April 28, 2014  
Tokyo, Japan