

KDX

KENEDIX

Kenedix Office Investment Corporation



Semiannual Report April 2023 Fiscal Period

November 1, 2022–April 30, 2023

Kenedix Office Investment Corporation

2-1-6 Uchisaiwaicho, Chiyoda-ku, Tokyo

<https://www.kdo-reit.com/en/>

Security code: 8972

To Our Unitholders

We would like to take this opportunity to thank you for your continued support of Kenedix Office Investment Corporation (KDO).

Although we were exposed to the waves of various environmental changes in the 36th fiscal period (the fiscal period ended April 30, 2023), we were able to increase the distributions per unit (DPU) to 7,647 yen due to the sale of KDX Kawasaki-Ekimae Hon-cho Building and other factors. We expect to be able to make stable distributions for the 37th fiscal period (the fiscal period ending October 31, 2023) by utilizing gain on the partial sale of the silent partnership equity interest.

For future growth, KDO entered into a merger agreement with Kenedix Residential NEXT Investment Corporation and Kenedix Retail REIT Corporation on June 13, 2023, whereby KDO will be the surviving corporation. Subject to approval at the General Meetings of Unitholders of the three investment corporations, the merged entity is expected to begin operation on November 1, 2023.

With the merger, we expect to become one of the top J-REITs in terms of asset size and number of properties, and we anticipate improved liquidity of investment units and stability of earnings. In addition, we will aim to achieve sustainable growth by expanding our portfolio of investments and creating a wide variety of acquisition opportunities.

For details of the merger, please refer to our website. We would appreciate your approval of the merger and your continued support and encouragement.



Executive Director, Kenedix Office Investment Corporation
Director and COO, Head of Office REIT Department,
Kenedix Real Estate Fund Management, Inc.

Hiroaki Momoi

Conditions and topics during the 36th fiscal period (fiscal period ended April 30, 2023)

● AUM (Total of acquisition price)

453.3
billion yen

● JCR rating

AA
(Stable)

● DPU

7,647 yen
(period over period +403 yen, +5.6%)

In the 36th fiscal period (the fiscal period ended April 30, 2023), DPU increased considerably over the previous period due to the sale of KDX Kawasaki-Ekimae Hon-cho Building at a price significantly above its book value. At the same time, we retained some of the proceeds as a reserve for reduction entry for stabilizing DPU in the next fiscal period and beyond. Occupancy rate was high at 98.4%, 0.6 percentage points higher than at the end of the previous fiscal period, thanks to proactive leasing strategies based on market trends and tenant needs.

In the 37th fiscal period (the fiscal period ending October 31, 2023), we plan to sell the part of the silent partnership equity interest, and we will continue to aim for stable payment of distributions.

About the merger

KDO concluded a merger agreement with Kenedix Residential NEXT Investment Corporation and Kenedix Retail REIT Corporation, whereby KDO will be the surviving corporation in the absorption-type merger, to achieve sustainable growth through the expansion of its investment universe, improve its market presence and stability, and demonstrate further commitment to sustainability. For further information regarding this merger, please refer to the special section on the KDO website.



Financial Summary

Historical Operating Trends
For the 32nd-36th Fiscal Periods

Period	Unit	32nd Period (Apr. 2021)	33rd Period (Oct. 2021)	34th period (Apr.2022)	35th Period (Oct.2022)	36th Period (Apr.2023)
Operating revenues	millions of yen	16,301	15,028	15,891	16,266	17,290
(Rental revenues)	millions of yen	15,119	14,981	15,078	15,960	16,072
Operating expenses	millions of yen	8,310	8,170	8,463	8,886	9,132
(Property-related expenses)	millions of yen	6,880	7,054	7,309	7,707	7,793
Operating income	millions of yen	7,990	6,857	7,427	7,379	8,157
Ordinary income	millions of yen	7,017	5,911	6,497	6,452	7,208
Net income (a)	millions of yen	7,016	5,909	6,496	6,451	7,205
Total assets (b) (Period over period)	millions of yen %	457,505 (-0.5)	456,327 (-0.3)	464,802 (+1.9)	473,013 (+1.8)	474,274 (+0.3)
Interest-bearing debt (c) (Period over period)	millions of yen %	198,750 (-1.5)	198,750 (0.0)	205,150 (+3.2)	214,950 (+4.8)	214,950 (0.0)
Net assets (d) (Period over period)	millions of yen %	230,981 (+0.1)	230,544 (-0.2)	231,763 (+0.5)	229,562 (-0.9)	230,482 (+0.4)
Unitholders' capital (Period over period)	millions of yen %	220,970 (0.0)	220,970 (0.0)	220,970 (0.0)	217,970 (-1.4)	217,970 (0.0)
Number of investment units issued and outstanding (e)	unit	428,510	428,510	428,510	424,215	848,430
Net assets per unit *1 (d)/(e)	yen	539,034	538,015	540,859	270,573	271,657
Total distributions (f)	millions of yen	6,592	5,999	5,999	6,146	6,487
Distributions per unit (f)/(e)	yen	15,384	14,000	14,000	14,488	7,647
(Profit distribution per unit)	yen	15,384	14,000	14,000	14,488	7,647
(Distributions in excess of earnings per unit)	yen	—	—	—	—	—
Ordinary income to total assets (annualized) *2, 3	%	1.5(3.1)	1.3(2.6)	1.4(2.8)	1.4(2.7)	1.5(3.1)
Return on unitholders' equity (annualized) *3, 4	%	3.0(6.1)	2.6(5.1)	2.8(5.7)	2.8(5.5)	3.1(6.3)
Net assets to total assets at end of period (d)/(b) (Period-on-period change)	%	50.5 (+0.3)	50.5 (+0.0)	49.9 (-0.7)	48.5 (-1.3)	48.6 (+0.1)
Interest-bearing debt ratio at end of period (c)/(b) (Period-on-period change)	%	43.4 (-0.4)	43.6 (+0.1)	44.1 (+0.6)	45.4 (+1.3)	45.3 (-0.1)
Payout ratio*5 (f)/(a)	%	93.9	101.5	92.3	95.2	90.0
Other references						
Number of properties	properties	96	96	97	98	97
Total leasable floor area	m ²	482,299.10	482,247.31	491,113.35	500,015.61	494,827.85
Occupancy rate at end of period	%	96.7	97.6	98.3	97.8	98.4
Depreciation for the period	millions of yen	2,548	2,567	2,588	2,631	2,617
Capital expenditures for the period	millions of yen	1,420	988	1,289	866	997
Leasing NOI (Net Operating Income)*6	millions of yen	10,787	10,495	10,356	10,884	10,896
FFO (Funds from Operation)*7	millions of yen	8,635	8,477	8,314	8,841	8,654
FFO per unit*1, 8	yen	20,153	19,782	19,403	10,421	10,201

*1 The Investment Corporation implemented a two-for-one split of investment units with October 31, 2022, as the record date of the split and November 1, 2022, as the effective date. Net assets per unit and FFO per unit are calculated based on the assumption that the split of the investment units was implemented at the beginning of the 35 Fiscal Period.

*2 Ordinary income to total assets = Ordinary income / {(Total assets at beginning of period + Total assets at end of period) / 2} × 100

*3 Annualized values for the 32nd Fiscal Period are calculated based on a period of 181 days, 184 days for the 33rd Fiscal Period, 181 days for 34th Fiscal Period, 184 days for 35th Fiscal Period and 181 days for 36th Fiscal Period.

*4 Return on unitholders' equity = Net income / {(Total net assets at beginning of period + Total net assets at end of period) / 2} × 100

*5 Payout ratio is rounded down to the first decimal place.

*6 Leasing NOI = Rental revenues – Property-related expenses + Depreciation for the period

*7 FFO = Net income + Depreciation for the period – Gain on sale of real estate + Loss on sale of real estate

*8 FFO per unit = FFO / Number of investment units issued and outstanding (figures below ¥1 rounded down.)

**Financial Statements
of
Kenedix Office Investment Corporation**

Thirty-sixth Fiscal Period: For the period from November 1, 2022 to April 30, 2023

With Independent Auditor's Report

Kenedix Office Investment Corporation

Balance Sheet

As of April 30, 2023

	As of April 30, 2023		As of October 31, 2022	
	In thousands of yen			
Assets				
Current assets				
Cash and deposits (Notes 3)	¥	26,871,012	¥	20,376,036
Cash and deposits in trust (Notes 3)		11,636,598		11,745,529
Operating accounts receivable		352,851		396,242
Prepaid expenses		74,513		112,649
Other		9,398		13,240
Total current assets		38,944,374		32,643,699
Non-current assets				
Property, plant and equipment (Notes 4 and 18)				
Buildings		17,314,188		19,208,618
Accumulated depreciation		(7,122,069)		(7,768,708)
Buildings, net		10,192,119		11,439,910
Structures		39,836		44,224
Accumulated depreciation		(23,007)		(22,699)
Structures, net		16,828		21,524
Machinery and equipment		463,508		464,676
Accumulated depreciation		(348,262)		(336,018)
Machinery and equipment, net		115,245		128,658
Tools, furniture and fixtures		102,389		106,355
Accumulated depreciation		(84,747)		(83,487)
Tools, furniture and fixtures, net		17,642		22,868
Land		27,918,010		30,128,905
Buildings in trust (Note 7)		131,523,808		130,699,106
Accumulated depreciation		(44,709,397)		(42,535,054)
Buildings in trust, net		86,814,411		88,164,051
Structures in trust		435,544		429,675
Accumulated depreciation		(248,540)		(235,561)
Structures in trust, net		187,004		194,114
Machinery and equipment in trust		2,245,231		2,123,432
Accumulated depreciation		(1,105,353)		(1,038,762)
Machinery and equipment in trust, net		1,139,878		1,084,669
Tools, furniture and fixtures in trust		766,142		748,177
Accumulated depreciation		(484,568)		(458,579)
Tools, furniture and fixtures in trust, net		281,574		289,597
Land in trust		305,091,543		305,091,543
Total property, plant and equipment, net		431,774,258		436,565,845
Intangible assets (Note 4)				
Leasehold right (Note 18)		285,257		285,257
Leasehold right in trust (Note 18)		344,554		345,329
Other		39		57
Total intangible assets		629,852		630,644
Investments and other assets				
Investment securities (Note 15)		1,136,228		1,138,413
Lease and guarantee deposits		10,000		10,000
Lease and guarantee deposits in trust		122,889		122,889
Long-term prepaid expenses		932,240		1,034,645
Other (Notes 10,15 and 16)		678,437		813,924
Total investments and other assets		2,879,795		3,119,872
Total non-current assets		435,283,905		440,316,362
Deferred assets				
Investment corporation bond issuance costs		45,754		53,346
Total deferred assets		45,754		53,346
Total assets	¥	474,274,035	¥	473,013,408

	As of April 30, 2023	As of October 31, 2022
	In thousands of yen	
Liabilities		
Current liabilities		
Operating accounts payable	¥ 1,527,774	¥ 1,737,357
Short-term loans payable (Notes 6)	300,000	300,000
Current portion of investment corporation bonds(Notes 6 and 15)	2,000,000	—
Current portion of long-term loans payable (Notes 6,15 and 16)	19,700,000	14,300,000
Accounts payable—other	801,842	559,553
Accrued expenses	106,022	101,839
Income taxes payable	1,509	831
Accrued consumption taxes	437,597	308,775
Advances received	2,874,538	2,774,028
Deposits received	16,180	4,987
Other	566	—
Total current liabilities	27,766,031	20,087,373
Non-current liabilities		
Investment corporation bonds (Notes 6 and 15)	11,000,000	13,000,000
Long-term loans payable (Notes 6, 15 and 16)	181,950,000	187,350,000
Tenant leasehold and security deposits	2,196,875	2,284,874
Tenant leasehold and security deposits in trust	20,875,109	20,728,309
Other (Notes 15 and 16)	3,548	537
Total non-current liabilities	216,025,533	223,363,720
Total liabilities	243,791,565	243,451,094
Net Assets(Note 11)		
Unitholders' equity		
Unitholders' capital	220,970,508	220,970,508
Deduction from unitholders' capital	(2,999,551)	(2,999,551)
Unitholders' capital, net	217,970,957	217,970,957
Surplus		
Voluntary retained earnings		
Reserve for reduction entry	4,630,856	4,326,003
Total voluntary retained earnings	4,630,856	4,326,003
Unappropriated retained earnings	7,206,005	6,451,096
Total surplus	11,836,861	10,777,100
Total unitholders' equity	229,807,819	228,748,057
Valuation and translation adjustments		
Deferred gains or losses on hedges (Notes 15 and 16)	674,650	814,256
Total valuation and translation adjustments	674,650	814,256
Total net assets (Note 11)	230,482,469	229,562,314
Total liabilities and net assets	¥ 474,274,035	¥ 473,013,408

See accompanying notes to the financial statements.

Kenedix Office Investment Corporation

Statement of Income and Retained Earnings

For the period from November 1, 2022 to April 30, 2023

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
In thousands of yen		
Operating revenues		
Rent revenue – real estate (Note 13)	¥ 13,896,892	¥ 13,841,688
Other lease business revenue (Note 13)	2,176,002	2,119,236
Gain on sale of real estate properties (Note 13)	1,168,433	240,982
Dividends income	49,385	64,462
Total operating revenues	17,290,713	16,266,370
Operating expenses		
Expenses related to rent business (Note 13)	7,793,647	7,707,795
Asset management fees	1,117,455	976,930
Directors' compensation	6,300	6,300
Asset custody fees	24,075	23,870
Administrative service fees	61,419	59,530
Audit fees	13,200	12,800
Other operating expenses	116,749	99,583
Total operating expenses	9,132,847	8,886,810
Operating income	8,157,866	7,379,560
Non-operating income		
Interest income	45	45
Gain on forfeiture of unclaimed dividends	271	383
Interest on refund	2	525
Total non-operating income	319	954
Non-operating expenses		
Interest expenses	725,038	732,865
Interest expenses on investment corporation bonds	35,691	35,987
Financing-related expenses	131,494	139,175
Amortization of investment corporation bond issuance costs	7,592	7,659
Other non-operating expenses	49,566	12,386
Total non-operating expenses	949,384	928,074
Ordinary income	7,208,802	6,452,439
Income before income taxes	7,208,802	6,452,439
Income taxes (Note 10)		
Current	3,154	1,349
Deferred	(140)	(6)
Total income taxes	3,014	1,343
Net income	7,205,788	6,451,096
Retained earnings brought forward	217	—
Unappropriated retained earnings	¥ 7,206,005	¥ 6,451,096

See accompanying notes to the financial statements.

Kenedix Office Investment Corporation

Statement of Changes in Net Assets

For the period from November 1, 2022 to April 30, 2023

		Unitholders' equity (Note 5)										
		Unitholders' capital			Surplus							
					Voluntary retained earnings							
		Unitholders' capital	Deduction from unitholders' capital (Note 11)	Unitholders' capital, net	Reserve for reduction entry	Unappropriated retained earnings (Note 21)	Total surplus					
In thousands of yen												
Balance as of												
April 30, 2022	¥	220,970,508	¥	–	¥	220,970,508	¥	3,828,434	¥	6,496,709	¥	10,325,143
Changes during the fiscal period												
Provision of reserve for reduction entry		–	–	–		497,569		(497,569)		–		–
Dividends of surplus		–	–	–		–		(5,999,140)		(5,999,140)		(5,999,140)
Net income		–	–	–		–		6,451,096		6,451,096		6,451,096
Purchase of treasury investment units		–	–	–		–		–		–		–
Cancellation of treasury investment units		–	(2,999,551)	(2,999,551)		–		–		–		–
Net changes of items other than unitholders' equity		–	–	–		–		–		–		–
Total changes during the fiscal period		–	(2,999,551)	(2,999,551)		497,569		(45,612)		451,956		451,956
Balance as of												
October 31, 2022	¥	220,970,508	¥	(2,999,551)	¥	217,970,957	¥	4,326,003	¥	6,451,096	¥	10,777,100
Changes during the fiscal period												
Provision of reserve for reduction entry		–	–	–		304,852		(304,852)		–		–
Dividends of surplus		–	–	–		–		(6,146,026)		(6,146,026)		(6,146,026)
Net income		–	–	–		–		7,205,788		7,205,788		7,205,788
Net changes of items other than unitholders' equity		–	–	–		–		–		–		–
Total changes during the fiscal period		–	–	–		304,852		754,908		1,059,761		1,059,761
Balance as of												
April 30, 2023	¥	220,970,508	¥	(2,999,551)	¥	217,970,957	¥	4,630,856	¥	7,206,005	¥	11,836,861

	Unitholders' equity (Note 5)		Valuation and translation adjustments		
	Own investment units(Note11)	Total unitholders' equity	Deferred gains or losses on hedges	Total net assets	
	In thousands of yen				
Balance as of April 30, 2022	¥	–	¥ 231,295,652	¥ 468,158	¥ 231,763,810
Changes during the fiscal period					
Provision of reserve for reduction entry	–	–	–	–	–
Dividends of surplus	–	(5,999,140)	–	–	(5,999,140)
Net income	–	6,451,096	–	–	6,451,096
Purchase of treasury investment units	(2,999,551)	(2,999,551)	–	–	(2,999,551)
Cancellation of treasury investment units	2,999,551	–	–	–	–
Net changes of items other than unitholders' equity	–	–	346,097	346,097	346,097
Total changes during the fiscal period	–	(2,547,594)	346,097	(2,201,496)	(2,201,496)
Balance as of October 31, 2022	¥	–	¥ 228,748,057	¥ 814,256	¥ 229,562,314
Changes during the fiscal period					
Provision of reserve for reduction entry	–	–	–	–	–
Dividends of surplus	–	(6,146,026)	–	–	(6,146,026)
Net income	–	7,205,788	–	–	7,205,788
Net changes of items other than unitholders' equity	–	–	(139,605)	(139,605)	(139,605)
Total changes during the fiscal period	–	1,059,761	(139,605)	920,155	920,155
Balance as of April 30, 2023	¥	–	¥ 229,807,819	¥ 674,650	¥ 230,482,469

See accompanying notes to the financial statements.

Kenedix Office Investment Corporation

Statement of Cash Flows

For the period from November 1, 2022 to April 30, 2023

	From November 1, 2022 to April 30, 2023		From May 1, 2022 to October 31, 2022	
	In thousands of yen			
Cash flows from operating activities				
Income before income taxes	¥	7,208,802	¥	6,452,439
Depreciation		2,617,548		2,631,665
Amortization of long-term prepaid expenses		119,860		117,004
Interest income		(45)		(45)
Interest expenses		760,730		768,853
Amortization of investment corporation bond issuance costs		7,592		7,659
Decrease (increase) in operating accounts receivable		43,391		(116,515)
Decrease (increase) in prepaid expenses		38,136		(41,429)
Increase (decrease) in operating accounts payable		(209,465)		205,756
Increase (decrease) in accounts payable—other		242,170		(19,922)
Increase (decrease) in accrued consumption taxes		128,821		89,892
Increase (decrease) in advances received		100,510		(71,540)
Increase (decrease) in deposits received		11,192		(2,211)
Decrease in property, plant and equipment in trust due to sale		—		1,350,357
Decrease in property, plant and equipment due to sale		3,189,768		—
Decrease (increase) in long-term prepaid expenses		(17,456)		(107,663)
Other, net		(19,499)		(11,589)
Subtotal		14,222,057		11,252,712
Interest income received		45		45
Interest expenses paid		(756,547)		(755,906)
Income taxes paid		(837)		(801)
Net cash provided by (used in) operating activities		13,464,718		10,496,050
Cash flows from investing activities				
Purchases of property, plant and equipment		(74,720)		(3,668,262)
Purchases of property, plant and equipment in trust		(746,370)		(11,021,726)
Repayments of tenant leasehold and security deposits		(191,634)		(30,007)
Proceeds from tenant leasehold and security deposits		121,410		172,628
Repayments of tenant leasehold and security deposits in trust		(697,843)		(551,922)
Proceeds from tenant leasehold and security deposits in trust		656,121		1,302,971
Payments of restricted deposits in trust		(2,513)		(31,536)
Proceeds from restricted deposits in trust		32,441		302,201
Net cash provided by (used in) investing activities		(903,109)		(13,525,653)
Cash flows from financing activities				
Proceeds from short-term loans payable		—		7,800,000
Repayments of short-term loans payable		—		(16,100,000)
Proceeds from long-term loans payable		4,800,000		26,750,000
Repayments of long-term loans payable		(4,800,000)		(8,650,000)
Proceeds from issuance of investment corporation bonds		—		990,148
Redemption of investment corporation bonds		—		(1,000,000)
Purchase of treasury investment units		—		(3,000,300)
Dividends paid		(6,145,636)		(5,998,599)
Net cash provided by (used in) financing activities		(6,145,636)		791,248
Net increase (decrease) in cash and cash equivalents		6,415,972		(2,238,355)
Cash and cash equivalents at the beginning of period		30,917,994		33,156,349
Cash and cash equivalents at the end of period (Note 3)	¥	37,333,966	¥	30,917,994

See accompanying notes to the financial statements.

Kenedix Office Investment Corporation

Notes to the Financial Statements

For the period from November 1, 2022 to April 30, 2023

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Office Investment Corporation (“the Investment Corporation”) is a real estate investment corporation whose units are listed on the Tokyo Stock Exchange. The Investment Corporation is engaged in the ownership and operation of selected mainly office buildings in Japan, with a focus on mid-sized office buildings in the Tokyo metropolitan area. The Investment Corporation was incorporated on May 6, 2005 as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan, or “the Investment Trust Law.” On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through eight public offerings. Pursuant to the Investment Trust Law, the Investment Corporation is externally managed by a registered asset management company, Kenedix Real Estate Fund Management, Inc. (“the Asset Management Company”), a subsidiary of Kenedix, Inc. (“Kenedix”). In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity.

During the period ended October 31, 2022, the Investment Corporation acquired two office building (Edobashi Building: Acquisition price 9,600 million yen, Shionogi Kobe Building: Acquisition price 3,450 million yen) and sold an office building (KDX Kiba Building: Acquisition price 1,580 million yen, Sale price 1,650 million yen) .

During the period ended April 30, 2023, the Investment Corporation sold an office building (KDX Kawasaki-Ekimae Hon-cho Building: Acquisition price 3,760 million yen, Sale price 4,508 million yen) .

At the end of the thirty-fifth fiscal period (fiscal period ended October 31, 2022), the Investment Corporation had total unitholders’ capital, net of ¥217,970 million with 424,215 investment units outstanding. At the end of thirty-sixth fiscal period (fiscal period ended April 30, 2023), the Investment Corporation had total unitholders’ capital, net of ¥217,970 million with 848,430 investment units outstanding. The Investment Corporation owned a portfolio of 98 properties (consisting of 97 office buildings and one other property) and 97 properties (consisting of 96 office buildings and one other property) with total acquisition prices of ¥457,076 million and ¥453,316 million at the end of the thirty-fifth and thirty-sixth fiscal periods, respectively. The occupancy ratios were approximately 97.8% and 98.4% at the end of the thirty-fifth and thirty-sixth fiscal periods, respectively.

Basis of Presentation

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

The accompanying financial statements are basically a translation of the audited financial statements that were prepared for Japanese domestic purposes from the accounts and records maintained by the Investment Corporation and filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. In preparing the accompanying financial statements, relevant notes have been added and certain reclassifications have been made to the financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. The Investment Corporation’s fiscal period is a six-month period that ends at the end of April and the end of October each year. The Investment Corporation does not prepare consolidated financial statements because it has no subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Concerning silent partnership (*tokumei kumiai*, “TK”) interests, the method of incorporating the amount of equity equivalent to the portion that corresponds to the net gain or loss of the TK is adopted.

(B) Property, Plant and Equipment (including trust assets)

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

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
Buildings	2–49 years	2–49 years
Structures	2–45 years	2–45 years
Machinery and equipment	3–17 years	3–17 years
Tools, furniture and fixtures	3–20 years	3–20 years

(C) Intangible Assets (including trust assets)

Intangible assets are amortized by the straight-line method.

Leasehold right: Fixed-term land leasehold is amortized over a contractual period of 48 years and 9 months under the straight-line method.

(D) Long-term Prepaid Expenses

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

(E) Investment Unit Issuance Costs

Investment unit issuance costs are amortized over a period of three years under the straight-line method.

(F) Investment Corporation Bond Issuance Costs

Investment corporation bond issuance costs are amortized over a maturity period under the straight-line method.

(G) 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 assets and liabilities in trust are recorded in the relevant balance sheets and statements of income and retained earnings.

(H) Revenue Recognition

Operating revenues consist of rental revenues including base rents, common area charges and other operating revenues, which include utility charge reimbursement, parking space rental revenues and other miscellaneous revenues. Rental revenues are generally recognized on an accrual basis over the life of each lease. Utility charge reimbursements are recognized when earned and their amounts can be reasonably estimated. Reimbursements from tenants including utility charge reimbursements are recorded on a gross basis and such amounts are recorded both as revenues and expenses during the fiscal period.

(I) Taxes on Property, Plant 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 the said period. Under Japanese tax rules, the seller of property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is generally 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 ¥28,034 thousand as of October 31, 2022. There were no capitalized property-related taxes as of April 30, 2023. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

(J) Accounting for revenues

The main content of the performance obligation regarding the revenue from contracts with the customers of the Investment Corporation and the normal point of time when satisfying the said performance obligation (normal point of time when recognizing revenue) are as follows.

1. Sale of real estate property

For the revenue from sale of real estate, etc., revenue is recorded when the buyer who is a customer gains control of the real estate by performing the obligation of handover stipulated in the contract for real estate sales.

2. Utility charge reimbursements

For utility charge reimbursement, revenue is recorded in accordance with the supply of electricity, tap water, etc. to the lessee who is a customer based on the lease agreement of real estate, etc. and the content of agreement incidental to it.

Of the utility charge reimbursement, for those that are determined to fall under the category of an agent by the Investment Corporation, the net amount obtained by deducting the amount paid to other related parties supplying electricity, gas, etc. from the amount received as the fee of electricity, gas, etc. is recognized as revenue.

(K) 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.

(L) Non-deductible consumption taxes

Non-deductible consumption taxes applicable to the acquisition of assets are included in the cost of acquisition for each asset.

(M) Derivative Financial Instruments

The Investment Corporation utilizes interest-rate swap contracts as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap contracts because these contracts met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-rate swap contracts if they met the criteria for hedging accounting under this treatment. The hedge effectiveness for the interest-rate swap contracts is assessed each fiscal period except for those that meet the criteria of special treatment.

(N) 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.

(O) Presentation of Amounts

Amounts of less than one thousand yen have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan. Unless otherwise noted, amounts are rounded down and ratios are rounded off in the accompanying financial statements.

Totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of April 30, 2023, and October 31, 2022.

	As of April 30, 2023	As of October 31, 2022
	In thousands of yen	
Cash and deposits	¥ 26,871,012	¥ 20,376,036
Cash and deposits in trust	11,636,598	11,745,529
Restricted deposits in trust (Note)	(1,173,644)	(1,203,571)
Cash and cash equivalents in trust	¥ 37,333,966	¥ 30,917,994

Note: Restricted deposits in trust are retained for the repayment of tenant leasehold and security deposits in trust.

4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets consist of the following as of April 30, 2023.

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 the end of period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Buildings	¥ 19,208,618	¥ 40,122	¥ 1,934,552	¥ 17,314,188	¥ 7,122,069	¥ 319,201	¥ 10,192,119	Note 1
Structures	44,224	–	4,387	39,836	23,007	1,175	16,828	
Machinery and equipment	464,676	1,848	3,017	463,508	348,262	13,230	115,245	
Tools, furniture and fixtures	106,355	400	4,366	102,389	84,747	3,248	17,642	
Land	30,128,905	2,230	2,213,125	27,918,010	–	–	27,918,010	Note 1
Subtotal	49,952,781	44,601	4,159,449	45,837,933	7,578,087	336,855	38,259,846	
Property, plant and equipment	¥ 130,699,106	¥ 824,702	¥ –	¥ 131,523,808	¥ 44,709,397	¥ 2,174,342	¥ 86,814,411	
Buildings in trust	429,675	5,869	–	435,544	248,540	12,979	187,004	
Structures in trust	2,123,432	121,799	–	2,245,231	1,105,353	66,590	1,139,878	
Machinery and equipment in trust	748,177	17,964	–	766,142	484,568	25,988	281,574	
Tools, furniture and fixtures in trust	305,091,543	–	–	305,091,543	–	–	305,091,543	
Land in trust	439,091,935	970,336	–	440,062,272	46,547,860	2,279,900	393,514,412	
Subtotal	489,044,717	1,014,937	4,159,449	485,900,205	54,125,947	2,616,756	431,774,258	
Total property, plant and equipment	¥ 290,050	¥ –	¥ –	¥ 290,050	¥ 4,792	¥ –	¥ 285,257	
Intangible assets	363,784	–	–	363,784	19,229	774	344,554	
Leasehold right	6,306	–	–	6,306	6,267	18	39	
Leasehold right in trust	660,141	–	–	660,141	30,289	792	629,852	
Other	¥ 489,704,858	¥ 1,014,937	¥ 4,159,449	¥ 486,560,346	¥ 54,156,236	¥ 2,617,548	¥ 432,404,110	
Total intangible assets								
Total								

Note1: The amount of decrease during the period is primarily attributable to the sales of real estate of 1 property.

Property, plant and equipment and intangible assets consist of the following as of October 31, 2022.

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 the end of period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Buildings	¥ 18,127,176	¥ 1,081,442	¥ –	¥ 19,208,618	¥ 7,768,708	¥ 319,139	¥ 11,439,910	Note 1
Structures	44,224	–	–	44,224	22,699	1,230	21,524	
Machinery and equipment	456,232	8,444	–	464,676	336,018	13,106	128,658	
Tools, furniture and fixtures	104,554	1,800	–	106,355	83,487	3,732	22,868	
Land	27,520,902	2,608,002	–	30,128,905	–	–	30,128,905	Note 1
Subtotal	46,253,090	3,699,690	–	49,952,781	8,210,912	337,209	41,741,868	
Property, plant and equipment								
Buildings in trust	¥ 130,362,510	¥ 1,255,991	¥ 919,395	¥ 130,699,106	¥ 42,535,054	¥ 2,187,286	¥ 88,164,051	Notes 1 and 2
Structures in trust	429,795	3,631	3,751	429,675	235,561	13,719	194,114	
Machinery and equipment in trust	2,075,571	60,065	12,205	2,123,432	1,038,762	65,810	1,084,669	
Tools, furniture and fixtures in trust	739,174	12,360	3,356	748,177	458,579	26,845	289,597	
Land in trust	296,760,716	9,180,430	849,602	305,091,543	–	–	305,091,543	Notes 1 and 2
Construction in progress in trust	800	–	800	–	–	–	–	
Subtotal	430,368,567	10,512,479	1,789,110	439,091,935	44,267,959	2,293,663	394,823,976	
Total property, plant and equipment	476,621,658	14,212,169	1,789,110	489,044,717	52,478,872	2,630,872	436,565,845	
Intangible assets								
Leasehold right	¥ 290,050	¥ –	¥ –	¥ 290,050	¥ 4,792	¥ –	¥ 285,257	
Leasehold right in trust	363,784	–	–	363,784	18,455	774	345,329	
Other	6,306	–	–	6,306	6,248	18	57	
Total intangible assets	660,141	–	–	660,141	29,496	792	630,644	
Total	¥ 477,281,799	¥ 14,212,169	¥ 1,789,110	¥ 489,704,858	¥ 52,508,368	¥ 2,631,665	¥ 437,196,489	

Note1: The amount of increase during the period is primarily attributable to the acquisition of 1 real estate property and trust beneficiary interest in real estate of 1 property.

Note2: The amount of decrease during the period is primarily attributable to the sales of trust beneficiary interest in real estate of 1 property.

5. UNITHOLDERS' EQUITY

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

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
Total number of authorized investment units	4,000,000	2,000,000
Total number of investment units issued and outstanding	848,430	424,215

6. SHORT-TERM LOANS PAYABLE, LONG-TERM LOANS PAYABLE AND INVESTMENT CORPORATION BONDS

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of April 30, 2023:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance	
				¥	(In thousands of yen)
Short-term loans payable	August 31, 2022	August 31, 2023	0.233%	¥	300,000
Subtotal					300,000
Current portion of long-term loans payable	June 14, 2019	June 30, 2023	0.246%	¥	500,000
	July 10, 2019	July 31, 2023	0.230%		500,000
	July 31, 2019	July 31, 2023	0.295%		1,000,000
	August 31, 2017	August 31, 2023	0.544%		1,000,000
	September 21, 2021	August 31, 2023	0.300%		2,000,000
	October 31, 2014	October 31, 2023	1.071%		2,000,000
	October 31, 2014	October 31, 2023	1.126%		1,500,000
	October 31, 2014	October 31, 2023	1.071%		1,000,000
	January 29, 2021	January 31, 2024	0.287%		1,000,000
	February 18, 2015	February 29, 2024	1.157%		1,700,000
	September 21, 2021	February 29, 2024	0.300%		1,000,000
	September 21, 2017	March 31, 2024	0.555%		1,000,000
	April 28, 2016	April 30, 2024	0.654%		2,000,000
	April 28, 2022	April 30, 2024	0.264%		1,000,000
	April 28, 2022	April 30, 2024	0.230%		2,500,000
Subtotal					19,700,000
Long-term loans payable	October 31, 2014	October 31, 2024	1.257%	¥	2,000,000
	October 31, 2014	October 31, 2024	1.259%		1,000,000
	January 30, 2015	January 31, 2025	1.161%		1,500,000
	February 18, 2015	February 28, 2025	1.314%		1,250,000
	February 27, 2015	February 28, 2025	1.153%		2,100,000
	March 12, 2015	February 28, 2025	1.218%		1,000,000
	March 31, 2015	March 31, 2025	1.266%		2,500,000
	September 30, 2015	September 30, 2024	1.065%		2,000,000
	October 30, 2015	October 31, 2024	0.989%		1,000,000
	October 30, 2015	October 30, 2025	1.114%		1,500,000
	October 30, 2015	October 30, 2025	1.114%		2,000,000
	October 30, 2015	October 30, 2025	1.114%		2,500,000
	October 30, 2015	October 30, 2025	1.121%		2,500,000
	November 12, 2015	November 30, 2025	1.173%		1,000,000
	January 29, 2016	January 29, 2026	1.074%		2,000,000
	January 29, 2016	January 29, 2026	1.024%		1,800,000
	February 18, 2016	February 18, 2026	0.998%		1,000,000
	February 18, 2016	February 18, 2026	0.998%		500,000
	March 31, 2016	March 31, 2026	0.898%		1,000,000
	April 28, 2016	April 30, 2026	0.835%		2,000,000
	April 28, 2016	April 30, 2026	0.865%		1,000,000
	July 29, 2016	July 31, 2026	0.613%		1,500,000
	August 2, 2016	July 31, 2026	0.544%		1,000,000
	October 31, 2016	October 31, 2024	0.668%		1,000,000
	October 31, 2016	October 31, 2026	0.876%		2,500,000
	October 31, 2016	October 31, 2026	0.760%		1,000,000
	October 31, 2016	October 31, 2026	0.734%		4,000,000
	October 31, 2016	October 31, 2026	0.826%		1,500,000

Classification	Drawdown date	Last repayment date	Weighted-average	Balance
			interest rate	(In thousands of yen)
Long-term loans payable	December 12, 2016	November 30, 2026	0.982%	¥ 500,000
	December 28, 2016	December 28, 2026	0.950%	1,500,000
	January 16, 2017	January 31, 2027	0.860%	500,000
	January 31, 2017	January 31, 2027	0.853%	700,000
	March 28, 2017	March 31, 2027	0.850%	500,000
	June 30, 2017	June 30, 2027	0.849%	1,500,000
	August 10, 2017	July 28, 2027	0.800%	3,500,000
	September 21, 2017	September 30, 2025	0.680%	1,500,000
	September 21, 2017	March 31, 2027	0.732%	1,000,000
	September 21, 2017	September 21, 2027	0.873%	1,000,000
	September 21, 2017	September 30, 2027	0.851%	2,500,000
	October 31, 2017	October 31, 2027	0.810%	2,500,000
	November 13, 2017	November 13, 2027	0.931%	3,000,000
	December 7, 2017	November 30, 2027	0.899%	1,400,000
	December 7, 2017	November 30, 2027	0.820%	1,200,000
	December 7, 2017	November 30, 2027	0.969%	1,000,000
	December 7, 2017	November 30, 2027	0.939%	1,000,000
	December 7, 2017	November 30, 2027	0.869%	1,000,000
	December 7, 2017	November 30, 2027	0.899%	800,000
	December 7, 2017	November 30, 2027	0.869%	600,000
	December 28, 2017	December 28, 2025	0.744%	500,000
	December 28, 2017	December 28, 2026	0.878%	500,000
	December 28, 2017	December 28, 2027	0.864%	500,000
	March 12, 2018	March 31, 2028	0.914%	1,500,000
	March 26, 2018	March 31, 2027	0.808%	1,000,000
	March 26, 2018	March 31, 2028	0.902%	1,000,000
	July 31, 2018	July 31, 2028	0.988%	500,000
	August 20, 2018	August 31, 2025	0.696%	500,000
	August 20, 2018	August 31, 2028	1.003%	1,000,000
	August 20, 2018	August 31, 2028	1.003%	1,000,000
	August 20, 2018	August 31, 2028	1.003%	500,000
	August 20, 2018	August 31, 2028	0.966%	500,000
	August 31, 2018	August 31, 2025	0.700%	500,000
	August 31, 2018	August 31, 2025	0.723%	300,000
	August 31, 2018	August 31, 2028	1.012%	700,000
	October 31, 2018	October 31, 2028	1.013%	1,500,000
	October 31, 2018	October 31, 2028	0.910%	1,000,000
	October 31, 2018	October 31, 2028	1.013%	500,000
	March 28, 2019	March 31, 2029	0.838%	1,400,000
	March 29, 2019	March 31, 2029	0.839%	2,950,000
	June 14, 2019	December 28, 2026	0.517%	500,000
	June 14, 2019	April 30, 2027	0.605%	1,000,000
	June 14, 2019	March 31, 2029	0.725%	1,000,000
	July 31, 2019	April 30, 2027	0.554%	1,000,000
	July 31, 2019	April 30, 2027	0.554%	1,000,000
September 30, 2019	September 30, 2026	0.489%	1,000,000	
September 30, 2019	March 31, 2027	0.531%	900,000	
September 30, 2019	March 31, 2027	0.425%	800,000	
January 31, 2020	January 31, 2025	0.406%	700,000	
January 31, 2020	January 31, 2027	0.526%	1,500,000	
January 31, 2020	January 31, 2029	0.675%	1,500,000	
March 12, 2020	February 28, 2026	0.361%	1,800,000	
March 31, 2020	March 31, 2028	0.642%	1,000,000	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Long-term loans payable	June 30, 2020	June 30, 2028	0.646%	¥ 2,000,000
	June 30, 2020	June 30, 2028	0.646%	2,000,000
	June 30, 2020	June 30, 2028	0.646%	700,000
	June 30, 2020	June 30, 2028	0.510%	2,000,000
	July 31, 2020	July 31, 2028	0.636%	2,700,000
	August 31, 2020	August 31, 2030	0.705%	1,500,000
	September 30, 2020	September 30, 2025	0.396%	1,000,000
	September 30, 2020	September 30, 2027	0.511%	1,000,000
	September 30, 2020	September 30, 2030	0.738%	700,000
	October 30, 2020	April 30, 2027	0.542%	1,400,000
	October 30, 2020	October 31, 2030	0.803%	1,500,000
	October 30, 2020	October 31, 2030	0.803%	300,000
	November 12, 2020	April 30, 2027	0.552%	1,300,000
	November 12, 2020	November 12, 2030	0.808%	700,000
	November 12, 2020	November 12, 2030	0.808%	500,000
	November 30, 2020	May 31, 2027	0.516%	200,000
	November 30, 2020	November 30, 2030	0.763%	900,000
	November 30, 2020	November 30, 2030	0.763%	800,000
	November 30, 2020	November 30, 2030	0.763%	200,000
	January 29, 2021	January 31, 2028	0.527%	1,200,000
	January 29, 2021	January 31, 2030	0.678%	2,300,000
	January 29, 2021	January 31, 2030	0.678%	2,000,000
	January 29, 2021	January 31, 2030	0.678%	2,000,000
	January 29, 2021	November 30, 2030	0.755%	800,000
	July 12, 2021	June 30, 2028	0.484%	500,000
	July 30, 2021	July 31, 2026	0.350%	1,000,000
	November 30, 2021	October 31, 2024	0.289%	500,000
	November 30, 2021	October 31, 2024	0.289%	500,000
	November 30, 2021	October 31, 2024	0.289%	300,000
	November 30, 2021	October 31, 2024	0.250%	2,500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	November 30, 2026	0.412%	500,000
	November 30, 2021	November 30, 2026	0.412%	500,000
	November 30, 2021	November 30, 2026	0.350%	500,000
	November 30, 2021	November 30, 2026	0.384%	1,000,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.325%	1,000,000
	November 30, 2021	November 30, 2026	0.350%	1,000,000
November 30, 2021	November 30, 2028	0.511%	1,000,000	
November 30, 2021	November 30, 2029	0.450%	500,000	
April 28, 2022	April 30, 2025	0.294%	1,000,000	
April 28, 2022	May 31, 2027	0.350%	1,000,000	
June 30, 2022	June 30, 2024	0.266%	2,000,000	
June 30, 2022	June 30, 2024	0.266%	1,000,000	
June 30, 2022	June 30, 2025	0.200%	2,000,000	
June 30, 2022	June 30, 2025	0.200%	1,000,000	
June 30, 2022	June 30, 2025	0.200%	500,000	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Long-term loans payable	August 31, 2022	August 31, 2024	0.350%	¥ 1,600,000
	August 31, 2022	February 28, 2025	0.374%	1,600,000
	August 31, 2022	August 31, 2025	0.395%	500,000
	August 31, 2022	August 31, 2025	0.395%	1,000,000
	August 31, 2022	August 31, 2025	0.395%	500,000
	August 31, 2022	August 31, 2026	0.430%	2,700,000
	August 31, 2022	August 31, 2027	0.501%	2,400,000
	August 31, 2022	August 31, 2027	0.420%	1,000,000
	August 31, 2022	August 31, 2027	0.350%	300,000
	August 31, 2022	August 31, 2029	0.685%	1,950,000
	August 31, 2022	August 31, 2029	0.685%	1,000,000
	August 31, 2022	August 31, 2029	0.685%	500,000
	August 31, 2022	August 31, 2029	0.685%	500,000
	August 31, 2022	August 31, 2029	0.685%	500,000
	August 31, 2022	August 31, 2029	0.685%	200,000
	August 31, 2022	August 31, 2029	0.525%	1,000,000
	August 31, 2022	August 31, 2029	0.525%	500,000
	August 31, 2022	August 31, 2029	0.525%	1,000,000
	August 31, 2022	August 31, 2029	0.525%	500,000
	October 31, 2022	October 31, 2025	0.481%	500,000
October 31, 2022	April 30, 2026	0.373%	500,000	
February 28, 2023	February 29, 2028	0.793%	1,000,000	
March 13, 2023	March 31, 2030	1.050%	2,000,000	
March 13, 2023	March 31, 2031	1.186%	1,800,000	
Subtotal				181,950,000
Current portion of investment corporation bonds	February 15, 2019	February 15, 2024	0.390%	¥ 2,000,000
Subtotal				2,000,000
Investment corporation bonds	July 25, 2014	July 25, 2024	1.180%	¥ 2,000,000
	April 28, 2016	April 28, 2028	0.900%	1,000,000
	July 19, 2017	July 16, 2027	0.640%	2,000,000
	January 30, 2020	January 30, 2025	0.250%	2,000,000
	October 20, 2020	October 18, 2030	0.610%	1,000,000
	July 28, 2021	July 31, 2026	0.180%	2,000,000
	July 11, 2022	July 9, 2027	0.400%	1,000,000
Subtotal				11,000,000
Total				¥ 214,950,000

The following summarizes short-term loans payable, long-term loans payable and investment corporation bonds outstanding as of October 31, 2022:

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Short-term loans payable	August 31, 2022	August 31, 2023	0.245%	¥ 300,000
Subtotal				300,000
Current portion of long-term loans payable	September 21, 2021	February 28, 2023	0.300%	¥ 1,000,000
	March 12, 2014	March 12, 2023	1.358%	1,800,000
	March 20, 2014	March 12, 2023	1.349%	2,000,000
	June 14, 2019	June 30, 2023	0.246%	500,000
	July 10, 2019	July 31, 2023	0.230%	500,000
	July 31, 2019	July 31, 2023	0.295%	1,000,000
	August 31, 2017	August 31, 2023	0.544%	1,000,000
	September 21, 2021	August 31, 2023	0.300%	2,000,000
	October 31, 2014	October 31, 2023	1.071%	2,000,000

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Current portion of long-term loans payable	October 31, 2014	October 31, 2023	1.126%	¥ 1,500,000
	October 31, 2014	October 31, 2023	1.071%	1,000,000
Subtotal				14,300,000
Long-term loans payable	October 31, 2014	October 31, 2024	1.257%	¥ 2,000,000
	October 31, 2014	October 31, 2024	1.259%	1,000,000
	January 30, 2015	January 31, 2025	1.161%	1,500,000
	February 18, 2015	February 29, 2024	1.157%	1,700,000
	February 18, 2015	February 28, 2025	1.314%	1,250,000
	February 27, 2015	February 28, 2025	1.153%	2,100,000
	March 12, 2015	February 28, 2025	1.218%	1,000,000
	March 31, 2015	March 31, 2025	1.266%	2,500,000
	September 30, 2015	September 30, 2024	1.065%	2,000,000
	October 30, 2015	October 31, 2024	0.989%	1,000,000
	October 30, 2015	October 30, 2025	1.114%	1,500,000
	October 30, 2015	October 30, 2025	1.114%	2,000,000
	October 30, 2015	October 30, 2025	1.114%	2,500,000
	October 30, 2015	October 30, 2025	1.121%	2,500,000
	November 12, 2015	November 30, 2025	1.173%	1,000,000
	January 29, 2016	January 29, 2026	1.074%	2,000,000
	January 29, 2016	January 29, 2026	1.024%	1,800,000
	February 18, 2016	February 18, 2026	0.998%	1,000,000
	February 18, 2016	February 18, 2026	0.998%	500,000
	March 31, 2016	March 31, 2026	0.898%	1,000,000
	April 28, 2016	April 30, 2024	0.654%	2,000,000
	April 28, 2016	April 30, 2026	0.835%	2,000,000
	April 28, 2016	April 30, 2026	0.865%	1,000,000
	July 29, 2016	July 31, 2026	0.613%	1,500,000
	August 2, 2016	July 31, 2026	0.544%	1,000,000
	October 31, 2016	October 31, 2024	0.668%	1,000,000
	October 31, 2016	October 31, 2026	0.876%	2,500,000
	October 31, 2016	October 31, 2026	0.760%	1,000,000
	October 31, 2016	October 31, 2026	0.734%	4,000,000
	October 31, 2016	October 31, 2026	0.826%	1,500,000
	December 12, 2016	November 30, 2026	0.982%	500,000
	December 28, 2016	December 28, 2026	0.950%	1,500,000
	January 16, 2017	January 31, 2027	0.860%	500,000
	January 31, 2017	January 31, 2027	0.853%	700,000
	March 28, 2017	March 31, 2027	0.850%	500,000
	June 30, 2017	June 30, 2027	0.849%	1,500,000
	August 10, 2017	July 28, 2027	0.800%	3,500,000
	September 21, 2017	March 31, 2024	0.555%	1,000,000
	September 21, 2017	September 30, 2025	0.680%	1,500,000
	September 21, 2017	March 31, 2027	0.732%	1,000,000
	September 21, 2017	September 21, 2027	0.873%	1,000,000
	September 21, 2017	September 30, 2027	0.851%	2,500,000
	October 31, 2017	October 31, 2027	0.810%	2,500,000
November 13, 2017	November 13, 2027	0.931%	3,000,000	
December 7, 2017	November 30, 2027	0.899%	1,400,000	
December 7, 2017	November 30, 2027	0.820%	1,200,000	
December 7, 2017	November 30, 2027	0.969%	1,000,000	
December 7, 2017	November 30, 2027	0.939%	1,000,000	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Long-term loans payable	December 7, 2017	November 30, 2027	0.869%	¥ 1,000,000
	December 7, 2017	November 30, 2027	0.899%	800,000
	December 7, 2017	November 30, 2027	0.869%	600,000
	December 28, 2017	December 28, 2025	0.744%	500,000
	December 28, 2017	December 28, 2026	0.878%	500,000
	December 28, 2017	December 28, 2027	0.864%	500,000
	March 12, 2018	March 31, 2028	0.914%	1,500,000
	March 26, 2018	March 31, 2027	0.808%	1,000,000
	March 26, 2018	March 31, 2028	0.902%	1,000,000
	July 31, 2018	July 31, 2028	0.988%	500,000
	August 20, 2018	August 31, 2025	0.696%	500,000
	August 20, 2018	August 31, 2028	1.003%	1,000,000
	August 20, 2018	August 31, 2028	1.003%	1,000,000
	August 20, 2018	August 31, 2028	1.003%	500,000
	August 20, 2018	August 31, 2028	0.966%	500,000
	August 31, 2018	August 31, 2025	0.700%	500,000
	August 31, 2018	August 31, 2025	0.723%	300,000
	August 31, 2018	August 31, 2028	1.012%	700,000
	October 31, 2018	October 31, 2028	1.013%	1,500,000
	October 31, 2018	October 31, 2028	0.910%	1,000,000
	October 31, 2018	October 31, 2028	1.013%	500,000
	March 28, 2019	March 31, 2029	0.838%	1,400,000
	March 29, 2019	March 31, 2029	0.839%	2,950,000
	June 14, 2019	December 28, 2026	0.517%	500,000
	June 14, 2019	April 30, 2027	0.605%	1,000,000
	June 14, 2019	March 31, 2029	0.725%	1,000,000
	July 31, 2019	April 30, 2027	0.554%	1,000,000
	July 31, 2019	April 30, 2027	0.554%	1,000,000
	September 30, 2019	September 30, 2026	0.489%	1,000,000
	September 30, 2019	March 31, 2027	0.531%	900,000
	September 30, 2019	March 31, 2027	0.425%	800,000
	January 31, 2020	January 31, 2025	0.406%	700,000
	January 31, 2020	January 31, 2027	0.526%	1,500,000
	January 31, 2020	January 31, 2029	0.675%	1,500,000
	March 12, 2020	February 28, 2026	0.361%	1,800,000
	March 31, 2020	March 31, 2028	0.642%	1,000,000
	June 30, 2020	June 30, 2028	0.646%	2,000,000
	June 30, 2020	June 30, 2028	0.646%	2,000,000
	June 30, 2020	June 30, 2028	0.646%	700,000
	June 30, 2020	June 30, 2028	0.510%	2,000,000
	July 31, 2020	July 31, 2028	0.636%	2,700,000
	August 31, 2020	August 31, 2030	0.705%	1,500,000
	September 30, 2020	September 30, 2025	0.396%	1,000,000
	September 30, 2020	September 30, 2027	0.511%	1,000,000
	September 30, 2020	September 30, 2030	0.738%	700,000
	October 30, 2020	April 30, 2027	0.542%	1,400,000
	October 30, 2020	October 31, 2030	0.803%	1,500,000
October 30, 2020	October 31, 2030	0.803%	300,000	
November 12, 2020	April 30, 2027	0.552%	1,300,000	
November 12, 2020	November 12, 2030	0.808%	700,000	
November 12, 2020	November 12, 2030	0.808%	500,000	
November 30, 2020	May 31, 2027	0.516%	200,000	
November 30, 2020	November 30, 2030	0.763%	900,000	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Long-term loans payable	November 30, 2020	November 30, 2030	0.763%	¥ 800,000
	November 30, 2020	November 30, 2030	0.763%	200,000
	January 29, 2021	January 31, 2024	0.287%	1,000,000
	January 29, 2021	January 31, 2028	0.527%	1,200,000
	January 29, 2021	January 31, 2030	0.678%	2,300,000
	January 29, 2021	January 31, 2030	0.678%	2,000,000
	January 29, 2021	January 31, 2030	0.678%	2,000,000
	January 29, 2021	November 30, 2030	0.755%	800,000
	July 12, 2021	June 30, 2028	0.484%	500,000
	July 30, 2021	July 31, 2026	0.350%	1,000,000
	September 21, 2021	February 29, 2024	0.300%	1,000,000
	November 30, 2021	October 31, 2024	0.289%	500,000
	November 30, 2021	October 31, 2024	0.289%	500,000
	November 30, 2021	October 31, 2024	0.289%	300,000
	November 30, 2021	October 31, 2024	0.250%	2,500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	April 30, 2026	0.300%	500,000
	November 30, 2021	November 30, 2026	0.412%	500,000
	November 30, 2021	November 30, 2026	0.412%	500,000
	November 30, 2021	November 30, 2026	0.350%	500,000
	November 30, 2021	November 30, 2026	0.384%	1,000,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.384%	500,000
	November 30, 2021	November 30, 2026	0.325%	1,000,000
	November 30, 2021	November 30, 2026	0.350%	1,000,000
	November 30, 2021	November 30, 2028	0.511%	1,000,000
	November 30, 2021	November 30, 2029	0.450%	500,000
	April 28, 2022	April 30, 2024	0.267%	1,000,000
	April 28, 2022	April 30, 2024	0.230%	2,500,000
	April 28, 2022	April 30, 2025	0.297%	1,000,000
	April 28, 2022	May 31, 2027	0.350%	1,000,000
	June 30, 2022	June 30, 2024	0.265%	2,000,000
	June 30, 2022	June 30, 2024	0.265%	1,000,000
	June 30, 2022	June 30, 2025	0.200%	2,000,000
	June 30, 2022	June 30, 2025	0.200%	1,000,000
	June 30, 2022	June 30, 2025	0.200%	500,000
	August 31, 2022	August 31, 2024	0.350%	1,600,000
	August 31, 2022	February 28, 2025	0.374%	1,600,000
	August 31, 2022	August 31, 2025	0.395%	500,000
	August 31, 2022	August 31, 2025	0.395%	1,000,000
	August 31, 2022	August 31, 2025	0.395%	500,000
	August 31, 2022	August 31, 2026	0.430%	2,700,000
	August 31, 2022	August 31, 2027	0.501%	2,400,000
	August 31, 2022	August 31, 2027	0.420%	1,000,000
August 31, 2022	August 31, 2027	0.350%	300,000	
August 31, 2022	August 31, 2029	0.685%	1,950,000	
August 31, 2022	August 31, 2029	0.685%	1,000,000	
August 31, 2022	August 31, 2029	0.685%	500,000	
August 31, 2022	August 31, 2029	0.685%	500,000	

Classification	Drawdown date	Last repayment date	Weighted-average interest rate	Balance (In thousands of yen)
Long-term loans payable	August 31, 2022	August 31, 2029	0.685%	¥ 500,000
	August 31, 2022	August 31, 2029	0.685%	200,000
	August 31, 2022	August 31, 2029	0.525%	1,000,000
	August 31, 2022	August 31, 2029	0.525%	500,000
	August 31, 2022	August 31, 2029	0.525%	1,000,000
	August 31, 2022	August 31, 2029	0.525%	500,000
	October 31, 2022	October 31, 2025	0.481%	500,000
	October 31, 2022	April 30, 2026	0.373%	500,000
Subtotal				187,350,000
Investment corporation bonds	July 25, 2014	July 25, 2024	1.180%	¥ 2,000,000
	April 28, 2016	April 28, 2028	0.900%	1,000,000
	July 19, 2017	July 16, 2027	0.640%	2,000,000
	February 15, 2019	February 15, 2024	0.390%	2,000,000
	January 30, 2020	January 30, 2025	0.250%	2,000,000
	October 20, 2020	October 18, 2030	0.610%	1,000,000
	July 28, 2021	July 31, 2026	0.180%	2,000,000
	July 11, 2022	July 9, 2027	0.400%	1,000,000
Subtotal				13,000,000
Total				¥ 214,950,000

7. REDUCTION ENTRY

The amount of reduction entry of property, plant and equipment acquired by government subsidy is as follows:

	As of April 30, 2023	As of October 31, 2022
	In thousands of yen	
Buildings in trust	¥ 26,230	¥ 26,230

8. COMMITMENT LINE AGREEMENT

The Investment Corporation has concluded a commitment line agreement with bank of account, etc.

	As of April 30, 2023	As of October 31, 2022
	In thousands of yen	
Maximum amount	¥ 9,000,000	¥ 9,000,000
Drawn credit facility	—	—
Balance	¥ 9,000,000	¥ 9,000,000

9. PER UNIT INFORMATION

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
	Yen	
Net asset value per unit	¥ 271,657	¥ 270,573
Net income per unit	¥ 8,493	¥ 7,566
Weighted-average number of units (units)	848,430	852,530

*1: Net income per unit is calculated by dividing net income by the weighted average (based on number of days) number of units. Net income per unit after adjusting for diluted investment units is not included because there were no dilutive investment units.

*2: The Investment Corporation implemented a two-for-one split of the investment units with October 31, 2022, as the record date of the split and November 1, 2022, as the effective date. Net assets per unit and net income per unit are calculated based on the assumption that the split was implemented at the beginning of the prior fiscal period.

10. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 31%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute 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. The Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥6,487 million and ¥6,146 million for the periods ended April 30, 2023, and October 31, 2022, respectively. Therefore, such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.04% and 0.02% for the fiscal periods ended April 30, 2023, and October 31, 2022, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate.

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
Statutory tax rate	31.46%	31.46%
Deductible cash distributions	(28.31)	(29.97)
Provision of reserve for reduction entry	(3.13)	(1.49)
Others	0.03	0.01
Effective tax rate	0.04%	0.02%

The significant components of deferred tax assets and liabilities as of April 30, 2023, and October 31, 2022, are as follows:

	As of April 30, 2023	As of October 31, 2022
In thousands of yen		
Deferred tax assets		
Enterprise tax payable	¥ 177	¥ 37
Amortization of leasehold right	6,049	5,806
Deferred gains or losses on hedges	1,294	168
Subtotal	7,521	6,012
Valuation allowance	(7,344)	(5,974)
Total deferred tax assets	¥ 177	¥ 37

11. 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.

Information on the cancellation of treasury investment units during the six-month period ended April 30, 2023, and October 31, 2022, is as follows:

	As of April 30, 2023	As of October 31, 2022
Total number of units cancelled (Number of units)	4,295	4,295
Total amount of cancellation (Thousands of yen)	¥ 2,999,551	¥ 2,999,551

12. RELATED-PARTY TRANSACTIONS

(1) Parent Company, Major Corporate Unitholders and Other

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023) and Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

: Not applicable

(2) Affiliated Companies and Other

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023) and Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

: Not applicable

(3) Fellow Subsidiary Companies and Other

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023) and Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

: Not applicable

(4) Directors, Major Individual Unitholders and Other

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023) and Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

: Not applicable

13. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, AND GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY

Rent revenue – real estate, expenses related to rent business, and gain and loss on sale of real estate property for the fiscal periods from November 1, 2022 to April 30, 2023 and from May 1, 2022 to October 31, 2022 consist of the following:

	From November 1, 2022 to April 30, 2023	From May 1, 2022 to October 31, 2022
In thousands of yen		
Rental and other operating revenues		
Rent revenue – real estate		
Rental revenues	¥ 12,439,185	¥ 12,335,332
Common area charges	1,457,707	1,506,356
Subtotal	13,896,892	13,841,688
Others:		
Parking space rental revenues	516,938	507,846
Utility charge reimbursement	1,286,335	1,268,984
Miscellaneous	372,728	342,405
Subtotal	2,176,002	2,119,236
Total rental and other operating revenues	¥ 16,072,895	¥ 15,960,925
Property-related expenses		
Expenses related to rent business		
Property management fees and facility management fees	¥ 1,509,353	¥ 1,482,699
Utilities	1,552,159	1,445,057
Taxes	1,392,970	1,369,695
Repairs and maintenance	351,470	398,775
Insurance	20,500	20,280
Trust fees	30,127	30,194
Others	319,516	329,428
Depreciation	2,617,548	2,631,665
Total expenses related to rent business	¥ 7,793,647	¥ 7,707,795
Gain and loss on sale of real estate properties		
KDX Kiba Building		
Revenue from sale of investment properties	¥ —	¥ 1,650,000
Cost of investment properties	—	1,350,357
Other sales expenses	—	58,659
Gain on sale of real estate properties	¥ —	¥ 240,982
KDX Kawasaki-Ekimae Hon-cho Building		
Revenue from sale of investment properties	¥ 4,508,100	¥ —
Cost of investment properties	3,189,768	—
Other sales expenses	149,898	—
Gain on sale of real estate properties	¥ 1,168,433	¥ —

14. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease terms of generally two years for office buildings. The future minimum rental revenues under existing non-cancelable operating leases as of April 30, 2023, and October 31, 2022, are as follows:

	As of April 30, 2023	As of October 31, 2022
	In thousands of yen	
Due within one year	¥ 3,522,908	¥ 3,478,791
Due after one year	7,066,262	7,628,983
Total	¥ 10,589,171	¥ 11,107,775

15. FINANCIAL INSTRUMENTS

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023)

(A) Overview

(1) Policy for financial instruments

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of investment corporation bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest-rate conditions and cash flows.

(2) Types of financial instruments and related risk

Investment securities, which are Japanese silent partnership (*tokumei kumiai*, “TK”) interests, are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Loans payable and investment corporation bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of approximately 7 years and 11 months following the accounting date. Although a certain portion of said liabilities are subject to interest-rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap transactions) in order to reduce such risk.

Interest-rate swap transactions are used as derivative financial instruments. Utilizing interest-rate swap transactions, the Investment Corporation fixes its interest expense for long-term loans payable bearing interest at a variable rate. With regard to hedge accounting methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see Note 2(M) “Derivative Financial Instruments.”

(3) Risk management for financial instruments

(a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

(b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with procurement of funds

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. 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

Because the factors incorporated into the calculation of fair value of financial instruments are subject to change, differing assumptions are adopted which may alter fair value. Moreover, the contract amounts, etc. of derivative transactions in “(B) Estimated Fair Value of Financial Instruments” do not indicate the market risk of derivative transactions.

(B) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet as of April 30, 2023 and estimated fair value are shown in the following table. Moreover, because “Cash and deposits,” “Cash and deposits in trust” and “Short-term loans payable” are settled with cash in the short term, the fair value can be considered as equivalent to the book value. Therefore, the notes for these accounts have been omitted.

	Carrying value	Estimated fair value	Difference
In thousands of yen			
(1) Current portion of investment corporation bonds	2,000,000	1,999,400	(600)
(2) Current portion of long-term loans payable	19,700,000	19,716,952	16,952
(3) Investment corporation bonds	11,000,000	10,949,200	(50,800)
(4) Long-term loans payable	181,950,000	181,467,672	(482,327)
Subtotal	¥ 214,650,000	¥ 214,133,225	¥ (516,774)
Derivative transactions(*)	674,650	674,650	–

(*)The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing the net liability position.

*1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Liabilities

(1) Current portion of investment corporation bonds and (3) Investment corporation bonds

The fair value of investment corporation bonds is based on quoted market prices. The fair value of those for which no market price is available is based on the quoted price obtained from counterparty financial institutions, etc.

(2) Current portion of long-term loans payable and (4) Long-term loans payable

The fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term loans payable bearing interest at a variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with the applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

Derivative Transactions

Please refer to Note 16 “DERIVATIVE TRANSACTIONS.”

*2 Redemption schedule for loans payable and investment corporation bonds

	Due within 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						
Investment corporation bonds	2,000,000	4,000,000	–	2,000,000	4,000,000	1,000,000
Long-term loans payable	19,700,000	27,050,000	32,900,000	37,800,000	33,100,000	51,100,000
Total	¥ 21,700,000	¥ 31,050,000	¥ 32,900,000	¥ 39,800,000	¥ 37,100,000	¥ 52,100,000

Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

(A) Overview

(1) Policy for financial instruments

The Investment Corporation procures essential funds for acquiring properties and undertaking the repayment of loans primarily through bank loans and the issuance of investment corporation bonds and new investment units. The Investment Corporation uses derivatives for the purpose of hedging its exposure to changes in interest rates and does not enter into derivatives for speculative or trading purposes. Management of surplus funds is undertaken in a prudent manner that considers fully such factors as safety, liquidity, interest-rate conditions and cash flows.

(2) Types of financial instruments and related risk

Investment securities, which are Japanese silent partnership (*tokumei kumiai*, “TK”) interests, are exposed to credit risk of the issuer and risk of fluctuation of value of its property.

Loans payable and investment corporation bonds are used primarily for procuring funds necessary for the acquisition of properties and have a redemption date of a maximum of approximately 8 years and 1 month following the accounting date. Although a certain portion of said liabilities are subject to interest-rate fluctuation risk, the Investment Corporation utilizes derivatives (interest-rate swap transactions) in order to reduce such risk.

Interest-rate swap transactions are used as derivative financial instruments. Utilizing interest-rate swap transactions, the Investment Corporation fixes its interest expense for long-term loans payable bearing interest at a variable rate. With regard to hedge accounting

methods, hedging instruments and hedged items, hedge policy, and the assessment of the effectiveness of hedging activities, please see Note 2(M) “Derivative Financial Instruments.”

(3) Risk management for financial instruments

(a) Monitoring of market risk (the risks arising from fluctuations in interest rates and others)

The Investment Corporation uses interest-rate swap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured. The Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to investment securities.

(b) Monitoring of liquidity risk (the risk that the Investment Corporation may not be able to meet its obligations on scheduled due dates) associated with procurement of funds

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. 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

Because the factors incorporated into the calculation of fair value of financial instruments are subject to change, differing assumptions are adopted which may alter fair value. Moreover, the contract amounts, etc. of derivative transactions in “(B) Estimated Fair Value of Financial Instruments” do not indicate the market risk of derivative transactions.

(B) Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet as of October 31, 2022, and estimated fair value are shown in the following table. Moreover, because “Cash and deposits,” “Cash and deposits in trust” and “Short-term loans payable” are settled with cash in the short term, the fair value can be considered as equivalent to the book value. Therefore, the notes for these accounts have been omitted.

	Carrying value	Estimated fair value	Difference
	In thousands of yen		
(1) Current portion of investment corporation bonds	—	—	—
(2) Current portion of long-term loans payable	14,300,000	14,338,060	38,060
(3) Investment corporation bonds	13,000,000	12,971,800	(28,200)
(4) Long-term loans payable	187,350,000	186,596,720	(753,279)
Subtotal	¥ 214,650,000	¥ 213,906,580	¥ (743,419)
Derivative transactions(*)	814,256	814,256	—

(*)The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parentheses representing the net liability position.

*1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Liabilities

(1) Current portion of investment corporation bonds and (3) Investment corporation bonds

The fair value of investment corporation bonds is based on quoted market prices. The fair value of those for which no market price is available is based on the quoted price obtained from counterparty financial institutions, etc.

(2) Current portion of long-term loans payable and (4) Long-term loans payable

The fair value of long-term loans payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. The fair value of long-term loans payable bearing interest at a variable rate, which is subject to fixed interest rates resulting from interest-rate swaps and special treatment applied to said swaps, is based on the present value of the total of principal and interest, which is handled together with the applicable interest-rate swaps, discounted by the interest rate to be applied if similar loans were entered into.

Derivative Transactions

Please refer to Note 16 “DERIVATIVE TRANSACTIONS.”

*2 Redemption schedule for loans payable and investment corporation bonds

	Due within 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						
Investment corporation bonds	–	4,000,000	2,000,000	2,000,000	3,000,000	2,000,000
Long-term loans payable	14,300,000	25,600,000	29,950,000	30,800,000	38,500,000	62,500,000
Total	¥ 14,300,000	¥ 29,600,000	¥ 31,950,000	¥ 32,800,000	¥ 41,500,000	¥ 64,500,000

16. DERIVATIVE TRANSACTIONS

The following summarizes the contracted amount and the fair value of interest-rate swap contracts as of April 30, 2023:

(1) Hedge accounting not applied
Not applicable

(2) Hedge accounting applied

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen) Maturing after 1 year		Fair value (In thousands of yen)	Calculation method for applicable fair value
Principle method	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	¥ 82,450,000	¥ 77,950,000	¥ 674,650	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	30,100,000	25,400,000	*	
Total			¥ 112,550,000	¥ 103,350,000	¥ 674,650	

(*)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 following summarizes the contracted amount and the fair value of interest-rate swap contracts as of October 31, 2022:

(1) Hedge accounting not applied
Not applicable

(2) Hedge accounting applied

Hedge accounting method	Type of derivative transactions	Hedged items	Contracted amount (In thousands of yen) Maturing after 1 year		Fair value (In thousands of yen)	Calculation method for applicable fair value
Principle method	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	¥ 82,450,000	¥ 79,950,000	¥ 814,256	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term loans payable	30,100,000	27,100,000	*	
Total			¥ 112,550,000	¥ 107,050,000	¥ 814,256	

(*)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.

17. REVENUE RECOGNITION

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023)

(1) Information on the Breakdown of Revenue from Contracts with Customers

Thirty-sixth Fiscal Period (From November 1, 2022 to April 30, 2023)

	Revenues generated from contracts with customers*1	Sales to external customers
	(in thousands of yen)	
Revenue from sale of real estate property	¥4,508,100	*2 ¥ 1,168,433
Utility charge reimbursements	1,286,335	1,286,335
Other	–	14,835,944
Total	¥5,794,435	¥17,290,713

(*1) Rental revenues, etc. which are subject to Accounting Standard for Lease Transactions (ASBJ Statement No. 13) and the transfer of real estate properties which is subject to the “Practical Guidelines on Accounting by Transferors for Securitization of Real Estate Using Special Purpose Companies” (Accounting System Committee Report No.15 of the Japanese Institute of Certified Public Accountants) are not included in the above amounts as they are excluded from revenue recognition accounting standards. Furthermore, revenue generated from contracts with major customers include of revenue from sale of real estate properties and utility charge reimbursements.

(*2) Revenue from sale of real estate, etc. is recorded as gain and loss on sale of real estate, etc. in the statement of income. Therefore, the amount calculated by deducting the cost of real estate, etc. sold and other sales expenses from the revenue from sale of real estate, etc. is indicated.

(2) Information Utilized as the Base for Understanding Revenue from Contracts with Customers

Thirty-sixth Fiscal Period (From November 1, 2022 to April 30, 2023)

The information is as described in the notes on Summary of Significant Accounting Policies.

(3) Information on relationship of Fulfillment of performance Obligations based with customers with cashflow generated from said contracts and Amount and period of Revenue expected to be recognized in the next calculation period or thereafter from contracts existing at the end of the current calculation period.

(a) Balance of contract assets and contract liabilities, etc.

	From November 1, 2022 to April 30, 2023
	(in thousands of yen)
Receivables generated from contracts with customers (balance at beginning of fiscal period)	¥324,473
Receivables generated from contracts with customers (balance at end of fiscal period)	309,606
Contract assets (balance at beginning of fiscal period)	–
Contract assets (balance at end of fiscal period)	–
Contract liabilities (balance at beginning of fiscal period)	–
Contract liabilities (balance at end of fiscal period)	–

(b) Transaction value allocated to remaining performance obligations

Not applicable.

With regard to utility charge reimbursements, as the Investment Corporation has the right to receive from customers an amount directly corresponding to the value for the lessees, or customers, of sections for which performance is complete by the end of the fiscal period, the amount it has the right to claim is recognized as revenue in accordance with Paragraph 19 of the Implementation Guidance on Accounting Standard for Revenue Recognition. Accordingly, such is not included in the

note on transaction value allocated to remaining performance obligations through application of the provisions of Paragraph 80-22 (2) of the Accounting Standard for Revenue Recognition.

Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

(1) Information on the Breakdown of Revenue from Contracts with Customers
Thirty-fifth Fiscal Period (From May 1, 2022 to October 31, 2022)

	Revenues generated from contracts with customers*1	Sales to external customers
	(in thousands of yen)	
Revenue from sale of real estate property	¥1,650,000	*2 ¥ 240,982
Utility charge reimbursements	1,268,984	1,268,984
Other	–	14,756,403
Total	¥2,918,984	¥16,266,370

(*1) Rental revenues, etc. which are subject to Accounting Standard for Lease Transactions (ASBJ Statement No. 13) and the transfer of real estate properties which is subject to the “Practical Guidelines on Accounting by Transferors for Securitization of Real Estate Using Special Purpose Companies” (Accounting System Committee Report No.15 of the Japanese Institute of Certified Public Accountants) are not included in the above amounts as they are excluded from revenue recognition accounting standards. Furthermore, revenue generated from contracts with major customers include of revenue from sale of real estate properties and utility charge reimbursements.

(*2) Revenue from sale of real estate, etc. is recorded as gain and loss on sale of real estate, etc. in the statement of income. Therefore, the amount calculated by deducting the cost of real estate, etc. sold and other sales expenses from the revenue from sale of real estate, etc. is indicated.

(2) Information Utilized as the Base for Understanding Revenue from Contracts with Customers
Thirty-fifth Fiscal Period (From May 1, 2022 to October 31, 2022)

The information is as described in the notes on Summary of Significant Accounting Policies.

(3) Information on relationship of Fulfillment of performance Obligations based with customers with cashflow generated from said contracts and Amount and period of Revenue expected to be recognized in the next calculation period or thereafter from contracts existing at the end of the current calculation period.

(a) Balance of contract assets and contract liabilities, etc.

	From May 1, 2022 to October 31, 2022
	(in thousands of yen)
Receivables generated from contracts with customers (balance at beginning of fiscal period)	¥247,784
Receivables generated from contracts with customers (balance at end of fiscal period)	324,473
Contract assets (balance at beginning of fiscal period)	–
Contract assets (balance at end of fiscal period)	–
Contract liabilities (balance at beginning of fiscal period)	–
Contract liabilities (balance at end of fiscal period)	–

(b) Transaction value allocated to remaining performance obligations

Not applicable.

With regard to utility charge reimbursements, as the Investment Corporation has the right to receive from customers an amount directly corresponding to the value for the lessees, or customers, of sections for which performance is complete by the end of the fiscal period, the amount it has the right to claim is recognized as revenue in accordance with Paragraph 19 of the Implementation Guidance on Accounting Standard for Revenue Recognition. Accordingly, such is not included in the note on transaction value allocated to remaining performance obligations through application of the provisions of Paragraph 80-22 (2) of the Accounting Standard for Revenue Recognition.

18. INVESTMENT AND RENTAL PROPERTIES

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo metropolitan area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

Carrying value (In thousands of yen)			Fair value
As of October 31, 2022	Net change	As of April 30, 2023	As of April 30, 2023 (In thousands of yen)
¥ 437,196,489	¥(4,792,379)	¥ 432,404,110	¥ 551,161,000

*1: The carrying value represents the acquisition cost less accumulated depreciation.

*2: Fair value at the end of the fiscal period is the appraisal value determined by outside appraisers. Fair value at the end of the fiscal period under review of Harajuku F.F. Building and KDX Nagoya Sakae Building that are scheduled to be sold on November 1, 2023 respectively are calculated based on the anticipated sale price (Harajuku F.F. Building: 3,880 million yen; KDX Nagoya Sakae Building: 6,050 million yen) in the transaction agreements on June 13, 2023.

*3: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increase/decrease factors were the sale of 1 real estate property totaling 3,189,768 thousand and depreciation amounting to 2,617,548 thousand.

Income and loss in the fiscal period ended April 30, 2023, for real estate for rental purposes is listed in Note 13 “BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, AND GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY.”

Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

The Investment Corporation owns real estate for rental purposes mainly in the Tokyo metropolitan area for the purpose of generating rental revenues.

The carrying value in the balance sheets and corresponding fair value of those properties are as follows:

Carrying value (In thousands of yen)			Fair value
As of April 30, 2022	Net change	As of October 31, 2022	As of October 31, 2022 (In thousands of yen)
¥ 426,967,143	¥ 10,229,346	¥ 437,196,489	¥ 553,221,000

*1: The carrying value represents the acquisition cost less accumulated depreciation.

*2: Fair value at the end of the fiscal period is the appraisal value determined by outside appraisers.

*3: Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increase/decrease factors were the acquisitions of 1 real estate property and trust beneficiary interest in real estate of 1 property totaling 13,346,136 thousand, sale of trust beneficiary interest in real estate of 1 property totaling 1,350,357 thousand and depreciation amounting to 2,631,665 thousand.

Income and loss in the fiscal period ended October 31, 2022, for real estate for rental purposes is listed in Note 13 “BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES, AND GAIN AND LOSS ON SALE OF REAL ESTATE PROPERTY.”

19. SEGMENT AND RELATED INFORMATION

Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023)

(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 revenues 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 revenues 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 revenues on the statement of income and retained earnings.

Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)

(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 revenues 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 revenues 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 revenues on the statement of income and retained earnings.

20. SIGNIFICANT SUBSEQUENT EVENTS

Execution of the Merger Agreement by and among the Investment Corporation, Kenedix Residential Next Investment Corporation ("KDR") and Kenedix Retail REIT Corporation ("KRR"; and KRR, KDO, and KDR are collectively referred to as "Each REIT")

The Investment Corporation, KDR and KRR announced that each of them has, at Each Investment Corporation's Board of Directors Meeting held June 13, 2023, resolved to undertake the Merger with November 1, 2023, as the effective date, and have also executed the Merger Agreement on the same date.

i. Purpose of the Merger

The Japanese economy is making a moderate recovery as movement restrictions to prevent the spread of COVID-19 infections was removed, and its economic and social activities are being normalized. However, there are uncertain factors in the economic conditions in and outside Japan such as changes in the global affairs, emergence of geopolitical risks and effects of economic sanctions related to these risks as a result of the invasion of Ukraine by Russia, continuous global inflation related to rising commodity prices and fuel costs, increase of the policy interest rates by major countries, and bankruptcies of overseas financial institutions.

In such environment, the current real estate investment trust securities market (the "J-REIT market") is unstable and affected by the concern for rising operational costs due to inflation and the fear for the rise in the long-term interest rates due to future changes of the monetary policies by the Bank of Japan.

The asset management company of Each REIT, the Asset Management Company was established as follows: Kenedix Residential Partners, Inc. established in March 2011 merged with Kenedix Office Partners, Inc. and Kenedix Advisors, Inc. (both established in November 2003) in October 2013 in an absorption-type merger, and changed its corporate name to the current name of the asset management company. Each REIT has received sponsor support from Kenedix Group and has achieved operational results.

Each REIT has implemented various measures to ensure the acquisition of stable profits and the continued growth of investment assets by leveraging each characteristic.

However, the real estate market's evaluations of the mid-sized office buildings, which are the Investment Corporation's main investment target, have not changed because of their scarcity and liquidity. Thus, the capitalization rate remains low and it remains hard to acquire mid-sized office buildings. Moreover, recently, unit prices of the Investment Corporation are significantly below NAV per unit due to the concern for the market outlook regarding secondary vacancies and rent decline due to large supplies of large office buildings, and there are limited opportunities for external growth that involve public offering. Therefore, there are issues with ensuring continued future growth. As for KDR, although KDR has conducted public offerings for five consecutive years, there is the possibility that the acquisition competition may escalate and the acquisition opportunities may decrease due to the relatively stable profitability of residential properties, and recently unit price is below NAV per unit. Moreover, KDR's LTV is relatively high in the J-REIT market, and KDR has concerns regarding the increase in costs when interest rates are rising. As for KRR, although KRR has a rich real estate pipeline, it has been increasingly difficult to acquire shopping centers for daily needs since the COVID-19 pandemic. In addition, there are concerns over increase in costs caused by inflation, and there are issues such as limited room for the future internal growth as a whole due to the long-term fixed rents.

Moreover, Each REIT is watching the trends of interest levels and price levels such as costs of utilities, which may have an impact on the profitability of their portfolios in the future, and Each REIT recognizes this situation as their common issues.

In such circumstances, Each REIT agreed to start negotiation for merger and carefully deliberated on the issues in order to deal with the issues described above, respond flexibly to environmental changes and attain continued growth. As a result, Each REIT came to the same conclusion that the Merger will contribute to maximize unitholders' value by leading to the continued growth by expanding investment target sectors, improving their presence and stability in the market by increasing the sizes of their assets, and enabling more commitment for sustainability. Therefore, the Merger Agreement was made and entered into by and among Each REIT.

Each Investment Corporation considers that the Merger has the following rationale:

(i) Sustainable growth driven by expansion of investment universe

The New REIT (defined below) will continue to focus on their main investment target, i.e. mid-sized office buildings, residential properties, healthcare facilities, and shopping centers for daily needs, and it will start to additionally focus on logistics facilities and hotels, in which Each REIT has conducted only limited investments until now, to increase opportunities for acquisitions. In addition, the Merger will enable asset reshuffling among different asset types, disposing of properties with less competitiveness or profitability, allow flexibly to the changes of the external environment surrounding the real estate market, and activate the investments in the investment target sectors that are expected to grow, and thus leading to the improvement of portfolio profitability. As described above, the New REIT aims to attain continued growth beyond the boundary of the strategic management for the existing specialized REIT through a strategic management that ensures a wide range of opportunities for acquisitions and flexibility related to the expansion of the investment target sectors.

(ii) Improvement in the market presence and ability

Through the Merger, the asset size of the investment corporation after the Merger (the "New REIT") will be ranked third in the J-REIT market (Note 1) and this will significantly improve the presence in the market and liquidity of investment units, and the portfolio is expected to own a total of 350 properties (Note 2) after the Merger. Having the largest expected number of properties in the J-REIT market will enhance diversification and contribute to improve the stability of the portfolio. In addition, a property manager that leverages the advantage of its scale will contribute to increase resilience against the pressure of the rising costs.

(iii) Further commitment to sustainability

Each REIT has recognized sustainability as a significant issue and has taken the initiative in implementing various initiatives. Specifically, the Investment Corporation has become the first investment corporation in the J-REIT market to

participate in GRESB Real Estate Assessment, KDR was the first J-REIT to issue social bonds, and KRR was the first J-REIT to introduce investment unit performance fee. The New REIT plans to integrate and elevate expertise accumulated by Each REIT through the Merger and aims to be a leading company in the sustainability initiatives. Moreover, the New Investment Corporation plans to further enforce the sustainability initiatives under the management system with a high degree of specialization and diversity by introducing a new management fee structure that is linked to unitholder value and sustainability metric, improving governance through the enhancement of supervisory officers, and promoting diversity.

Note 1: The amount of asset size after the Merger is calculated by totaling the asset size of Each REIT. The asset size of the Investment Corporation is assumed to be the total of acquisition price of the properties in the portfolio as of April 30, 2023, plus the acquisition (scheduled) price reflecting the acquisitions and sales (including one that are scheduled) of the properties from May 1, 2023, to the effective date of the Merger. The asset size of KDR and KRR is considered to be the appraisal values of the properties as of the end of the latest fiscal period (relating to KDR, as of January 31, 2023 (provided, however, that, this includes the acquisitions of Sunny Life Tachikawa and Rehabili-home Bon Sejour Minamiszozoku; relating to KRR, as of March 31, 2023). The asset sizes of the other investment corporations in the J-REIT market are calculated based on the asset sizes including any properties that the other investment corporations announced the acquisition and sale thereof in the J-REIT market as of April 30, 2023 (acquisition (scheduled) price basis). Therefore, it is not guaranteed that the New REIT after the Merger will have the third largest asset size in the J-REIT market as of the effective date of the Merger. In regard to the asset size after the Merger, because it is planned that assets of KDR and KRR will be succeeded at market price based on the purchase method by the Investment Corporation as the acquiring corporation, the asset size will not be a simple sum of the total (scheduled) acquisition price of the Investment Corporation and the total appraisal values of KDR and KRR as of the end of the latest accounting period.

Note 2: The number of properties of the portfolio after the Merger is based on the number of properties of the Investment Corporation, KDR and KRR as of the date hereof and reflecting the change in the number of the acquisitions and sales of the properties (including ones that are scheduled) by the effective date of the Merger. KDX Chofu Building is treated as one property in the calculation of the number of properties of the portfolio after the Merger though the Investment Corporation owns its office tower and KRR owns its retail wing respectively as of June 13, 2023. The numbers of the properties of the other investment corporations in the J-REIT market is calculated based on the number of properties including those that the other investment corporations announced acquisition and sale thereof in the J-REIT market as of April 30, 2023. Therefore, it is not guaranteed that the portfolio of the New REIT after the Merger will have the largest number of properties in the J-REIT market as of the effective date of the Merger.

ii. Form of the Merger

The Investment Corporation will be the surviving corporation under an absorption-type merger and KDR and KRR will be dissolved in the Merger.

iii. Allocation ratio etc.

	The Investment Corporation (Surviving corporation in the absorption-type merger)	KDR (Dissolving corporation in the absorption-type merger)	KRR (Dissolving corporation in the absorption-type merger)
		1.34	1.68
Allocation of investment units under the Merger	1	(Reference) Before the Investment Unit Split 0.67	(Reference) Before the Investment Unit Split 0.84

Note 1: The number of the Investment Corporation’s new investment units to be issued as a result of the Merger (the number of units taking into account the Investment Unit Split of the Investment Corporation): 2,446,037

Note 2: For details of the investment unit split refer to “iv. Split of Investment Units” below. The same applies hereinafter.

iv. Split of Investment Units

The Merger will be effected by way of an absorption-type merger with the Investment Corporation as the surviving corporation, with KDR and KRR having a merger ratio of 0.67 and 0.84, respectively, against one for the Investment Corporation, before taking into account the Split of Investment Units. However, with this merger ratio, 0.67 Investment Corporation’s investment units will be allotted against one KDR investment unit and 0.84 Investment Corporation’s investment units will be allotted against one KRR investment unit, resulting in a number of KDR and KRR unitholders that will receive Investment Corporation’s investment units of less than one unit. For this reason, in order to enable the unitholders of KDR and KRR to continue to hold the Investment Corporation’s investment units after the Merger, we decided to split the Investment Corporation’s investment units at a ratio of two investment units per one investment unit, for the purpose of providing at least one Investment Corporation’s investment unit to all unitholders of KDR and KRR. As a result of the Split of Investment Units,

KDR unitholders will be allotted 1.34 Investment Corporation's investment units after the Split of Investment Units against each KDR investment unit, and KRR unitholders will be allotted 1.68 Investment Corporation's investment units after the Split of Investment Units against each KRR investment unit.

(i) Method of Split of Investment Units

The Investment Corporation will implement a two for one split of the investment units held by unitholders of the Investment Corporation stated or recorded on the registry of unitholders as of Tuesday, October 31, 2023, which is the day preceding the effective date of the Merger. The Split of Investment Units will become effective on Wednesday, November 1, 2023, which is the effective date of the Merger, provided that the merger agreement pertaining to the Merger has not been terminated or expired by the day before the effective date of the Merger.

(ii) Number of Investment Units to be Increased by the Split of Investment Units

- 1) Total number of Investment Corporation's investment units issued and outstanding before the Split of Investment Units: 848,430 units
- 2) Number of investment units to be increased through the Split of Investment Units: 848,430 units
- 3) Total number of Investment Corporation's investment units issued and outstanding after the Split of Investment Units: 1,696,860 units
- 4) Total number of Investment Corporation's investment units issued and outstanding after the Merger: 4,142,897 units (Note 1)
- 5) Total number of authorized investment units after the Split of Investment Units and the Merger: 20,000,000 units (Note 2)

Note 1: The number of investment units will be calculated based on the assumption that one KDR investment unit will be allotted 1.34 Investment Corporation's investment units after the Split of Investment Units for all of KDR's issued investment units as of June 13, 2023 (1,070,433 units), and one KRR investment unit will be allotted 1.68 Investment Corporation's investment units after the Split of Investment Units for all of KRR's issued investment units as of June 13, 2023 (602,177 units).

Note 2: The current total number of authorized Investment Corporation's investment units is 4,000,000 units. However, in connection with the Split of Investment Units, the Articles of Incorporation of the Investment Corporation will be partially amended and the total number of authorized investment units will be changed as of the effective date of the Merger.

(iii) Effect on the information per unit of the Investment Corporation

The information per unit for the fiscal period under assuming that the Split of Investment Units was conducted at the beginning of this fiscal period is described as follows.

- 1) Net Assets per Unit: 135,828 yen
- 2) Net Income per Unit: 4,246 yen

v. Delivery of Payment upon the Merger

In addition to the above mentioned investment units, the Investment Corporation intends to pay unitholders of KDR and KRR (the unitholders stated or recorded in the final unitholders' registers of KDR and KRR on the day before the effective date of the Merger (excluding Each REIT and unitholders of KDR and KRR who has demanded the purchase of their investment units pursuant to Article 149-3 of the Investment Trusts Act (excluding those who have withdrawn such demand for purchase) (hereinafter referred to as the "Unitholders Subject to Allocation")), in lieu of cash distributions (distributions of profits) for the last fiscal period of KDR and KRR which ends the day before the effective date of the Merger, the Payment upon the Merger in the form of cash distributions based on distributable income of KDR and KRR for that same period of an amount (disregarding fractions of a yen) which is the quotient resulting from a division of the amount of distributable income of KDR and KRR on the date before the effective date of the Merger by the number of issued investment units of KDR and KRR on that date as reduced by the number of investment units held by unitholders other than the Unitholders Subject to Allocation. The Payment upon the Merger will be paid within a reasonable period from the effective date of the Merger.

vi. Overview of the Previous Fiscal Period for KDR and KRR

Overview of the Previous Fiscal Period (ending January 31, 2023) for KDR

Business	: To invest assets mainly in specified assets as set forth in the Investment Trust Act
Operating Revenues	: 9,936 million yen
Net Profit	: 4,593 million yen
Total Assets	: 327,014 million yen
Total liabilities	: 175,381 million yen
Net assets	: 151,632 million yen

Overview of the Previous Fiscal Period (ending March 31, 2023) for KRR

Business	: To invest assets mainly in specified assets as set forth in the Investment Trust Act
Operating Revenues	: 9,924 million yen
Net Profit	: 3,922 million yen
Total Assets	: 287,569 million yen
Total liabilities	: 145,002 million yen
Net Assets	: 142,566 million yen

vii. Time of the Merger

Effective date of the Merger: November 1, 2023 (planned)

21. DISTRIBUTIONS

	Thirty-sixth fiscal period (From November 1, 2022 to April 30, 2023)	Thirty-fifth fiscal period (From May 1, 2022 to October 31, 2022)
	(Yen)	(Yen)
I. Retained earnings at the end of period	¥ 7,206,005,509	¥ 6,451,096,681
II. Total distributions	¥ 6,487,944,210	¥ 6,146,026,920
Distributions per unit	¥ 7,647	¥ 14,488
III. Voluntary reserve (provision)		
Provision of reserve for reduction entry	¥ 718,061,299	¥ 304,852,318
IV. Retained earnings brought forward to the next period	¥ -	¥ 217,443
Method of calculating distribution amount	<p>In accordance with the policy stipulated in Article 35 (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 Act on Special Measures Concerning Taxation, and shall be up to the amount of its profits as the ceiling. Following this policy, the Investment Corporation has decided that, of the amount remaining after the provision of reserve for reduction entry as stipulated in Article 65-7 of the Act on Special Measures Concerning Taxation is deducted from unappropriated retained earnings, it shall distribute the outstanding ¥6,487,944,210 as profit distribution.</p> <p>In addition, the Investment Corporation decided not to distribute cash in excess of distributable profit, stipulated in Article 35 (2) of its Articles of Incorporation.</p>	<p>In accordance with the policy stipulated in Article 35 (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 Act on Special Measures Concerning Taxation, and shall be up to the amount of its profits as the ceiling. Following this policy, the Investment Corporation has decided that, of the amount remaining after the provision of reserve for reduction entry as stipulated in Article 65-7 of the Act on Special Measures Concerning Taxation is deducted from unappropriated retained earnings, it shall distribute the outstanding ¥6,146,026,920 as profit distribution.</p> <p>In addition, the Investment Corporation decided not to distribute cash in excess of distributable profit, stipulated in Article 35 (2) of its Articles of Incorporation.</p>

Independent Auditor's Report

The Board of Directors
Kenedix Office Investment Corporation

Opinion

We have audited the accompanying financial statements of Kenedix Office Investment Corporation (the Company), which comprise the balance sheet as at April 30, 2023, and the statements of income, and retained earnings, changes in net assets, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2023, and its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 20. SIGNIFICANT SUBSEQUENT EVENTS to the financial statements, which describes that the Company, at its Board of Directors meeting held on June 13, 2023, resolved to undertake an absorption-type merger, with November 1, 2023 as the effective date, whereby the Company will be the surviving corporation and Kenedix Residential Next Investment Corporation and Kenedix Retail REIT Corporation will be the dissolving corporation in the merger, and also executed a merger agreement on June 13, 2023. Our opinion is not modified in respect of this matter.

Other Information

The other information comprises the information included in the Semi-annual Report that contains audited financial statements but does not include the financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Supervisory Director is responsible for overseeing the Company's reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, and Supervisory Director 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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Supervisory Director is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Executive Director regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Executive Director with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

July 28, 2023

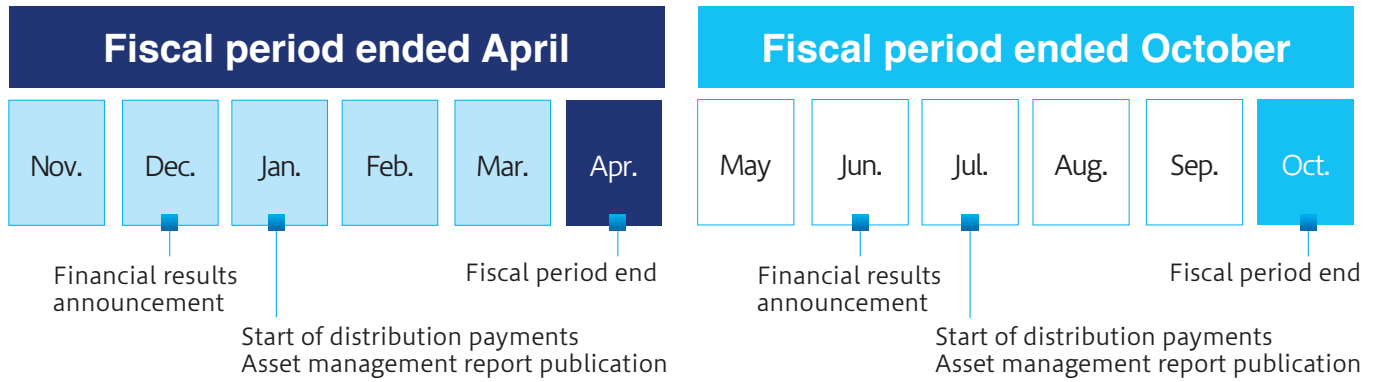
/s/ Hitoshi Sakurai

Hitoshi Sakurai
Designated Engagement Partner
Certified Public Accountant

/s/ Masahiro Yawata

Masahiro Yawata
Designated Engagement Partner
Certified Public Accountant

IR schedule



Unitholder memorandum

Fiscal period end	April 30 and October 31 of each year
General Meeting of Unitholders	Convened at least once every two years, in principle
Date of record for establishment of unitholder voting rights	Prescribed in Article 16 of the Articles of Incorporation
Record dates for distribution payments	April 30 and October 31 (within three months from payment record dates)
Listing	Tokyo Stock Exchange (Securities code: 8972)
Newspaper for public announcements	Nihon Keizai Shimbun (Nikkei)
Unitholder registry and special account administrator	Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Postal address and telephone inquiries	Stock Transfer Agency Department Sumitomo Mitsui Trust Bank, Limited 8-4 Izumi 2-chome, Suginami-ku, Tokyo Toll-free tel: 0120 782 031

Receipt of Distributions

During receipt period	Take your distribution receipt to the head or branch offices of Japan Post Bank Co., Ltd. or post offices (bank agents).
After receipt period	Specify the receipt method on the back of the distribution receipt and mail it to the Stock Transfer Agency Division of Sumitomo Mitsui Trust Bank, Limited, or receive distributions at a branch of the bank.
Receiving future distributions	Distributions can be paid by remittances to bank or ordinary postal savings accounts. If transfer designations or other procedures are preferred, you should contact the brokerage with which you have an account, in principle. If you do not have a brokerage account and have a special account, contact Sumitomo Mitsui Trust Bank, Limited, the institution for managing special accounts.
Exclusion	Under the Articles of Incorporation of Kenedix Office Investment Corporation, you cannot receive distributions after three years have elapsed from the commencement of distribution payments, so please receive them as soon as possible.