

Financial Statements

(14th Fiscal Period: From August 1, 2018 to January 31, 2019)

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Independent Auditor's Report

The Board of Directors
Kenedix Residential Next Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Next Investment Corporation, which comprise the balance sheet as at January 31, 2019, and the statements of income and retained earnings, changes in net assets, and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Residential Next Investment Corporation as at January 31, 2019, and its financial performance and cash flows for the six-month period then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

April 25, 2019
Tokyo, Japan

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Balance Sheet

As of January 31, 2019

	14th Fiscal Period as of January 31, 2019	13th Fiscal Period as of July 31, 2018
(in thousands of yen)		
ASSETS		
Current assets		
Cash and deposits (Notes 7 and 9)	¥12,356,302	¥10,029,598
Cash and deposits in trust (Notes 7 and 9)	9,721,629	8,749,823
Operating accounts receivable	26,612	29,188
Prepaid expenses	7,450	10,855
Consumption taxes receivable	338,402	-
Other	6,081	11,033
Total current assets	22,456,477	18,830,499
Noncurrent assets		
Property, plant and equipment (Notes 14 and 19)		
Land	1,798,041	1,798,041
Buildings in trust	95,077,289	84,656,776
Accumulated depreciation	(9,123,715)	(7,901,681)
Buildings in trust, net	85,953,573	76,755,095
Structures in trust	947,729	722,432
Accumulated depreciation	(161,739)	(133,503)
Structures in trust, net	785,989	588,929
Machinery and equipment in trust	1,429,327	1,360,078
Accumulated depreciation	(288,590)	(256,856)
Machinery and equipment in trust, net	1,140,736	1,103,222
Tools, furniture and fixtures in trust	473,614	400,899
Accumulated depreciation	(51,478)	(39,156)
Tools, furniture and fixtures in trust, net	422,136	361,742
Land in trust	130,189,152	111,474,267
Total property, plant and equipment, net	220,289,630	192,081,298
Intangible assets		
Leasehold right in trust (Notes 14 and 19)	1,067,058	1,067,058
Other	6,339	7,115
Total intangible assets	1,073,398	1,074,174
Investments and other assets		
Investment securities (Notes 9 and 18)	111,796	512,263
Lease and guarantee deposits	29,097	39,097
Long-term prepaid expenses	1,059,774	916,981
Other (Notes 9 and 10)	-	81,989
Total investments and other assets	1,200,668	1,550,331
Total noncurrent assets	222,563,697	194,705,805
Deferred assets		
Investment corporation bond issuance costs	38,570	22,583
Investment unit issuance costs	45,012	-
Total deferred assets	83,583	22,583
Total assets	¥245,103,757	¥213,558,887

	14th Fiscal Period as of January 31, 2019	13th Fiscal Period as of July 31, 2018
	(in thousands of yen)	
LIABILITIES		
Current liabilities		
Operating accounts payable	¥912,385	¥609,170
Short-term loans payable (Notes 9 and 21)	2,050,000	2,630,000
Current portion of long-term loans payable (Notes 9, 10 and 21)	9,700,000	13,500,000
Accounts payable-other	298,718	284,251
Accrued expenses	27,236	26,489
Income taxes payable	605	605
Accrued consumption taxes	11,413	63,856
Advances received	1,096,282	958,812
Deposits received	75,292	54,159
Other	-	13
Total current liabilities	14,171,933	18,127,358
Noncurrent liabilities		
Investment corporation bonds (Notes 9 and 20)	5,000,000	3,000,000
Long-term loans payable (Notes 9, 10 and 21)	106,500,000	87,000,000
Tenant leasehold and security deposits in trust	2,682,738	2,330,206
Tenant lump sum deposits in trust	4,405,195	4,205,076
Other	392,732	150,601
Total noncurrent liabilities	118,980,667	96,685,885
Total liabilities	133,152,600	114,813,244
NET ASSETS		
Unitholders' equity		
Unitholders' capital	93,226,228	80,132,379
Surplus		
Capital surplus	13,187,100	13,187,100
Voluntary retained earnings		
Reserve for temporary difference adjustments (Note 4)	2,000,000	-
Total voluntary retained earnings	2,000,000	-
Unappropriated retained earnings	3,875,050	5,428,676
Total surplus	19,062,150	18,615,776
Total unitholders' equity	112,288,379	98,748,155
Valuation and translation adjustments		
Deferred gains or losses on hedges (Notes 9 and 10)	(337,222)	(2,512)
Total valuation and translation adjustments	(337,222)	(2,512)
Total net assets (Note 3)	111,951,157	98,745,643
Total liabilities and net assets	¥245,103,757	¥213,558,887

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Income and Retained Earnings

For the period from August 1, 2018 to January 31, 2019

	14th Fiscal Period from August 1, 2018 to January 31, 2019	13th Fiscal Period from February 1, 2018 to July 31, 2018
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate (Note 5)	¥7,085,174	¥6,152,086
Other lease business revenue (Note 5)	520,733	503,250
Gain on sales of real estate property (Note 5)	203,178	436,817
Dividends income	14,461	5,164
Total operating revenues	7,823,548	7,097,319
Operating expenses		
Expenses related to rent business (Note 5)	2,794,762	2,554,551
Asset management fees	513,065	413,158
Asset custody fees	11,985	11,583
Administrative service fees	41,723	41,201
Directors' compensation	8,100	7,500
Merger expenses	-	395,984
Other operating expenses	240,701	233,938
Total operating expenses	3,610,337	3,657,918
Operating income	4,213,210	3,439,400
Non-operating income		
Interest income	45	15
Dividends and redemption-prescription	313	293
Interest on refund	3	56
Total non-operating income	362	364
Non-operating expenses		
Interest expenses	491,744	441,829
Interest expenses on investment corporation bonds	9,974	7,593
Borrowing expenses	101,223	145,787
Amortization of investment corporation bond issuance costs	2,560	1,878
Amortization of investment unit issuance costs	9,022	421
Other	-	108
Total non-operating expenses	614,525	597,619
Ordinary income	3,599,047	2,842,146
Extraordinary income		
Gain on negative goodwill	-	2,574,896
Total extraordinary income	-	2,574,896
Income before income taxes	3,599,047	5,417,042
Income taxes (Note 11)		
Current	605	605
Total income taxes	605	605
Net income	3,598,442	5,416,437
Retained earnings brought forward	276,608	12,239
Unappropriated retained earnings	¥3,875,050	¥5,428,676

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Changes in Net Assets

For the period from August 1, 2018 to January 31, 2019

	Unitholders' equity						
	Surplus						Total unitholders' equity
	Unitholders' capital	Capital surplus	Voluntary retained earnings		Unappropriated retained earnings	Total surplus	
Reserve for temporary difference adjustments			Total voluntary retained earnings				
(in thousands of yen)							
Balance as of January 31, 2018	¥80,132,379	¥-	¥-	¥-	¥2,437,011	¥2,437,011	¥82,569,390
Changes of items during the period							
Increase by merger		13,187,100				13,187,100	13,187,100
Dividends from surplus					(2,424,772)	(2,424,772)	(2,424,772)
Net income					5,416,437	5,416,437	5,416,437
Net changes of items other than unitholders' equity							
Total changes of items during the period	-	13,187,100	-	-	2,991,665	16,178,765	16,178,765
Balance as of July 31, 2018 (Note 6)	¥80,132,379	¥13,187,100	¥-	¥-	¥5,428,676	¥18,615,776	¥98,748,155
Changes of items during the period							
Issuance of new investment units	13,093,849					-	13,093,849
Provision of reserve for temporary difference adjustments			2,000,000	2,000,000	(2,000,000)	-	-
Dividends from surplus					(3,152,068)	(3,152,068)	(3,152,068)
Net income					3,598,442	3,598,442	3,598,442
Net changes of items other than unitholders' equity							
Total changes of items during the period	13,093,849	-	2,000,000	2,000,000	(1,553,626)	446,373	13,540,223
Balance as of January 31, 2019 (Note 6)	¥93,226,228	¥13,187,100	¥2,000,000	¥2,000,000	¥3,875,050	¥19,062,150	¥112,288,379

	Valuation and translation adjustments		
	Deferred gains or losses on hedges	Total valuation and translation adjustments	Total net assets
Balance as of January 31, 2018	¥80,743	¥80,743	¥82,650,134
Changes of items during the period			
Increase by merger			13,187,100
Dividends from surplus			(2,424,772)
Net income			5,416,437
Net changes of items other than unitholders' equity	(83,255)	(83,255)	(83,255)
Total changes of items during the period	(83,255)	(83,255)	16,095,509
Balance as of July 31, 2018 (Note 6)	¥ (2,512)	¥ (2,512)	¥98,745,643
Changes of items during the period			
Issuance of new investment units			13,093,849
Provision of reserve for temporary difference adjustments			-
Dividends from surplus			(3,152,068)
Net income			3,598,442
Net changes of items other than unitholders' equity	(334,709)	(334,709)	(334,709)
Total changes of items during the period	(334,709)	(334,709)	13,205,513
Balance as of January 31, 2019 (Note 6)	¥ (337,222)	¥ (337,222)	¥111,951,157

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Statement of Cash Flows

For the period from August 1, 2018 to January 31, 2019

	14th Fiscal Period from August 1, 2018 to January 31, 2019	13th Fiscal Period from February 1, 2018 to July 31, 2018
(in thousands of yen)		
Net cash provided by (used in) operating activities		
Income before income taxes	¥3,599,047	¥5,417,042
Depreciation and amortization	1,343,939	1,144,883
Gain on negative goodwill	-	(2,574,896)
Amortization of investment corporation bond issuance costs	2,560	1,878
Amortization of investment unit issuance costs	9,022	421
Interest income	(45)	(15)
Interest expenses	501,719	449,423
Decrease (increase) in operating accounts receivable	2,576	(3,782)
Decrease (increase) in consumption taxes refund receivable	(338,402)	9,464
Decrease (increase) in prepaid expenses	3,405	(713)
Increase (decrease) in operating accounts payable	117,776	(28,792)
Increase (decrease) in accounts payable-other	15,829	(102,769)
Increase (decrease) in accrued consumption taxes	(52,443)	62,160
Increase (decrease) in advances received	137,469	15,122
Decrease (increase) in long-term prepaid expenses	(142,793)	(1,198)
Decrease in net property, plant and equipment held in trust due to sale	500,913	953,749
Other, net	19,148	18,303
Subtotal	5,719,725	5,360,283
Interest income received	45	15
Interest expenses paid	(511,560)	(459,405)
Income taxes (paid) refund	3,769	(6,005)
Net cash provided by (used in) operating activities	5,211,979	4,894,888
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment in trust	(29,866,970)	(1,053,115)
Purchase of intangible assets	-	(7,762)
Purchase of investment securities	(1,832)	(111,529)
Proceeds from investment securities	402,700	12,232
Proceeds from lease and guarantee deposits	10,000	-
Repayments of tenant leasehold and security deposits in trust	(133,676)	(134,277)
Proceeds from tenant leasehold and security deposits in trust	486,208	161,089
Repayments of tenant lump sum deposits in trust	(103,996)	(44,212)
Proceeds from tenant lump sum deposits in trust	304,115	625,414
Net cash provided by (used in) investing activities	(28,903,451)	(552,161)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	-	2,630,000
Decrease in short-term loans payable	(580,000)	(3,630,000)
Proceeds from long-term loans payable	26,700,000	4,500,000
Repayments of long-term loans payable	(11,000,000)	(3,500,000)
Proceeds from issuance of investment corporation bonds	1,981,451	-
Proceeds from issuance of investment units	13,039,815	-
Dividends paid	(3,151,284)	(2,709,508)
Net cash provided by (used in) financing activities	26,989,982	(2,709,508)
Net increase (decrease) in cash and cash equivalents	3,298,510	1,633,218
Cash and cash equivalents at the beginning of period	18,779,421	10,479,684
Increase in cash and cash equivalents resulting from merger	-	6,666,519
Cash and cash equivalents at the end of period (Note 7)	¥22,077,932	¥18,779,421

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL NEXT INVESTMENT CORPORATION

Notes to Financial Statements

For the period from August 1, 2018 to January 31, 2019

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Residential Next Investment Corporation (“the Investment Corporation”) was established on November 15, 2011 under the Act on Investment Trusts and Investment Corporations of Japan (“the Investment Trust Act”). On April 26, 2012, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange (Securities Code: 3278). The Investment Corporation implemented a 2-for-1 split of its investment units held by unitholders set forth or recorded in the final unitholder registry on February 28, 2018 with March 1, 2018 as the effective date. And also on March 1, 2018, the Investment Corporation conducted an absorption-type merger (“the Merger”) whereby the Investment Corporation was the surviving corporation and Japan Senior Living Investment Corporation (“JSL”) was the dissolving corporation. Subsequently, the Investment Corporation raised funds through the latest public offering and third-party allotment for the first time in approximately three and a half years, and acquired 11 properties (total acquisition price of ¥29,284 million) with the funds of new investment units and new borrowings until the end of the 14th fiscal period. As a result, as of January 31, 2019, the end of the 14th fiscal period, the number of investment units issued and outstanding totaled 869,133 units.

The Investment Corporation is externally managed by Kenedix Real Estate Fund Management, Inc. (“the Asset Management Company”), a company that was formed with personnel from Kenedix, Inc. and adheres to the core philosophies of Kenedix, Inc., that is, to provide management services from the perspective of real estate investors as an independent real estate management company. As the asset manager, the Asset Management Company shall provide flexible and speedy real estate investment and management services based on the strategies of the Investment Corporation: “Flexible pursuit for appropriate investment and profit opportunities with comprehension of the real estate market trends” and “Speedy execution based on expeditious information collection and judgement.”

During the 13th fiscal period, the Investment Corporation succeeded 14 properties through the Merger with total acquisition price of ¥28,998 million based on the appraisal value as of March 1, 2018. The Investment Corporation acquired 1 property (acquisition price of ¥737 million) and sold 1 property (disposition price of ¥1,420 million) other than the Merger. During the 14th fiscal period, the Investment Corporation acquired 4 residential properties (total acquisition price of ¥13,840 million) and 6 healthcare properties (total acquisition price of ¥14,707 million), and sold 1 property (acquisition price of ¥520 million, disposition price of ¥730 million). As the result, the Investment Corporation has a portfolio comprised of 138 properties (total acquisition price of ¥220,916 million) as of January 31, 2019, the end of the 14th fiscal period. The portfolio consists of 116 residential properties (total acquisition price of ¥174,724 million), 21 healthcare properties (total acquisition price of ¥44,442 million) and 1 other property (acquisition price of ¥1,750 million).

The occupancy rates of the overall portfolio including land with leasehold interest were 97.6% and 97.7% as of the end of the 13th and 14th fiscal period, respectively. Furthermore, the average occupancy rates of the properties for residential and healthcare were 96.5% and 100.0% as of the end of 14th fiscal period.

During the 13th and 14th fiscal period, the Investment Corporation made borrowings of ¥7,130 million and ¥11,000 million for the repayment of debt matured. During the 13th fiscal period, the Investment Corporation succeeded ¥15,000 million borrowings from JSL on March 1, 2018 by the Merger. During the 14th fiscal period, the Investment Corporation made new borrowings of ¥15,700 million upon acquiring properties and also issued ¥2,000 million new investment corporation bonds for ¥580 million partial repayment of borrowings and acquiring properties. As a result, balance of borrowings as of the end of the 13th and 14th fiscal period stood at ¥103,130 million and ¥118,250 million, respectively.

Basis of Presentation

The Investment Corporation maintains its accounting records and prepares its financial statements in accordance with accounting principles generally accepted in Japan (Japanese GAAP), including provisions set forth in the Investment Trust Act, the Companies Act of Japan, the Financial Instruments and Exchange Act of Japan and related regulations, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying financial statements are a translation of the audited financial statements of the Investment Corporation, which were prepared in accordance with Japanese GAAP and were presented in the Securities Report of the Investment Corporation filed with the Kanto Local Finance Bureau. In preparing the accompanying financial statements, certain reclassifications and modifications have been made to the financial statements issued domestically in order to present them in a format that is more familiar to readers outside Japan. In addition, the notes to financial statements include certain information that might not be required under Japanese GAAP but is presented herein as additional information.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Securities

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

(B) Property and Equipment (including trust assets)

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

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
Buildings	2-69 years	2-67 years
Structures	3-57 years	3-52 years
Machinery and equipment	8-35 years	8-34 years
Tools, furniture and fixtures	5-30 years	6-30 years

(C) Intangible Assets

Intangible assets are amortized by the straight-line method.

(D) Long-term Prepaid Expenses

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

(E) Unit Issuance Costs

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

(F) 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 relevant assets and liabilities in trust are recorded on the balance sheet and the statement of income and retained earnings.

(H) Revenue Recognition

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

(I) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. These taxes are generally charged to operating expenses for the period, for the portion of such taxes corresponding to said period. Under Japanese tax regulations, the seller of the property is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is 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 ¥1,215 thousand and ¥50,824 thousand as of July 31, 2018 and January 31, 2019, respectively.

(J) 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.

(K) Consumption Taxes

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

(L) Derivative Financial Instruments

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

As for the method of assessment of the effectiveness of the hedge in the period from the inception of the hedge to the time of judgment of its effectiveness, the cumulative changes in cash flow of the hedged items and hedging instruments are compared and a judgment is made based on changed amount, etc. However, an assessment of the effectiveness of hedging activities is omitted in the case of interest rate swaps and other derivatives that meet the requirements for special treatment.

(M) 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.

(N) Presentation of Amounts

Amounts of less than one thousand yen are 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. 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 ¥50,000 thousand as required by the Investment Trust Act.

4. RESERVE FOR TEMPORARY DIFFERENCE ADJUSTMENTS

As of January 31, 2019

The following summarizes reserve for temporary difference adjustments.

	Initial amount	Balance at the beginning of the period	Reserve during the period	Reversal during the period	Balance at the end of the period	Reason for reserve and reversal
(in thousands of yen)						
Gain on negative goodwill*	¥2,000,000	¥ -	¥2,000,000	¥ -	¥2,000,000	Reserve of a part of gain on negative goodwill by merger

* The Investment Corporation reserved part of gain on negative goodwill incurred in the 13th fiscal period as reserve for temporary difference adjustments. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period starting from the next fiscal period after the fiscal period, in which the initial amount was reserved.

As of July 31, 2018

Not applicable

5. BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES AND GAIN ON SALES OF REAL ESTATE PROPERTY

Rental and other operating revenues and property-related expenses for the periods from August 1, 2018 to January 31, 2019 and from February 1, 2018 to July 31, 2018 consist of the following:

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
(in thousands of yen)		
A. Rental and other operating revenues:		
Rental revenues	¥6,711,825	¥5,800,000
Rental revenues from limited proprietary rights of land	43,749	43,750
Common area charges	329,599	308,336
Subtotal	7,085,174	6,152,086
Others:		
Parking space rental revenues	210,398	182,436
Miscellaneous	310,334	320,814
Subtotal	520,733	503,250
Total rental and other operating revenues	¥7,605,908	¥6,655,337
B. Property-related expenses:		
Property management fees and facility management fees	¥408,364	¥402,111
Utilities	97,432	89,714
Taxes	410,483	413,717
Repairs and maintenance	318,838	290,404
Insurance	11,487	10,386
Trust fees	53,141	48,958
Depreciation	1,343,163	1,144,236
Others	151,851	155,022
Total property-related expenses	¥2,794,762	¥2,554,551
C. Net operating income from real estate rental business (A-B)	¥4,811,146	¥4,100,786

Gain on sales of real estate property:

From August 1, 2018 to January 31, 2019

(in thousands of yen)

KDX Residence Kotodai	
Revenue from sale of real estate property	¥730,574
Cost of real estate property	500,913
Other sales expenses	26,481
Gain on sales of real estate property	¥203,178

From February 1, 2018 to July 31, 2018

(in thousands of yen)

KDX Shimmachi Residence	
Revenue from sale of real estate property	¥1,420,000
Cost of real estate property	953,749
Other sales expenses	29,433
Gain on sales of real estate property	¥436,817

6. UNITHOLDERS' EQUITY

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

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	869,133 units	782,928 units

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following as of January 31, 2019 and July 31, 2018:

	As of January 31, 2019	As of July 31, 2018
	(in thousands of yen)	
Cash and deposits	¥12,356,302	¥10,029,598
Cash and deposits in trust	9,721,629	8,749,823
Cash and cash equivalents	¥22,077,932	¥18,779,421

Important contents of the non-cash transaction

From August 1, 2018 to January 31, 2019

Not applicable

From February 1, 2018 to July 31, 2018

The summary of assets and liabilities succeeded from Japan Senior Living Investment Corporation by merger in the 13th fiscal period is as follows. The increase amount of capital surplus is ¥13,187,100 thousand as a result of merger.

(in thousands of yen)

Current assets	¥6,674,104
Non-current assets	29,237,279
Total assets	35,911,384
Current liabilities	5,108,546
Non-current liabilities	15,040,841
Total liabilities	¥20,149,388

8. LEASES

The Investment Corporation, as lessor, has entered into leases whereby fixed monthly rents are due in advance with a lease term of generally two years for residential properties. The future minimum rental revenues under existing non-cancelable operating leases as of January 31, 2019 and July 31, 2018 are as follows:

	As of January 31, 2019	As of July 31, 2018
	(in thousands of yen)	
Due in 1 year	¥2,769,825	¥1,942,856
Due after 1 year	18,849,702	12,086,289
Total	¥21,619,527	¥14,029,145

9. FINANCIAL INSTRUMENTS

(A). Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

Borrowings and investment corporation bonds are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 9 years and 8 months for borrowings and also have a redemption date of a maximum of 9 years and 10 months for investment corporation bonds as of January 31, 2019, the end of the 14th fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

(3) Risk management for financial instruments

a. Credit risk

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

b. Market risk

While borrowings with floating rates are exposed to interest rate volatility risk, such risk is monitored by adjusting the rate of the balance of borrowings with floating rates against the total borrowings according to the financial environment, interest rate forecasts by continuous monitoring, etc. and by using derivatives, etc. While investment securities, which are equity investments in an anonymous association, are exposed to credit risk of the issuer and property value fluctuation risk, the Investment Corporation periodically reviews the value of the property and financial condition of the issuer with regard to these investment securities. A risk management policy is established with regard to the execution and management of derivatives, and such transactions are entered into based on this policy.

c. Liquidity risk

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

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

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

(B). Estimated Fair Value of Financial Instruments

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

As of January 31, 2019

	Carrying amount	Estimated fair value	Difference
	(in thousands of yen)		
(1) Cash and deposits	¥12,356,302	¥12,356,302	¥ -
(2) Cash and deposits in trust	9,721,629	9,721,629	-
Subtotal	22,077,932	22,077,932	-
(1) Short-term loans payable	2,050,000	2,050,000	-
(2) Current portion of long-term loans payable	9,700,000	9,702,693	2,693
(3) Investment corporation bonds	5,000,000	4,994,100	(5,900)
(4) Long-term loans payable	106,500,000	106,881,219	381,219
Subtotal	123,250,000	123,628,012	378,012
Derivative transactions*	¥(337,222)	¥(337,222)	¥ -

* Figures indicate net amount of derivative assets/liabilities derived from derivative transactions, with minus representing net liabilities.

As of July 31, 2018

	Carrying amount	Estimated fair value	Difference
	(in thousands of yen)		
(1) Cash and deposits	¥10,029,598	¥10,029,598	¥ -
(2) Cash and deposits in trust	8,749,823	8,749,823	-
Subtotal	18,779,421	18,779,421	-
(1) Short-term loans payable	2,630,000	2,630,000	-
(2) Current portion of long-term loans payable	13,500,000	13,463,182	(36,817)
(3) Investment corporation bonds	3,000,000	2,978,000	(22,000)
(4) Long-term loans payable	87,000,000	87,203,230	203,230
Subtotal	106,130,000	106,274,413	144,413
Derivative transactions*	¥(2,512)	¥(2,512)	¥ -

* Figures indicate net amount of derivative assets/liabilities derived from derivative transactions, with minus representing net liabilities.

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

Assets

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

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

Liabilities

(1) Short-term loans payable

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

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

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

of the same type.)

(3) Investment corporation bonds

The fair value of investment corporation bonds is based on quoted market prices.

Derivative transactions

Please refer to Note 10 "DERIVATIVE TRANSACTIONS".

Note 2: Financial instruments whose fair values are extremely difficult to recognize

(in thousands of yen)

Classification	As of January 31, 2019	As of July 31, 2018
Investment securities *	111,796	512,263

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

Loss on valuation of investment securities of ¥21,981 thousand was recognized in the fiscal period ended July 31, 2018.

Note 3: Redemption schedule for financial assets with maturities

As of January 31, 2019

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥12,356,302	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	9,721,629	-	-	-	-	-
Total	¥22,077,932	¥ -	¥ -	¥ -	¥ -	¥ -

As of July 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥10,029,598	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	8,749,823	-	-	-	-	-
Total	¥18,779,421	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable and investment corporation bonds

As of January 31, 2019

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥ 2,050,000	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	-	1,000,000	-	1,000,000	3,000,000
Long-term loans payable	9,700,000	9,600,000	13,000,000	17,750,000	11,800,000	54,350,000
Total	¥ 11,750,000	¥ 9,600,000	¥ 14,000,000	¥ 17,750,000	¥ 12,800,000	¥ 57,350,000

As of July 31, 2018

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Short-term loans payable	¥ 2,630,000	¥ -	¥ -	¥ -	¥ -	¥ -
Investment corporation bonds	-	-	-	1,000,000	-	2,000,000
Long-term loans payable	13,500,000	7,500,000	8,950,000	19,650,000	7,250,000	43,650,000

Total	¥ 16,130,000	¥ 7,500,000	¥ 8,950,000	¥ 20,650,000	¥ 7,250,000	¥ 45,650,000
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10. DERIVATIVE TRANSACTIONS

The contract amount and the fair value of interest-rate swap transactions as of January 31, 2019 are shown in the following table.

(1) Transactions not subject to hedge accounting
Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
			Total	Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥52,500,000	¥52,500,000	¥(337,222)	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	38,300,000	36,800,000	*	-
	Total		¥90,800,000	¥89,300,000	¥(337,222)	-

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

The contract amount and the fair value of interest-rate swap transactions as of July 31, 2018 are shown in the following table.

(1) Transactions not subject to hedge accounting
Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
			Total	Maturing after 1 year		
Accounting method, in principle	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥43,000,000	¥43,000,000	¥(2,512)	Based on the amount provided by counterparty financial institutions
Special treatment for interest-rate swaps	Interest rate swap transaction: Receive/floating and pay/fixed	Long-term loans payable	¥46,300,000	¥38,300,000	*	-
	Total		¥89,300,000	¥81,300,000	¥(2,512)	-

*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.

11. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 32%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distributes in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥3,510 million and ¥3,152 million for the periods ended January 31, 2019 and July 31, 2018, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on the Investment Corporation's income were 0.02% and 0.01% for the periods ended January 31, 2019 and July 31, 2018, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
Statutory tax rate	31.51%	31.74%
Deductible cash distributions	(30.73)	(16.44)
Gain on negative goodwill	-	(15.09)
Others	(0.76)	(0.20)
Effective tax rate	0.02%	0.01%

The significant components of deferred tax assets and liabilities as of January 31, 2019 and July 31, 2018 are as follows:

	As of January 31, 2019	As of July 31, 2018
	(in thousands of yen)	
Deferred tax assets:		
Valuation difference on assets acquired by merger	¥ 741,176	¥ 762,851
Deferred gains or losses on hedges	106,528	26,694
Loss on valuation of investment securities	-	6,926
Subtotal deferred tax assets	847,704	796,472
Valuation allowance	(847,704)	(796,472)
Total deferred tax assets	¥ -	¥ -
Net deferred tax assets	¥ -	¥ -

12. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

14th Fiscal Period (August 1, 2018 to January 31, 2019) and 13th Fiscal Period (February 1, 2018 to July 31, 2018): Not applicable

2. Affiliated companies and other

14th Fiscal Period (August 1, 2018 to January 31, 2019) and 13th Fiscal Period (February 1, 2018 to July 31, 2018): Not applicable

3. Fellow subsidiary companies and other

14th Fiscal Period (August 1, 2018 to January 31, 2019) and 13th Fiscal Period (February 1, 2018 to July 31, 2018): Not applicable

4. Directors, major individual unitholders and other

14th Fiscal Period (August 1, 2018 to January 31, 2019) and 13th Fiscal Period (February 1, 2018 to July 31, 2018): Not applicable

13. BUSINESS COMBINATION

14th Fiscal Period (August 1, 2018 to January 31, 2019)

Not applicable

13th Fiscal Period (February 1, 2018 to July 31, 2018)

Business Combination through Acquisition

1. Overview of Business Combination

(1) Name and Business Description of Acquiree

Name of acquiree : Japan Senior Living Investment Corporation ("JSL")

Business description : Real estate investment trust

(2) Main Reasons for Business Combination

The Investment Corporation and JSL believe that, as a result of the Merger, they will achieve the benefits of (i) an increase in liquidity resulting from greater asset scale and market capitalization that will enable them to capture more growth opportunities, (ii) greater earnings stability stemming from asset type diversification and enhanced ability to pursue external growth and (iii) improvement in asset management efficiency together with enhanced financial health, and further believe that the potential to reap these benefits constitutes the major significance of the Merger. The Investment Corporation has therefore entered into the merger agreement on November 10, 2017.

(3) Date of Business Combination

March 1, 2018

(4) Legal Framework of Business Combination

An absorption-type merger with the Investment Corporation as the surviving corporation and JSL as the dissolving corporation

(5) Name of the Investment Corporation after Business Combination

Kenedix Residential Next Investment Corporation

(The Investment Corporation changed its name from Kenedix Residential Investment Corporation to Kenedix Residential Next Investment Corporation on March 1, 2018)

(6) Main Reasons for Determining Acquiring Company

It was determined that the Investment Corporation is the acquiring company based on the accounting standards for business combinations and other regulations with comprehensively taking various factors into consideration, such as the size of total assets, net income and other indexes, the ratio of unitholders' voting rights, the members of board of directors and other managerial factors.

2. Operating Period of Acquiree Included in the Statement of Income and Retained Earnings

From March 1, 2018 to July 31, 2018

3. Acquisition Cost of Acquiree and the Breakdown

Acquisition cost

Market value of the Investment Corporation's investment units allotted on the date of business combination

¥13,187,100 thousand

Principal Direct Cost for Acquisition

Merger fees ¥292,085 thousand

4. Exchange Ratio, Method of Calculation and Number of Investment Units Allotted as for the Acquisition

(1) Exchange Ratio of Investment Units

1 unit of the Investment Corporation was allotted 1 unit of JSL through the Merger. The Investment Corporation implemented a 2-for-1 investment unit split with February 28, 2018 as the record date before the Merger.

(2) Method of Calculation

The Investment Corporation appointed SMBC Nikko Securities Inc. as a financial advisor ("FA"), while JSL appointed Nomura Securities Co., Ltd. They requested the FAs to perform a financial analysis of the merger ratio. Each FA calculated the merger ratio based on the valuation method of investment unit market value, discount dividends model, and other valuation, respectively. After careful discussions and negotiations as well as comprehensive considerations of various factors, including the merger ratio performed by the FAs, the Investment Corporation and JSL determined that the above mentioned merger ratio was appropriate.

(3) Number of Investment Units Allotted

84,750 units

5. Treatment of Acquisition Cost

(1) Breakdown of Assets Acquired and Liabilities Assumed on the Date of Business Combination

(In thousand yen)	
Current assets	¥6,674,104
Noncurrent assets	29,237,279
Total assets	35,911,384
Current liabilities	5,108,546
Noncurrent liabilities	15,040,841
Total liabilities	¥20,149,388

(2) Amount and Reason for Negative Goodwill

Amount of Negative Goodwill : ¥2,574,896 thousand

Reason : The Investment Corporation recognized the difference as Negative Goodwill, by the amount that JSL fair value of net assets on the date of business combination exceeded the acquisition cost.

Accounting Treatment : All of the amount was recognized as extraordinary gain in 13th fiscal period.

6. Estimated Impact on the Statement of Income and Retained Earnings for the 13th fiscal period

Calculation Method of Estimated Impact and Assumption:

Japanese GAAP requires the acquiring company to estimate the impact on the statement of income and retained earnings as if the business combination were completed at the beginning of the 13th fiscal period.

Impact on the Statement of Income and Retained Earnings in the 13th Fiscal Period:

Operating revenues	¥162,634 thousand
Ordinary income	¥37,588 thousand
Net income	¥37,419 thousand

14. INVESTMENT AND RENTAL PROPERTIES

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

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

	14th Fiscal Period from August 1, 2018 to January 31, 2019	13th Fiscal Period from February 1, 2018 to July 31, 2018
(in thousands of yen)		
Book value		
Balance at the beginning of period	¥193,148,357	¥165,040,946
Changes during the period	28,208,331	28,107,411
Balance at the end of period	221,356,688	193,148,357
Fair value at the end of period	¥256,174,000	¥223,857,000

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

Note 2: Among changes in the amount of real estate for rental purposes that occurred during the 14th fiscal period, the principal increase was the acquisition of real estate trust beneficiary interests in 10 properties totaling ¥29,437,871 thousand, and the principal decrease was the sales of real estate trust beneficiary interests in 1 property totaling ¥500,913 thousand and depreciation of ¥1,343,163 thousand, and the 13th fiscal period, the principal increases were the acquisition of trust beneficiary interests in real estate in 14 properties totaling ¥28,998,000 thousand by merger with Japan Senior Living Investment Corporation and the acquisition of real estate trust beneficiary interests in 1 property totaling ¥770,418 thousand, and the principal decrease was the sales of real estate trust beneficiary interests in 1 property totaling ¥953,749 thousand and depreciation of ¥1,144,236 thousand.

Note 3: The fair value is the appraisal value or the survey value determined by outside appraisers. In addition, the fair value at the end of 14th fiscal period of KDX Residence Shin-osaka, which was sold on February 1, 2019, is based on the sales price (¥690,000 thousand) under the trust beneficiary interest sales contracts entered into on January 18, 2019.

Income and loss in the fiscal periods ended January 31, 2019 and July 31, 2018 for real estate for rental purposes is listed in Note 5 "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES, PROPERTY-RELATED EXPENSES AND GAIN ON SALES OF REAL ESTATE PROPERTY".

15. SEGMENT AND RELATED INFORMATION

Segment and related information for the period ended from August 1, 2018 to January 31, 2019 and from February 1, 2018 to July 31, 2018 is as follows:

(A) Segment information

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

(B) Related information

(1) Information about each product and service

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

(2) Information about each geographic area

(a) Net sales

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

(b) Property, plant and equipment

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

(3) Information about each major customer

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

16. PER UNIT INFORMATION

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
Net asset value per unit	¥128,807	¥126,123
Net income per unit	¥4,143	¥7,036
Weighted average number of units (units)	868,508	769,818

The weighted average number of units outstanding of 868,508 and 769,818 were used for the computation of the amount of net income per unit as of January 31, 2019 and July 31, 2018, respectively.

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

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

	From August 1, 2018 to January 31, 2019	From February 1, 2018 to July 31, 2018
Net income (in thousands of yen)	¥3,598,442	¥5,416,437
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥3,598,442	¥5,416,437
Weighted average number of units during the period (units)	868,508	769,818

17. SIGNIFICANT SUBSEQUENT EVENTS

Issuance of New Investment Units

On February 4, 2019 and February 13, 2019, the Board of Directors of the Investment Corporation resolved to issue new investment units as the funds for acquiring specified assets and other use. Payments for the issuance of new investment units through public offering and through third-party allotment have been completed on February 20, 2019 and March 11, 2019, respectively.

As a result of the issuance of new investment units, the Investment Corporation has total unitholders' capital of ¥99,731,514,403 with 907,458 units outstanding as of March 11, 2019.

(Issuance of New Investment Units through Public Offering)

Issuance of new investment units	: 36,500 units
Issue price (Offer price)	: ¥175,500 per unit
Aggregate issue price (Total offer price)	: ¥6,405,750,000
Issue amount (Paid-in value)	: ¥169,740 per unit
Total issue amount (Aggregate paid-in value)	: ¥6,195,510,000
Payment date	: February 20, 2019

(Issuance of New Investment Units through Third-Party Allotment)

Issuance of new investment units	: 1,825 units
Issue amount (Paid-in value)	: ¥169,740 per unit
Total issue amount (Aggregate paid-in value)	: ¥309,775,500
Payment date	: March 11, 2019
Allottee	: SMBC Nikko Securities Inc.

18. SECURITIES PORTFOLIO

Securities portfolio consists of the following as of January 31, 2019:

- (1) Stock Not applicable
- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 2)	Gain (Loss) on valuation	Remarks
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic III as operator (Note 1)	-	111,796	-	-	111,796	-	
Total		-	111,796	-	-	111,796	-	

Note 1: TK property fund owns trust beneficiary interests in real estate for "Serabi Ebisu" and "Arute Ishiyagawa." Furthermore, the Investment Corporation will acquire real estate beneficiary interests in trust for the above two mentioned properties on June 3, 2019 based on the trust beneficiary interest sales contracts executed on February 4, 2019.

Note 2: The assessed value is stated at the book value.

Securities portfolio consists of the following as of July 31, 2018:

- (1) Stock Not applicable
- (2) Securities other than shares

(in thousands of yen)

Type	Name	Face value total	Book value	Accrued interest	Prepaid accrued interest	Assessed value (Note 1)	Gain (Loss) on valuation	Remarks
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic I as operator (Note 2)	-	78,767	-	-	78,767	-	
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic II as operator (Note 3)	-	122,142	-	-	122,142	-	
Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. KSLF8 as operator (Note 4)	-	198,346	-	-	198,346	-	
Subordinated Silent Partnership Equity Interests	Equity interests in TK property fund with G.K. Tropic III as operator (Note 5)	-	113,006	-	-	113,006	-	
Total		-	512,263	-	-	512,263	-	

Note 1: The assessed value is stated at the book value. Loss on valuation of investment securities of ¥10,831 thousand and ¥11,150 thousand was recognized in the fiscal period ended July 31, 2018 regarding equity interests in TK property fund with G.K. Tropic I as operator and equity interests in TK property fund with G.K. Tropic II as operator, respectively.

Note 2: TK property fund owned trust beneficiary interests in real estate for "KDX Residence Shukugawa Hills" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the abovementioned properties on August 2, 2018.

Note 3: TK property fund owned trust beneficiary interests in real estate for "KDX Residence Asagaya," "KDX Residence Hiyoshi" and "Serenite Kobe Motomachi" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the three abovementioned properties on August 2, 2018.

Note 4: Equity interests in TK property fund with G.K. KSLF8 as operator were succeeded from JSL by the Merger.

TK property fund owned trust beneficiary interests in real estate for "Canadian Hill," "Anesis Hyogo," "Orange Suma," "Rococo-riha" and "Anesis Teradacho" as of July 31, 2018, the end of the 13th fiscal period. Furthermore, the Investment Corporation acquired real estate beneficiary interests in trust for the five abovementioned properties on August 2, 2018.

Note 5: TK property fund owns trust beneficiary interests in real estate for "Serabi Ebisu" and "Arute Ishiyagawa."

19. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment consist of the following as of January 31, 2019:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
					(in thousands of yen)			
Land	¥1,798,041	¥ -	¥ -	¥1,798,041	¥ -	¥ -	¥1,798,041	
Sub total	1,798,041	-	-	1,798,041	-	-	1,798,041	
Buildings in trust	84,656,776	10,780,795	360,282	95,077,289	9,123,715	1,269,324	85,953,573	Notes 1 and 2
Structures in trust	722,432	227,133	1,836	947,729	161,739	28,801	785,989	
Machinery and equipment in trust	1,360,078	72,927	3,678	1,429,327	288,590	32,624	1,140,736	
Tools, furniture and fixtures in trust	400,899	75,137	2,421	473,614	51,478	12,412	422,136	
Land in trust	111,474,267	18,896,415	181,530	130,189,152	-	-	130,189,152	Notes 1 and 2
Sub total	198,614,454	30,052,408	549,749	228,117,113	9,625,524	1,343,163	218,491,588	
Total	200,412,495	30,052,408	549,749	229,915,155	9,625,524	1,343,163	220,289,630	
Intangible assets								
Leasehold right in trust	1,067,058	-	-	1,067,058	-	-	1,067,058	
Other	7,762	-	-	7,762	1,423	776	6,339	
Total	¥1,074,821	¥ -	¥ -	¥1,074,821	¥1,423	¥776	¥1,073,398	

Note 1: The amount of increase during the period is primarily attributable to the acquisition of the real estate properties and capital expenditures.

Note 2: The amount of decrease during the period is primarily attributable to the sales of the real estate property.

Property, plant and equipment consist of the following as of July 31, 2018:

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
					(in thousands of yen)			
Land	¥1,798,041	¥ -	¥ -	¥1,798,041	¥ -	¥ -	¥1,798,041	
Sub total	1,798,041	-	-	1,798,041	-	-	1,798,041	
Buildings in trust	68,843,600	16,408,296	595,119	84,656,776	7,901,681	1,084,310	76,755,095	Notes 1 and 2
Structures in trust	502,925	222,790	3,283	722,432	133,503	19,963	588,929	
Machinery and equipment in trust	1,317,786	42,291	-	1,360,078	256,856	30,015	1,103,222	
Tools, furniture and fixtures in trust	338,646	62,359	106	400,899	39,156	9,946	361,742	
Land in trust	99,538,715	12,402,600	467,048	111,474,267	-	-	111,474,267	Notes 1 and 2
Sub total	170,541,674	29,138,338	1,065,558	198,614,454	8,331,197	1,144,236	190,283,257	
Total	172,339,715	29,138,338	1,065,558	200,412,495	8,331,197	1,144,236	192,081,298	
Intangible assets								
Leasehold right in trust	-	1,067,058	-	1,067,058	-	-	1,067,058	
Other	-	7,762	-	7,762	646	646	7,115	
Total	¥ -	¥1,074,821	¥ -	¥1,074,821	¥ 646	¥ 646	¥1,074,174	

Note 1: The amount of increase during the period is primarily attributable to merger, the acquisition of the real estate property and capital expenditures.

Note 2: The amount of decrease during the period is primarily attributable to the sales of the real estate property.

20. INVESTMENT CORPORATION BONDS

Outstanding Investment corporation bonds as of January 31, 2019 are as follows.

Series	Date of issue	Balance at the beginning of period	Decrease during the period	Balance at the end of period	Interest rate	Repayment date	Use	Remarks
(in thousands of yen)								
First series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.200%	August 30, 2021		
Second series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.540%	August 28, 2026		
Third series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.800%	August 30, 2028	(Note2)	Unsecured
Fourth series of unsecured investment corporation bonds (Note 1)	November 30, 2018	-	-	1,000,000	0.410%	November 30, 2023		
Fifth series of unsecured investment corporation bonds (Note 1)	November 30, 2018	-	-	1,000,000	0.850%	November 30, 2028		
Total		3,000,000	-	5,000,000				

Note 1: Ranking pari passu among the specified investment corporation bonds.

Note 2: Investment corporation bonds were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate and repayment of debts.

Note 3: Annual repayments of investment corporation bonds scheduled for the next five years after the balance sheet date are as follows.

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
(in thousands of yen)					
Investment corporation bonds	-	-	1,000,000	-	1,000,000

Outstanding Investment corporation bonds as of July 31, 2018 are as follows.

Series	Date of issue	Balance at the beginning of period	Decrease during the period	Balance at the end of period	Interest rate	Repayment date	Use	Remarks
(in thousands of yen)								
First series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.200%	August 30, 2021		
Second series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.540%	August 28, 2026	(Note2)	Unsecured
Third series of unsecured investment corporation bonds (Note 1)	August 30, 2016	1,000,000	-	1,000,000	0.800%	August 30, 2028		
Total		3,000,000	-	3,000,000				

Note 1: Ranking pari passu among the specified investment corporation bonds.

Note 2: Investment corporation bonds were used as the funds for acquiring real estate properties or trust beneficiary interest in real estate and repayment of debts.

Note 3: Annual repayments of investment corporation bonds scheduled for the next five years after the balance sheet date are as follows.

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
(in thousands of yen)					
Investment corporation bonds	-	-	-	1,000,000	-

21. SHORT-TERM DEBT AND LONG-TERM DEBT

Short-term debt and long-term debt consist of the following as of January 31, 2019

	Classification	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks		
	Lender										
	(in thousands of yen)										
Short-term loans payable	Sumitomo Mitsui Banking Corporation (Note 8)	¥1,830,000	¥ -	¥580,000	¥1,250,000	0.412%	July 31, 2019	(Note 6)	Unsecured/ Unguaranteed		
	Mizuho Bank, Ltd.	800,000	-	-	800,000	0.412%	July 31, 2019				
	Sub total	2,630,000	-	580,000	2,050,000						
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	3,250,000	-	3,250,000	-	1.052%	August 31, 2018	(Note 6)	Unsecured/ Unguaranteed		
	MUFG Bank, Ltd.	2,000,000	-	2,000,000	-						
	Aozora Bank, Ltd.	1,000,000	-	1,000,000	-						
	Resona Bank, Limited.	500,000	-	500,000	-						
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	500,000	-						
	Mizuho Trust & Banking Co., Ltd.	500,000	-	500,000	-						
	Mizuho Bank, Ltd.	250,000	-	250,000	-						
	Development Bank of Japan Inc.	3,000,000	-	3,000,000	-					1.088% (Note 5)	August 31, 2018
	MUFG Bank, Ltd. (Note 2)	1,500,000	-	-	1,500,000					0.689%	November 30, 2019
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000					0.487%	February 28, 2019
	MUFG Bank, Ltd.	500,000	-	-	500,000					0.487%	February 28, 2019
	Sumitomo Mitsui Banking Corporation	500,000	-	-	500,000					0.362%	July 31, 2019
	Shinsei Bank, Limited	500,000	-	-	500,000					0.362%	July 31, 2019
	Sumitomo Mitsui Banking Corporation	-	1,500,000	-	1,500,000					0.437%	January 31, 2020
	MUFG Bank, Ltd.	-	1,400,000	-	1,400,000						
	Mizuho Bank, Ltd.	-	900,000	-	900,000						
	Shinsei Bank, Limited	-	500,000	-	500,000						
	Resona Bank, Limited.	-	400,000	-	400,000						
	Sumitomo Mitsui Trust Bank, Limited	-	300,000	-	300,000						
	Mizuho Trust & Banking Co., Ltd.	-	300,000	-	300,000						
Aozora Bank, Ltd.	-	200,000	-	200,000							
The Bank of Fukuoka, Ltd.	-	200,000	-	200,000							
Sub total	15,000,000	5,700,000	11,000,000	9,700,000							
Long-term loans payable	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.109%	January 31, 2021	(Note 6)	Unsecured/ Unguaranteed		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021				
	Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021				
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022				
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022				
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Resona Bank, Limited.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022				
	Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000	0.916%	August 7, 2021				
	MUFG Bank, Ltd.	1,100,000	-	-	1,100,000						
	Mizuho Bank, Ltd.	600,000	-	-	600,000						
	Aozora Bank, Ltd.	350,000	-	-	350,000						
	Resona Bank, Limited.	300,000	-	-	300,000						
	Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000						
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000					0.996% (Note 5)	August 7, 2021
	Sumitomo Mitsui Banking Corporation	400,000	-	-	400,000	1.254%	August 7, 2023				
	MUFG Bank, Ltd.	400,000	-	-	400,000						
	Mizuho Bank, Ltd.	300,000	-	-	300,000						
Resona Bank, Limited.	200,000	-	-	200,000							
Mizuho Trust & Banking Co., Ltd.	200,000	-	-	200,000							
Aozora Bank, Ltd.	150,000	-	-	150,000							
Development Bank of Japan Inc.	500,000	-	-	500,000	1.320% (Note 5)			August 7, 2023			

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
		(in thousands of yen)							
	Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000	0.945%	August 31, 2021		
	MUFG Bank, Ltd.	600,000	-	-	600,000	0.945%	August 31, 2021		
	Aozora Bank, Ltd.	500,000	-	-	500,000	0.945%	August 31, 2021		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.083%	November 30, 2022		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	0.804%	November 30, 2020		
	Sumitomo Mitsui Banking Corporation	1,200,000	-	-	1,200,000	0.875%	January 31, 2022		
	MUFG Bank, Ltd.	1,200,000	-	-	1,200,000	1.105%	January 31, 2024		
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	0.875%	April 30, 2022		
	Resona Bank, Limited.	1,500,000	-	-	1,500,000	0.987%	April 30, 2023		
	MUFG Bank, Ltd.	2,000,000	-	-	2,000,000	1.100%	April 30, 2024		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.265%	April 30, 2025		
	Shinsei Bank, Limited	1,750,000	-	-	1,750,000				
	Sumitomo Mitsui Banking Corporation	1,750,000	-	-	1,750,000				
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.729%	July 29, 2020		
	Mizuho Bank, Ltd.	500,000	-	-	500,000				
	Resona Bank, Limited.	500,000	-	-	500,000				
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000				
	Shinsei Bank, Limited	1,100,000	-	-	1,100,000				
	Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000				
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.115%	July 29, 2022		
	Mizuho Bank, Ltd.	300,000	-	-	300,000				
	Sompo Japan Nipponkoa Insurance Inc.	1,000,000	-	-	1,000,000				
	Aozora Bank, Ltd.	300,000	-	-	300,000	0.678%	August 31, 2020		
	Resona Bank, Limited.	1,100,000	-	-	1,100,000	0.923%	August 31, 2022		
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000	0.923%	August 31, 2022		
Long-term loans payable	Sumitomo Mitsui Trust Bank, Limited	950,000	-	-	950,000	1.047%	August 31, 2023	(Note 6)	Unsecured/Unguaranteed
	MUFG Bank, Ltd.	1,700,000	-	-	1,700,000	1.169%	August 31, 2024		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.169%	August 31, 2024		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.345%	August 31, 2025		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	1.193% (Note 5)	August 31, 2024		
	MUFG Bank, Ltd.	300,000	-	-	300,000	0.624%	October 27, 2020		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.156%	April 27, 2025		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.819%	April 28, 2025		
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	0.903%	April 30, 2026		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.660% (Note 5)	July 31, 2025		
	Mizuho Bank, Ltd.	1,500,000	-	-	1,500,000	0.816% (Note 5)	August 31, 2026		
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000	0.713%	August 31, 2024		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.797%	August 31, 2025		
	Resona Bank, Limited.	500,000	-	-	500,000	0.797%	August 31, 2025		
	MUFG Bank, Ltd.	2,000,000	-	-	2,000,000	0.670% (Note 5)	August 31, 2025		
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.751% (Note 5)	August 31, 2025		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.906%	August 31, 2026		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.773% (Note 5)	October 31, 2025		
	Resona Bank, Limited.	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
	Shinsei Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
	Mizuho Trust & Banking Co., Ltd.	1,200,000	-	-	1,200,000	0.928% (Note 5)	August 22, 2027		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.928% (Note 5)	August 22, 2027		

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
Long-term loans payable	Mizuho Bank, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
	The Bank of Fukuoka, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
	Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.501%	February 28, 2023		
	MUFG Bank, Ltd.	1,500,000	-	-	1,500,000	0.501%	February 28, 2023		
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	0.582%	February 29, 2024		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
	Mizuho Bank, Ltd.	500,000	-	-	500,000	0.624%	August 31, 2024		
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.661% (Note 5)	August 31, 2024		
	Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.665%	February 28, 2025		
	Resona Bank, Limited.	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	0.409%	July 31, 2021		
	Shinsei Bank, Limited	1,000,000	-	-	1,000,000	0.409%	July 31, 2021		
	MUFG Bank, Ltd.	500,000	-	-	500,000	0.409%	July 31, 2021		
	Mizuho Bank, Ltd.	500,000	-	-	500,000	0.409%	July 31, 2021		
	Nippon Life Insurance Company	500,000	-	-	500,000	0.900% (Note 5)	January 30, 2027		
	Sumitomo Mitsui Banking Corporation	-	1,500,000	-	1,500,000				
	MUFG Bank, Ltd.	-	1,400,000	-	1,400,000				
	Mizuho Bank, Ltd.	-	900,000	-	900,000				
	Development Bank of Japan Inc.	-	500,000	-	500,000				
	Nippon Life Insurance Company	-	500,000	-	500,000				
	Resona Bank, Limited.	-	400,000	-	400,000	0.799%	February 2, 2026	(Note 6)	Unsecured/Unsecured
	Shinsei Bank, Limited	-	400,000	-	400,000				
	Sumitomo Mitsui Trust Bank, Limited	-	400,000	-	400,000				
	Mizuho Trust & Banking Co., Ltd.	-	400,000	-	400,000				
	Aozora Bank, Ltd.	-	300,000	-	300,000				
	The Bank of Fukuoka, Ltd.	-	300,000	-	300,000				
	Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.509%	August 31, 2022		
	MUFG Bank, Ltd.	-	400,000	-	400,000	0.509%	August 31, 2022		
	Development Bank of Japan Inc.	-	1,600,000	-	1,600,000	0.498% (Note 5)	August 31, 2022		
	Sumitomo Mitsui Banking Corporation	-	1,200,000	-	1,200,000	0.592%	August 31, 2023		
	Aozora Bank, Ltd.	-	1,000,000	-	1,000,000	0.592%	August 31, 2023		
	MUFG Bank, Ltd.	-	800,000	-	800,000	0.592%	August 31, 2023		
	Sumitomo Mitsui Banking Corporation	-	1,050,000	-	1,050,000	0.914%	February 28, 2027		
	Resona Bank, Limited.	-	500,000	-	500,000	0.914%	February 28, 2027		
	Sumitomo Mitsui Trust Bank, Limited	-	500,000	-	500,000	0.914%	February 28, 2027		
	Mizuho Trust & Banking Co., Ltd.	-	500,000	-	500,000	0.914%	February 28, 2027		
	Mizuho Bank, Ltd.	-	250,000	-	250,000	0.914%	February 28, 2027		
	Development Bank of Japan Inc.	-	1,400,000	-	1,400,000	0.884% (Note 5)	February 28, 2027		
MUFG Bank, Ltd.	-	800,000	-	800,000	0.825% (Note 5)	February 28, 2027			
Nippon Life Insurance Company	-	700,000	-	700,000	0.920% (Note 5)	September 30, 2026			
Shinsei Bank, Limited	-	1,000,000	-	1,000,000	1.031%	September 30, 2028			
Sumitomo Mitsui Trust Bank, Limited	-	800,000	-	800,000	1.031%	September 30, 2028			
Mizuho Trust & Banking Co., Ltd.	-	500,000	-	500,000	1.031%	September 30, 2028			
Sub total		85,500,000	21,000,000	-	106,500,000				
Total		¥103,130,000	¥26,700,000	¥11,580,000	¥118,250,000				

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

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years (in thousands of yen)	Due after 4 years through 5 years	Due after 5 years
Long-term loans payable	¥ 9,600,000	¥13,000,000	¥17,750,000	¥11,800,000	¥54,350,000

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

Note 3: All debts except for the following Note 5 are borrowing at a floating rate.

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

Note 5: Borrowings is applied at a fixed rate.

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

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

Note 8: Partial prepayment of 580,000 thousand yen was made on November 30, 2018.

Short-term debt and long-term debt consist of the following as of July 31, 2018

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
Short-term loans payable	Sumitomo Mitsui Banking Corporation	¥1,000,000	¥ -	¥1,000,000	¥ -	0.455%	July 31, 2018		
	Shinsei Bank, Limited (Note 8)	-	500,000	500,000	-	0.354%	July 30, 2018		
	Sumitomo Mitsui Banking Corporation (Note 8)	-	500,000	500,000	-	0.354%	July 30, 2018	(Note 6)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation	830,000	-	830,000	-	0.455%	July 31, 2018		
	Mizuho Bank, Ltd.	800,000	-	800,000	-	0.455%	July 31, 2018		
	Sumitomo Mitsui Banking Corporation	-	1,830,000	-	1,830,000	0.404%	July 31, 2019		
	Mizuho Bank, Ltd.	-	800,000	-	800,000	0.404%	July 31, 2019		
	Sub total	2,630,000	3,630,000	3,630,000	2,630,000				
Current portion of long-term loans payable	Sumitomo Mitsui Banking Corporation	3,250,000	-	-	3,250,000				
	MUFG Bank, Ltd.	2,000,000	-	-	2,000,000				
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000				
	Resona Bank, Limited.	500,000	-	-	500,000	1.052%	August 31, 2018		
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000				
	Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000				
	Mizuho Bank, Ltd.	250,000	-	-	250,000				
	Development Bank of Japan Inc.	3,000,000	-	-	3,000,000	1.088% (Note 5)	August 31, 2018		
	Shinsei Bank, Limited (Note 8)	-	1,000,000	1,000,000	-				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,000,000	1,000,000	-			(Note 6)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. (Note 8)	-	500,000	500,000	-	0.435%	July 30, 2018		
	Mizuho Bank, Ltd. (Note 8)	-	500,000	500,000	-				
	Nippon Life Insurance Company (Note 8)	-	500,000	500,000	-				
	Sumitomo Mitsui Banking Corporation (Note 2)	1,000,000	-	-	1,000,000	0.480%	February 28, 2019		
	MUFG Bank, Ltd. (Note 2)	500,000	-	-	500,000	0.480%	February 28, 2019		
Sumitomo Mitsui Banking Corporation	-	500,000	-	500,000	0.354%	July 31, 2019			
Shinsei Bank, Limited	-	500,000	-	500,000	0.354%	July 31, 2019			
Sub total	12,500,000	4,500,000	3,500,000	13,500,000					
Long-term loans payable	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.109%	January 31, 2021		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.221%	July 31, 2021		
	Aozora Bank, Ltd.	1,350,000	-	-	1,350,000	1.183%	March 31, 2021		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.267%	April 30, 2022		
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	1.267%	April 30, 2022		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022		
	Resona Bank, Limited.	1,000,000	-	-	1,000,000	1.267%	April 30, 2022		
	Sumitomo Mitsui Banking Corporation	1,100,000	-	-	1,100,000				
	MUFG Bank, Ltd.	1,100,000	-	-	1,100,000			(Note 6)	Unsecured/ Unguaranteed
	Mizuho Bank, Ltd.	600,000	-	-	600,000	0.916%	August 7, 2021		
	Aozora Bank, Ltd.	350,000	-	-	350,000				
	Resona Bank, Limited.	300,000	-	-	300,000				
	Mizuho Trust & Banking Co., Ltd.	300,000	-	-	300,000				
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.996% (Note 5)	August 7, 2021		
	Sumitomo Mitsui Banking Corporation	400,000	-	-	400,000				
MUFG Bank, Ltd.	400,000	-	-	400,000	1.254%	August 7, 2023			
Mizuho Bank, Ltd.	300,000	-	-	300,000					
Resona Bank, Limited.	200,000	-	-	200,000					

Classification	Lender	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
(in thousands of yen)									
	Mizuho Trust & Banking Co., Ltd.	200,000	-	-	200,000	1.254%	August 7, 2023		
	Aozora Bank, Ltd.	150,000	-	-	150,000				
	Development Bank of Japan Inc.	500,000	-	-	500,000	1.320% (Note 5)	August 7, 2023		
	Sumitomo Mitsui Banking Corporation	600,000	-	-	600,000	0.945%	August 31, 2021		
	MUFG Bank, Ltd.	600,000	-	-	600,000	0.945%	August 31, 2021		
	Aozora Bank, Ltd.	500,000	-	-	500,000	0.945%	August 31, 2021		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.083%	November 30, 2022		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	0.804%	November 30, 2020		
	MUFG Bank, Ltd.	1,500,000	-	-	1,500,000	0.689%	November 30, 2019		
	Sumitomo Mitsui Banking Corporation	1,200,000	-	-	1,200,000	0.875%	January 31, 2022		
	MUFG Bank, Ltd.	1,200,000	-	-	1,200,000	1.105%	January 31, 2024		
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000	0.875%	April 30, 2022		
	Resona Bank, Limited.	1,500,000	-	-	1,500,000	0.987%	April 30, 2023		
	MUFG Bank, Ltd.	2,000,000	-	-	2,000,000	1.100%	April 30, 2024		
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.265%	April 30, 2025		
	Shinsei Bank, Limited (Note 8)	-	1,750,000	-	1,750,000				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,750,000	-	1,750,000				
	MUFG Bank, Ltd. (Note 8)	-	1,000,000	-	1,000,000				
	Mizuho Bank, Ltd. (Note 8)	-	500,000	-	500,000	0.729%	July 29, 2020		
	Resona Bank, Limited. (Note 8)	-	500,000	-	500,000				
Long-term loans payable	Mizuho Trust & Banking Co., Ltd. (Note 8)	-	500,000	-	500,000			(Note 6)	Unsecured/ Unguaranteed
	Shinsei Bank, Limited (Note 8)	-	1,100,000	-	1,100,000				
	Sumitomo Mitsui Banking Corporation (Note 8)	-	1,100,000	-	1,100,000				
	MUFG Bank, Ltd. (Note 8)	-	1,000,000	-	1,000,000	1.115%	July 29, 2022		
	Mizuho Bank, Ltd. (Note 8)	-	300,000	-	300,000				
	Sompo Japan Nipponkoa Insurance Inc. (Note 8)	-	1,000,000	-	1,000,000				
	Aozora Bank, Ltd.	300,000	-	-	300,000	0.678%	August 31, 2020		
	Resona Bank, Limited.	1,100,000	-	-	1,100,000	0.923%	August 31, 2022		
	Mizuho Trust & Banking Co., Ltd.	700,000	-	-	700,000	0.923%	August 31, 2022		
	Sumitomo Mitsui Trust Bank, Limited	950,000	-	-	950,000	1.047%	August 31, 2023		
	MUFG Bank, Ltd.	1,700,000	-	-	1,700,000	1.169%	August 31, 2024		
	Mizuho Bank, Ltd.	950,000	-	-	950,000	1.169%	August 31, 2024		
	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000	1.345%	August 31, 2025		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	1.193% (Note 5)	August 31, 2024		
	MUFG Bank, Ltd.	300,000	-	-	300,000	0.624%	October 27, 2020		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	1.156%	April 27, 2025		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.819%	April 28, 2025		
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	0.903%	April 30, 2026		
	MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.660% (Note 5)	July 31, 2025		
	Mizuho Bank, Ltd.	1,500,000	-	-	1,500,000	0.816% (Note 5)	August 31, 2026		
	Aozora Bank, Ltd.	1,000,000	-	-	1,000,000	0.713%	August 31, 2024		
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.797%	August 31, 2025		

Classification	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Average interest rate (Note 3) (Note 4)	Payment due date (Note 7)	Use	Remarks
Lender	(in thousands of yen)							
Resona Bank, Limited.	500,000	-	-	500,000	0.797%	August 31, 2025		
MUFG Bank, Ltd.	2,000,000	-	-	2,000,000	0.670% (Note 5)	August 31, 2025		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.751% (Note 5)	August 31, 2025		
Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	0.906%	August 31, 2026		
Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.773% (Note 5)	October 31, 2025		
Resona Bank, Limited.	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Shinsei Bank, Limited	1,000,000	-	-	1,000,000	0.900%	August 22, 2027		
Mizuho Trust & Banking Co., Ltd.	1,200,000	-	-	1,200,000	0.928% (Note 5)	August 22, 2027		
Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	0.928% (Note 5)	August 22, 2027		
Mizuho Bank, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
The Bank of Fukuoka, Ltd.	500,000	-	-	500,000	0.928% (Note 5)	August 22, 2027		
Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.501%	February 28, 2023	(Note 6)	Unsecured/Unsecured
MUFG Bank, Ltd.	1,500,000	-	-	1,500,000	0.501%	February 28, 2023		
Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	0.582%	February 29, 2024		
Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
MUFG Bank, Ltd.	1,000,000	-	-	1,000,000	0.582%	February 29, 2024		
Mizuho Bank, Ltd.	500,000	-	-	500,000	0.624%	August 31, 2024		
Mizuho Trust & Banking Co., Ltd.	500,000	-	-	500,000	0.661% (Note 5)	August 31, 2024		
Sumitomo Mitsui Banking Corporation	1,500,000	-	-	1,500,000	0.665%	February 28, 2025		
Resona Bank, Limited.	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
Sumitomo Mitsui Trust Bank, Limited	1,000,000	-	-	1,000,000	0.749%	February 28, 2026		
Sumitomo Mitsui Banking Corporation	-	1,000,000	-	1,000,000	0.409%	July 31, 2021		
Shinsei Bank, Limited	-	1,000,000	-	1,000,000	0.409%	July 31, 2021		
MUFG Bank, Ltd.	-	500,000	-	500,000	0.409%	July 31, 2021		
Mizuho Bank, Ltd.	-	500,000	-	500,000	0.409%	July 31, 2021		
Nippon Life Insurance Company	-	500,000	-	500,000	0.900% (Note 5)	January 30, 2027		
Sub total	73,000,000	14,000,000	-	87,000,000				
Total	¥88,130,000	¥22,130,000	¥7,130,000	¥103,130,000				

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

	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)				
Long-term loans payable	¥7,500,000	¥8,950,000	¥19,650,000	¥7,250,000	¥43,650,000

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

Note 3: All debts except for the following Note 5 are borrowing at a floating rate.

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

Note 5: Borrowings is applied at a fixed rate.

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

Note 7: All the repayment methods of debt financing are lump-sum repayments on the due date.

Note 8: Borrowings succeeded from JSL due to the Merger on March 1, 2018.

22. DISTRIBUTIONS

	14th Fiscal Period (From August 1, 2018 to January 31, 2019)	13th Fiscal Period (From February 1, 2018 to July 31, 2018)
I. Retained earnings at the end of period	¥3,875,050,769	¥5,428,676,864
II. Reversal of voluntary retained earnings		
Reversal of reserve for temporary difference adjustments (Note 1)	¥20,000,000	¥-
III. Total distributions	¥3,510,428,187	¥3,152,068,128
Distributions per unit	¥4,039	¥4,026
IV. Voluntary retained earnings		
Provision of reserve for temporary difference adjustments (Note 1)	¥-	¥2,000,000,000
V. Retained earnings brought forward to the next period	¥384,622,582	¥276,608,736
Method of calculating distribution amount	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥3,510,428,187, which is the amount deducting a part of gain on sale of real estate property and other adjustments from net income and added reversal of reserve for temporary difference adjustments, as the distribution of earnings.</p> <p>Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 14th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall not exceed its accounting profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥3,152,068,128, which is the amount deducting a part of gain on negative goodwill, a part of gain on sale of real estate property and other adjustments from net income, as the distribution of earnings.</p> <p>Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the 13th fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>

Note 1: Reserve for temporary difference adjustments

14th Fiscal Period (August 1, 2018 to January 31, 2019)

The Investment Corporation has reserved ¥2,000,000,000 as reserve for temporary difference adjustments from gain on negative goodwill in the 13th fiscal period. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period applied to distribution starting from the 14th fiscal period distribution. It has been decided that ¥20,000,000 shall be reversed and applied to distribution in the 14th fiscal period distribution.

13th Fiscal Period (February 1, 2018 to July 31, 2018)

The Investment Corporation has reserved ¥2,000,000,000 as reserve for temporary difference adjustments from gain on negative goodwill in the 13th fiscal period. At least 1% of the initial amount in equal installments over 50 years (100 fiscal periods) will be reversed every fiscal period applied to distribution starting from the 14th fiscal period distribution.