

Financial Statements

(3rd Fiscal Period: From February 1, 2013 to July 31, 2013)

(2nd Fiscal Period: From August 1, 2012 to January 31, 2013)

Independent Auditor's Report

Balance Sheets

Statements of Income and Retained Earnings

Statements of Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Balance Sheets

As of July 31, 2013 and January 31, 2013

	Third Fiscal Period as of July 31, 2013	Second Fiscal Period as of January 31, 2013
(in thousands of yen)		
ASSETS		
Current assets		
Cash and deposits	¥507,327	¥836,814
Cash and deposits in trust	637,662	665,818
Operating accounts receivable	4,399	5,503
Prepaid expenses	9,925	4,236
Deferred tax assets	17	17
Other	-	385
Total current assets	1,159,330	1,512,773
Noncurrent assets		
Property, plant and equipment		
Land	2,787,377	2,787,377
Buildings in trust	14,727,699	14,715,539
Accumulated depreciation	(460,294)	(275,406)
Buildings in trust, net	14,267,405	14,440,133
Structures in trust	118,904	118,485
Accumulated depreciation	(8,531)	(5,091)
Structures in trust, net	110,373	113,394
Machinery and equipment in trust	318,149	316,924
Accumulated depreciation	(16,176)	(9,703)
Machinery and equipment in trust, net	301,973	307,221
Tools, furniture and fixtures in trust	5,715	3,679
Accumulated depreciation	(106)	(30)
Tools, furniture and fixtures in trust, net	5,609	3,649
Land in trust	13,766,910	13,766,910
Total property, plant and equipment, net	31,239,647	31,418,684
Investments and other assets		
Investment securities	405,922	-
Lease and guarantee deposits	10,156	10,156
Long-term prepaid expenses	93,439	122,672
Other	39,498	36,318
Total investments and other assets	549,015	169,146
Total noncurrent assets	31,788,662	31,587,830
Deferred assets		
Deferred organization costs	34,628	39,842
Investment unit issuance costs	43,010	55,308
Total deferred assets	77,638	95,150
Total assets	¥33,025,630	¥33,195,753

	Third Fiscal Period as of July 31, 2013	Second Fiscal Period as of January 31, 2013
	(in thousands of yen)	
Liabilities		
Current liabilities		
Operating accounts payable	¥57,096	¥29,909
Short-term loans payable	2,830,000	3,000,000
Current portion of long-term loans payable	5,500,000	-
Accounts payable-other	49,025	40,217
Accrued expenses	405	424
Income taxes payable	944	946
Accrued consumption taxes	1,837	4,158
Advances received	160,145	157,639
Deposits received	9,671	9,391
Total current liabilities	8,609,123	3,242,684
Noncurrent liabilities		
Long-term loans payable	10,000,000	15,500,000
Tenant leasehold and security deposits in trust	245,321	240,016
Total noncurrent liabilities	10,245,321	15,740,016
Total liabilities	18,854,444	18,982,700
Net assets		
Unitholders' equity		
Unitholders' capital	13,773,456	13,773,456
Surplus		
Unappropriated retained earning	406,661	463,620
Total surplus	406,661	463,620
Total unitholders' equity	14,180,117	14,237,076
Valuation and translation adjustments		
Deferred gains or losses on hedges	(8,931)	(24,023)
Total valuation and translation adjustments	(8,931)	(24,023)
Total net assets	14,171,186	14,213,053
Total Liabilities and net assets	¥33,025,630	¥33,195,753

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Income and Retained Earnings

For the period from February 1, 2013 to July 31, 2013 and the period from August 1, 2012 to January 31, 2013

	Third Fiscal Period from February 1, 2013 to July 31, 2013	Second Fiscal Period from August 1, 2012 to January 31, 2013
(in thousands of yen)		
Operating revenues		
Rent revenue-real estate	¥1,018,433	¥1,021,344
Other lease business revenue	117,076	92,813
Total operating revenues	1,135,509	1,114,157
Operating expenses		
Expenses related to rent business	442,619	367,195
Asset management fees	70,886	74,406
Asset custody fees	2,075	2,062
Administrative service fees	11,018	11,221
Directors' compensation	4,500	4,500
Other operating expenses	51,247	39,401
Total operating expenses	582,345	498,785
Operating income	553,164	615,372
Non-operating income		
Interest income	38	18
Interest on refund	-	221
Total non-operating income	38	239
Non-operating expenses		
Interest expenses	74,611	85,743
Derivatives-related expenses	11,913	4,308
Borrowing expenses	41,593	43,210
Amortization of deferred organization costs	5,215	5,301
Amortization of investment unit issuance costs	12,298	12,502
Total non-operating expenses	145,630	151,064
Ordinary income	407,572	464,547
Income before income taxes	407,572	464,547
Income taxes		
Current	952	950
Deferred	(0)	9
Total income taxes	952	959
Net income	406,620	463,588
Retained earnings brought forward	41	32
Unappropriated retained earnings	¥406,661	¥463,620

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Changes in Net Assets

For the period from February 1, 2013 to July 31, 2013 and the period from August 1, 2012 to January 31, 2013

	Unitholders' equity			Valuation and translation adjustments		
	Surplus					
	Unitholders' capital	Unappropriated retained earnings	Total surplus	Total unitholders' equity	Deferred gains or losses on hedges	Total net assets
(in thousands of yen)						
Balance as of July 31, 2012	¥ 13,773,456	¥ 254,868	¥ 254,868	¥ 14,028,324	-	¥ 14,028,324
Changes of items during the period						
Dividends from surplus	-	(254,836)	(254,836)	(254,836)	-	(254,836)
Net income	-	463,588	463,588	463,588	-	463,588
Net changes of items other than unitholders' equity	-	-	-	-	(24,023)	(24,023)
Total changes of items during the period	-	208,752	208,752	208,752	(24,023)	184,729
Balance as of January 31, 2012	13,773,456	463,620	463,620	14,237,076	(24,023)	14,213,053
Changes of items during the period						
Dividends from surplus	-	(463,579)	(463,579)	(463,579)	-	(463,579)
Net income	-	406,620	406,620	406,620	-	406,620
Net changes of items other than unitholders' equity	-	-	-	-	15,092	15,092
Total changes of items during the period	-	(56,959)	(56,959)	(56,959)	15,092	(41,867)
Balance as of July 31, 2013	¥ 13,773,456	¥ 406,661	¥ 406,661	¥ 14,180,117	(8,931)	¥ 14,171,186

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Statements of Cash Flows

For the period from February 1, 2013 to July 31, 2013 and the period from August 1, 2012 to January 31, 2013

	Third Fiscal Period from February 1, 2013 to July 31, 2013	Second Fiscal Period from August 1, 2012 to January 31, 2013
(in thousands of yen)		
Net cash provided by (used in) operating activities		
Income before income taxes	¥407,572	¥464,547
Depreciation and amortization	194,877	194,501
Amortization of deferred organization costs	5,215	5,301
Amortization of investment unit issuance costs	12,298	12,502
Interest income	(38)	(18)
Interest expenses	74,611	85,743
Derivatives-related expenses	11,913	4,308
Decrease (increase) in operating accounts receivable	1,104	114
Decrease (increase) in consumption taxes refund receivable	-	75,195
Decrease (increase) in prepaid expenses	(5,689)	9,342
Increase (decrease) in operating accounts payable	23,036	(4,160)
Increase (decrease) in accounts payable-other	7,207	12,384
Increase (decrease) in accrued consumption taxes	(2,321)	4,158
Increase (decrease) in advances received	2,506	3,660
Decrease (increase) in long-term prepaid expenses	29,233	29,717
Other, net	657	469
Subtotal	762,181	897,763
Interest income received	38	18
Interest expenses paid	(74,630)	(85,806)
Income taxes paid	(946)	(1,379)
Net cash provided by (used in) operating activities	686,643	810,596
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-	(16,273)
Purchase of property, plant and equipment in trust	(11,690)	(32,592)
Purchase of investment securities	(405,012)	-
Repayments of tenant leasehold and security deposits in trust	(41,264)	(27,948)
Proceeds from tenant leasehold and security deposits in trust	46,569	24,176
Net cash provided by (used in) investing activities	(411,397)	(52,637)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	2,830,000	-
Decrease in short-term loans payable	(3,000,000)	-
Dividends paid	(462,889)	(250,983)
Payments for purchase of derivatives	-	(64,650)
Net cash provided by (used in) financing activities	(632,889)	(315,633)
Net increase (decrease) in cash and cash equivalents	(357,643)	442,326
Cash and cash equivalents at the beginning of period	1,502,632	1,060,306
Cash and cash equivalents at the end of period	¥1,144,989	¥1,502,632

See accompanying notes to the financial statements.

KENEDIX RESIDENTIAL INVESTMENT CORPORATION

Notes to Financial Statements

For the period from February 1, 2013 to July 31, 2013 and the period from August 1, 2012 to January 31, 2013

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Kenedix Residential Investment Corporation (“the Investment Corporation”) was established on November 15, 2011 with an initial capitalization of ¥150 million (750 units) under the Act on Investment Trusts and Investment Corporations of Japan (“the Investment Trust Act”) with Kenedix Real Estate Fund Management, Inc. (previous corporate name: Kenedix Residential Partners, Inc.) (“the Asset Management Company”) as the sponsor. Registration with the Kanto Local Finance Bureau under Article 187 of the Investment Trust Act was completed on December 13, 2011 (Registration Number: 76, Director of the Kanto Local Finance Bureau). Subsequently, the Investment Corporation issued new investment units through a public offering (74,690 available units) with April 25, 2012 as the payment date, and it was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange on April 26, 2012 (Securities Code: 3278). As of July 31, 2013, the end of the third fiscal period, the number of investment units issued and outstanding totaled 75,440 units.

The Investment Corporation began management upon newly acquiring a total of 20 properties: two properties on April 26, 2012 (total acquisition price of ¥2,710 million), and 18 properties on May 1, 2012 (total acquisition price of ¥27,765 million).

The occupancy rate of the overall portfolio (excluding land with leasehold interest) was 96.2% as of July 31, 2013, the end of the third fiscal period, and 95.1% as of January 31, 2013, the end of the second fiscal period. Furthermore, the occupancy rate of the overall portfolio including land with leasehold interest was 96.6% as of July 31, 2013, the end of the third fiscal period, and 95.6% as of January 31, 2013, the end of the second fiscal period.

During the first fiscal period, the Investment Corporation conducted a public offering raising ¥13,623 million, and on April 26, 2012, it was newly listed on the Tokyo Stock Exchange. As of July 31, 2013, the end of the third fiscal period, total capitalization was ¥13,773 million. Also, with regard to the procurement of interest-bearing debt, borrowings were made for the acquisition of assets and the amount of borrowings as of the end of the third fiscal period was ¥18,330 million. Short-term borrowings of ¥2,830 million (Series 1-A and Series 1-E) with a repayment date of April 30, 2013 were refinanced with the same borrowing term as before (one year) with the expectation that the applicable interest rate will remain low for the near future.

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 to 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 February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
Buildings	3-62 years	3-62 years
Structures	3-25 years	3-25 years
Machinery and equipment	8-30 years	8-27 years
Tools, furniture and fixtures	30 years	30 years

(C) Long-term Prepaid Expenses

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

(D) Deferred Organization Costs

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

(E) Unit Issuance Costs

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

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

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

(G) Revenue Recognition

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

(H) Taxes on Property and Equipment

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

When the Investment Corporation purchases properties, it typically allocates the portion of the property-related taxes related to the period following the purchase date of each property through the end of the calendar year. The amounts of those allocated portions of the property-related taxes are capitalized as part of the acquisition costs of the related properties. There were no capitalized property-related taxes as of July 31, 2013 and January 31, 2013.

(I) Income Taxes

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

(J) Consumption Taxes

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

(K) Derivative Financial Instruments

The Investment Corporation enters into derivative transactions to hedge risks prescribed in its Articles of Incorporation based on its risk management policies. The Investment Corporation hedges interest rate volatility risk of its interest payments on its borrowings by utilizing interest rate cap transactions 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. Furthermore, assessment of the effectiveness of hedging activities is omitted in the case of interest rate caps that do not meet the requirements for special treatment as the important conditions regarding hedged items and hedging instruments are the same and are clearly expected to have the effect of limiting the impact of interest rate volatility within a certain range on an ongoing basis.

(L) Cash and Cash Equivalents

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

(M) Presentation of Amounts

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

3. ASSETS PLEDGED AS COLLATERAL AND SECURED LIABILITIES

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

Assets pledged as collateral	As of July 31, 2013	As of January 31, 2013
	(in thousands of yen)	
Cash and deposits in trust	¥637,662	¥665,818
Buildings in trust	14,267,405	14,440,133
Structures in trust	110,373	113,394
Machinery and equipment in trust	301,973	307,221
Tools, furniture and fixtures in trust	5,609	3,649
Land in trust	13,766,910	13,766,910
Total	29,089,932	29,297,125
Secured liabilities		
Short-term loans payable	2,8300,000	3,000,000
Current portion of long-term loans payable	5,5000,000	-
Long-term loans payable	10,000,000	15,500,000
Total	¥18,330,000	¥18,500,000

4. NET ASSETS

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

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

Rental and other operating revenues and property-related expenses for the periods from February 1, 2013 to July 31, 2013 and from August 1, 2012 to January 31, 2013 consist of the following:

	From February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
(in thousands of yen)		
Rental and other operating revenues:		
Rental revenues	¥884,944	¥889,042
Rental revenues from limited proprietary rights of land	78,310	78,310
Common area charges	55,179	53,992
Subtotal	1,018,433	1,021,344
Others:		
Parking space rental revenues	40,673	41,472
Miscellaneous	76,403	51,341
Subtotal	117,076	92,813
Total rental and other operating revenues	¥1,135,509	¥1,114,157
Property management fees and facility management fees	¥84,438	¥79,526
Utilities	16,378	16,565
Taxes	59,696	22
Repairs and maintenance	37,244	31,987
Insurance	2,230	2,360
Trust fees	8,700	8,700
Depreciation	194,877	194,501
Others	39,056	33,534
Total property-related expenses	¥442,619	¥367,195

6. UNITHOLDERS' EQUITY

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

	From February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
Total number of authorized investment units	5,000,000	5,000,000
Total number of investment units issued and outstanding	75,440	75,440

7. CASH AND CASH EQUIVALENTS

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

	As of July 31, 2013	As of January 31, 2013
(in thousands of yen)		
Cash and deposits	¥507,327	¥836,814
Cash and deposits in trust	637,662	665,818
Cash and cash equivalents	¥1,144,989	¥1,502,632

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 July 31, 2013 and January 31, 2013 are as follows:

	As of July 31, 2013	As of January 31, 2013
	(in thousands of yen)	
Due in 1 year	¥204,105	¥204,105
Due after 1 year	5,884,373	5,986,425
Total	¥6,088,478	¥6,190,530

9. FINANCIAL INSTRUMENTS

(A). Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

Borrowings, which are made primarily for the purpose of procuring funds for the acquisition of real estate and trust beneficiary interests in real estate and have a repayment date of a maximum of 2 years and 9 months as of July 31, 2013, the end of the third fiscal period, are exposed to liquidity risk where alternative funds may not be procured by the repayment date. Also, borrowings with floating interest rates are exposed to interest rate fluctuation risk. Derivatives are used for the purpose of hedging interest rate fluctuation risk for a certain portion of the borrowings.

(3) Risk management for financial instruments

a. Credit risk

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

b. Market risk

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

c. Liquidity risk

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

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

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

(B). Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the balance sheet and estimated fair value are shown in the following table.
As of July 31, 2013

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

As of January 31, 2013

	Carrying amount	Estimated fair value	Difference
(in thousands of yen)			
(1) Cash and deposits	¥ 836,814	¥836,814	¥ -
(2) Cash and deposits in trust	665,818	665,818	-
Subtotal	1,502,632	1,502,632	-
(1) Short-term loans payable	3,000,000	3,000,000	-
(2) Current portion of long-term loans payable	-	-	-
(3) Long-term loans payable	15,500,000	15,500,000	-
Subtotal	18,500,000	18,500,000	-
Derivative transactions	¥36,318	¥36,318	¥ -

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

Assets

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

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

Liabilities

(1) Short-term loans payable

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

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

Since these items have floating interest rates, market interest rates are reflected in the short term. Also, as the credit standing of the Investment Corporation has not changed significantly since the loans were made, the fair value of the long term loans payable is believed to approximate the carrying amount and therefore is based on the carrying amount.

Derivative transactions

Please refer to Note 10 "DERIVATIVE TRANSACTIONS".

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

Classification	(in thousands of yen)	
	As of July 31, 2013	As of January 31, 2013
Investment securities *	405,922	-

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

Note 3: Redemption schedule for financial assets with maturities

As of July 31, 2013

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

As of January 31, 2013

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	(in thousands of yen)					
Cash and deposits	¥836,814	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits in trust	665,818	-	-	-	-	-
Total	¥1,502,632	¥ -	¥ -	¥ -	¥ -	¥ -

Note 4: Redemption schedule for loans payable

As of July 31, 2013

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

As of January 31, 2013

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

10. DERIVATIVE TRANSACTIONS

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

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

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

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

(1) Transactions not subject to hedge accounting

Not applicable

(2) Transactions subject to hedge accounting

Hedge accounting method	Type of derivative transactions	Hedged items	Contract amount (in thousands of yen)		Fair value (in thousands of yen)	Calculation method for applicable fair value
				Maturing after 1 year		
Accounting method, in principle	Interest-rate cap transaction:	Long-term loans payable	¥10,000,000	¥10,000,000	¥36,318	Based on the amount provided by counterparty financial institutions

11. INCOME TAXES

The Investment Corporation is subject to corporate income taxes at a regular statutory rate of approximately 40%. However, the Investment Corporation may deduct from its taxable income amounts distributed to its unitholders, provided the requirements under the Special Taxation Measures Law of Japan are met, including a requirement that it currently distribute in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed in excess of 90% of its distributable income in the form of cash distributions totaling ¥407 million and ¥464 million for the periods ended July 31, 2013 and January 31, 2013, respectively, the distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rates on the Investment Corporation's income were 0.23% and 0.21% for the periods ended July 31, 2013 and January 31, 2013, respectively. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate:

	From February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
Statutory tax rate	36.59%	36.59%
Deductible cash distributions	(36.50)	(36.51)
Others	0.14	0.13
Effective tax rate	0.23%	0.21%

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

	As of July 31, 2013	As of January 31, 2013
(in thousands of yen)		
Deferred tax assets:		
Enterprise tax payable	¥17	¥17
Deferred gains or losses on hedges	3,855	8,648
Subtotal deferred tax assets	3,872	8,665
Valuation allowance	3,855	8,648
Total deferred tax assets	¥17	¥17

12. RELATED-PARTY TRANSACTIONS

1. Parent Company, major corporate unitholders and other

Second Fiscal Period (August 1, 2012 to January 31, 2013) and Third Fiscal Period (February 1, 2013 to July 31, 2013): Not applicable

2. Affiliated companies and other

Second Fiscal Period (August 1, 2012 to January 31, 2013) and Third Fiscal Period (February 1, 2013 to July 31, 2013): Not applicable

3. Fellow subsidiary companies and other

Second Fiscal Period (August 1, 2012 to January 31, 2013) and Third Fiscal Period (February 1, 2013 to July 31, 2013): Not applicable

4. Directors, major individual unitholders and other

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

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

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

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

Second Fiscal Period (August 1, 2012 to January 31, 2013)									
Classification	Name	Principal business / Position	Ratio of voting rights held (%)	Relationship		Nature of transaction	Transaction amount (in thousands of yen) (Note 2)	Account	Balance at the end of period (in thousands of yen) (Note 2)
				Position held concurrently.	Relation to the entity				
Directors and Close Relatives	Akira Tanaka	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.	—	Executive Director for the Investment Corporation and CEO and President of Kenedix Residential Partners, Inc.		Payment of asset management fee to Kenedix Residential Partners, Inc. (Note 1)	¥74,406	Accounts payable-other	¥25,733

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

Note 2: Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

13. INVESTMENT AND RENTAL PROPERTIES

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

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

	Third Fiscal Period from February 1, 2012 to July 31, 2013	Second Fiscal Period from August 1, 2012 to January 31, 2013
	(in thousands of yen)	
Book value		
Balance at the beginning of period	¥31,418,684	¥31,563,998
Changes during the period	(179,037)	(145,314)
Balance at the end of period	31,239,647	31,418,684
Fair value at the end of period	¥32,180,000	¥31,746,000

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 second fiscal period, the principal decrease was depreciation (¥194,501 thousand) and in the third fiscal period the principal decrease was depreciation (¥194,877 thousand).

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

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

14. SEGMENT INFORMATION

Segment information for the period end from February 1, 2013 to July 31, 2013 and from August 1, 2012 to January 31, 2013 is as follows:

(A) Segment information

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

(B) Related information

(1) Information about each product and service

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

(2) Information about each geographic area

(a) Net sales

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

(b) Property, plant and equipment

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

(3) Information about each major customer

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

15. PER UNIT INFORMATION

	From February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
Net asset value per unit	¥187,847	¥188,402
Net income per unit	¥5,389	¥6,145
Weighted average number of units (units)	75,440	75,440

The weighted average number of units outstanding of 75,440 was used for the computation of the amount of net income per unit for the periods ended July 31, 2013 and January 31, 2013, 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 February 1, 2013 to July 31, 2013	From August 1, 2012 to January 31, 2013
Net income (in thousands of yen)	¥406,620	¥463,588
Net income not available to ordinary unitholders (in thousands of yen)	-	-
Net income available to ordinary unitholders (in thousands of yen)	¥406,620	¥463,588
Weighted average number of units during the period (units)	75,440	75,440

16. SIGNIFICANT SUBSEQUENT EVENTS

(A) Acquisition of Properties

On August 7, 2013, the Investment Corporation acquired the 60 properties shown in the following table (total acquisition price: ¥68,556,000 thousand).

The acquisition prices do not include the related acquisition costs, property taxes, city-planning taxes and consumption taxes, etc.

Property number	Property name	Location (city or ward, prefecture)	Seller	Acquisition price (in thousands of yen)
T-13	KDX Residence Shirokane I	Minato ward, Tokyo	G.K. KDX10	3,000,000
T-14	KDX Residence Shirokane III	Minato ward, Tokyo	G.K. KDX9	2,900,000
T-15	KDX Residence Shirokane II	Minato ward, Tokyo	G.K. KDX9	2,800,000
T-16	KDX Residence Minami-aoyama	Minato ward, Tokyo	G.K. KDX10	2,230,000
T-17	KDX Residence Minami-azabu	Minato ward, Tokyo	G.K. KDX9	2,080,000
T-18	KDX Residence Shiba Koen	Minato ward, Tokyo	G.K. KDX10	1,781,000
T-19	KDX Residence Azabu East	Minato ward, Tokyo	G.K. KDX9	1,560,000
T-20	KDX Residence Takanawa	Minato ward, Tokyo	G.K. KDX9	770,000
T-21	KDX Residence Nishihara	Shibuya ward, Tokyo	G.K. KDX9	1,450,000
T-22	KDX Residence Daikanyama II	Shibuya ward, Tokyo	G.K. KDX9	730,000
T-23	KDX Residence Sendagaya	Shibuya ward, Tokyo	G.K. KDX9	650,000
T-24	KDX Residence Nihombashi Suitengu	Chuo ward, Tokyo	G.K. KDX9	3,240,000
T-25	KDX Residence Nihombashi Hakozaki	Chuo ward, Tokyo	G.K. KDX10	1,147,000
T-26	KDX Residence Higashishinjuku	Shinjuku ward, Tokyo	G.K. KDX10	3,270,000
T-27	KDX Residence Yotsuya	Shinjuku ward, Tokyo	G.K. KDX9	2,260,000
T-28	KDX Residence Nishi-shinjuku	Shinjuku ward, Tokyo	G.K. KDX10	1,000,000
T-29	KDX Residence Kagurazaka	Shinjuku ward, Tokyo	G.K. KDX10	720,000
T-30	KDX Residence Futako Tamagawa	Setagaya ward, Tokyo	G.K. KDX9	1,250,000
T-31	KDX Residence Komazawa Koen	Setagaya ward, Tokyo	G.K. KDX10	920,000
T-32	KDX Residence Mishuku	Setagaya ward, Tokyo	G.K. KDX9	760,000
T-33	KDX Residence Yoga	Setagaya ward, Tokyo	G.K. KDX10	700,000
T-34	KDX Residence Shimouma	Setagaya ward, Tokyo	G.K. KDX10	600,000
T-35	Raffine Minami-magome	Ota ward, Tokyo	Y.K. KW 5th	1,250,000
T-36	KDX Residence Yukigaya Otsuka	Ota ward, Tokyo	G.K. KDX10	1,050,000
T-37	KDX Residence Denen Chofu	Ota ward, Tokyo	G.K. KDX10	1,000,000
T-38	KDX Residence Tamagawa	Ota ward, Tokyo	G.K. KDX9	776,000
T-39	KDX Residence Monzennakacho	Koto ward, Tokyo	G.K. KDX9	773,000
T-40	KDX Residence Okachimachi	Taito ward, Tokyo	G.K. KDX10	850,000
T-41	KDX Residence Moto-asakusa	Taito ward, Tokyo	G.K. KDX10	800,000
T-42	KDX Residence Itabashi Honcho	Itabashi ward, Tokyo	G.K. KDX10	620,000
T-43	KDX Residence Azusawa	Itabashi ward, Tokyo	G.K. KDX9	550,000
T-44	KDX Residence Tobu Nerima	Nerima ward, Tokyo	G.K. KDX9	420,000
T-45	KDX Residence Yokohama Kannai	Yokohama city, Kanagawa	G.K. KDX10	800,000
T-46	KDX Residence Miyamaedaira	Kawasaki city, Kanagawa	G.K. KDX9	999,000
T-47	KDX Residence Machida	Sagamihara city, Kanagawa	G.K. TSM108	1,800,000
R-9	KDX Residence Odori Koen	Sapporo city, Hokkaido	G.K. KDX9	765,000
R-10	KDX Residence Kikusui Yojo	Sapporo city, Hokkaido	G.K. KDX9	830,000
R-11	KDX Residence Toyohira Koen	Sapporo city, Hokkaido	G.K. KDX9	445,000
R-12	KDX Residence Kamisugi	Sendai city, Miyagi	G.K. KDX10	700,000
R-13	KDX Residence Ichiban-cho	Sendai city, Miyagi	G.K. KDX10	530,000
R-14	KDX Residence Kotodai	Sendai city, Miyagi	G.K. KDX9	520,000
R-15	KDX Residence Izumi Chuo	Sendai city, Miyagi	G.K. KDX9	480,000

R-16	KDX Residence Higashi-sakura I	Nagoya city, Aichi	Y.K. KW Property 7	2,350,000
R-17	KDX Residence Higashi-sakura II	Nagoya city, Aichi	G.K. KDX10	900,000
R-18	KDX Residence Atsuta Jingu	Nagoya city, Aichi	G.K. KDX9	840,000
R-19	KDX Residence Nishi-oji	Kyoto city, Kyoto	G.K. KDX9	813,000
R-20	KDX Residence Saiin	Kyoto city, Kyoto	G.K. KDX9	440,000
R-21	KDX Residence Namba	Osaka city, Osaka	G.K. KDX9	1,410,000
R-22	KDX Residence Namba-minami	Osaka city, Osaka	G.K. KDX9	1,350,000
R-23	KDX Residence Shin-osaka	Osaka city, Osaka	G.K. KDX9	510,000
R-24	KDX Residence Ibaraki I ・ II	Ibaraki city, Osaka	G.K. KDX10	1,275,000
R-25	KDX Residence Toyonaka-minami	Toyonaka city, Osaka	G.K. KDX9	740,000
R-26	KDX Residence Moriguchi	Moriguchi city, Osaka	G.K. KDX9	551,000
R-27	KDX Residence Sannomiya	Kobe city, Hyogo	G.K. KDX9	1,080,000
R-28	Ashiya Royal Homes	Ashiya city, Hyogo	G.K. KDX10	1,360,000
R-29	KDX Residence Funairi Saiwai-cho	Hiroshima city, Hiroshima	G.K. KDX9	588,000
R-30	KDX Residence Tenjin-higashi II	Fukuoka city, Fukuoka	G.K. KDX9	680,000
R-31	KDX Residence Tenjin-higashi I	Fukuoka city, Fukuoka	G.K. KDX9	370,000
R-32	KDX Residence Nishi Koen	Fukuoka city, Fukuoka	G.K. KDX10	763,000
R-33	KDX Residence Hirao Josui-machi	Fukuoka city, Fukuoka	G.K. KDX10	760,000
Total		—	—	68,556,000

(B) Issuance of New Investment Units

On July 17, 2013 and July 30, 2013, respectively, the Board of Directors of the Investment Corporation resolved to issue new investment units as detailed below in order to procure funds for acquisition of the 60 properties etc, shown in the preceding table. The payments were completed on August 6, 2013 through a public offering and September 4, 2013 by way of third-party allotment. As a result of the issuance of new investment units, the Investment Corporation had total unitholders' capital of ¥48,592,739,550 with 241,622 investment units outstanding as of September 4, 2013.

(Issuance of new investment units through public offering)

Total number of units issued : 165,000 units (122,500 units issued domestically, 42,500 units issued internationally)

Issue price (Offer Price) : ¥217,327 per unit

Total amount (Offer Price) : ¥35,858,955,000

Paid-in value (Issue value) : ¥209,525 per unit

Gross proceeds : ¥34,571,625,000

Payment date : August 6, 2013

(Issuance of new investment units by way of third-party allotment)

Total number of units issued : 1,182 units

Paid-in value (Issue Value) : ¥209,525 per unit

Gross proceeds : ¥247,658,550

Payment date : September 4, 2013

Allottee : SMBC Nikko Securities Inc.

(C) Debt Financing

As of August 7, 2013, the Investment Corporation borrowed funds in order to procure financing for the acquisition of the 60 properties, etc, shown in the preceding table.

Series	Lender	Amount (in thousands of yen)	Interest rate	Repayment date	Payment method	Remarks
3-A	Sumitomo Mitsui Banking Corporation	1,700,000	Base rate (JPY TIBOR for 1-month in JBA) + 0.40%	August 31, 2014	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.					
	Aozora Bank, Ltd.					
3-B	Sumitomo Mitsui Banking Corporation	5,500,000	Base rate (JPY TIBOR for 1-month in JBA) + 0.45%	August 31, 2015	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.					
	Aozora Bank, Ltd.					
	Resona Bank, Ltd.					
	Sumitomo Mitsui Trust Bank, Limited					
	Mizuho Trust & Banking Co., Ltd.					
Mizuho Bank, Ltd.						
3-C	Sumitomo Mitsui Banking Corporation	8,500,000	Base rate (JPY TIBOR for 1-month in JBA) + 0.50% (Note)	August 31, 2016	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.					
	Aozora Bank, Ltd.					
	Sumitomo Mitsui Trust Bank, Limited					
	Resona Bank, Ltd.					
	Mizuho Trust & Banking Co., Ltd.					
Mizuho Bank, Ltd.						
3-D	Sumitomo Mitsui Banking Corporation	11,000,000	Base rate (JPY TIBOR for 1-month in JBA) + 0.55% (Note)	August 31, 2017	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.					
	Aozora Bank, Ltd.					
	Resona Bank, Ltd.					
	Sumitomo Mitsui Trust Bank, Limited					
	Mizuho Trust & Banking Co., Ltd.					
Mizuho Bank, Ltd.						
3-E	Sumitomo Mitsui Banking Corporation	8,000,000	Base rate (JPY TIBOR for 1-month in JBA) + 0.60% (Note)	August 31, 2018	Full on maturity	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.					
	Aozora Bank, Ltd.					
	Resona Bank, Ltd.					
	Sumitomo Mitsui Trust Bank, Limited					
	Mizuho Trust & Banking Co., Ltd.					
Mizuho Bank, Ltd.						
3-F	Development Bank of Japan Inc.	3,000,000	1.0875% (Fixed rate)	August 31, 2018	Full on maturity	Unsecured/ Unguaranteed

Note : The Investment Corporation entered into an interest-rate swap agreement to the hedge the risk of interest rate fluctuations by converting floating interest rates payable into fixed rates for following the long-term borrowings. (Series 3-C, 3-D and 3-E).

The interest rates are as follows:

Series 3-C	0.7870%	Series 3-D	0.9095%	Series 3-E	1.0520%
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17. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Type of asset	Balance at the beginning of period	Increase during the period	Decrease during the period	Balance at the end of period	Depreciation		Net balance at end of the period	Remarks
					Accumulated depreciation	Depreciation for the period		
(in thousands of yen)								
Land	¥2,771,104	¥16,273	¥ -	¥2,787,377	¥ -	¥ -	¥2,787,377	
Sub total	2,771,104	16,273	-	2,787,377	-	-	2,787,377	
Buildings in trust	14,688,904	26,635	-	14,715,539	275,406	184,613	14,440,133	
Structures in trust	115,728	2,757	-	118,485	5,091	3,398	113,394	
Machinery and equipment in trust	316,924	-	-	316,924	9,703	6,460	307,221	
Tools, furniture and fixtures in trust	156	3,523	-	3,679	30	30	3,649	
Land in trust	13,766,910	-	-	13,766,910	-	-	13,766,910	
Sub total	28,888,622	32,915	-	28,921,537	290,230	194,501	28,631,307	
Total	¥31,659,726	¥49,188	¥ -	¥31,708,914	¥290,230	¥194,501	¥31,418,684	

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

18. SHORT-TERM DEBT AND LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 2) (Note 3)	Payment due date (Note 6)	Use	Remarks	
Lender									
(in thousands of yen)									
Short-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	¥1,000,000	¥ -	¥ -	¥1,000,000	0.780%	April 30, 2013	(Note 4)	Secured/ Non-guaranteed (Note 7)
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000				
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000	1.180%	April 30, 2013 (Note 5)		
	Sub total	3,000,000	-	-	3,000,000				
Long-term loans payable	Sumitomo Mitsui Banking Corporation	2,000,000	-	-	2,000,000			(Note 4)	Secured/ Non-guaranteed (Note 7)
	Aozora Bank, Ltd.	1,500,000	-	-	1,500,000	0.830%	April 30, 2014		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000				
	Resona Bank, Ltd.	1,000,000	-	-	1,000,000				
	Aozora Bank, Ltd.	2,000,000	-	-	2,000,000				
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,000,000	-	-	2,000,000	1.044%	April 30, 2015		
	Resona Bank, Ltd.	1,500,000	-	-	1,500,000				
	Sumitomo Mitsui Banking Corporation	1,000,000	-	-	1,000,000				
	Sumitomo Mitsui Banking Corporation	2,500,000	-	-	2,500,000	1.077%	April 30, 2016		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000,000	-	-	1,000,000				
Sub total	15,500,000	-	-	15,500,000					
Total	¥18,500,000	¥ -	¥ -	¥18,500,000					

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

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

Note 2: All debts are borrowings at a floating rate.

Note 3: Average interest rates are the weighted average during the period and figures are rounded to the nearest third decimal place. Also, with regard to borrowings for which interest rate cap transactions were implemented in order to hedge the interest rate volatility risk, the weighted average interest rates taking into consideration the effects of the interest rate caps are indicated.

Note 4: Funds were used for the purchase of real estate properties or trust beneficiary interest in real estate (ancillary expenses are included).

Note 5: ¥170 million will be repaid on March 31, 2013 and ¥830 million will be repaid on the final principal repayment date. Also, if an early repayment is made on the principal of the short-term borrowing before March 31, 2013, the amount of repayment of principal with March 31, 2013 as the principal repayment date will be the amount where the total of the principal of the short-term borrowing repaid based on the said early repayment is deducted from the scheduled principal repayment amount of ¥170 million.

Note 6: Except for the above (Note 5), all the repayment methods of debt financing are lump-sum repayments on the due date.

Note 7: The assets that are pledged as collateral are KDX Daikanyama Residence, KDX Yoyogi Residence, KDX Odemma Residence, KDX Iwamoto-cho Residence, KDX Bunkyo Sengoku Residence, KDX Azumabashi Residence, KDX Shimura Sakaue Residence, KDX Musashi Nakahara Residence, KDX Chiba Chuo Residence, KDX Kawaguchi Saiwai-cho Residence, KDX Toyohira Sanjo Residence, KDX Jozenji Dori Residence, KDX Izumi Residence, KDX Chihaya Residence, KDX Sakaisuji Hommachi Residence, KDX Shimmachi Residence, KDX Takarazuka Residence and KDX Shimizu Residence, for a total of 18 properties

19. DISTRIBUTIONS

	Third Fiscal Period (From February 1, 2013 to July 31, 2013)	Second Fiscal Period (From August 1, 2012 to January 31, 2013)
I. Retained earnings at the end of period	¥406,661,143	¥463,620,113
II. Total distributions	¥406,621,600	¥463,578,800
Distributions per unit	¥5,390	¥6,145
III. Retained earnings brought forward to the next period	¥39,543	¥41,313
Method of calculating distribution amount	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥406,621,600 which is the maximum integral multiple to 75,440 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the second fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>	<p>In accordance with the policy described in Article 38-1 of its Articles of Incorporation, the Investment Corporation determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its profits as the maximum amount. Following this policy, the Investment Corporation has decided that it shall distribute ¥463,578,800 which is the maximum integral multiple to 75,440 units issued and outstanding as the distribution of earnings. Procedures for the distribution of amounts exceeding distributable income are outlined in Article 38-2 of the Investment Corporation's Articles of Incorporation. In the second fiscal period, the Investment Corporation has decided not to distribute cash in excess of distributable profit.</p>

Independent Auditor's Report

The Board of Directors
Kenedix Residential Investment Corporation

We have audited the accompanying financial statements of Kenedix Residential Investment Corporation, which comprise the balance sheet as at July 31, 2013, and the statements of income and retained earnings, changes in net assets, and cash flows for the fiscal period then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Residential Investment Corporation as at July 31, 2013, and its financial performance and cash flows for the fiscal periods then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 16 to the financial statements, which describes acquisition of properties, issuance of new investment units and borrowing. Our opinion is not qualified in respect of this matter.

Ernst & Young Shin Nihon LLC

October 29, 2013
Tokyo, Japan