Financial Section

Contents

Financial Summary (Unaudited)

Historical Operating Trends
For the 7th–11th Fiscal Periods

Period	Unit	7th Period (as of Oct. 31, 2008)	8th Period (as of Apr. 30, 2009)	9th Period (as of Oct. 31, 2009)	10th Period (as of Apr. 30, 2010)	11th Period (as of Oct. 31, 2010)
Operating revenues	mn yen	8,456	8,204	7,921	8,067	8,358
(Rental revenues)	mn yen	8,156	8,204	7,921	8,067	8,242
Operating expenses	mn yen	4,311	4,740	4,708	4,329	4,522
(Property-related expenses)	mn yen	3,678	3,603	3,652	3,714	3,817
Operating income	mn yen	4,144	3,463	3,213	3,738	3,835
Ordinary income	mn yen	3,124	2,435	2,103	2,568	2,608
Net income (a)	mn yen	3,123	2,434	2,102	2,567	2,607
Total assets (b) (Period-on-period change)	mn yen %	239,648 (+4.0)	238,745 (-0.4)	236,320 (-1.0)	251,566 (+6.5)	251,080 (-0.2)
Interest-bearing debt (c) (Period-on-period change)	mn yen %	98,750 (+10.0)	98,750 (0.0)	97,220 (-1.5)	102,968 (+5.9)	102,567 (-0.4)
Unitholders' equity (d) (Period-on-period change)	mn yen %	128,087 (-0.2)	127,398 (-0.5)	127,067 (-0.3)	135,689 (+6.8)	135,732 (-0.0)
Unitholders' capital (Period-on-period change)	mn yen %	124,973 (0.0)	124,973 (0.0)	124,973 (0.0)	133,129 (+6.5)	133,129 (0.0)
Number of investment units issued and outstanding (e)	unit	200,000	200,000	200,000	233,550	233,550
Unitholders' equity per unit (d)/(e)	yen	640,437	636,990	635,335	580,987	581,170
Total distribution (f)	mn yen	3,123	2,434	2,102	2,567	2,541
Distribution per unit (f)/(e)	yen	15,618	12,172	10,511	10,993	10,881
(Earnings distributed per unit)	yen	15,618	12,172	10,511	10,993	10,881
(Distribution in excess of earnings per unit)	yen	—	—	—	—	—
Return on assets (annualized) (Notes 1 and 2)	%	1.3 (2.6)	1.0 (2.1)	0.9 (1.8)	1.1 (2.1)	1.0 (2.1)
Return on unitholders' equity (annualized) (Notes 2 and 3)	%	2.4 (4.8)	1.9 (3.8)	1.7 (3.3)	2.0 (3.9)	1.9 (3.8)
Unitholders' equity ratio at end of period (d)/(b) (Period-on-period change)	%	53.4 (-2.2)	53.4 (-0.1)	53.8 (+0.4)	53.9 (+0.2)	54.1 (+0.1)
Interest-bearing debt ratio at end of period (c)/(b) (Period-on-period change)	%	41.2 (+2.3)	41.4 (+0.2)	41.1 (-0.2)	40.9 (-0.2)	40.9 (-0.1)
Payout ratio (Note 4) (f)/(a)	%	99.9	100.0	100.0	99.9	97.4
Other reference						
Number of properties	properties	69	67	65	70	67
Total leasable floor area	m^2	256,214.30	250,364.42	254,225.04	271,260.81	267,737.33
Occupancy at end of period	%	95.6	95.7	94.7	94,4	93.6
Depreciation expenses for the period	mn yen	1,445	1,429	1,451	1,477	1,440
Capital expenditures for the period	mn yen	1,105	891	400	330	312
Leasing NOI (Net Operating Income) (Note 5)	mn yen	5,923	6,030	5,721	5,830	5,864
FFO (Funds From Operation) (Note 6)	mn yen	4,269	4,356	3,994	4,044	3,995
FFO per unit (Note 7)	yen	21,345	21,780	19,973	17,318	17,106

Notes: 1. Return on assets = Ordinary income/(Total assets at beginning of period + Total assets at end of period)/2 x 100
2. Annualized values for the 7th Fiscal Period are calculated based on a period of 184 days, 181 days for the 8th Fiscal Period, 184 days for the 9th Fiscal Period, 181 days for the 10th Fiscal Period and 184 days for the 11th Period.
3. Return on unitholders' equity = Net income/(Total unitholders' equity at beginning of period + Total unitholders' equity at end of period)/2 x 100
4. Payout ratio is rounded down to the first decimal place.
5. Leasing NOI = Rental revenues – Rental expenses + Depreciation expenses for the period
6. FFO = Net income + Depreciation expenses for the period – Profit on sale of trust beneficiary interests in real estate or real estate + Loss on sale of trust beneficiary interests in real estate or real estate
7. FFO per unit = FFO/Number of investment units issued and outstanding (figures below ¥1 rounded down)
8. Where applicable, figures are rounded down to the nearest million.

Report of Independent Auditors

The Board of Directors of
Kenedix Realty Investment Corporation

We have audited the accompanying balance sheets of Kenedix Realty Investment Corporation as of October 31, 2010 and April 30, 2010, and the related statements of income and retained earnings and changes in unitholders' equity for the six-month periods then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenedix Realty Investment Corporation at October 31, 2010 and April 30, 2010, and the results of its operations for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

Balance Sheets

Kenedix Realty Investment Corporation
As of October 31, 2010 and April 30, 2010

	In thousands of yen	
	As of October 31, 2010	As of April 30, 2010
ASSETS		
Current assets:		
Cash and bank deposits	¥ 16,245,674	¥ 13,297,791
Rental receivables	208,479	151,363
Consumption tax refundable	—	48,308
Other current assets	74,717	83,141
Total current assets	16,528,870	13,580,603
Property and equipment, at cost:		
Land	163,047,282	164,462,798
Buildings and structures	80,067,548	80,958,715
Machinery and equipment	1,276,061	1,264,468
Tools, furniture and fixtures	366,696	340,770
Less-accumulated depreciation	(11,318,857)	(10,108,997)
Net property and equipment	233,438,730	236,917,754
Other assets:		
Ground leasehold	285,350	285,350
Corporate bond issuance costs	27,988	33,865
Unit issuance costs	33,515	41,893
Other assets	765,604	707,019
Total assets	¥251,080,057	¥251,566,484
LIABILITIES AND UNITHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Trade and other payables	¥ 711,485	¥ 549,294
Short-term debt	41,550,000	37,050,000
Deposits received	7,159	17,054
Rents received in advance	1,166,896	1,245,403
Other current liabilities	445,572	179,264
Total current liabilities	43,881,112	39,041,015
Corporate bonds	12,000,000	12,000,000
Long-term debt	49,017,000	53,918,500
Leasehold and security deposits received	10,449,570	10,917,330
Total liabilities	¥115,347,682	¥115,876,845
Unitholders' equity		
Unitholders' capital	¥133,129,755	¥133,129,755
Units authorized: 2,000,000 units		
Units issued and outstanding: 233,550 units		
As of October 31, 2010 and April 30, 2010, respectively		
Retained earnings	2,607,122	2,567,480
Unrealized gain from deferred hedge transactions	(4,502)	(7,596)
Total unitholders' equity	135,732,375	135,689,639
Total liabilities and unitholders' equity	¥251,080,057	¥251,566,484

See accompanying notes to the financial statements.

Statements of Income and Retained Earnings

Kenedix Realty Investment Corporation
For the period from November 1, 2009 to April 30, 2010 and the period from May 1, 2010 to October 31, 2010

	In thousands of yen	
	From May 1, 2010 to October 31, 2010	From November 1, 2009 to April 30, 2010
Operating revenues:		
Rental revenues	¥8,242,200	¥8,067,448
Profit on sale of real estate	116,397	—
Total operating revenues	8,358,597	8,067,448
Operating expenses:		
Property-related expenses	3,817,752	3,714,418
Loss on sale of real estate	64,349	—
Asset management fees	458,034	433,915
Administrative service and custodian fees	80,061	77,229
Other operating expenses	102,747	103,530
Total operating expenses	4,522,943	4,329,092
Operating income	¥3,835,654	¥3,738,356
Non-operating expenses:		
Interest expense	¥ 993,950	¥ 932,081
Financing-related expenses	211,796	210,091
Amortization of organization costs	—	5,090
Amortization of unit issuance costs	8,379	32,063
Amortization of corporate bond issuance costs	5,878	5,782
Others, net	7,595	(15,122)
Income before income taxes	2,608,056	2,568,371
Income taxes	999	940
Net income	2,607,057	2,567,431
Retained earnings at the beginning of period	65	49
Retained earnings at the end of period	¥2,607,122	¥2,567,480

See accompanying notes to the financial statements.

Statements of Changes in Unitholders' Equity

Kenedix Realty Investment Corporation
For the period from November 1, 2009 to April 30, 2010 and the period from May 1, 2010 to October 31, 2010

	In thousands of yen			
	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance as of October 31, 2009	**¥124,973,750**	**¥2,102,249**	**¥(8,830)**	**¥127,067,169**
Changes during the fiscal period				
New unit issuance	8,156,005	—	—	8,156,005
Payment of dividends	—	(2,102,200)	—	(2,102,200)
Net income	—	2,567,431	—	2,567,431
Interest-rate swap	—	—	1,234	1,234
Total changes during the fiscal period	8,156,005	465,231	1,234	8,622,470
Balance as of April 30, 2010	**¥133,129,755**	**¥2,567,480**	**¥(7,596)**	**¥135,689,639**
Changes during the fiscal period				
New unit issuance	—	—	—	—
Payment of dividends	—	(2,567,415)	—	(2,567,415)
Net income	—	2,607,057	—	2,607,057
Interest-rate swap	—	—	3,094	3,094
Total changes during the fiscal period	—	39,642	3,094	42,736
Balance as of October 31, 2010	**¥133,129,755**	**¥2,607,122**	**¥(4,502)**	**¥135,732,375**

See accompanying notes to the financial statements.

Notes to Financial Statements

Kenedix Realty Investment Corporation
For the period from November 1, 2009 to April 30, 2010 and the period from May 1, 2010 to October 31, 2010

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Kenedix Realty Investment Corporation (“the Investment Corporation”) was established on May 6, 2005 under the Law Concerning Investment Trusts and Investment Corporations of Japan (“the Investment Trust Law”). On July 21, 2005, the Investment Corporation was listed on the Real Estate Investment Trust Market of the Tokyo Stock Exchange with a total of 75,400 investment units issued and outstanding. (Securities Code: 8972). Subsequently, the Investment Corporation raised funds through public offerings including two global offerings. The Investment Corporation also undertook an additional issue of 33,550 investment units through a public offering in Japan on November 16, 2009. Consequently, as of October 31, 2010, the end of the 11th fiscal period, the number of investment units issued and outstanding totaled 233,550 units.

The Investment Corporation is externally managed by Kenedix REIT Management, Inc. (“the Asset Management Company”) as its asset management company. In concert with the Asset Management Company, the Investment Corporation strives to maximize cash distribution to investors by securing stable earnings and sustainable investment growth. To this end, the Investment Corporation adopts a dynamic and flexible investment stance that accurately reflects its environment and market trends, and endeavors to ensure a timely response to each and every opportunity. The Investment Corporation endeavors to develop a diversified investment portfolio named “KENEDIX Selection,” adopting a three-point investment criteria based on property type, area and size.

During the period ended October 31, 2010, the Investment Corporation sold an office building (initial acquisition price of ¥1,610 million), and a residential property (initial acquisition price of ¥878 million) in the Tokyo metropolitan area. At October 31, 2010, the Investment Corporation had total unitholders’ capital of ¥133,130 million with 233,550 investment units outstanding. The Investment Corporation owned a portfolio of 67 properties with a total acquisition price of ¥233,282 million containing a total leasable area of 267,737.33m^2. The occupancy ratio was approximately 93.6%. A portfolio of 67 properties consists of 61 office buildings, 4 residential properties and 2 central urban retail properties. 57 properties are located in the Tokyo metropolitan area and 10 properties are located in other regional areas.

BASIS OF PRESENTATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PROPERTY AND EQUIPMENT

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 May 1, 2010 to October 31, 2010	From November 1, 2009 to April 30, 2010
Buildings and structures	2-49 years	2-49 years
Machinery and equipment	3-17 years	3-17 years
Tools, furniture and fixtures	3-20 years	3-20 years

(B) ORGANIZATION COSTS

Organization costs are amortized over a period of five years, comprised of ten fiscal periods, with an equal amount amortized in each fiscal period.

(C) UNIT ISSUANCE COSTS

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

(D) CORPORATE BOND ISSUANCE COSTS

Corporate bond issuance costs are amortized over a loan period under the straight-line method.

(E) ACCOUNTING TREATMENT OF TRUST BENEFICIARY INTERESTS IN REAL ESTATE

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

(F) REVENUE RECOGNITION

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

(G) 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 the Japanese tax rule, the seller of the property at the time of disposal is liable for these taxes on the property from the date of disposal to the end of the calendar year in which the property is disposed. The seller, however, is 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. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period to which the installments of such taxes correspond.

(H) 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.

(I) DERIVATIVE FINANCIAL INSTRUMENTS

The Investment Corporation utilizes interest-rate swap agreements as derivative financial instruments only for the purpose of hedging its exposure to changes in interest rates. The Investment Corporation deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate swap agreements met the criteria for deferral hedging accounting. However, the Investment Corporation adopted special treatment for interest-swap agreements if its interest-rate swap agreement met the criteria for hedging accounting under this treatment, whereby the net amount to be paid or received under the interest-rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(J) ROUNDING OF AMOUNTS PRESENTED

Amounts have been truncated in the Japanese financial statements prepared in accordance with Japanese GAAP and filed with regulatory authorities in Japan, whereas amounts have been 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. ACCOUNTING CHANGES

(A) ACCOUNTING STANDARD FOR ASSET RETIREMENT OBLIGATIONS

From the fiscal period under review, the Investment Corporation has applied "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan (ASBJ) Statement No.18; March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21; March 31, 2008). This does not impact profit/loss.

(B) ACCOUNTING METHOD FOR PROPERTY TAX

Under the accounting method adopted for property-related taxes, including property taxes, city planning taxes and depreciable property taxes, for owned real estate, of the assessment and decision tax amount, the amount of taxes to be paid in the fiscal period under review used to be charged to rental expenses (expenses related to rent business). As of the fiscal period under review, the Investment Corporation changed the accounting method to one under which, of the assessment and decision tax amount, the amount of taxes corresponding to the fiscal period under review is charged to rental expenses (expenses related to rent business).

The recent increase in real estate and other acquisitions has increased the financial significance of the amount of property taxes, etc. charged to expenses. The change in accounting method is thus being made to more appropriately allocate expenses because the described circumstances are expected to persist.

As a result, compared to the accounting method adopted prior to the change, operating expenses increase by ¥67,895 thousand and operating income, ordinary income and net income each decrease by said amount.

4. SCHEDULE OF PROPERTY

	In millions of yen					
	As of October 31, 2010			As of April 30, 2010		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥163,047	¥ —	¥163,047	¥164,463	¥ —	¥164,463
Buildings and structures	80,068	10,714	69,354	80,959	9,573	71,386
Machinery and equipment	1,276	452	824	1,264	399	865
Tools, furniture and fixtures	367	153	214	341	137	204
Total	¥244,758	¥11,319	¥233,439	¥247,027	¥10,109	¥236,918

5. SHORT-TERM AND LONG-TERM DEBT

The following summarizes short-term and long-term debt outstanding as of October 31, 2010:

Classification	Drawdown date	Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Short-term debt	January 29, 2010	January 29, 2011	1.29%	¥ 1,300
	February 26, 2010	February 28, 2011	1.59%	500
	April 30, 2010	April 28, 2011	1.39%	1,000
	April 30, 2010	April 30, 2011	1.39%	1,000
	July 30, 2010	July 31, 2011	1.18%	1,500
	October 29, 2010	October 31, 2011	1.14%	1,000
	July 31, 2008	January 31, 2011	1.87%	3,500
	February 29, 2008	February 28, 2011	1.37%	2,000
	June 30, 2008	February 28, 2011	1.99%	1,000
	September 22, 2008	March 22, 2011	1.71%	1,250
	July 15, 2008	March 31, 2011	1.87%	2,000
	September 30, 2008	March 31, 2011	1.82%	2,000
	April 17, 2007	April 16, 2011	1.65%	1,500
	May 1, 2006	April 30, 2011	2.20%	2,500
	April 30, 2009	April 28, 2011	2.23%	1,500
	April 30, 2009	April 30, 2011	2.23%	1,000
	July 14, 2006	July 13, 2011	2.15%	1,000
	July 31, 2008	July 31, 2011	1.99%	3,500
	February 29, 2008	August 31, 2011	1.43%	1,500
	September 1, 2008	September 1, 2011	1.78%	1,000
	March 31, 2008	September 30, 2011	1.61%	3,000
	March 31, 2008	September 30, 2011	1.56%	2,000
	April 30, 2009	October 31, 2011	2.29%	3,500
	October 26, 2010	October 31, 2011	1.25%	1,500
Subtotal				¥ 41,550

Classification	Drawdown date	Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Long-term debt	May 1, 2006	April 30, 2016	2.73%	¥ 5,000
	September 1, 2006	August 31, 2013	2.12%	3,000
	December 1, 2006	November 30, 2011	1.96%	2,500
	April 2, 2007	April 2, 2012	1.88%	2,000
	January 10, 2008	January 10, 2012	1.50%	2,500
	May 1, 2008	November 1, 2011	1.91%	1,000
	June 30, 2008	June 30, 2012	2.15%	1,500
	June 30, 2008	December 28, 2012	2.26%	3,000
	February 27, 2009	February 29, 2012	2.07%	470
	February 27, 2009	August 31, 2012	2.04%	940
	April 30, 2009	April 27, 2012	2.29%	2,000
	October 26, 2009	October 26, 2013	2.42%	960
	October 30, 2009	October 30, 2013	2.45%	1,920
	December 8, 2009	December 8, 2012	1.67%	500
	January 13, 2010	January 15, 2013	1.90%	1,000
	January 29, 2010	January 30, 2015	2.17%	1,152
	February 18, 2010	February 18, 2013	1.90%	1,500
	February 18, 2010	February 18, 2015	2.19%	5,225
	April 2, 2010	April 2, 2015	2.22%	1,950
	July 30, 2010	July 31, 2013	1.49%	500
	July 30, 2010	January 31, 2014	1.66%	3,700
	July 30, 2010	July 31, 2014	1.73%	3,700
	October 29, 2010	October 31, 2012	1.45%	2,500
	October 29, 2010	October 31, 2013	1.46%	500
Subtotal				¥ 49,017
Corporate bonds	March 15, 2007	March 15, 2012	1.74%	9,000
	March 15, 2007	March 15, 2017	2.37%	3,000
Subtotal				¥ 12,000
Total				¥102,567

6. LINE OF CREDIT

The Investment Corporation has established a credit commitment line with a lender. The borrowing under the commitment line agreement is ¥2 billion. The Investment Corporation had an outstanding balance of ¥2 billion as of October 31, 2010.

The commitment period of the commitment line agreement concluded with The Bank of Tokyo-Mitsubishi UFJ, Ltd. has already expired. Furthermore, the expiration date of the commitment line agreement is March 31, 2011, set in the memorandum of understanding executed on September 26, 2008. However, since the commitment period has already expired, the Investment Corporation cannot undertake new borrowings.

7. ASSETS PLEDGED AS COLLATERAL AND SECURED LOANS PAYABLE

(As of October 31, 2010)

Assets pledged as collateral	In thousands of yen
Cash and bank deposits	¥ 5,084,003
Land	117,541,230
Buildings and structures	50,772,873
Machinery and equipment	518,878
Tools, furniture and fixtures	132,263
Other assets	1,027
Total	¥174,050,274
Secured loans payable:	
Short-term debt	¥ 41,550,000
Long-term debt	49,017,000
Total	¥ 90,567,000

8. PER UNIT INFORMATION

The net asset value per unit as of October 31, 2010 and April 30, 2010 was ¥581,170 and ¥580,987. Net income per unit as of October 31, 2010 and April 30, 2010 was ¥11,162 and ¥11,125.

The weighted-average number of units outstanding of 233,550 and 230,770 was used for the computation of the amount of net income per unit as of October 31, 2010 and April 30, 2010.

9. 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 are met under the Special Taxation Measure Law of Japan. Under this law, the Investment Corporation must meet a number of tax requirements, including a requirement that it currently distribute in excess of 90% of its net income for the fiscal period in order to be able to deduct such amounts. If the Investment Corporation does not satisfy all of the requirements, the entire taxable income of the Investment Corporation will be subject to regular corporate income taxes. Since the Investment Corporation distributed approximately 100% of its distributable income in the form of cash distributions totaling ¥2,541 million and ¥2,567 million for the periods ended October 31, 2010 and April 30, 2010. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.04% and 0.04% for the periods ended October 31, 2010 and April 30, 2010. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From May 1, 2010 to October 31, 2010	From November 1, 2009 to April 30, 2010
Statutory tax rate	39.33 %	39.33 %
Deductible cash distributions	(38.32)	(39.32)
Other	(0.97)	0.03
Effective tax rate	0.04 %	0.04 %

10. UNITHOLDERS' EQUITY

The Investment Corporation issues only non-par value units in accordance with the Investment Trust Law. 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 Law.

11. RELATED-PARTY TRANSACTIONS

TRANSACTIONS WITH KENEDIX REIT MANAGEMENT, INC.

Kenedix REIT Management, Inc., a consolidated subsidiary of Kenedix, Inc., provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix REIT Management, Inc. property management fees in accordance with the terms of its Property Management Agreements. For these services, the Investment Corporation paid ¥305 million to Kenedix REIT Management, Inc.

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

Rental and other operating revenues and property-related expenses for the periods from May 1, 2010 to October 31, 2010 and from November 1, 2009 to April 30, 2010 consist of the following:

	In thousands of yen	
	From May 1, 2010 to October 31, 2010	From November 1, 2009 to April 30, 2010
Rental and other operating revenues:		
Rental revenues	¥5,861,094	¥5,882,594
Common area charges	1,298,267	1,267,521
Subtotal	7,159,361	7,150,115
Others:		
Parking space rental revenues	242,537	243,319
Utility charge reimbursement	742,082	560,259
Miscellaneous	98,220	113,755
Subtotal	1,082,839	917,333
Total rental and other operating revenues	¥8,242,200	¥8,067,448
Property management fees and facility management fees	¥ 804,755	¥ 801,877
Depreciation	1,440,312	1,477,410
Utilities	634,221	508,338
Taxes	648,653	648,231
Insurance	16,135	16,759
Repairs and maintenance	149,673	110,725
Trust fees	41,817	41,579
Loss on retirement of fixed assets	1,144	12,537
Others	81,042	96,962
Total property-related expenses	¥3,817,752	¥3,714,418
Profit on sale of real estate:		
Revenue from sale of investment properties	¥1,710,000	¥ —
Cost of investment properties	1,569,751	—
Other sales expenses	23,852	—
Profit on sale of real estate	¥ 116,397	¥ —
Loss on sale of real estate:		
Revenue from sale of investment properties	¥ 790,000	¥ —
Cost of investment properties	836,434	—
Other sales expenses	17,915	—
Loss on sale of real estate	¥ 64,349	¥ —

13. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease terms of generally two years for office buildings and residential properties and with lease terms ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2010 and April 30, 2010 are as follows:

	In thousands of yen	
	As of October 31, 2010	As of April 30, 2010
Due within 1 year	¥1,178,139	¥1,285,413
Due after 1 year	7,068,298	7,940,847
Total	¥8,246,437	¥9,226,260

14. PROPERTY INFORMATION

Details of the property portfolio as of October, 2010 were as follows:

Type	Office Buildings		Residential Properties		Central Urban Retail Properties
Location	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area	Other Regional Areas	Tokyo Metropolitan Area
Number of properties	52	9	3	1	2

Property information

	(In millions of yen)				
Acquisition price	¥179,246	¥32,215	¥7,641	¥1,800	¥12,380
Percentage of total acquisition costs	76.84%	13.81%	3.28%	0.77%	5.30%
Net book value	180,587	31,491	7,329	1,875	12,443
Appraisal value at year end	¥165,730	24,408	6,389	1,420	11,650
Percentage of total appraisal value	79.07%	11.64%	3.05%	0.68%	5.56%

Financial results for the period from May 1, 2010 to October 31, 2010

	(In thousands of yen)				
Rental and other operating revenues	¥6,378,493	¥1,154,145	¥266,225	¥89,429	¥353,908
Rental revenues	5,568,259	950,658	242,298	80,484	317,662
Other revenues	810,234	203,487	23,927	8,945	36,246
Property-related expenses	1,758,085	441,411	57,523	47,299	73,122
Property management fees	576,950	171,280	24,380	8,422	23,723
Taxes	488,736	113,968	17,324	8,360	20,265
Utilities	488,046	116,486	2,828	1,921	24,940
Repairs and maintenance	106,974	14,166	7,294	20,806	433
Insurance	10,051	4,674	651	459	300
Trust fees and other expenses	87,328	20,837	5,046	7,331	3,461
NOI (Net Operating Income)	4,620,408	712,734	208,702	42,130	280,786
Depreciation expenses	946,885	328,082	76,291	22,887	66,167
Operating income from property leasing activities	3,673,523	384,652	132,411	19,243	214,619
Capital expenditures	253,688	33,312	331	22,022	3,165
NCF (Net Cash Flow)	4,366,720	679,422	208,371	20,108	277,621

A breakdown of property-type as of October, 2010 was as follows:

Class of assets	Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
Property and equipment	Office Buildings	Tokyo Metropolitan Area	¥180,586	71.9%
		Other Regional Areas	31,491	12.6%
	Subtotal		212,077	84.5%
	Residential Properties	Tokyo Metropolitan Area	7,329	2.9%
		Other Regional Areas	1,876	0.8%
	Subtotal		9,205	3.7%
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,443	4.9%
	Total		¥233,725	93.1%
Bank deposits and other assets			¥ 17,355	6.9%
Total assets			251,080	100.0%
Total liabilities			115,348	45.9%
Net assets			¥135,732	54.1%

15. FINANCIAL INSTRUMENTS

11th Fiscal Period (May 1, 2010 to October 31, 2010)

(A) OVERVIEW

(1) POLICY FOR FINANCIAL INSTRUMENTS

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

(2) TYPES OF FINANCIAL INSTRUMENTS AND RELATED RISK

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

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

(3) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

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

The Investment Corporation uses interest-rate swap transactions in order to minimize risk arising from fluctuations in interest rates on funds procured.

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

Although loans and other liabilities are subject to liquidity risk, the Investment Corporation reduces such risk by spreading out payment due dates and by using diversified fund procurement methods. Liquidity risk is also managed by such means as regularly checking the balance of cash reserves.

(4) SUPPLEMENTARY EXPLANATION OF THE ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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 sheets as of October 31, 2010 and estimated fair value are shown in the following table.

	In thousands of yen		
	Carrying value	Estimated fair value	Difference
① Cash and bank deposits	¥ 16,245,674	¥ 16,245,674	¥ —
Total assets	¥ 16,245,674	¥ 16,245,674	¥ —
① Short-term debt	6,300,000	6,300,000	—
② Corporate bonds	12,000,000	11,700,300	(299,700)
③ Long-term debt (including current portion of long-term debt)	84,267,000	83,766,880	(500,120)
Total liabilities	¥102,567,000	¥101,767,180	¥(799,820)
Derivative Transactions (*)			
Items that are not applied to hedge accounting	¥ —	¥ —	¥ —
Items that are applied to hedge accounting	(7,421)	(7,421)	—
Total derivative transactions	¥ (7,421)	¥ (7,421)	¥ —

(*) The value of assets and liabilities arising from derivatives in shown at net value and with the amount in parentheses representing net liability position
Note 1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

ASSETS

① Cash and bank deposits

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

LIABILITIES

① Short-term debt

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

② Corporate bonds

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

③ Long-term debt

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

DERIVATIVE TRANSACTIONS

(1) ITEMS THAT ARE NOT APPLIED TO HEDGE ACCOUNTING

Not applicable

(2) ITEMS THAT ARE APPLIED TO HEDGE ACCOUNTING

Hedge accounting method	Type of derivative transaction	Hedged items	Contracted 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 swaps: Receive/floating and pay/fixed	Long-term debt	¥ 1,500,000	—	¥(7,421)	Based on the amount provided by counterparty financial institutions
Special treatment of interest-rate swaps	Interest-rate swaps: Receive/floating and pay/fixed	Long-term debt	14,000,000	¥4,500,000	*	
Total			¥15,500,000	¥4,500,000	¥(7,421)	

* Special treatment of interest-rate swaps is reported at the fair value of applicable long-term debt. This is because such swaps are handled together with hedged long-term debt.

Note 2: Redemption schedule for receivables

	Due in 1 year or less (In thousands of yen)
Cash and bank deposits	¥16,245,674
Total	¥16,245,674

Note 3: Redemption schedule for debt and corporate bonds

	In thousands of yen					
	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
Short-term debt	¥ 6,300,000	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	9,000,000	—	—	—	3,000,000
Long-term debt	35,250,000	15,410,000	12,880,000	7,400,000	8,327,000	5,000,000

16. INVESTMENT AND RENTAL PROPERTIES

11th Fiscal Period (May 1, 2010 to October 31, 2010)

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

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

Carrying value (In thousands of yen)			Fair value as of October 31, 2010 (In thousands of yen)
As of April 30, 2010	Net change	As of October 31, 2010	
¥237,204,250	¥(3,479,142)	¥233,725,108	¥209,597,000

Notes: 1. The carrying value represents the acquisition cost less accumulated depreciation.
2. The fair value is the appraisal value or the survey value determined by outside appraisers.
3. Among changes in the amount of real estate for rental purposes that occurred during the fiscal period under review, principal increases were the sales of two properties totaling ¥2,406,185 thousand, and depreciation amounting to ¥1,440,312 thousand.

Income and loss in the fiscal period ended October 31, 2010 for real estate for rental purposes is listed in Note 12, "BREAKDOWN OF RENTAL AND OTHER OPERATING REVENUES AND PROPERTY-RELATED EXPENSES."

Statements of Cash Flows (Unaudited)

Kenedix Realty Investment Corporation

For the period from November 1, 2009 to April 30, 2010 and the period from May 1, 2010 to October 31, 2010

	In thousands of yen	
	From May 1, 2010 to October 31, 2010	From November 1, 2009 to April 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income taxes	¥ 2,608,056	¥ 2,568,371
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,645,691	1,672,685
Interest expense	993,950	932,081
Loss on retirement of fixed assets	1,144	12,537
Changes in assets and liabilities:		
Rental receivables	(57,116)	32,705
Consumption tax refundable	48,308	87,756
Accrued consumption tax	264,791	(30,679)
Trade and other payables	73,500	(4,781)
Rents received in advance	(78,507)	111,665
Property and equipment due to sale	2,406,185	—
Others, net	(254,016)	(331,498)
Subtotal	7,651,986	5,050,842
Cash payments of interest expense	(987,326)	(905,953)
Cash payments of income taxes	(640)	(752)
Net cash provided by operating activities	¥ 6,664,020	¥ 4,144,137
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(366,918)	(16,241,402)
Proceeds from leasehold and security deposits received	337,128	1,436,443
Payments of leasehold and security deposits received	(719,407)	(664,470)
Proceeds from withdrawal of time deposits	—	1,000,000
Payments of restricted bank deposits	(13,667)	(165,814)
Proceeds from restricted bank deposits	146,978	66,354
Others, net	—	330
Net cash used in investing activities	¥ (615,886)	¥(14,568,559)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term debt	2,500,000	3,800,000
Payment of short-term debt	(5,000,000)	(5,000,000)
Proceeds from long-term debt	12,400,000	11,700,000
Payment of long-term debt	(10,301,500)	(4,751,500)
Proceeds from issuance of investment units	—	8,105,733
Payment of dividends	(2,565,441)	(2,101,910)
Net cash (used in) provided by financing activities	(2,966,941)	¥ 11,752,323
Net change in cash and cash equivalents	3,081,193	1,327,901
Cash and cash equivalents at the beginning of period	12,285,857	10,957,956
Cash and cash equivalents at the end of period	¥15,367,050	¥ 12,285,857

See related notes.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (UNAUDITED)

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.

CASH AND CASH EQUIVALENTS (UNAUDITED)

Cash and cash equivalents consisted of the following as of October 31, 2010 and April 30, 2010:

	In thousands of yen	
	As of October 31, 2010	As of April 30, 2010
Cash and bank deposits	¥16,245,674	¥13,297,791
Restricted bank deposits held in trust (Note 1).	(488,624)	(621,934)
More than 3-month fixed deposits (Note 2) .	(390,000)	(390,000)
Cash and cash equivalents	¥15,367,050	¥12,285,857

Notes: 1. Restricted bank deposits held in trust are retained for repayment of tenant leasehold and security deposits.
2. More than 3-month fixed deposits are fixed deposits which have deposit terms of more than 3 months.