

# Financial Statements

(Fourth Fiscal Period: From November 1, 2006 to April 30, 2007)

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# Kenedix Realty Investment Corporation

## Report of Independent Auditors

To the Board of Directors and Unitholders of  
Kenedix Realty Investment Corporation

We have audited the accompanying balance sheets of Kenedix Realty Investment Corporation as of April 30, 2007 and October 31, 2006, and the related statements of income and retained earnings, changes in unitholders' equity, and cash flows 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 April 30, 2007 and October 31, 2006, and the results of its operations and its cash flows for the six-month periods then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young Shin Nishinaka*

June 8, 2007

# Kenedix Realty Investment Corporation

## BALANCE SHEETS

As of April 30, 2007 and October 31, 2006

In thousands of yen

	As of April 30, 2007		As of October 31, 2006	
<b>Assets</b>				
Current assets:				
Cash and bank deposits	¥	8,923,063	¥	9,488,708
Rental receivables		75,125		83,375
Consumption tax refundable		302,041		599,486
Other current assets		32,956		72,300
Total current assets		9,333,185		10,243,869
Property and equipment, at cost:				
Land		113,187,263		91,714,229
Buildings and structures		67,134,816		58,684,305
Machinery and equipment		823,009		741,661
Tools, furniture and fixtures		602,585		612,929
Less-accumulated depreciation		(3,230,846)		(2,033,503)
Net property and equipment		178,516,827		149,719,621
Other assets:				
Ground leasehold		285,145		-
Organization costs		30,538		35,628
Corporate bond Issuance costs		68,875		-
Unit Issuance costs		71,139		88,923
Others		94,969		226,301
<b>Total assets</b>	¥	188,400,678	¥	160,314,342
<b>Liabilities and Unitholders' Equity</b>				
<b>Liabilities</b>				
Current liabilities:				
Trade and other payables	¥	413,751	¥	406,892
Short-term debt		20,000,000		15,000,000
Deposits received		26,743		1,748
Rents received in advance		916,372		767,536
Other current liabilities		87,286		28,287
Total current liabilities		21,444,152		16,204,463
Corporate bonds		12,000,000		-
Long-term debt		56,500,000		47,000,000
Leasehold and security deposits received		7,578,756		6,124,894
Others		-		51,688
<b>Total liabilities</b>		97,522,908		69,381,045
<b>Unitholders' equity</b>				
Unitholders' capital		88,729,652		88,729,652
Units Authorized: 2,000,000 units				
Units Issued and outstanding: 157,000 units				
as of April 30, 2007 and October 31, 2006, respectively				
Retained earnings		2,148,118		2,124,112
Unrealized gain from deferred hedge transactions		-		79,533
<b>Total unitholders' equity</b>		90,877,770		90,933,297
<b>Total liabilities and unitholders' equity</b>	¥	188,400,678	¥	160,314,342

See notes to financial statements

# Kenedix Realty Investment Corporation

## STATEMENTS OF INCOME AND RETAINED EARNINGS

For the period from May 1, 2006 to October 31, 2006 and the period from November 1, 2006 to April 30, 2007

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
<b>Operating Revenues:</b>		
Rental revenues	¥ 5,647,462	¥ 5,131,499
Profit on sale of trust beneficiary interests in real estate	130,748	157,334
<b>Total operating revenues</b>	<b>5,778,210</b>	<b>5,288,833</b>
<b>Operating Expenses:</b>		
Property-related expenses	2,607,389	2,397,202
Asset management fees	306,965	203,842
Administrative service and custodian fees	66,601	46,728
Other operating expenses	110,510	75,869
<b>Total operating expenses</b>	<b>3,091,465</b>	<b>2,723,641</b>
<b>Operating income</b>	<b>2,686,745</b>	<b>2,565,192</b>
<b>Non-Operating Expenses:</b>		
Interest expense	479,926	375,765
Financing related expense	20,595	20,904
Amortization of organization costs	5,090	5,090
Amortization of unit issuance costs	17,785	17,785
Amortization of corporate bond issuance costs	1,501	-
Others, net	12,969	20,567
<b>Income before income taxes</b>	<b>2,148,879</b>	<b>2,125,081</b>
Income taxes	821	1,009
<b>Net income</b>	<b>2,148,058</b>	<b>2,124,072</b>
<b>Retained earnings at the beginning of period</b>	<b>60</b>	<b>40</b>
<b>Retained earnings at the end of period</b>	<b>¥ 2,148,118</b>	<b>¥ 2,124,112</b>

See notes to financial statements

# Kenedix Realty Investment Corporation

## Statement of Changes in Unitholders' Equity

For the period from November 1, 2006 to April 30, 2007

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance at the beginning of a period	¥ 88,729,652	¥ 2,124,112	¥ 79,533	¥ 90,933,297
Changes during the fiscal period				
Payment of dividends	-	(2,124,052)	-	(2,124,052)
Net income	-	2,148,058	-	2,148,058
Interest-rate swap	-	-	(79,533)	(79,533)
Total changes during the fiscal period	-	24,006	(79,533)	(55,527)
Balance at the end of period	¥ 88,729,652	¥ 2,148,118	¥ -	¥ 90,877,770

For the period from May 1, 2006 to October 31, 2006

(Thousands in Yen)

	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
Balance at the beginning of a period	¥ 44,285,003	¥ 1,102,013	¥ -	¥ 45,387,016
Changes during the fiscal period				
New unit issuance	44,444,649	-	-	44,444,649
Payment of dividends	-	(1,101,973)	-	(1,101,973)
Net income	-	2,124,072	-	2,124,072
Interest-rate swap	-	-	79,533	79,533
Total changes during the fiscal period	44,444,649	1,022,099	79,533	45,546,281
Balance at the end of period	¥ 88,729,652	¥ 2,124,112	¥ 79,533	¥ 90,933,297

See notes to financial statements

# Kenedix Realty Investment Corporation

## STATEMENTS OF CASH FLOWS

For the period from May 1, 2006 to October 31, 2006 and the period from November 1, 2006 to April 30, 2007

	In thousands of yen	
	From October 1,2006 to April 30,2007	From May 1,2006 to October 31,2006
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 2,148,879	¥ 2,125,081
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,288,871	1,169,328
Interest expense	479,926	375,765
Changes in assets and liabilities:		
Rental receivables	8,250	(35,671)
Consumption tax refundable	297,446	(461,163)
Trade and other payables	3,328	214,623
Rents received in advance	148,836	237,642
Sale of trust beneficiary interests in real estate	1,433,571	1,763,670
Others, net	37,018	(136,387)
Subtotal	5,846,125	5,252,888
Cash payments of interest expense	(420,546)	(363,960)
Cash payments of income taxes	(924)	(1,015)
<b>Net cash provided by operating activities</b>	<b>5,424,655</b>	<b>4,887,913</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(31,759,821)	(69,184,115)
Proceeds from leasehold and security deposits received	1,909,350	2,852,843
Payments of leasehold and security deposits received	(455,487)	(256,297)
Payments of restricted bank deposits	(361,623)	(750,424)
Proceeds from restricted bank deposits	355,864	225,670
Others, net	6,555	(717)
<b>Net cash used in investing activities</b>	<b>(30,305,162)</b>	<b>(67,113,040)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	19,500,000	13,000,000
Payment of short-term debt	(14,500,000)	(11,000,000)
Proceeds from long-term debt	9,500,000	18,000,000
Proceeds from issuance of units	-	44,444,650
Proceeds from issuance of corporate bonds	12,000,000	-
Payment of corporate bond issuance costs	(70,376)	-
Payment of dividends	(2,120,522)	(1,098,661)
<b>Net cash provided by financing activities</b>	<b>24,309,102</b>	<b>63,345,989</b>
<b>Net change in cash and cash equivalents</b>	<b>(571,405)</b>	<b>1,120,862</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>8,178,005</b>	<b>7,057,143</b>
<b>Cash and cash equivalents at the end of period</b>	<b>¥ 7,606,600</b>	<b>¥ 8,178,005</b>

See notes to financial statements

# Kenedix Realty Investment Corporation

## Notes to Financial Statements

For the period from May 1, 2006 to October 31, 2006 and the period from November 1, 2006 to April 30, 2007

### 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

Kenedix Realty Investment Corporation ("the Investment Corporation") is a real estate investment corporation whose units are listed on the Tokyo Stock Exchange. The Investment Corporation is engaged in ownership and operation of selected office buildings, residential and retail properties in Japan. The Investment Corporation was incorporated as an investment corporation under the Law Concerning Investment Trusts and Investment Corporations of Japan, or the Investment Trust Law. Pursuant to this law, the Investment Corporation is externally managed by a licensed asset management company, Kenedix REIT Management, Inc. ("Asset Management Company"), a wholly-owned subsidiary of Kenedix, Inc. ("Kenedix")

On May 6, 2005, the Investment Corporation was originally formed with ¥200 million of initial capital contributions from Kenedix, Asset Management Company and their executives and employees. On July 20, 2005, the Investment Corporation raised ¥41,869 million of equity capital through an initial public offering of 75,000 investment units and was listed on the J-REIT section of the Tokyo Stock Exchange on the following day.

On August 1, 2005, 29 properties with an aggregate purchase price of ¥61,083 million were acquired with additional debt proceeds of ¥23,000 million and substantial operations of the Investment Corporation were commenced from that date.

On August 16, 2005, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,216 million. Subsequent to that, the Investment Corporation acquired 2 additional properties in September, 2005. During the period ended April 30, 2006, the Investment Corporation acquired 4 additional properties by utilizing internal cash and bank borrowing.

On May 1, 2006, the Investment Corporation raised ¥42,172 million of equity capital through a public offering of 73,660 investment units and 26 properties with an aggregate purchase price of ¥58,033 million were acquired with additional debt proceeds of ¥16,000 million.

On May 26, 2006, the Investment Corporation completed third-party allotment of 3,970 investment units, generating an additional ¥2,273 million. During the period ended October 31, 2006, the Investment Corporation sold 2 properties and acquired 5 properties.

During the period ended April 30, 2007, the Investment Corporation acquired 10 additional properties by utilizing internal cash and bank borrowing, and sold 2 properties.

On March 15, 2007, the Investment Corporation issued the investment corporation bonds. Their total amounts is ¥12,000 million and term are five years and ten years.

At April 30, 2007, the Investment Corporation had total unitholders' capital of ¥88,730 million with 157,000 investment units outstanding. The Investment Corporation owned a portfolio of 72 properties with total acquisition costs of ¥175,090 million containing total leasable area of 223,323 m<sup>2</sup>. The occupancy ratio was approximately 95.9%. A portfolio of 72 properties consists of 39 office buildings, 30 residential properties and 3 central urban retail properties. 58 properties are located in the Tokyo Metropolitan Area and 14 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 Securities 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 International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are a basically 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 Securities 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) 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.

### (b) 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 November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Buildings and structures .....	2-46 years	2-46 years
Machinery and equipment .....	3-17 years	3-17 years
Tools, furniture and fixtures .....	3-15 years	3-15 years

### (c) Impairment of Fixed Assets

The Investment Corporation adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion on Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council in Japan on August 9, 2002) and "Implementation Guidance for the Accounting Standards for Impairments of Fixed Assets" ("Financial Accounting Guidance No. 6" issued by the Accounting Standards Board of Japan on October 31, 2003). The Investment Corporation has not recognized an impairment loss on any of the properties during the fiscal periods ended April 30, 2007 and October 31, 2006.

### (d) 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.

### (e) Unit Issuance Costs

Unit issuance costs are amortized over a period of three years under the straight-line method. Underwriters' commissions in connection with the issuance of unitholders' equity are offset against proceeds raised since the "Spread Method" was used for the unit issuance. Under the Spread Method, securities underwriters underwrite the units at the issue price and offer them to investors at the offer price, which is different from the issue price. The difference between the offer price and the issue price represents the underwriting commission received by the securities underwriters, eliminating the need for the issuer to pay underwriting commissions. If securities underwriters had underwritten the units at the issue price and offered the units to investors at an offer price equal to the issue price (known as the "Conventional Method"), a commission would have been incurred and it would have been expensed as new unit issuance costs. Therefore, the Spread Method understated unit issuance costs by ¥1,263 million on the balance sheet and decreased amortization of unit issuance costs by ¥253 million and increased income before income taxes on the income statement by the same amount compared to the Conventional Method for the period from May 1, 2006 through October 31, 2006.

### (f) Corporate Bond Issuance Costs

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

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

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

#### (h) 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 expense during the fiscal period, respectively.

#### (i) Taxes on Property and Equipment

Property-related taxes including property taxes, city planning taxes and depreciable property taxes are imposed on properties on a calendar year basis. 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. Capitalized property-related taxes amounted to ¥101 million and ¥182 million as of April 30, 2007 and October 31, 2006. In subsequent calendar years, such property-related taxes are charged as operating expenses in the fiscal period in which the installments of such taxes are paid to the relevant tax authorities.

#### (j) Income Taxes

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

#### (k) 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 adopted special treatment for interest-swap agreements because its interest-rate swap agreements met the criteria for hedging accounting under this treatment, 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.

#### (l) 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. CHANGES IN ACCOUNTING POLICY

(a) Beginning the fiscal period ended October 31, 2006, unit issuance costs have been capitalized and amortized over a period of 3 years, although unit issuance costs were previously expensed in the period of payment. Due to a change in Accounting Rules for Investment Corporation effective on May 1, 2006 and "Tentative Solution on Accounting for Deferred Assets" (Practical Solution No.19 issued by the Accounting Standards Board of Japan on August 11, 2006) issued by the Accounting Standards Board of Japan, appropriate deferred charges such as new unit issuance costs are allowed to be capitalized and being amortized over a 3 year period.

As a result of this change in accounting policy, non-operating expenses of the Investment Corporation during the current period decreased by ¥89 million yen and income before income taxes increased by the same amount compared with the amounts which would have been recorded under the previous accounting rule.

(b) Beginning the fiscal period ended October 31, 2006, the Investment Corporation adopted the new accounting standards, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005) and its implementation guidance (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005).

(c) Beginning the fiscal period ended April 30, 2007, the Investment Corporation changed the hedging accounting treatment from deferred hedge to the special method on interest swap due to a change in amendments to the Investment Trust Law and the modification of the articles of incorporation.

As a result, net asset decreased by ¥ 59 million compared with the previous accounting method.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of April 30, 2007 and October 31, 2006:

	In thousands of yen	
	As of April 30, 2007	As of October 31, 2006
Cash and bank deposits .....	¥ 8,923,063	¥ 9,488,708
Restricted bank deposits held in trust .....	(1,316,463)	(1,310,703)
Cash and cash equivalents .....	¥ 7,606,600	¥ 8,178,005

Restricted bank deposits held in trust are retained for repayment of tenant leasehold and security deposits.

#### 5. SCHEDULE OF PROPERTY

	In millions of yen					
	As of April 30, 2007			As of October 31, 2006		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥ 113,187	¥ -	¥ 113,187	¥ 91,714	¥ -	¥ 91,714
Buildings and structures	67,135	3,026	64,109	58,684	1,897	56,787
Machinery and equipment	823	119	704	742	73	669
Tools, furniture and fixtures	603	86	517	613	63	550
Total	¥ 181,748	¥ 3,231	¥ 178,517	¥ 151,753	¥ 2,033	¥ 149,720

## 6. SHORT-TERM AND LONG-TERM DEBTS

The following summarizes short-term and long term debt outstanding as of April 30, 2007 :

(As of April 30, 2007)

Classification	Drawdown Date	Repayment Date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured short-term debt	July 31, 2006	July 31, 2007	0.73%	¥ 4,000
	September 20, 2006	September 20, 2007	0.75%	4,000
	October 31, 2006	October 31, 2007	0.75%	1,000
	December 1, 2006	November 30, 2007	0.82%	500
	January 19, 2007	January 18, 2008	0.84%	1,000
	March 1, 2007	February 29, 2008	0.96%	3,500
	April 2, 2007	October 2, 2007	0.95%	2,000
	April 2, 2007	April 2, 2007	0.97%	1,500
	April 2, 2007	April 2, 2007	1.02%	1,000
Unsecured current portion of long-term debt	November 1, 2005	October 31, 2007	0.77%	1,500
<b>Subtotal</b>				<b>20,000</b>
Unsecured long-term debt	August 1, 2005	July 31, 2008	0.87%	9,500
	August 1, 2005	July 31, 2010	1.29%	9,500
	November 1, 2005	October 31, 2008	1.09%	3,500
	December 8, 2005	December 7, 2008	1.10%	2,000
	March 1, 2006	February 28, 2009	1.45%	2,000
	March 16, 2006	March 16, 2009	1.48%	2,500
	May 1, 2006	April 30, 2009	1.63%	6,500
	May 1, 2006	April 30, 2011	2.20%	2,500
	May 1, 2006	April 30, 2016	2.73%	5,000
	July 14, 2006	July 13, 2011	2.15%	1,000
	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, 2010	1.57%	2,000
	April 2, 2007	April 2, 2012	1.88%	2,000
	April 17, 2007	April 16, 2011	1.04%	3,000
<b>Subtotal</b>				<b>56,500</b>
<b>Total</b>				<b>¥ 76,500</b>

## 7. UNSECURED LINE OF CREDIT

The Investment Corporation established a credit facility with a financial institution in March 2007 which provides access to an aggregate ¥ 2.5 billion on an unsecured basis, the company have drawn ¥ 1.0 billion from this credit facility.

## 8. PER UNIT INFORMATION

The net asset value per unit as of April 30, 2007 and October 31, 2006 was ¥578,839 and ¥579,192. Net income per unit as of April 30, 2007 and October 31, 2006 was ¥13,681 and ¥13,575.

The weighted average number of units outstanding of 157,000 and 156,460 was used for the computation of the amount of net income per unit as of April 30, 2007 and October 31, 2006.

## 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 it currently distribute in excess of 90% of its taxable 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 ¥2,148 million and ¥2,124 million for the periods ended April 30, 2007 and October 31, 2006. 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 0.05% for the periods ended April 30, 2007 and October 31, 2006. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Statutory tax rate .....	39.39%	39.39%
Deductible cash distributions .....	(39.38)	(39.37)
Other .....	0.03	0.03
Effective tax rate .....	0.04%	0.05%

## 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

### (a) Transactions with Kenedix Advisors Co., Ltd. ("Kenedix Advisors")

Kenedix Advisors, a wholly-owned subsidiary of Kenedix, provides the Investment Corporation with property management services and related services. For these services, the Investment Corporation pays Kenedix Advisors property management fees and other fees in accordance with the terms of its Property Management Agreements. Transactions with Kenedix Advisors are as follows:

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Property management fees .....	¥ 202,279	¥ 183,464
Management transfer fees .....	21,200	66,200
Construction management fees .....	37,432	24,537

### (b) Transactions with Y.K. KDX2 ("KDX2")

KDX2 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from KDX2 for ¥8,300 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(c) Transactions with Y.K. Lump Sum Investment ("Lump Sum")

Lump Sum is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 4 properties from Lump Sum for ¥7,100 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(d) Transactions with Y.K. KW Property10 ("KW Property10")

KW Property10 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 2 properties from KW Property10 for ¥4,426 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(e) Transactions with Y.K. KW Property5 ("KW Property5")

KW Property5 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 7 properties from KW Property5 for ¥7,310 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

(f) Transactions with Y.K. KDX3 ("KDX3")

KDX3 is a wholly owned subsidiary of Kenedix. On May 1, 2006 the Investment Corporation acquired 1 property from KDX3 for ¥3,680 million. The purchase price of these properties was determined based on an independently appraised value at the time of acquisition.

## 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 November 1, 2006 to April 30, 2007 and from May 1, 2006 to October 31, 2006 consist of the following:

	In thousands of yen	
	From November 1, 2006 to April 30, 2007	From May 1, 2006 to October 31, 2006
Rental and other operating revenues:		
Rental revenues .....	¥ 4,234,864	¥ 3,908,749
Common area charges .....	730,439	640,707
Subtotal .....	4,965,303	4,549,456
Others:		
Parking space rental revenues .....	182,047	175,387
Utility charge reimbursement .....	274,748	314,355
Miscellaneous .....	225,364	92,301
Subtotal .....	682,159	582,043
Total rental and other operating revenues .....	¥ 5,647,462	¥ 5,131,499
Property management fees and facility management fees .....	¥ 571,266	¥ 529,334
Depreciation .....	1,243,900	1,135,559
Utilities .....	275,900	296,833
Taxes .....	206,872	179,543
Insurance .....	14,701	13,979
Repairs and maintenance .....	89,964	62,666
Trust fees .....	46,396	43,761
Others .....	158,390	135,527
Total property-related expenses .....	¥ 2,607,389	¥ 2,397,202

### 13. LEASES

The Investment Corporation, as lessor, has entered into leases whose fixed monthly rents are due in advance with lease term of generally two years for office buildings and residential properties and with lease term ranging from two to ten years for retail properties. The future minimum rental revenues under existing non-cancelable operating leases as of April 30, 2007 and October 31, 2006 are as follows:

In thousands of yen			
	As of April 30, 2007		As of October 31, 2006
Due within one year .....	¥	1,266,446	¥ 1,266,416
Due after one year .....		9,741,832	9,709,697
Total .....	¥	11,008,278	¥ 10,976,113

### 14. DERIVATIVES AND HEDGE ACCOUNTING

The Investment Corporation has entered into interest-rate swap agreements with several Japanese financial institutions to hedge its variable rate long-term debt obligations. The Investment Corporation utilizes interest-rate swap agreements, which are derivative financial instruments, only for the purpose of mitigating future risks of fluctuations of interest rates, but does not enter into such transactions for speculative or trading purposes. The Investment Corporation entered into such derivative transactions to hedge risk in accordance with its Articles of Incorporation and the established risk management policies of the Asset Management Company.

The following summarizes the notional amounts of the interested-related positions outstanding as of April 30, 2007:

(As of April 30, 2007)	
Type	Notional amount
Interest-rate swap: Fixed rate payable and floating rate receivable	¥43,800 million

## 15. PROPERTY INFORMATION

Details of the property portfolio as of April 30, 2007 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	Other Regional Areas
Number of properties	34	5	22	8	2	1
Property information (In millions of yen)						
Acquisition price	¥ 104,504	¥ 11,475	¥ 33,481	¥ 9,571	¥ 12,379	¥ 3,680
Percentage of total acquisition costs	59.7%	6.6%	19.1%	5.5%	7.1%	2.1%
Net book value	106,573	11,457	34,158	10,008	12,918	3,688
Appraisal value at year end	115,507	11,680	34,570	9,898	14,290	3,760
Percentage of total appraisal value	60.9%	6.2%	18.2%	5.2%	7.5%	2.0%
Financial results for the period ended April 30, 2007 (In thousands of yen)						
Rental and other operating revenues	¥ 3,087,334	¥ 549,071	¥ 1,090,495	¥ 379,854	¥ 386,418	¥ 108,000
Rental revenues	2,742,506	459,137	1,013,089	322,332	275,495	108,000
Other revenues	344,828	89,934	77,406	57,522	110,923	-
Property-related expenses	758,438	207,552	175,945	128,684	72,489	8,275
Property management fees	303,838	106,093	86,413	37,266	29,687	4,239
Taxes	112,653	36,499	17,785	15,905	19,546	2,725
Utilities	198,902	38,528	11,851	7,126	19,006	-
Repairs and maintenance	28,636	18,050	14,583	25,470	256	-
Insurance	6,418	3,313	2,770	1,525	465	111
Trust fees and other expenses	107,991	5,069	42,543	41,392	3,529	1,200
NOI (Net Operating Income)	2,328,896	341,519	914,550	251,170	313,929	99,725
Depreciation expenses	603,001	181,014	271,223	97,438	69,650	9,856
Operating income from property leasing activities	1,725,895	160,505	643,327	153,732	244,279	89,869
Capital expenditures	727,217	34,231	14,184	65,632	289,794	-
NCF (Net Cash Flow)	1,601,679	307,288	900,366	185,538	24,135	99,725

A breakdown of property-type as of April 30, 2007 was as follows:

A breakdown of property type as of April 30, 2007 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	¥ 106,288	56.4
		Other Regional Areas	11,456	6.1
	Subtotal		117,744	62.5
	Residential Properties	Tokyo Metropolitan Area	34,158	18.2
		Other Regional Areas	10,008	5.3
	Subtotal		44,166	23.5
	Central Urban Retail Properties	Tokyo Metropolitan Area	12,918	6.8
		Other Regional Areas	3,689	2.0
	Subtotal		16,607	8.8
	Total			178,517
Bank deposits and other assets			9,884	5.2
Total assets			188,401	100.0
Total liabilities			97,523	51.8
Net assets			¥ 90,878	48.2

## 16. SUBSEQUENT EVENTS

### Issuance of New Investment Units

On April 26, 2007 and May 14, 2007, the Board of Directors of the Investment Corporation resolved to issue new investment units as follows. The payments for new investment units through public offering were completed on May 22, 2007. As a result of the issuance of additional investment units, the Investment Corporation had total unitholders' capital of ¥123,203,689,870 with 197,900 investment units outstanding as of May 22, 2007.

#### (1) Issuance of New Investment Units through Public Offering

Total number of newly issued units:	40,900units
Japanese Primary Offering:	26,710 units
International Offering:	14,190units
Offer price per unit:	¥873,180
Total amount of offerings:	¥35,713,062,000
Issue price per unit:	¥842,886
Net proceeds:	¥34,474,037,400
Payment date:	May 22, 2007
Delivery date of investment unit certificates:	May 23, 2007
Starting date of the computation for cash distribution:	May 1, 2007

#### (2) Issuance of New Investment Units through Third-party Allotment

Total number of newly issued units:	up to 2,100 units
Offer price per unit:	¥842,886
Net proceeds:	¥1,770,060,600
Payment date:	June 19, 2007
Delivery date of investment unit certificates:	June 20, 2007
Starting date of the computation for cash distribution:	May 1, 2007