

# FINANCIAL STATEMENTS

## **7th Fiscal Period**

**From May 1, 2008 to October 31, 2008**

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## 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 October 31, 2008 and April 30, 2008, 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 October 31, 2008 and April 30, 2008, 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.



December 8, 2008

**BALANCE SHEET**

AS OF OCTOBER 31, 2008 AND APRIL 30, 2008

		In thousands of yen	
		As of October 31, 2008	As of April 30, 2008
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and bank deposits	¥	13,029,801	¥ 13,192,761
Rental receivables		187,278	159,004
Consumption tax refundable		180,365	—
Other current assets		67,696	45,262
<b>Total current assets</b>		<b>13,465,141</b>	<b>13,397,027</b>
<b>Property and equipment, at cost:</b>			
Land		155,906,794	150,671,196
Buildings and structures		74,546,241	69,663,667
Machinery and equipment		905,705	787,653
Tools, furniture and fixtures		382,011	314,867
Less-accumulated depreciation		(6,230,362)	(4,953,431)
<b>Net property and equipment</b>		<b>225,510,389</b>	<b>216,483,952</b>
<b>Other assets:</b>			
Ground leasehold		285,350	285,350
Organization costs		15,269	20,359
Corporate bond issuance costs		51,306	57,184
Unit issuance costs		88,837	130,306
Other assets		232,306	146,065
<b>■ Total assets</b>	<b>¥</b>	<b>239,648,598</b>	<b>¥ 230,520,243</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Trade and other payables	¥	728,711	¥ 793,006
Short-term debt		24,000,000	31,750,000
Deposits received		6,411	4,504
Rents received in advance		1,238,195	1,172,675
Other current liabilities		177,809	305,962
<b>Total current liabilities</b>		<b>26,151,126</b>	<b>34,026,147</b>
Corporate bonds		12,000,000	12,000,000
Long-term debt		62,750,000	46,000,000
Leasehold and security deposits received		10,643,623	10,176,842
Other liabilities		16,272	3,092
<b>■ Total liabilities</b>	<b>¥</b>	<b>111,561,020</b>	<b>¥ 102,206,081</b>
<b>Unitholders' equity</b>			
Unitholders' capital	¥	124,973,750	¥ 124,973,750
Units authorized:2,000,000units			
Units issued and outstanding:200,000units			
As of October 31, 2008 and April 30, 2008, respectively			
Retained earnings		3,123,699	3,342,285
Unrealized gain from deferred hedge transactions		(9,872)	(1,873)
<b>Total unitholders' equity</b>		<b>128,087,577</b>	<b>128,314,162</b>
<b>■ Total liabilities and unitholders' equity</b>	<b>¥</b>	<b>239,648,598</b>	<b>¥ 230,520,243</b>

See notes to financial statements

# STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE PERIOD FROM NOVEMBER 1, 2007 TO APRIL 30, 2008, AND THE PERIOD FROM MAY 1, 2008 TO OCTOBER 31, 2008

	In thousands of yen			
	From May 1, 2008 to October 31, 2008		From November 1, 2007 to April 30, 2008	
<b>Operating Revenues:</b>				
Rental revenues	¥	8,156,517	¥	7,630,465
Profit on sale of real estate		299,717		952,230
<b>Total operating revenues</b>		<b>8,456,234</b>		<b>8,582,695</b>
<b>Operating Expenses:</b>				
Property-related expenses		3,678,720		3,447,634
Loss on sale of real estate		—		439,333
Asset management fees		442,470		424,142
Administrative service and custodian fees		74,276		75,148
Other operating expenses		116,030		130,783
<b>Total operating expenses</b>		<b>4,311,495</b>		<b>4,517,040</b>
<b>Operating income</b>	<b>¥</b>	<b>4,144,738</b>	<b>¥</b>	<b>4,065,655</b>
<b>Non-Operating Expenses:</b>				
Interest expense	¥	803,790	¥	618,126
Financing related expense		145,680		28,471
Amortization of organization costs		5,090		5,090
Amortization of unit issuance costs		41,469		41,469
Amortization of corporate bond issuance costs		5,878		5,814
Others, net		18,425		22,928
<b>Income before income taxes</b>		<b>3,124,407</b>		<b>3,343,757</b>
<b>Income taxes</b>		<b>793</b>		<b>1,556</b>
<b>Net income</b>		<b>3,123,614</b>		<b>3,342,201</b>
<b>Retained earnings at the beginning of period</b>		<b>85</b>		<b>84</b>
<b>Retained earnings at the end of period</b>	<b>¥</b>	<b>3,123,699</b>	<b>¥</b>	<b>3,342,285</b>

See notes to financial statements

# STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

FOR THE PERIOD FROM NOVEMBER 1, 2007 TO APRIL 30, 2008 AND THE PERIOD FROM MAY 1, 2008 TO OCTOBER 31, 2008

In thousands of yen				
	Unitholders' Equity			
	Unitholders' capital	Retained earnings	Unrealized gain from deferred hedge transactions	Total
■ Balance as of November 1, 2007	¥ 124,973,750	¥ 2,792,084	¥ (3,899)	¥ 127,761,935
Changes during the fiscal period				
New unit issuance	—	—	—	—
Payment of dividends	—	(2,792,000)	—	(2,792,000)
Net income	—	3,342,201	—	3,342,201
Interest-rate swap	—	—	2,026	2,026
Total changes during the fiscal period	—	550,201	(1,873)	548,327
■ Balance as of April 30, 2008	¥ 124,973,750	¥ 3,342,285	¥ (1,873)	¥ 127,314,162
Changes during the fiscal period				
New unit issuance	—	—	—	—
Payment of dividends	—	(3,342,200)	—	(3,342,200)
Net income	—	3,123,614	—	3,123,614
Interest-rate swap	—	—	(7,998)	(7,998)
Total changes during the fiscal period	—	(218,586)	(7,998)	(226,584)
■ Balance as of October 31, 2008	¥ 124,973,750	¥ 3,123,699	¥ (9,872)	¥ 128,087,577

See notes to financial statements

# STATEMENTS OF CASH FLOWS

FOR THE PERIOD FROM NOVEMBER 1, 2007 TO APRIL 30, 2008, AND THE PERIOD FROM MAY 1, 2008 TO OCTOBER 31, 2008

	In thousands of yen	
	From May 1, 2008 to October 31, 2008	From November 1, 2007 to April 30, 2008
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 3,124,407	¥ 3,343,757
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	1,535,995	1,509,898
Interest expense	803,790	618,126
Loss on retirement of fixed assets	7,853	45,289
Changes in assets and liabilities:		
Rental receivables	(28,275)	(17,093)
Consumption tax refundable	(180,365)	47,552
Accrued consumption tax	(179,988)	215,992
Trade and other payables	(66,480)	263,920
Rents received in advance	65,520	31,342
Property and equipment due to sale	5,100,280	30,755,698
Others, net	(151,165)	(66,119)
<b>Subtotal</b>	<b>10,031,573</b>	<b>36,748,362</b>
Cash payments of interest expense	(751,791)	(603,866)
Cash payments of income taxes	(769)	(659)
<b>■ Net cash provided by operating activities</b>	<b>¥ 9,279,013</b>	<b>¥ 36,143,837</b>
<b>Cash Flow from Investing Activities:</b>		
Purchases of property and equipment	¥ (15,579,837)	¥ (48,150,727)
Proceeds from leasehold and security deposits received	1,147,506	2,132,300
Payments of leasehold and security deposits received	(680,726)	(705,167)
Payments of restricted bank deposits	(574,468)	(1,130,321)
Proceeds from restricted bank deposits	1,299,219	71,434
Others, net	11,100	(10,915)
<b>■ Net cash used in investing activities</b>	<b>¥ (14,377,206)</b>	<b>¥ (47,793,396)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from short-term debt	¥ 5,500,000	¥ 1,500,000
Payment of short-term debt	(6,250,000)	(2,250,000)
Proceeds from long-term debt	22,750,000	15,000,000
Payment of long-term debt	(13,000,000)	—
Payment of dividends	(3,340,016)	(2,789,908)
Net cash provided by financing activities	5,659,984	11,460,092
Net change in cash and cash equivalents	561,791	(189,467)
Cash and cash equivalents at the beginning of period	11,141,858	11,331,325
<b>■ Cash and cash equivalents at the end of period</b>	<b>¥ 11,703,649</b>	<b>¥ 11,141,858</b>

See notes to financial statements

# NOTES TO FINANCIAL STATEMENTS

FOR THE PERIOD FROM NOVEMBER 1, 2007 TO APRIL 30, 2008, AND THE PERIOD FROM MAY 1, 2008 TO OCTOBER 31, 2008

## 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 registered asset management company, Kenedix REIT Management, Inc. (“the 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, the 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.

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

On February 1, 2008, the Investment Corporation sold 23 residential properties (initial total acquisition price of ¥30,343 million) to a wholly owned subsidiary of Kenedix, Inc. and acquired 9 office buildings (total acquisition price of ¥31,980 million) from a wholly owned subsidiary of Kenedix, Inc. In addition, the Investment Corporation acquired 5 office buildings (total acquisition price of ¥14,121 million), during the period ended April 30, 2008.

During the period ended October 31, 2008, the Investment Corporation acquired 3 properties by utilizing internal cash and bank borrowing, and sold 2 properties.

At October 31, 2008, the Investment Corporation had total unitholders' capital of ¥124,974 million with 200,000 investment units outstanding. The Investment Corporation owned a portfolio of 69 properties with total acquisition price of ¥222,053 million containing total leasable area of 256,214m<sup>2</sup>. The occupancy ratio was approximately 95.6%. A portfolio of 69 properties consists of 60 office buildings, 7 residential properties and 2 central urban retail properties. 58 properties are located in the Tokyo metropolitan area and 11 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 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 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) 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 May 1, 2008 to October 31, 2008	From November 1, 2007 to April 30, 2008
<b>Buildings and structures</b> .....	2-49 years	2-46 years
<b>Machinery and equipment</b> .....	3-17 years	3-17 years
<b>Tools, furniture and fixtures</b> .....	3-20 years	3-20 years

### (C) 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.

### (D) UNIT ISSUANCE COSTS

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

### (E) CORPORATE BOND ISSUANCE COSTS

Investment corporation bonds issuance costs are amortized over a loan period 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 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.



## **(G) 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.

## **(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. 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 ¥11 million and ¥174 million as of October 31, 2008 and April 30, 2008. 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.

## **(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) 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. But, the Investment Corporation adopted special treatment for interest-swap agreements if 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.

## **(K) 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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of October 31, 2008 and April 30, 2008:

	In thousands of yen	
	As of October 31, 2008	As of April 30, 2008
Cash and bank deposits	¥ 13,029,801	¥ 13,192,761
Restricted bank deposits held in trust	(1,326,152)	(2,050,903)
Cash and cash equivalents	¥ 11,703,649	¥ 11,141,858

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

### 4. SCHEDULE OF PROPERTY

	In millions of yen					
	As of October 31, 2008			As of April 30, 2008		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land	¥155,907	-	¥ 155,907	¥150,671	-	¥ 150,671
Buildings and structures	74,546	¥5,890	68,656	69,664	¥ 4,678	64,986
Machinery and equipment	906	241	665	788	198	589
Tools, furniture and fixtures	382	100	282	315	77	237
<b>■ Total</b>	<b>¥ 231,740</b>	<b>¥ 6,230</b>	<b>¥ 225,510</b>	<b>¥ 221,437</b>	<b>¥ 4,953</b>	<b>¥ 216,484</b>

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

The following summarizes short-term and long-term debt outstanding as of October 31, 2008:

					(As of October 31, 2008)
Classification	Drawdown date	Repayment date	Weighted-average interest rate	Balance (In millions of yen)	
Unsecured short-term debt	January 10, 2008	January 10, 2009	1.15%	¥ 1,000	
	February 29, 2008	February 28, 2009	1.20%	500	
	May 1, 2008	November 1, 2008	1.20%	1,000	
	October 31, 2008	October 30, 2009	1.24%	1,500	
	October 31, 2008	October 31, 2009	1.52%	1,000	
Unsecured current portion of long-term debt	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	
	October 31, 2007	October 31, 2009	1.34%	2,000	
	April 25, 2008	October 25, 2009	1.56%	1,000	
	April 25, 2008	October 25, 2009	1.46%	3,000	
<b>Subtotal</b>				<b>¥ 24,000</b>	

Classification	Drawdown date	Repayment date	Weighted-average interest rate	Balance (In millions of yen)
Unsecured long-term debt	August 1, 2005	July 31, 2010	1.29%	¥ 9,500
	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	1.65%	1,500
	January 10, 2008	January 10, 2012	1.50%	2,500
	February 29, 2008	February 28, 2011	1.37%	2,000
	February 29, 2008	August 31, 2011	1.43%	1,500
	March 31, 2008	September 30, 2011	1.61%	3,000
	March 31, 2008	September 30, 2011	1.56%	2,000
	May 1, 2008	November 1, 2011	1.91%	1,000
	June 30, 2008	February 28, 2011	1.99%	1,000
	June 30, 2008	June 30, 2012	2.15%	1,500
	June 30, 2008	December 28, 2012	2.26%	3,000
	July 15, 2008	March 31, 2011	1.87%	2,000
	July 31, 2008	January 31, 2010	1.68%	2,500
	July 31, 2008	January 31, 2011	1.87%	3,500
	July 31, 2008	July 31, 2011	1.99%	3,500
	September 1, 2008	September 1, 2011	1.78%	1,000
	September 22, 2008	March 22, 2011	1.71%	1,250
	September 30, 2008	March 31, 2011	1.82%	2,000
	October 31, 2008	October 31, 2010	1.57%	500
Subtotal				¥ 62,750
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				¥ 98,750

## 6. UNSECURED LINE OF CREDIT

The Investment Corporation established a credit commitment line with two lenders. The total borrowings available under the commitment line agreements are ¥5 billion. Currently, the Investment Corporation has a balance of ¥5 billion based on the concerted agreements. The unused borrowings under the commitment line agreement are ¥0.

## 7. PER UNIT INFORMATION

The net asset value per unit as of October 31, 2008 and April 30, 2008 was ¥640,437 and ¥641,571. Net income per unit as of October 31, 2008 and April 30, 2008 was ¥15,618 and ¥16,711.

The weighted average number of units outstanding of 200,000 and 200,000 was used for the computation of the amount of net income per unit as of October 31, 2008 and April 30, 2008.

## 8. 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 ¥3,124 million and ¥3,342 million for the periods ended October 31, 2008 and April 30, 2008. Such distributions were treated as deductible distributions for purposes of corporate income taxes. The effective tax rate on the Investment Corporation's income was 0.03% and 0.05% for the periods ended October 31, 2008 and April 30, 2008. The following summarizes the significant difference between the statutory tax rate and the effective tax rate:

	From May 1, 2008 to October 31, 2008	From November 1, 2007 to April 30, 2008
<b>Statutory tax rate</b> .....	39.39%	39.39%
<b>Deductible cash distributions</b> .....	(39.38)	(39.37)
<b>Other</b> .....	0.02	0.03
<b>Effective tax rate</b> .....	0.03%	0.05%

## 9. 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.

## 10. RELATED-PARTY TRANSACTIONS

### (A) TRANSACTIONS WITH Y.K. KW PROPERTY 11

Y.K. KW Property 11 is a wholly owned subsidiary of Kenedix. On June 30, 2008, the Investment Corporation acquired 1 property from Y.K. KW Property 11 for ¥10,250 million. The purchase price of this property was determined based on an independently appraised value at the time of acquisition.

## 11. 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, 2008 to October 31, 2008 and from November 1, 2007 to April 30, 2008 consist of the following:

	In thousands of yen	
	From May 1, 2008 to October 31, 2008	From November 1, 2007 to April 30, 2008
<b>Rental and other operating revenues:</b>		
Rental revenues	¥ 5,847,510	¥ 5,626,515
Common area charges	1,263,583	1,144,196
Subtotal	7,111,093	6,770,711
<b>Others:</b>		
Parking space rental revenues	250,006	240,631
Utility charge reimbursement	668,719	458,128
Miscellaneous	126,700	160,995
Subtotal	1,045,424	859,754
<b>■ Total rental and other operating revenues</b>	<b>¥ 8,156,517</b>	<b>¥ 7,630,465</b>
<b>Property management fees and facility management fees</b>	<b>¥ 792,077</b>	<b>¥ 750,333</b>
Depreciation	1,445,267	1,430,126
Utilities	611,722	450,237
Taxes	406,439	395,277
Insurance	17,035	16,806
Repairs and maintenance	188,401	149,231
Trust fees	46,904	57,312
Others	163,023	149,083
Loss on retirement of fixed assets	7,853	49,229
<b>■ Total property-related expenses</b>	<b>¥ 3,678,720</b>	<b>¥ 3,447,634</b>
<b>Profit on sale of real estate:</b>		
Revenue from sale of investment properties	¥ 5,578,810	¥18,788,000
Cost of investment properties	5,100,280	17,705,426
Other sales expenses	178,813	130,344
<b>■ Profit on sale of real estate</b>	<b>¥ 299,717</b>	<b>¥ 952,230</b>
<b>Loss on sale of real estate:</b>		
Revenue from sale of investment properties	—	¥12,702,000
Cost of investment properties	—	13,050,272
Other sales expenses	—	91,061
<b>■ Loss on sale of real estate</b>		<b>¥ 439,333</b>

## 12. 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 October 31, 2008 and April 30, 2008 are as follows:

	In thousands of yen	
	As of October 31, 2008	As of April 30, 2008
<b>Due within one year</b>	¥ 1,493,056	¥ 1,689,845
<b>Due after one year</b>	8,487,580	9,711,097
<b>■ Total</b>	<b>¥ 9,980,637</b>	<b>¥ 11,400,942</b>

## 13. 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 principal amounts and the estimated unrealized loss from interest rate swap contracts as of October 31, 2008:

The estimated unrealized loss does not include the interest rate swap contracts that met the criteria for the special treatment.

Type	Notional amount	(As of October 31, 2008)
		Unrealized loss
<b>Interest-rate swap: Fixed rate payable and floating rate receivable</b>	¥41,800 million	¥(16 million)

## 14. PROPERTY INFORMATION

Details of the property portfolio as of October 31, 2008 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	50	10	6	1	2

### Property information (In millions of yen)

Acquisition price	¥165,950	¥31,015	¥10,909	¥1,800	¥12,380
Percentage of total acquisition costs	74.73%	13.97%	4.91%	0.81%	5.58%
Net book value	169,136	31,237	10,845	1,898	12,680
Appraisal value at year end	180,675	30,431	10,430	1,660	14,210
Percentage of total appraisal value	76.10%	12.82%	4.39%	0.70%	5.99%

### Financial results for the period ended October 31, 2008 (In thousands of yen)

Rental and other operating revenues	¥ 5,983,457	¥ 1,289,908	¥ 349,584	¥ 88,302	¥ 369,747
Rental revenues	5,233,886	1,076,943	317,166	78,889	333,570
Other revenues	749,571	212,965	32,417	9,412	36,177
Property-related expenses	1,627,615	409,102	67,493	37,729	76,756
Property management fees	542,021	179,377	30,744	8,797	24,475
Taxes	301,875	56,902	16,029	8,576	19,563
Utilities	461,387	117,167	4,034	2,067	23,871
Repairs and maintenance	136,033	28,921	6,046	10,972	5,458
Insurance	10,186	4,952	891	512	357
Trust fees and other expenses	176,112	21,783	9,749	6,805	3,032
NOI (Net Operating Income)	4,355,842	880,806	282,091	50,572	292,991
Depreciation expenses	965,635	277,005	94,391	22,973	71,258
Operating income from property leasing activities	3,390,207	603,801	187,700	27,599	221,733
Capital expenditures	788,901	312,298	—	—	4,470
NCF (Net Cash Flow)	3,566,942	568,508	282,091	50,572	288,521

A breakdown of property-type as of October 31, 2008 was as follows:

Property type	Area	Balance at the end of period (In millions of yen)	Percentage of total assets
<b>Office Buildings</b>	Tokyo Metropolitan Area	¥169,136	70.6%
	Other Regional Areas	31,237	13.0%
<b>Subtotal</b>		200,373	83.6%
<b>Residential Properties</b>	Tokyo Metropolitan Area	10,845	4.5%
	Other Regional Areas	1,898	0.8%
<b>Subtotal</b>		12,743	5.3%
<b>Central Urban Retail Properties</b>	Tokyo Metropolitan Area	12,680	5.3%
	Other Regional Areas	—	—
<b>Subtotal</b>		12,680	5.3%
<b>■ Total</b>		<b>225,796</b>	<b>94.2%</b>
<b>Bank deposits and other assets</b>		13,852	5.8%
<b>Total assets</b>		239,649	100.0%
<b>Total liabilities</b>		111,561	46.6%
<b>Net assets</b>		¥128,088	53.5%