Notes to the Consolidated Financial Statements

Notes to Significant Matters Providing the Basis for the Preparation of Consolidated Financial Statements

1. Matters concerning the scope of consolidation
   (1) Number of consolidated subsidiaries: 33
   Names of principal consolidated subsidiaries
   Kenedix Real Estate Fund Management, Inc.
   Kenedix Investment Partners, Inc.
   Kenedix Property Management, Inc
   Kenedix Engineering, Inc.
   Space Design, Inc.
   Kenedix Westwood, LLC
   Kenedix Asia Pte. Ltd.
   26 other subsidiaries

   (2) Names of principal non-consolidated subsidiaries
   The Intermark Sdn.Bhd.
   Bit Realty, Inc. and 4 other subsidiaries
   In accordance with Article 63, Paragraph 1, Item 2 of the Ordinance on Company Accounting, The Intermark Sdn.Bhd., a non-consolidated subsidiary, was excluded from the scope of consolidation, as the inclusion of the subsidiary within the scope of consolidation may significantly affect the decisions of interested parties.

   In addition, 5 non-consolidated subsidiaries including Bit Realty, Inc. were excluded from the scope of consolidation, as they are small-scale businesses with none of their combined total assets, revenue, profit or loss (amounts equivalent to the Company's interests in these subsidiaries) or retained earnings (amounts equivalent to the Company's interests in these subsidiaries) having material impact on the Consolidated Financial Statements.

   (3) Changes in the scope of consolidation
   KRF86 Silent Partnership and 6 other companies have been included in the scope of consolidation as they were newly established. Meanwhile, KRF73 Silent Partnership and 8 other companies have been excluded from the scope of consolidation due to the termination of their silent partnership contracts, etc.

   (4) Matters concerning accounting periods of consolidated subsidiaries
   Of the consolidated subsidiaries, 11 subsidiaries employed different accounting closing dates from that of the Consolidated Financial Statements but their closing dates do not deviate from the consolidated closing date by more than three months. For these subsidiaries, the Consolidated Financial Statements applied their financial statements as of the respective closing dates.
   Additionally, for 10 consolidated subsidiaries, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date within three months of the consolidated closing date.
   For any of them, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

2. Matters concerning application of the equity method
   (1) Non-consolidated subsidiaries accounted for under the equity method
   There are no non-consolidated subsidiaries accounted for under the equity method.

   (2) Affiliates accounted for under the equity method
   Number of affiliates accounted for under the equity method: 21
   Names of principal affiliates accounted for under the equity method
   MUL Realty Advisers Co., Ltd.
   KW Multi-Family Management Group, LLC
   Premier REIT Advisors Co., Ltd.
   AIRA Property Public Company Limited
   CRE, Inc.
   SQUEEZE Inc.
   KDA CAPITAL SQUARE LIMITED PARTNERSHIP
   14 other affiliates

(3) Principal non-consolidated subsidiaries and affiliates not accounted for under the equity method

The Intermark Sdn. Bhd.

Bit Realty, Inc. and 5 other subsidiaries

In accordance with Article 69, Paragraph 1, Item 2 of the Ordinance on Company Accounting, The Intermark Sdn. Bhd., a non-consolidated subsidiary not accounted for under the equity method was excluded from the scope of application of the equity method, as the inclusion of the subsidiary within the scope of application may significantly affect the decisions of interested parties.

In addition, 6 non-consolidated subsidiaries not accounted for under the equity method including Bit Realty, Inc. were excluded from the scope of application of the equity method because the impact of each of their profit or loss (amounts equivalent to the Company's interests in these subsidiaries) and retained earnings (amounts equivalent to the Company's interests in these subsidiaries), etc. were little and these subsidiaries, as a whole, were insignificant.

(4) Matters concerning changes in the scope of application of the equity method

KRF76 Silent Partnership is accounted for under the equity method as it was newly established. Meanwhile, KPI Limited Partnership and 4 other companies have been excluded from the scope of application of the equity method, following the transfer of a portion of equity interests in them.

(5) Accounting for affiliates accounted for under the equity method employing different accounting closing dates

In respect of the financial statements of 13 affiliates accounted for under the equity method, the Consolidated Financial Statements applied their provisional financial statements closed on either the consolidated closing date or a specific date.

In this case, appropriate adjustments were made for significant transactions that arose between the relevant closing dates and the consolidated closing date.

3. Matters concerning accounting policies

(1) Evaluation standards and methods for principal assets

1) Marketable securities

Other securities

Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "(10) Accounting method for investments in silent partnerships."
2) Derivatives	Market value method
3) Inventories	Real estate for sale (including real-estate trust beneficiary rights) Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability). Real estate for sale in process (including real-estate trust beneficiary rights) Primarily stated at cost on an individual specified cost basis (the balance sheet value is computed by the method of devaluing book price to reflect declines in profitability).

(2) Depreciation and amortization method for principal depreciable assets

1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings and structures: 2-48 years Others (furniture and fixtures): 2-20 years
2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.

3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
4) Long-term prepaid expenses	Straight-line method

(3) Accounting method for significant deferred assets

Bond issuance cost

This cost is fully charged to income when it is paid.

(4) Recognition of significant allowances

1) Allowance for doubtful accounts

To provide for potential loss on loans, the Group records an allowance for the expected amount of irrecoverable loans. Allowances for ordinary receivables are computed based on the historical rate of default. Allowances for purchased receivables and highly doubtful accounts including receivables where the collection is at risk, consist of the individually estimated uncollectible amounts.

2) Provision for management board incentive plan trust

To provide for the delivery of the Company's stocks to Directors in accordance with the Policy on Directors' Stock Compensation, the Company records the amount of projected benefit obligations at the end of the consolidated fiscal year.

3) Provision for stock payment

To provide for the delivery of the Company's stocks to employees in accordance with the Stock Distribution Rules, the Company records the amount of projected benefit obligations at the end of the consolidated fiscal year.

(5) Accounting method for employees' retirement benefits

The simplified valuation method is applied to the calculation of net defined benefit liability and employees' retirement benefit expenses, with the total amount required for benefits for voluntary retirement at the end of the consolidated fiscal year reported as retirement benefit obligations.

(6) Accounting standards for the translation of principal foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency-denominated monetary claims and obligations are translated into Japanese yen, using the spot exchange rates on the consolidated closing date, and the resulting translation gains and losses are recognized as income and expenses.

Assets and liabilities of overseas subsidiaries are translated into Japanese yen using the spot exchange rates on the consolidated closing date, while revenue and expenses are translated into Japanese yen using the average exchanges rates during the period. The resulting translation gains and losses are recorded as foreign currency translation adjustments and non-controlling interests under the net assets section.

(7) Accounting method for significant hedge transactions

1) Hedge accounting method

The Group adopts the deferred hedge accounting.

However, exceptional accounting treatment is applied to an interest-rate swap that meets the requirement of such treatment.

2) Hedging instrument and hedged item

Hedging instrument……Interest-rate swap

Hedging item……Borrowing

3) Hedge policy

Based on the internal rules that stipulate the authority concerning derivative transactions and other regulations, the Group mitigates the risk of interest rate fluctuations associated with the hedged item to a defined level.

4) Method for evaluating hedging effectiveness

Hedging effectiveness is basically measured by comparing the accumulated changes in cash flow of the hedged item with those of the hedging instrument. However, the evaluation is omitted for those to which the exceptional accounting treatment is applicable.

(8) Accounting method for consumption tax

Transactions subject to consumption tax are mainly recorded at the amount exclusive of consumption tax. However, consumer tax and other taxes imposed on non tax-deductible assets are recorded as an expense for the fiscal year when they were incurred.

(9) The application of the consolidated tax payment system

The Company and certain consolidated subsidiaries have adopted the consolidated tax payment system.

(10) Accounting method for investments in silent partnerships

For the investment in a silent partnership, the Group recognizes the equivalent amount of its interest in the assets of the relevant partnership as "investment securities." The Group records "investment securities" when it makes an investment in a silent partnership. The Group records the equivalent amount of interests in a net gain or loss made by the relevant partnership (including silent partnerships which are affiliates of the Company) as "revenue"

or “cost of revenue,” while the same amount is either added to or deducted from “investment securities.” Redemption of the investment from an operator is recorded by deducting the redeemed amount from “investment securities.”

(11) Accounting method for deposits of investments in silent partnerships

The Company’s consolidated subsidiaries are operators of silent partnerships and commissioned to provide services related to the business. As assets of silent partnerships are attributed to operators, all the assets, as well as gains or losses made by the silent partnerships, are incorporated in the Consolidated Financial Statements and stated on a gross amount basis.

Equity interests in silent partnerships which are consolidated subsidiaries of the Company, held by partners of the silent partnerships other than the Group companies are recognized as “non-controlling interests” and profit distributed to such partners other than the Group companies is recorded as “profit attributable to non-controlling interests.”

(12) Accounting method for trust beneficiary rights in real-estate trusts

For trust beneficiary rights in its real-estate trusts, all assets and liabilities with respect to the asset in trust, as well as income generated or expenses incurred with respect to the asset in trust, are recorded in relevant items on the Consolidated Balance Sheet and Consolidated Statement of Income.

(13) Accounting method for purchased receivables

In collection of purchased receivables, the Group subtracts the amount of collection from the acquisition cost of each relevant purchased receivable and records the amount of collection in excess of the acquisition cost as revenue on a net amount basis.

(14) Accounting method and period for amortization of goodwill

Goodwill is amortized using the straight-line method over the estimated effective period of their useful lives (generally 10 years).

Goodwill with insignificant value is amortized in a lump sum for the fiscal year it was recognized.

4. Changes in disclosure method

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

Starting from the beginning of the consolidated fiscal year under review, the Company has applied “Ministerial Order Partially Amending the Regulation for Enforcement of the Companies Act and the Regulation on Corporate Accounting” (Ministry of Justice Order No. 5, March 26, 2018) in line with “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018). As a result, deferred tax assets are presented under investment and other assets, deferred tax liabilities under long-term liabilities.

(Consolidated Statement of Income)

In the previous fiscal year, “consumption taxes differential (after being offset by suspense payments and receipt)” (0 million yen for the previous consolidated fiscal year) was included in “other” under non-operating income, “compensation income” (188 million yen for the previous consolidated fiscal year) in “other” under extraordinary income, and “loss on valuation of investments in capital” (5 million yen for the previous consolidated fiscal year) in “other” under extraordinary loss. As these items have increased in significance, they have been reported as separate items.

Notes to Consolidated Balance Sheet

	(Millions of yen)
1. Accumulated depreciation of property and equipment	2,354

2. Assets pledged as collateral and collateralized liabilities

(1) Assets pledged as collateral

	(Millions of yen)
Buildings and structures	1,090
Land	292
Other under property and equipment	2
Leasehold right	200

(2) Collateralized liabilities

	(Millions of yen)
Long-term borrowings — due within one year	44
Long-term borrowings	491

3. Assets pledged as collateral for non-recourse debts

(1) Assets pledged as collateral

	(Millions of yen)
Deposits held in trust	1,240
Real estate for sale	12,090
Real estate for sale in process	5,120
Buildings and structures	13,435
Land	20,003
Other under property and equipment	178
Leasehold right	3,366
Other under investment and other assets	1,137

(2) Collateralized liabilities

	(Millions of yen)
Long-term non-recourse borrowings – due within one year	12,073
Non-recourse bonds – due within one year	7
Non-recourse bonds payable	1,492
Long-term non-recourse borrowings	30,210

The above liabilities represent the loans advanced to the Group's 9 consolidated subsidiaries which own the assets pledged as collateral listed in the above (1). The repayment of these loans is limited to the amounts of their assets.

Notes to Consolidated Statement of Changes in Net Assets

1. Matters concerning the class and total number of shares issued and treasury stocks

(Shares)

Class of shares	As of Jan. 1, 2019	Increase	Decrease	As of Dec. 31, 2019
Shares issued Common stock	225,222,800	44,200	4,685,800	220,581,200
Treasury stocks Common stock(Note)	1,818,700	4,685,800	4,840,500	1,664,000

(Note)

The number of treasury stocks at the end of the fiscal year under review includes 1,281,100 shares held in the BBT and 382,900 shares held in the J-ESOP.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 26, 2019	Common stock	1,576	7.00	Dec. 31, 2018	Mar. 27, 2019
Board of Directors' Meeting held on August 9, 2019	Common stock	1,660	7.50	Jun. 30, 2019	Sep. 2, 2019

(Notes)

1. The total amount of dividends resolved at the Ordinary General Meeting of Shareholders held on March 26, 2019 includes 9 million yen for treasury stock of 1,356,100 shares held in the BBT, and 3 million yen for treasury stock of 462,600 shares held in the J-ESOP as of the record date of Dec. 31, 2018.
2. The total amount of dividends resolved at the Board of Directors' meeting held on August 9, 2019 includes 9 million yen for treasury stock of 1,281,100 shares held in the BBT, and 3 million yen for treasury stock of 458,600 shares held in the J-ESOP as of the record date of Jun. 30, 2019.

(2) Dividends with a record date during the current fiscal year, but with an effective date in the following fiscal year

The above matter is scheduled to be resolved as follows.

Resolution	Class of shares	Resource of Dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 25, 2020	Common stock	Retained earnings	1,874	8.50	Dec. 31, 2019	Mar. 26, 2020

(Note)

The total amount of dividends to be resolved at the Ordinary General Meeting of Shareholders held on March 25, 2020 includes 10 million yen for treasury stock of 1,281,100 shares held in the BBT, and 3 million yen for treasury stock of 382,900 shares held in the J-ESOP as of the record date of Dec. 31, 2019.

Notes to Financial Instruments

1. Matters concerning the financial instruments

(1) The Group's policy for financial instruments

The Group raises its necessary funds mainly through bank loans, while temporary idle funds are invested in low-risk financial assets. It conducts derivative contracts with the objective of avoiding risks as described below and does not engage in either speculative transactions or unusual trading of financial instruments whose market values widely fluctuate.

(2) Details of financial instruments and associated risks

Accounts receivable — trade, which are operating claims, are exposed to the clients' credit risk.

Investment securities consist in large part of investment units of real-estate investment trust and are exposed to the risk of market price fluctuations. Operating loans are loans advanced to trading partners, etc. and are exposed to the credit risk of the borrowers.

Payment terms of accounts payable — trade and accrued income taxes, which are operating liabilities, are within 1 year. Borrowings are intended to finance the Group's capital requirements particularly for investments and working capital. Repayment due dates for these liabilities are not longer than 17 years from the settlement dates.

(3) Risk management system for financial instruments

1) Management of credit risk (the risk that trading partners may default)

With regard to accounts receivable — trade, a department in charge regularly monitors principal trading partners' financial conditions and manages payment dates and outstanding balances of each trading partner's liabilities so that it can identify and mitigate the potential default of the trading partners at the earliest possible time, arising from the deterioration of their financial conditions or other factors. Further, with regard to operating loans, the Group regularly assesses major borrowers' financial conditions, their purposes of loans, etc. both prior and subsequent to the accommodation of loans.

2) Management of market risk (the risk arising from fluctuations in foreign exchange rates, interest rates, etc.)

The Group uses interest-rate swap agreements to mitigate the risk of fluctuations in interest payments on its borrowings. With regard to investment securities, it regularly comprehends the movement in market values, market conditions, issuers' financial conditions and other factors. The Group enters into derivative contracts with high credit rated domestic financial institutions only and therefore does not assume the risk of counterparty default on these contracts. Further, the execution and management of derivative transactions of the Group are conducted in accordance with the Group's internal rules and require approval by a Director responsible for derivative transactions.

3) Management of liquidity risk associated with financing activities (the risk that the Group may fail to meet its obligations on due dates)

The Group manages the liquidity risk through the deployment of funding plans, which are formulated and updated on a timely basis by a department in charge based on reports submitted by each business unit, as well as by maintaining sufficient liquidity on hand at all times.

(4) Supplementary explanations on matters concerning market value of financial instruments

The market value of financial instruments is stated at either their prices as quoted in respective markets or, if no market quotations are available, reasonably estimated values. These estimated values incorporate variable factors, and therefore they may vary according to differently employed preconditions, etc.

2. Matters concerning the market value of financial instruments

The book value on the consolidated balance sheet and market value of financial instruments as of December 31, 2019 as well as the differences between these values are described below. Financial instruments whose market values appear to be extremely difficult to determine are not included in the table. (See (Note 2))

(Millions of yen)

		Book value on the consolidated balance sheet	Market value	Difference
Assets	(1) Cash and deposits	57,183	57,183	—
	(2) Deposits held in trust	1,481	1,481	—
	(3) Accounts receivable — trade	2,050		
	Allowance for doubtful accounts	(2)		
		2,048	2,048	—
	(4) Operating loans	2,121	2,121	—
	(5) Investment securities	14,358	15,643	1,284
Liabilities	(1) Accounts payable — trade	460	460	—
	(2) Accrued income taxes	1,903	1,903	—
	(3) Long-term borrowings (including long-term borrowings — due within one year)	18,787	18,868	80
	(4) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)	42,283	42,283	—
	(5) Non-recourse bonds payable (including non-recourse bonds — due within one year)	1,500	1,500	—
Derivative transaction		—	—	—

(Note 1) Matters concerning the calculation method for the market value of financial instruments, and marketable securities

Assets

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

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

(3) Accounts receivable — trade

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

(4) Operating loans

The market values of these assets are calculated by discounting the compound amount (i.e. the principal and interest income), using an assumed rate applied to a similar type of new loan. For specific receivables to which the Group provides allowance for doubtful accounts on an individual basis, the market value is measured by deducting an estimated irrecoverable amount (the amount of allowance) from the relevant receivable.

(5) Investment securities

Stocks, etc. are recorded using stock exchange quoted prices.

Liabilities

(1) Accounts payable — trade and (2) Accrued income taxes

These are recorded using book values as their market values approximate their book values because of their short-term maturities.

(3) Long-term borrowings (including long-term borrowings — due within one year) and (4) Long-term non-recourse borrowings (including long-term non-recourse borrowings — due within one year)

Those with variable interest rates are recorded using book values as their market values are deemed to approximate their book values because their variable interest rates reflect the market prices and the Group's credit standing has not changed significantly since it implemented these borrowings. For those with fixed interest rates, the market value is estimated by discounting the compound amount (i.e. the principal and interest income), using an assumed rate applied to a similar type of newly made borrowings.

(5) Non-recourse bonds payable (including non-recourse bonds — due within one year)

Those with variable interest rates are recorded using book values as their market values are deemed to approximate their book values because their variable interest rates reflect the market prices and the Group's credit standing has not changed significantly since it issued these bonds. For those with fixed interest rates, the market value is estimated by discounting the compound amount (i.e. the principal and interest income), using an assumed rate applied to a similar type of newly issued bonds.

(Note 2) Financial instruments whose market values appear to be extremely difficult to determine

(Millions of yen)

Item	Book value on the consolidated balance sheet
Unlisted shares, etc.*1	26,132
Investments in capital*2	332
Long-term security deposits*3	1,853

*1 The market values of unlisted shares, etc. are not included in "(5) Investment securities," as they are not quoted on a stock exchange and it appears to be extremely difficult to determine their market values.

*2 The market value of investments in capital is not disclosed, as they are not quoted on a stock exchange and it appears to be extremely difficult to determine their market values.

*3 The market value of long-term security deposits deposited by the lessees of leasehold properties is not disclosed, as it appears to be extremely difficult to determine reasonable estimates of future cash flows because there are no market prices available and it is difficult to calculate the effective periods of deposits between the lessees' move-in and move-out.

Notes to Real Estate for Rent, etc.

1. Matters concerning the status of real estate for rent, etc.

Some of the Group's consolidated subsidiaries own office buildings for rent in Tokyo and other areas.

2. Matters concerning the market value of real estate for rent, etc.

(Millions of yen)

Book value on the consolidated balance sheet	Market value as of Dec. 31, 2019
31,839	39,855

Notes: 1. The book value on the consolidated balance sheet was gained by deducting the accumulated depreciation and the accumulated impairment loss from the acquisition cost.

2. The market value as of Dec. 31, 2019 was based mainly on the appraised value of the real estate for rent made by an outside real-estate appraiser (including those adjusted using relevant indexes).

Notes to Per Share Information

1. Net assets per share 447.73 yen
2. Net income per share 48.32 yen

Notes to Significant Subsequent Events

Not applicable.

(Note) Fractions of figures stated in Notes to the Consolidated Financial Statements are rounded down.

Notes to the Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Evaluation standards and methods for assets

(1) Evaluation standards and methods for marketable securities

Stocks of subsidiaries and affiliates	Stated at cost by the moving-average method
Other securities	
Securities with market quotations	Stated at market value at the accounting closing date (Unrealized gains or losses are comprehensively reported as a component of net assets and the cost of securities sold is computed using the moving-average method.)
Securities without market quotations	Stated at cost by the moving-average method However, investments in silent partnership are stated on an individual specified cost basis. The details are described in "7. Accounting method for investments in silent partnerships."
(2) Evaluation standards and methods for derivatives	Market value method

2. Depreciation methods for fixed assets

(1) Property and equipment (excluding lease assets)	Straight-line method Useful lives of principal property and equipment are as follows. Buildings: 7-18 years Tools, furniture and fixtures: 2-20 years
(2) Intangible assets (excluding lease assets)	The costs for software intended for internal use are amortized over an expected useful life of 5 years by the straight-line method.
(3) Lease assets	Lease assets are depreciated by the straight-line method over the lease period without residual value.
(4) Long-term prepaid expenses	Straight-line method

3. Recognition of allowances

(1) Allowance for doubtful accounts

To provide for potential loss on loans, the Company records an allowance for the expected amount of irrecoverable loans. Allowances for ordinary receivables are computed based on the historical rate of default. Allowances for operating loans and highly doubtful accounts including receivables where the collection is at risk, consist of the individually estimated uncollectible amounts.

(2) Allowance for employees' retirement benefits

To provide for the payment of employees' retirement benefits, the Company records an allowance for estimated retirement benefits, based on the projected retirement benefit obligations as of the end of the fiscal year under review.

(3) Provision for management board incentive plan trust

To provide for the delivery of the Company's stocks to Directors in accordance with the Policy on Directors' Stock Compensation, the Company records the amount of projected benefit obligations at the end of the fiscal year under review.

(4) Provision for stock payment

To provide for the delivery of the Company's stocks to employees in accordance with the Stock Distribution Rules, the Company records the amount of projected benefit obligations at the end of the fiscal year under review.

4. Accounting standards for the translation of foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency-denominated monetary claims and obligations are translated into Japanese yen, using the spot exchange rates on the accounting closing date, and the resulting translation gains and losses are recognized as income and expenses.

5. Accounting method for consumption tax

Transactions subject to consumption tax are recorded at the amount exclusive of consumption tax. However, consumer tax and other taxes imposed on non tax-deductible assets are recorded as an expense for the fiscal year when they were incurred.

6. The application of the consolidated tax payment system

The consolidated tax payment system is applied.

7. Accounting method for investments in silent partnerships

For the investment in a silent partnership, the Company recognizes the equivalent amount of its interest in the assets of the relevant partnership as "money invested in real estate for sale" under current assets, "investment securities" and "other securities of subsidiaries and affiliates" under investment and other assets. The Company records such asset items when it makes an investment in a silent partnership. The Company records the equivalent amount of its

interest in a net gain or loss made by the relevant partnership as “revenue” or “cost of revenue,” while the same amount is either added to or deducted from such asset items. Redemption of the investment from an operator is recorded by deducting the redeemed amount from such asset items.

8. Changes in disclosure method

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

Starting from the beginning of the fiscal year under review, the Company has applied “Ministerial Order Partially Amending the Regulation for Enforcement of the Companies Act and the Regulation on Corporate Accounting” (Ministry of Justice Order No. 5, March 26, 2018) in line with “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018). As a result, deferred tax assets are presented under investment and other assets, deferred tax liabilities under long-term liabilities.

(Non-consolidated Statement of Income)

In the previous fiscal year, “gain on sales of investment securities” (31 million yen for the previous fiscal year) was included in “other” under extraordinary income. As this item has increased in significance, it has been reported as a separate item.

In the previous fiscal year, “loss on liquidation of investment in capital” (38 million yen for the previous fiscal year) under extraordinary loss was reported as a separate item. As this item has decreased in significance, it has been included in “other” under extraordinary loss.

Notes to Non-consolidated Balance Sheet

1. Monetary claims and liabilities to subsidiaries and affiliates (excluding those reported separately)

	(Millions of yen)
Short-term monetary claims	5,358
Short-term monetary liabilities	6

2. Accumulated depreciation of property and equipment (Millions of yen) 120

3. Guarantees

The Company provides guarantees for the borrowings from financial institutions by the following companies.

	(Millions of yen)
Kenedix Asia Pte. Ltd.	1,621
KDA Capital Malaysia Sdn. Bhd.	912

Notes to Non-consolidated Statement of Income

Transactions with subsidiaries and affiliates	(Millions of yen)
Operating transactions	
Revenue	8,992
Cost of revenue	211
Transactions other than operating transactions	3,373

Notes to Non-consolidated Statement of Changes in Net Assets

Class and number of treasury stocks as of the end of fiscal year under review

Common stock of 1,664,000 shares

Notes to Tax Effect Accounting

Breakdown of major factors that caused deferred tax assets and liabilities

(1) Deferred tax assets	(Millions of yen)
Loss on valuation of investment securities	98
Loss on valuation of stocks of subsidiaries and affiliates	270
Dividend income from investment in silent partnerships	808
Difference from the book value of stocks of subsidiaries and affiliates	1,178
Accrued business taxes	97
Accrued rent expenses	53
Other	478
Subtotal	2,984
Valuation allowance	(2,376)
Total deferred tax assets	608
(2) Deferred tax liabilities	(Millions of yen)
Net unrealized holding gains/losses on other securities	940
Property and equipment corresponding to asset retirement obligations	37
Total deferred tax liabilities	977
Net deferred tax liabilities	369

Notes to Transactions between Related Parties

Attribute	Name	Ratio of voting rights holding	Type of relationship	Summary of transactions	Amount of transaction during the fiscal year under review (Millions of yen)	Accounting item	Balance as of Dec. 31, 2019 (Millions of yen)
Subsidiary	HKDX Silent Partnership	—	Silent partnership investment	Investment	3,650	Other securities of subsidiaries and affiliates	4,722
Subsidiary	Space Design Inc.	99%	Financial assistance	Loans	349	Long-term loans to subsidiaries and affiliates	1,220
				Collection of loans	29		
				Interest receipt	27	Other current assets	64
Affiliate	KRF48 Silent Partnership	—	Silent partnership investment	—	—	Other securities of subsidiaries and affiliates	2,118
			Financial assistance	Loans	1,200	Operating loans	1,200
				Interest receipt	24	Other current assets	0
Subsidiary	KSLF5 Silent Partnership	—	Silent partnership investment	Profit distribution	2,365	—	—
Subsidiary	Kenedix Asia Pte. Ltd.	100%	Financial assistance	Loans	1,070	Long-term loans to subsidiaries and affiliates	2,370
				Collection of loans	60		
				Interest receipt	44	Other current assets	7
			Loan guarantee	Guarantees for bank loans (Note)	1,621	—	—
Subsidiary	KRF69 Silent Partnership	—	Silent partnership investment	—	—	Investment in real estate for sale	1,826
Subsidiary	Motosumiyoshi Co., Ltd.	99%	Financial assistance	Collection of loans	1,405	Long-term loans to subsidiaries and affiliates	230
				Interest receipt	23	Other current assets	3
Subsidiary	KRF73 Silent Partnership	—	Silent partnership investment	Profit distribution	1,890	—	—
Subsidiary	RRB Silent Partnership	—	Silent partnership investment	Profit distribution	179	Other securities of subsidiaries and affiliates	1,838
			Financial assistance	Collection of loans	975	Operating loans	1,745
				Interest receipt	108	Other current assets	0
Subsidiary	Portion Co., Ltd.	99%	Financial assistance	—	—	Long-term loans to subsidiaries and affiliates	1,476
				Interest receipt	38	Other current assets	48
Subsidiary	KRF74 Silent Partnership	—	Silent partnership investment	Investment	1,160	Investment in real estate for sale	227
				Profit distribution	949		
Affiliate	KRF76 Silent Partnership	—	Silent partnership investment	Investment	2,370	Other securities of subsidiaries and affiliates	2,425
Subsidiary	KRF77 Silent Partnership	—	Silent partnership investment	Investment	2,855	Investment in real estate for sale	1
				Profit distribution	5,794		
Subsidiary	KRF80 Silent Partnership	—	Silent partnership investment	Investment	780	—	—
				Profit distribution	2,830		
Subsidiary	KRF81 Silent Partnership	—	Silent partnership investment	Investment	2,537	—	—
				Profit distribution	2,537		
Subsidiary	KRF86 Silent Partnership	—	Silent partnership investment	Investment	5,189	Investment in real estate for sale	20
				Profit distribution	5,162		

* Terms and conditions of transactions are determined on similar terms and conditions applied to general transactions, in consideration of the market prices and other factors.

(Note) The amount represents the balance of loan guarantees at the end of the fiscal year. The Company does not receive any guarantee fee.

Notes to Per Share Information

1. Net assets per share	420.74 yen
2. Net income per share	33.76 yen

Notes to Significant Subsequent Events

Not applicable.

(Note) Fractions of figures stated in Notes to the Non-consolidated Financial Statements are rounded down.