# Invincible Investment Corporation

# **Audited Financial Statements** for the 29th Fiscal Period

(from July 1, 2017 to December 31, 2017)

## INDEX TO FINANCIAL STATEMENTS

<u>Page</u>
Greetings1
Independent Auditor's Report
Balance Sheet as of December 31, 20174
Statement of Income and Retained Earnings for the six months ended December 31, 20176
Statement of Changes in Net Assets for the six months ended December 31, 20177
Statement of Cash Flows for the six months ended December 31, 20179
Notes to Financial Statements as of and for the six months ended December 31, 2017

# Greetings from Naoki Fukuda, Executive Director of Invincible Investment Corporation and President & CEO of Consonant Investment Management Co., Ltd.

I would like to take this opportunity to express my sincere gratitude to all unitholders of Invincible Investment Corporation ("INV") for your continued support.

We hereby provide you with a report on INV's asset management and financial results for the 29th fiscal period (covering the period from July 1, 2017 to December 31, 2017; the "Reporting Period").

INV positions hotels and residential properties as its core assets and conducts management activities to maximize growth potential and stability of the portfolio.

During the Reporting Period, INV conducted a global public offering of new investment units to acquire four hotels located in Tokyo, Osaka, Sapporo and Oita and the additional floors of an existing hotel, along with a preferred equity interest in a special purpose company (the "TMK") in October 2017 with funds raised in the global offering. The TMK holds Sheraton Grande Tokyo Bay Hotel (the "Sheraton"), a full service and Tokyo Disney Resort official hotel with 1,016 rooms. The Sheraton was acquired through a joint venture investment with an affiliate of Government of Singapore Investment Corporation ("GIC"). The acquisition of a flagship hotel such as the Sheraton as well as hotels that are well situated to capture an increase in demand from foreign visitors is expected to contribute to the growth, improvement in stability of income, and overall quality of the portfolio.

INV commenced an Asset Recycling Program in July 2017 to sell assets that INV believes generate low yield, using those proceeds in an accretive manner to acquire assets that INV believes generate higher yield, aiming to improve the overall NOI yield of the portfolio. INV disposed six residential properties, five office buildings and one parking lot between July 2017 and March 2018, and used the proceeds to acquire four hotels in February 2018. The four newly acquired hotels are highly competitive in terms of location and specifications and are expected to deliver higher yields than the disposed assets. Through these measures, INV intends to further strengthen the portfolio, while providing an increase in property operating revenues and distribution per unit.

INV has signed a Memorandum of Understanding (the "MOU") with affiliates of Fortress Group with respect to preferential negotiating rights regarding the acquisition of hotels and residential properties, which will continue to provide INV with considerable opportunities for external growth. As of March 9, 2018, there are 17 hotels with 3,995 rooms and nine residential properties with 743 units that are covered by the MOU. Going forward, INV aims to improve revenue and distribution per unit through further property acquisitions utilizing the remaining proceeds from past property dispositions as well as proceeds from property dispositions currently under consideration.

As a continued focus on proactive asset management, INV changed the master lessee and property manager for four residential properties to reduce property management fees, and improved the economics of two properties by changing the lease agreement structure. In addition, INV changed the operator of one hotel to MyStays Hotel Management Co., Ltd. with the goal of improving hotel revenue through enhanced web marketing and sales to inbound tourists.

As a result of the operations mentioned above, operating revenues reached JPY12,647 million, operating income of JPY 8,223 million and net income of JPY 7,303 million, with a distribution per unit of JPY 1,564, an increase of 5.9% year-on-year(1). Annual distribution per unit for 2017, which combines distributions for the 28th and 29th fiscal periods, came to JPY 2,828, an increase of 6.2% over the previous year.

INV will continue to implement its basic policy to "increase distribution per unit," and will ensure the implementation of measures to maximize unitholder value.

Your continued support is highly appreciated.

Naoki Fukuda Executive Director, Invincible Investment Corporation President & CEO, Consonant Investment Management Co., Ltd.

(1) Comparison with the fiscal period ended December 2016. In order to eliminate seasonal factors of hotel variable rents, which is one of the major revenues of INV, in the comparison, the comparison is made with the same period in the previous year and not with the previous fiscal period (ended June 2017).

# Distribution per unit for the 29th fiscal period (the fiscal period ended December 2017)

JPY 1,564

(Note) The forward-looking statements, forecasts and goals described in this report are based on available information, assumptions and estimates as of December 31, 2017. These assumptions and estimates are unavoidably uncertain, and could be affected by various risks and factors beyond INV's control. Thus, no guarantee can be made regarding the realization of such future forecasts and targets, and actual results may vary significantly.



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## Independent Auditor's Report

The Board of Directors
Invincible Investment Corporation

We have audited the accompanying financial statements of Invincible Investment Corporation, which comprise the balance sheet as at December 31, 2017, and the statements of income and retained earnings, changes in net assets, and cash flows for the six months then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Invincible Investment Corporation as at December 31, 2017, and its financial performance and cash flows for the six months then ended in conformity with accounting principles generally accepted in Japan.

## Convenience Translation

We have reviewed the translation of these financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying financial statements have been properly translated on the basis described in Note 3.

Ernst & Young Shinnihon LLC

March 26, 2018 Tokyo, Japan

## INVINCIBLE INVESTMENT CORPORATION

## BALANCE SHEET As of December 31, 2017

		As of	
	June 30,	December 31,	December 31,
	2017	2017	2017
	(in thousan	ds of ven)	(in thousands of
<u> </u>	(III tilotistiii		U.S. dollars)
ASSETS			
Current assets:			
Cash and bank deposits (Notes 5 and 16)¥	3,532,405	¥ 14,367,140	\$ 127,142
Cash and bank deposits in trust (Notes 5 and 16)	6,065,755	6,326,653	55,988
Accounts receivable	8,204	8	0
Rental receivables	1,420,192	1,984,728	17,563
Prepaid expenses	445,116	489,098	4,328
Consumption taxes receivable	20,823	613,566	5,429
Other	0	0	0
Allowance for doubtful accounts	(33)	(89)	0
Total current assets	11,492,465	23,781,107	210,452
Non-current assets:			
Property and equipment (Notes 6 and 7):			
Buildings, at cost	85,914	-	-
Buildings and accompanying facilities, at cost	38,862	-	-
Structures, at cost	2,779	-	-
Tools, furniture and fixtures, at cost	2,395	3,192	28
Land	711,834	-	-
Buildings in trust, at cost	118,192,822	128,867,905	1,140,423
Buildings and accompanying	26,991,646	28,454,395	251,808
facilities in trust, at cost	20,771,010	20,101,000	201,000
Structures in trust, at cost	345,467	262,372	2,321
Tools, furniture and fixtures in trust, at cost	898,892	1,065,760	9,431
Land in trust	142,046,411	167,845,958	1,485,362
Subtotal	289,317,026	326,499,585	2,889,376
Less: Accumulated depreciation	(13,726,024)	(15,618,522)	(138,217)
Total property and equipment, net	275,591,001	310,881,062	2,751,159
Intangible assets:			
Leasehold rights in trust	16,946,974	16,828,843	148,927
Total intangible assets	16,946,974	16,828,843	148,927
Investments and other assets:			
Investment securities(Note 17)	-	17,854,460	158,004
Guarantee deposits	1,651,565	1,651,565	14,615
Long-term prepaid expenses	601,737	587,753	5,201
Derivatives assets (Note 18)	92,243	113,592	1,005
Other	45,062	59,869	529
Total investments and other assets	2,390,608	20,267,241	179,356
Total non-current assets	294,928,585	347,977,146	3,079,443
TOTAL ASSETS ——————————————————————————————————	306,421,050	¥ 371,758,254	\$ 3,289,896

		of		
	June 30, 2017		mber 31, 2017	December 31, 2017
	(in thousa	nds of yen)		(in thousands of U.S. dollars)
LIABILITIES				
Current liabilities:				
Accounts payable¥	170,911	¥	254,936	\$ 2,256
Short-term loans payable	-		3,068,000	27,150
Current portion of long-term loans payable	-		28,979,000	256,451
Accounts payable-other	175,062		51,836	458
Accrued expenses	164,764		270,486	2,393
Income taxes payable	605		605	5
Advances received	540,675		600,752	5,316
Deposits received	15,932		29,190	258
Total current liabilities	1,067,951		33,254,807	294,290
Non-current liabilities:				
Long-term loans payable (Notes 8 and 16)	163,990,000		154,936,000	1,371,115
Tenant leasehold and security deposits in trust	2 240 272		2.215.200	10 (04
(Note 16)	2,240,373		2,215,299	19,604
Tenant leasehold and security deposits (Note 16)	28,663		-	-
Asset retirement obligations (Note 19)	31,468		31,680	280
Total non-current liabilities	166,290,505		157,182,980	1,390,999
TOTAL LIABILITIES	167,358,457		190,437,787	1,685,290
NET ASSETS (Note 9)	,			
Unitholders' equity:				
Unitholders' capital	128,984,946		168,798,455	1,493,791
Surplus:			,	· ·
Capital surplus	6,264,432		6,264,432	55,437
Allowance for temporary differences	, ,			,
adjustment(Note 4)	-		(46,329)	(409)
Other deduction of capital surplus	(987,516)		(1,022,263)	(9,046)
Total deduction of capital surplus	(987,516)		(1,068,593)	(9,456)
Capital surplus (net)	5,276,915		5,195,838	45,980
Voluntary reserve	-, -, -		-,,	
Retained earnings	4,708,487		7,212,580	63,828
Total surplus	9,985,403		12,408,419	109,809
Total unitholders' equity	138,970,350		181,206,874	1,603,600
Valuation and translation adjustments:	230/27 0/000		101,200,071	1,000,000
Deferred gains or losses on hedges	92,243		113,592	1,005
Total valuation and translation adjustments	92,243		113,592	1,005
TOTAL NET ASSETS	139,062,593		181,320,466	1,604,605
TOTAL LIABILITIES AND NET ASSETS¥		¥		
TOTAL LIADILITIES AIND NET ASSETS	306,421,050	¥	371,758,254	\$ 3,289,896

The accompanying notes are an integral part of these financial statements.

## INVINCIBLE INVESTMENT CORPORATION

## STATEMENT OF INCOME AND RETAINED EARNINGS

For the six months ended December 31, 2017

For the six months ended June 30, December 31, December 31, 2017 2017 2017 (in thousands of U.S. (in thousands of yen) dollars) Operating revenue Rental revenue—real estate (Note 11) -----¥ 9.260.917 11,403,236 \$ 100,913 Gain on sales of properties (Note 12)-----1,244,033 11,009 Total operating revenue ..... 9,260,917 12,647,270 111,922 Operating expenses Property related expenses (Note 11) ..... 3,518,684 3,962,183 35,063 Impairment loss (Note 13) 138 15,677 Asset management fees ..... 250,000 250,000 2,212 Directors' compensation 4,800 4,800 42 Asset custody fees ..... 13,594 15,230 134 Administrative service fees ..... 29,983 37,347 330 Provision of allowance for doubtful accounts ..... 0 33 89 Other -----99,360 138,288 1,223 Total operating expenses -----3,916,456 4,423,618 39,147 Operating income 5,344,461 8,223,652 72,775 Non-operating income 70 54 0 Interest income ... Interest on tax refund -----150 234 2 Other ----1,077 507 4 Total non-operating income ..... 1,297 796 7 Non-operating expenses Interest expenses ..... 377,451 445,855 3,945 Loan-related costs ..... 223,228 304,073 2,690 Investment unit issuance costs ..... 42,401 170,817 1,511 Total non-operating expenses ..... 643,080 920,746 8,148 Ordinary income ..... 4,702,678 7,303,702 64,634 Income before income taxes ..... 4,702,678 7,303,072 64,634 Income taxes (Note 14): Current -----605 605 Total income taxes ..... 605 605 5 Net income 4,702,073 7,303,097 64,629 Retained earnings / losses brought forward 6,414 (90,516)(801)Unappropriated retained earnings / losses (Note 10) -----¥ 4,708,487 \$ 7,212,580 63,828

The accompanying notes are an integral part of these financial statements.

## INVINCIBLE INVESTMENT CORPORATION

## STATEMENT OF CHANGES IN NET ASSETS

For the six months ended December 31, 2017

Unitholders' e	quity
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								Surplus				
		_					C	Capital surplus				
	ι	Initholders'			Deduction of capital surplus							
		capital	Capital surplus		Allowance for temporary differences adjustment		Other deduction of capital surplus		Deduction of capital surplus		Capita	l surplus (net)
						(in tho	usands of ye	en)				
Balance as of January 1, 2017	¥	120,367,271	¥	6,264,432	¥	(224,225)	¥	(763,290)	¥	(987,516)	¥	5,276,915
Changes during the period												
Issuance of new investment units		8,393,450										
Reversal of allowance for temporary differences		224,225				224.225		(224,225)				
adjustment		224,223				224,223		(224,223)		-		_
Distributions from surplus												
Net income												
Changes other than unitholders' equity(net)												
Total changes during the period		8,617,675		-		224,225		(224,225)		-		-
Balance as of June 30, 2017	¥	128,984,946	¥	6,264,432	¥	-	¥	(987,516)	¥	(987,516)	¥	5,276,915
Changes during the period												
Issuance of new investment units		39,813,508										
Distributions from surplus												
Distributions in excess of retained earnings from						(46,329)				(46,329)		(46,329)
allowance for temporary differences adjustment						(40,027)				(40,020)		(40,027)
Other distributions in excess of retained earnings								(34,747)		(34,747)		(34,747)
Net income												
Changes other than unitholders' equity(net)												
Total changes during the period		39,813,508		-		(46,329)		(34,747)		(81,077)		(81,077)
Balance as of December 31, 2017	¥	168,798,455	¥	6,264,432	¥	(46,329)	¥	(1,022,263)	¥	(1,068,593)	¥	5,195,838

	Unitholders' equity					Va	luation and trans	slation adju	stments				
_	Ratai	Surplus  Retained earnings		Total surplus		Total unitholders' equity		Deferred gains or losses on hedges		Total valuation and translation adjustments		Total net assets	
	Retai	necreanings		marsurpius		<i>c</i> a	1 ( )		auj	usurierus			
						(in thousan	,						
Balance as of January 1, 2017	¥	5,659,831	¥	10,936,747	¥	131,304,019	¥	151,259	¥	151,259	¥	131,455,278	
Changes during the period													
Issuance of new investment units						8,393,450						8,393,450	
Reversal of allowance for temporary differences adjustment		(224,225)		(224,225)		-						-	
Distributions from surplus		(5,429,192)		(5,429,192)		(5,429,192)						(5,429,192)	
Net income		4,702,073		4,702,073		4,702,073						4,702,073	
Changes other than unitholders' equity(net)								(59,016)		(59,016)		(59,016)	
Total changes during the period		(951,344)		(951,344)		7,666,331		(59,016)		(59,016)		7,607,315	
Balance as of June 30, 2017	¥	4,708,487	¥	9,985,403	¥	138,970,350	¥	92,243	¥	92,243	¥	139,062,593	
Changes during the period													
Issuance of new investment units						39,813,508						39,813,508	
Distributions from surplus		(4,799,004)		(4,799,004)		(4,799,004)						(4,799,004)	
Distributions in excess of retained earnings from				(46,329)		(46,329)						(46,329)	
allowance for temporary differences adjustment				(40,323)		(40,323)						(40,329)	
Other distributions in excess of retained earnings				(34,747)		(34,747)						(34,747)	
Net income		7,303,097		7,303,097		7,303,097						7,303,097	
Changes other than unitholders' equity(net)								21,348		21,348		21,348	
Total changes during the period		2,504,093		2,423,015		42,236,524		21,348		21,348		42,257,873	
Balance as of December 31, 2017	¥	7,212,580	¥	12,408,419	¥	181,206,874	¥	113,592	¥	113,592	¥	181,320,466	

## Unitholders' equity

		Surplus	
Unitholders' capital		Capital surplus	
	Capital surplus	Deduction of capital surplus	Capital surplus (net)

_			diffe	porary rrences stment	capita	capital surplus		capital surplus		
				(in thousands	of U.S dollars)	)				
Balance as of June 30, 2017	\$ 1,141,459	\$ 55,437	\$	-	\$	(8,739)	\$	(8,739)	\$	46,698
Changes during the period		<u> </u>								
Issuance of new investment units	352,331									
Distributions from surplus										
Distributions in excess of retained earnings from				(400)				(400)		(400)
allowance for temporary differences adjustment				(409)				(409)		(409)
Other distributions in excess of retained earnings						(307)		(307)		(307)
Net income										
Changes other than unitholders' equity(net)										
Total changes during the period	352,331	-		(409)		(307)		(717)		(717)
Balance as of December 31, 2017	\$ 1,493,791	\$ 55,437	\$	(409)	\$	(9,046)	\$	(9,456)	\$	45,980

_	Unitholders' equity							Valuation and translation adjustments					
		Surplus			Total	Total unitholders'		Deferred gains or		valuation	Total net assets		
_	Retain	ed earnings	Tota	al surplus	equity		losses o	losses on hedges		and translation adjustments			
						(in thousands o	f U.S dollars)						
Balance as of June 30, 2017	\$	41,668	\$	88,366	\$	1,229,826	\$	816	\$	816	\$	1,230,642	
Changes during the period	·												
Issuance of new investment units						352,331						352,331	
Distributions from surplus		(42,469)		(42,469)		(42,469)						(42,469)	
Distributions in excess of retained earnings from allowance for temporary differences adjustment				(409)		(409)						(409)	
Other distributions in excess of retained earnings				(307)		(307)						(307)	
Net income		64,629		64,629		64,629						64,629	
Changes other than unitholders' equity(net)								188		188		188	
Total changes during the period		22,160		21,442		373,774		188		188		373,963	
Balance as of December 31, 2017	\$	63,828	\$	109,809	\$	1,603,600	\$	1,005	\$	1,005	\$	1,604,605	

The accompanying notes are an integral part of these financial statements.

## INVINCIBLE INVESTMENT CORPORATION

## STATEMENT OF CASH FLOWS

For the six months ended December 31, 2017

			six months ende	d		
		June 30, 2017	Γ	December 31, 2017		December 31, 2017
		(in thousa	nds of y	ven)		(in thousands of U.S. dollars)
Cash flows from operating activities:						
Income before income taxes		4,702,678	¥	7,303,702	\$	64,634
Depreciation and amortization	····	2,281,374		2,567,215		22,718
Impairment		-		15,677		138
Investment unit issuance costs		42,401		170,817		1,511
Loan-related costs		223,228		304,073		2,690
Interest income		(70)		(54)		0
Interest expenses	····	377,451		445,855		3,945
Changes in assets and liabilities						
Increase (decrease) in allowance for doubtful accounts	····	(1,301)		55		0
Decrease (increase) in rental receivables		(21,759)		(564,535)		(4,995)
Decrease (increase) in consumption taxes receivable		(20,823)		(640,464)		(5,667)
Increase (decrease) in accounts payable		81,748		(7,867)		(69)
		,		, ,		422
Increase (decrease) in consumption taxes payable		(460,521)		47,721		
Increase (decrease) in accounts payable-other		25,473		(67,922)		(601)
Increase (decrease) in accrued expenses		444		98,065		867
Increase (decrease) in advances received		18,602		60,077		531
Increase (decrease) in deposits received		(21,461)		(7,567)		(66)
Decrease in property and equipment, due to sale		-		802,750		7,103
Decrease in property and equipment, due to sale in trust		-		3,590,653		31,775
Other, net		(17,577)		(1,274)	_	(11)
Subtotal		7,209,888		14,116,980	_	124,929
Interest income received		70		54		0
Interest expenses paid	••••	(379,198)		(439,861)		(3,892)
Income taxes paid		(605)		(605)	_	(5)
Net cash provided by operating activities		6,830,155		13,676,568		121,031
Cash flows from investing activities:						
Purchases of property and equipment		(2,395)		(797)		(7)
Purchases of property and equipment in trust		(26,684,589)		(42,111,738)		(372,670)
Purchases of leasehold rights in trust		(8,187,950)		-		-
Purchases of investment securities		-		(17,854,460)		(158,004)
Repayments of tenant leasehold and security deposits	····	-		(28,663)		(253)
Repayments of tenant leasehold and security deposits in trust		(79,334)		(139,629)		(1,235)
Proceeds from tenant leasehold and security deposits in trust		290,004		115,173		1,019
Payments of tenant leasehold and security deposits		(1,037,651)		-		-
Other, net	··· <u> </u>	(2,211)		(14,807)		(131)
Net cash used in investing activities	····	(35,704,126)		(60,034,922)		(531,282)
Cash flows from financing activities:	-					
Proceeds from short-term loans payable	····	-		3,068,000		27,150
Proceeds from long-term loans payable	····	21,571,000		19,925,000		176,327
Payments for loan-related costs		(257,922)		(325,727)		(2,882)
Payments of distributions of earnings		(5,406,728)		(4,776,561)		(42,270)
Payments of distributions in excess of retained earnings from allowance						
for temporary differences adjustment	····	-		(46,329)		(409)
Payments of other distributions in excess of retained earnings		-		(34,747)		(307)
Proceeds from issuance of investment units		8,351,048		39,644,352		350,834
Net cash provided by (used in) financing activities		24,257,397		57,453,986		508,442
Net increase (decrease) in cash and cash equivalents		(4,616,573)		11,095,633	_	98,191
Cash and cash equivalents at beginning of period		14,214,734		9,598,161		84,939
Cash and cash equivalents at beginning of period (Note 5)			¥	20,693,794	<u>¢</u>	
Cash and Cash equivalents at end of period (Note 5)	±	9,598,161	Ť	40,093,794	\$	183,130

The accompanying notes are an integral part of these financial statements.

## INVINCIBLE INVESTMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

As of and for the six months ended December 31, 2017

## 1. Organization

Invincible Investment Corporation (the "Company"), a real estate investment corporation, was incorporated on January 18, 2002, under the Act on Investment Trusts and Investment Corporations of Japan (the "Investment Trust Act") with initial capital of ¥200 million.

The Company is externally managed by a registered asset management company, Consonant Investment Management Co., Ltd. (the "Asset Manager"). The Asset Manager is currently owned 100% by Calliope Godo Kaisha (Calliope). The Company was formed to invest primarily in properties in Japan.

On May 17, 2004, the Company raised ¥3,377,250 thousand through an initial public offering of 9,000 investment units. As a "comprehensive investment REIT focusing on the Tokyo metropolitan area and on residential properties," the Company was listed on the Osaka Securities Exchange in May 2004.

On February 7, 2005, the Company completed its second public offering of 10,650 investment units at a price of \(\frac{\pmax}{3}69,734\) per unit in connection with a public offering in Japan.

On July 31, 2006, the Company completed its third public offering of 25,000 investment units at a price of \(\frac{\pmathbf{Y}}{332}\),045 per unit in connection with a public offering in Japan. The Company was listed on the J-REIT market of the Tokyo Stock Exchange in August 2006 (in order to focus trading on one securities exchange and reduce administrative tasks and costs accompanying a duplicate listing, the Company delisted from the Osaka Securities Exchange on October 6, 2007).

Effective on February 1, 2010, the Company executed a five-to-one unit split and 215,596 investment units were issued in connection with the unit split. Effective on the same day, the Company also merged with LCP Investment Corporation (LCP) and allocated 367,200 investment units at a ratio of 4 units (post-unit split) of the Company per one investment unit of LCP. As a result, investment units issued and outstanding were 636,695 units as of February 1, 2010.

On July 29, 2011, the Company completed a third party allotment of 711,597 investment units at a price of ¥9,837 per unit.

On December 20, 2013, the Company completed a third party allotment of 224,887 investment units at a price of ¥13,340 per unit.

On July 16, 2014, the Company completed its fourth public offering totaling 1,040,000 new investment units at a price of \(\frac{\text{2}}{2}\),873 per unit. 527,322 of such units were issued in connection with a Domestic Public Offering, and the remaining 512,678 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. On August 13, 2014, the Company issued 55,507 investment units domestically in connection with the exercise of an over-allotment option. Net proceeds of approximately \(\frac{\text{2}}{2}\).9 billion were used to repay the Company's outstanding short term borrowings and in connection with the acquisition of 18 properties during this fiscal period.

On July 15, 2015, the Company completed its fifth public offering totaling 500,000 new investment units at a price of ¥57,817 per unit. 211,250 of such units were issued in connection with a Domestic Public Offering, and the remaining 288,750 units were issued in connection with an International Offering pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933. On August 12, 2015, the Company issued 25,000 investment units domestically in connection with the exercise of an over-allotment option. Net proceeds of approximately ¥29.3 billion were used to repay the Company's outstanding long term borrowings and in connection with the acquisition of 14 properties during this fiscal period.

On March 30, 2016, the Company completed its sixth public offering totaling 459,512 new investment units at a price ¥81,217 per unit. 194,144 of such units were issued in connection with a Domestic Public Offering, and the remaining 265,368 units were issued in connection with an International Offering pursuant Rule 144A and Regulation S under the U.S. Securities Act of 1933. On April 27, 2016, the Company issued 22,626 investment units domestically in connection with the exercise of an over-allotment option. Net proceeds of approximately ¥37.9 billion were used to repay the Company's outstanding long term borrowing and in connection with the acquisition of 6 properties during this fiscal period.

On March 13, 2017, the Company completed its seventh public offering totaling 185,000 new investment units at a price ¥46,897 per unit in connection with Japanese Primary Offering.

On October 12, 2017, the Company completed its eighth public offering totaling 887,959 new investment units at a price ¥44,118 per unit. 515,017 of such units were issued in connection with a Domestic Public Offering, and the remaining 372,942 units were issued in connection with an International Offering pursuant Rule 144A and Regulation S under the U.S. Securities Act of 1933. On November 1, 2017, the Company issued 44,398 investment units domestically in connection with the exercise of an over-allotment option. Net proceeds of approximately ¥39.8 billion were used to repay the Company's outstanding long term borrowing and in connection with the acquisition of 4 properties and 1 preferred security during this fiscal period.

## 2. Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The Company maintains its accounts and records in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), including provisions set forth in the Investment Trust Act, the Companies Act of Japan, the Financial Instruments and Exchange Act of Japan, and other related regulations, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The financial statements are prepared based on the Japanese audited financial statements of the Company, which were prepared in accordance with Japanese GAAP and filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act of Japan. In preparing the accompanying financial statements, certain information in the notes has been added and certain reclassifications have been made from the financial statements issued domestically for the convenience of the readers outside Japan. The financial statements are not intended to present the financial position and the results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company's fiscal period is a six-month period, which ends at the end of June and December of each year.

Amounts less than ¥1 thousand and US\$ 1 thousand have been rounded down. As a result, the totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

The Company does not prepare consolidated financial statements as it has no subsidiaries.

#### (b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments which are highly liquid and readily convertible to cash, have a low risk of price fluctuation, and mature within three months from the date of acquisition.

#### (c) Valuation standard and method for securities

Other securities without fair market value are recorded at cost being determined by the moving average method.

## (d) Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment, except for land, is calculated on a straight-line basis over the estimated useful lives of the assets as stated below:

	For the six months ended
	December 31, 2017
Buildings	77 years
Buildings and accompanying facilities	8-24
Structures	18
Tools, furniture and fixtures	4-8
Buildings in trust	5-67
Buildings and accompanying facilities in trust	2-33
Structures in trust	3-55
Tools, furniture and fixtures in trust	2-19

## (e) Intangible Assets

Intangible assets are amortized on a straight-line basis. Amortization of a term leasehold interest for business use is calculated by the straight-line method over the lease term.

## (f) Long-term Prepaid Expenses

Long-term prepaid expenses are amortized on a straight-line basis.

#### (g) Investment Unit Issuance Costs

Investment unit issuance costs are recorded as expenses when incurred.

#### (h) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on a valuation of any receivables from companies and individuals with financial difficulties.

## (i) Impairment of Fixed Assets

An assessment for impairment is carried out on an asset or group of assets, such as fixed assets, intangible assets and investments, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the asset or group of assets is deemed to be impaired, an impairment loss is recognized for the difference between the carrying amount and the recoverable value of the asset or group of assets using the discounted cash flow model.

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

For trust beneficiary interests in real estate trusts, which are commonly utilized to obtain ownership in investment properties in Japan and through which the Company holds all of its real estate, all assets and liabilities with respect to assets in trust, as well as all income generated and expenses incurred with respect to assets in trust, are recorded in the relevant accounts of the balance sheet and statement of income and retained earnings of the Company in proportion to the percentage that such trust beneficiary interest represents. Certain material accounts with respect to assets and liabilities in trust are presented separately from other accounts in the balance sheets of the Company.

#### (k) Income Taxes

Deferred tax assets and liabilities are computed based on the temporary differences between the financial statement and income tax basis of assets and liabilities using the applicable statutory tax rate.

#### (l) Consumption Taxes

Consumption taxes withheld and consumption taxes paid are not included in the statement of income and retained earnings.

Consumption taxes paid are generally offset against the balance of consumption taxes withheld. As such, the excess of payments over amounts withheld are included in current assets and the excess of amounts withheld over payments are included in current liabilities as the case may be.

## (m) Taxes on Property and Equipment

Property and equipment are subject to various taxes, such as property taxes and urban planning taxes on an annual basis. An owner of a property is registered in the record maintained by the local government in each jurisdiction, and such taxes are imposed on the owner registered in the record as of January 1 of each year based on the assessment made by the local government.

Under the above tax rules, a seller of a 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 tax liabilities and the amount of settlement reflects this adjustment. For the purchaser, a portion of such taxes calculated from the acquisition date to the end of the calendar year is capitalized as a cost of the property in accordance with Japanese GAAP. In subsequent calendar years, half of such taxes on property and equipment for each calendar year are charged as operating expenses in each fiscal period.

Tax on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥24,256 (US\$214) thousand for the six months ended December 31, 2017.

## 3. U.S. Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥113.00 = US\$1, the effective rate of exchange prevailing at December 31, 2017. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended December 31, 2017 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

## 4. Allowance for temporary differences adjustment

For the six months ended June 30, 2017

On the Balance Sheet, there are the increase and decrease of allowance for temporary differences adjustment.

## 1. Reason, related assets and amounts

(in thousands of yen)

Related assets, etc.	Reason for occurrence	Initial amount	Beginning balance	Allowance set aside during period	Reversal during period	Ending balance	Reason for reversal
Deferred gains or losses on hedges	-	¥ (224,225)	¥ (224,225)	,	¥224,225	-	Changes in the fair value of derivatives
Total		¥ (224,225)	¥ (224,225)	-	¥224,225	-	

## 2. Method of reversal

## (1) Deferred gains or losses on hedges

Based on changes in the fair value of derivatives used as hedging instruments, the corresponding amount is scheduled to be reversed.

For the six months ended December 31, 2017

On the Balance Sheet, there are the increase and decrease of allowance for temporary differences adjustment.

## 1. Reason, related assets and amounts

(in thousands of yen)

Related assets, etc.	Reason for occurrence	Initial amount	Beginning balance	Allowance set aside during period	Reversal during period	Ending balance	Reason for reversal
Leasehold rights in trust	Amortization of leasehold rights in trust	¥ (46,329)	1	¥ (46,329)	1	¥ (46,329)	-
Total		¥ (46,329)	-	¥ (46,329)	-	¥ (46,329)	

(in thousands of U.S dollars)

Related assets, etc.	Reason for occurrence	Initial amount	Beginning balance	Allowance set aside during period	Reversal during period	Ending balance	Reason for reversal
Leasehold rights in trust	Amortization of leasehold rights in trust	\$ (409)	-	\$ (409)		\$ (409)	-

Total	\$ (409)	\$ (409)	\$ (409)	
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## 2. Method of reversal

 $(1) \, Leasehold \, rights \, in \, trust$ 

Upon the sale of the relevant properties, the corresponding amount is scheduled to be reversed.

## 5. Cash and Cash Equivalents

Cash and cash equivalents shown in the statements of cash flows consist of the following balance sheet items.

_				As of			
		June 30, 2017	D	ecember 31, 2017	December 31, 2017		
		(in thousand	(in thousands of U.S. dollars)				
Cash and bank deposits	¥	3,532,405	¥	14,367,140	\$	127,142	
Cash and bank deposits in trust		6,065,755		6,326,653		55,988	
Cash and cash equivalents	¥	9,598,161	¥	20,693,794	\$	183,130	

## 6. Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended December 31, 2017.

_	At cost												
_	Beginning balance		Increase	Decrease		Ending balance		Accumulated depreciation		Depreciation for the period		Net property and equipment	
_						(in	thousands of y	en)					
Buildings¥	85,914	¥	-	¥	85,914	¥	-	¥	-	¥	451	¥	-
Buildings and accompanying facilities	38,862		-		38,862		-		-		645		-
Structures	2,779		-		2,779		-		-		53		-
Tools, furniture and fixtures	2,395		797		-		3,192		218		150		2,973
Land	711,834		-		711,834		-		-		-		-
Buildings in trust	118,192,822		12,140,912		1,465,830		128,867,905		9,412,123		1,505,614		119,455,782
Buildings and accompanying facilities in trust	26,991,646		1,830,880		368,131		28,454,395		5,758,755		864,616		22,695,639
Structures in trust	345,467		13,148		96,243		262,372		112,316		9,984		150,055
Tools, furniture and fixtures in trust	898,892		182,139		15,270		1,065,760		335,109		67,567		730,651
Land in trust	142,046,411		27,980,136		2,180,589		167,845,958		-		-		167,845,958
Leasehold rights in trust	17,079,771		-		-		17,079,771		250,928		118,131		16,828,843
Total ————¥	306,396,797	¥	42,148,014	¥	4,965,455	¥	343,579,356	¥	15,869,450	¥	2,567,215	¥	327,709,905

_	At cost											
_	Beginning balance		Increase	Decrease		Ending balance		Accumulated depreciation		preciation for the period	_	Net property and equipment
_				(ir	ı tho	usands of U.S	lolla	rs)				
Buildings\$	760	\$	-	\$ 760	\$	-	\$	-	\$	3	\$	-
Buildings and accompanying facilities	343		-	343		-		-		5		-
Structures	24		-	24		-		-		0		-
Tools, furniture and fixtures	21		7	-		28		1		1		26
Land	6,299		-	6,299		-		-		-		-
Buildings in trust	1,045,954		107,441	12,971		1,140,423		83,293		13,324		1,057,130
Buildings and accompanying facilities in trust	238,864		16,202	3,257		251,808		50,962		7,651		200,846
Structures in trust	3,057		116	851		2,321		993		88		1,327
Tools, furniture and fixtures in trust	7,954		1,611	135		9,431		2,965		597		6,465
Land in trust	1,257,047		247,611	19,297		1,485,362		-		-		1,485,362
Leasehold rights in trust	151,148		-	-		151,148		2,220	_	1,045		148,927
Total\$	2,711,476	\$	372,991	\$ 43,942	\$	3,040,525	\$	140,437	\$	22,718	\$	2,900,087

 $Increases in the net book values are mainly due to the acquisition of 5 properties ($\pm41,\!448,\!010$ thousand) as shown below and capitalized expenditures.$ 

Property No.	Property name	Acquisition cost (in thousands of yen)	Acquisition cost (in thousands of U.S. dollars)		
D43	Hotel MyStays Gotanda Station (Additional Acquisition Portion)	1,849,010	16,362		
D50	Hotel MyStaysShin Osaka Conference Center	13,068,000	115,646		
D51	Hotel MyStays Premier Omori	9,781,000	86,557		
D52	Beppu Kamenoi Hotel	8,870,000	78,495		
D53	Hotel MyStays Sapporo Station	7,880,000	69,734		
	Total	41,448,010	366,796		

## 7. Fair Value of Investment and Rental Properties

The following tables show the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended June 30, 2017 and December 31, 2017.

Residential

	Aso	f/For	the six months e	ended		
	June 30, 2017	, ,		De	cember 31, 2017	
_	(in thousa	(in thousands of yen)				
Net book value						
Balance at the beginning of period¥	67,835,839	¥	93,113,195	\$	824,010	
Net increase (decrease) during period	25,277,356		(3,163,531)		(27,995)	
Balance at the end of period	93,113,195		89,949,664		796,014	
Fair value ————————————————————————————————————	104,752,000	¥	102,353,000	\$	905,778	

 $O\!f\!f\!ice$ 

	Aso	f/For	the six months e	nded		
_	June 30, 2017	D	ecember 31, 2017	December 31, 2017		
_	(in thousa	(in thousands of U.S. dollars)				
Net book value						
Balance at the beginning of period $\cdots$	8,440,981	¥	8,424,734	\$	74,555	
Net increase (decrease) during period	(16,247)		(1,949,803)		(17,254)	
Balance at the end of period	8,424,734		6,474,931		57,300	
Fair value ————————————————————————————————————	7,636,000	¥	6,130,000	\$	54,247	

Retail facilities

	Aso	f / For th	e six months e	nded		
	June 30, 2017	Dec	cember 31, 2017	December 31, 2017		
	(in thousar	(in thousands of U.S. dollars)				
Net book value						
Balance at the beginning of period¥	5,049,226	¥	5,001,269	\$	44,259	
Net increase (decrease) during period	(47,956)		(43,977)		(389)	
Balance at the end of period	5,001,269		4,957,292		43,869	
Fair value <u>¥</u>	5,980,000	¥	6,100,000	\$	53,982	

Parking lots

	Aso	of / For tl	ne six months e	nded		
	June 30, De 2017		ecember 31, 2017		mber 31, 2017	
	(in thousands of yen)			(in thousands of U.S. dollars)		
Net book value						
Balance at the beginning of period¥	100,819	¥	100,818	\$	892	
Net increase (decrease) during period	(1)		(100,818)		(892)	

Fair value ————¥	113,000	¥	-	\$	-				
Hotel									
_	As of / For the six months ended								
	June 30, 2017	December 31, 2017			ecember 31, 2017				
_	(in thousar	(in thousands of U.S. dollars)							
Net book value									
Balance at the beginning of period¥	178,511,427	¥	185,897,957	\$	1,645,114				
Net increase (decrease) during period	7,386,530		40,430,059		357,788				
Balance at the end of period	185,897,957		226,328,017		2,002,902				
Fair value <u>¥</u>	245,021,000	¥	285,424,000	\$	2,525,876				

100,818

Total

	Asc	f/For	the six months e	nded	
	June 30, 2017		December 31, 2017	D	ecember 31, 2017
	(in thousa	nds of	yen)		nousands of S. dollars)
Net book value					
Balance at the beginning of period¥	259,938,294	¥	292,537,976	\$	2,588,831
Net increase (decrease) during period	32,599,681		35,171,929		311,256
Balance at the end of period	292,537,976		327,709,905		2,900,087
Fair value ———¥	363,502,000	¥	400,007,000	\$	3,539,884

#### Notes:

 $1. Fair value \ has been \ determined \ based \ on \ the \ appraisals \ or \ research \ provided \ by \ independent \ real \ estate \ appraisers.$ 

2.For rental revenues and expenses for the six months ended June 30, 2017 and December 31, 2017, please refer to "Note 11: Rent Revenues—Real Estate and Expenses Related to Property Rental Business"

## 8. Loans Payable

The following table shows the details of loans payable for the six months ended December 31, 2017.

For the six months ended December 31, 2017

Balance at the end of period .....

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	ınds of yen)			(in thousands of	U.S. dollars)		rate (%) (1)	date	proceeds	Temuns
	Mizuho Bank, Ltd.	1	1,023,000	1	1,023,000	1	9,053	1	9,053	0.244	13-Oct-18		
Short-ter m loans	Sumitomo Mitsui Trust Bank, Limited	1	1,022,000	-	1,022,000	1	9,044	-	9,044	0.244	13-Oct-18	(2)	Unsecure d and unguara nteed
pxayable	Sumitomo Mitsui Banking Corporation	-	1,023,000	-	1,023,000	-	9,053	-	9,053	0.244	13-Oct-18		
	Total Short-term loans payable	-	3,068,000	-	3,068,000	-	27,150	-	27,150				
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.375	16-Jul-18		
Long-ter m loans payable	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	5,992,000	1	ı	5,992,000	53,026	ı	ı	53,026	0.375	16-Jul-18	(2)	Unsecure d and unguara nteed
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.375	16-Jul-18		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	ınds of yen)			(in thousands of	U.S. dollars)		rate (%) (1)	date	proceeds	Nemans
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,469	-	-	29,469	0.375	16-Jul-18		
	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	26,548	-	-	26,548	0.375	16-Jul-18		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	1	1	2,670,000	23,628	-	1	23,628	0.375	16-Jul-18		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,814	-	-	11,814	0.375	16-Jul-18		
	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,911	-	-	5,911	0.375	16-Jul-18		
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.480	16-Jul-19		
	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.480	16-Jul-19		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.480	16-Jul-19		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,469	-	-	29,469	0.480	16-Jul-19		
Long-ter m loans	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	26,548	-	-	26,548	0.480	16-Jul-19	(2)	Unsecure d and
payable	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	23,628	-	-	23,628	0.480	16-Jul-19	(2)	unguara nteed
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,814	-	-	11,814	0.480	16-Jul-19		
	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,911	-	-	5,911	0.480	16-Jul-19		
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.590	16-Jul-20		
	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.590	16-Jul-20		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,026	-	-	53,026	0.590	16-Jul-20		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,469	-	-	29,469	0.590	16-Jul-20		
	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	26,548	-	-	26,548	0.590	16-Jul-20		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	23,628	-	-	23,628	0.590	16-Jul-20		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,814	-	-	11,814	0.590	16-Jul-20		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	ands of yen)			(in thousands of	U.S. dollars)		rate (%) (1)	date	proceeds	Remarks
	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,911	-	-	5,911	0.590	16-Jul-20		
	Mizuho Bank, Ltd.	3,682,000	-	-	3,682,000	32,584	-	-	32,584	0.480	28-Aug-19		
	Sumitomo Mitsui Trust Bank, Limited	3,400,000	-	-	3,400,000	30,088	-	-	30,088	0.343	22-Jan-19		
	Mitsubishi UFJ Trust and Banking Corporation	850,000	-	-	850,000	7,5 <u>22</u>	-	-	7,522	0.343	22-Jan-19		
	Sumitomo Mitsui Trust Bank, Limited	3,400,000	-	-	3,400,000	30,088	-	-	30,088	0.600	22-Jan-21		
	Mitsubishi UFJ Trust and Banking Corporation	850,000	1	-	850,000	7,522	1	1	7,5 <u>22</u>	0.600	22-Jan-21		
	Mizuho Bank, Ltd.	465,000		-	465,000	4,115	-	-	4,115	0.436	30-Mar-19		
	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	1,125,000	-	-	1,125,000	9,955	1	-	9,955	0.436	30-Mar-19		
	Sumitomo Mitsui Trust Bank, Limited	2,181,000	1	-	2,181,000	19,300	-	-	19,300	0.436	30-Mar-19		
Long-ter m loans	Shinsei Bank, Limited.	570,000	-	-	570,000	5,0 <del>44</del>	-	-	5,0 <del>44</del>	0.436	30-Mar-19	(2)	Unsecure d and
payable	Resona Bank, Limited.	570,000	-	-	570,000	5,0 <del>44</del>	-	-	5,044	0.436	30-Mar-19	(2)	unguara nteed
	Mitsubishi UFJ Trust and Banking Corporation	650,000	-	-	650,000	5,752	-	-	5,752	0.436	30-Mar-19		
	Japan Post Bank Co., Ltd.	2,000,000	-	-	2,000,000	17,699	-	-	17,699	0.436	30-Mar-19		
	Developme nt Bank of Japan Inc.	1,000,000	1	-	1,000,000	8,849	1	1	8,849	0.436	30-Mar-19		
	The Bank of Fukuoka, Ltd.	333,000	ı	-	333,000	2,946	-	-	2,946	0.436	30-Mar-19		
	The Shizuoka Bank, Ltd.	1,270,000	1	-	1,270,000	11,238	1	1	11,238	0.436	30-Mar-19		
	The Daishi Bank, Ltd.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.436	30-Mar-19		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,389	-	-	2,389	0.436	30-Mar-19		
	Mizuho Bank, Ltd.	965,000	1	-	965,000	8,539	1	1	8,539	0.536	30-Mar-20		
	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	1,125,000	-	-	1,125,000	9,955	-	-	9,955	0.536	30-Mar-20		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	D 1
ation	lender		(in thousa	ands of yen)			(in thousands of	FU.S. dollars)		rate (%) (1)	date	proceeds	Remarks
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	1	-	2,180,000	19,292	-	-	19,292	0.536	30-Mar-20		
	Shinsei Bank, Limited.	570,000	1	-	570,000	5,0 <del>44</del>	-	-	5,044	0.536	30-Mar-20		
	Resona Bank, Limited.	570,000	-	-	570,000	5,044	-	-	5,044	0.536	30-Mar-20		
	Mitsubishi UFJ Trust and Banking Corporation	650,000	1	-	650,000	5,752	-	-	5,752	0.536	30-Mar-20		
	Japan Post Bank Co., Ltd.	2,000,000	1	-	2,000,000	17,699	1	-	17,699	0.536	30-Mar-20		
	The Bank of Fukuoka, Ltd.	333,000	1	-	333,000	2,946	1	-	2,946	0.536	30-Mar-20		
	The Shizuoka Bank, Ltd.	270,000	1	-	270,000	2,389	-	-	2,389	0.536	30-Mar-20		
	The Kagawa Bank, Ltd.	500,000	1	-	500,000	4,424	1	-	4,424	0.536	30-Mar-20		
	The Hyakugo Bank, Ltd.	1,000,000	ı	1	1,000,000	8,849	1	-	8,849	0.536	30-Mar-20		
Long-ter m loans	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,389	-	-	2,389	0.536	30-Mar-20	(2)	Unsecure d and
payable	Mizuho Bank, Ltd.	1,965,000	1	-	1,965,000	17,389	-	-	17,389	0.636	30-Mar-21	(2)	unguara nteed
	The Bank of Tokyo-Mits ubishi UFJ, Ltd.	1,125,000	1	-	1,125,000	9,955	1	-	9,955	0.636	30-Mar-21		
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	1	-	2,180,000	19,292	-	-	19,292	0.636	30-Mar-21		
	Shinsei Bank, Limited.	570,000	1	-	570,000	5,044	-	-	5,044	0.636	30-Mar-21		
	Resona Bank, Limited.	570,000	1	-	570,000	5,044	-	-	5,0 <del>44</del>	0.636	30-Mar-21		
	Mitsubishi UFJ Trust and Banking Corporation	650,000	-	-	650,000	5,752	-	-	5,752	0.636	30-Mar-21		
	The Bank of Fukuoka, Ltd.	1,333,000	-	-	1,333,000	11,796	-	-	11,796	0.636	30-Mar-21		
	The Shizuoka Bank, Ltd.	270,000	-	-	270,000	2,389	-	-	2,389	0.636	30-Mar-21		
	The Kagawa Bank, Ltd.	500,000	-	-	500,000	4,424	-	-	4,424	0.636	30-Mar-21		
	The Hiroshima Bank, Ltd.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.636	30-Mar-21		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	inds of yen)			(in thousands of	U.S. dollars)		rate (%) (1)	date	proceeds	Remains
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,389	-	-	2,389	0.636	30-Mar-21		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.436	15-Jun-19		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.536	15-Jun-20		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.636	15-Jun-21		
	Developme nt Bank of Japan Inc.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.436	30-Jun-19		
	AEON Bank, Ltd.	3,000,000	-	-	3,000,000	26,548	-	-	26,548	0.636	30-Jun-21		
	The Tokyo Star Bank, Limited	700,000	-	-	700,000	6,194	-	-	6,194	0.436	20-Jul-19		
	The Tokyo Star Bank, Limited	1,600,000	-	-	1,600,000	14,159	-	-	14,159	0.536	20-Jul-20		
	The Tokyo Star Bank, Limited	1,700,000	1	1	1,700,000	15,044	1	1	15,044	0.636	20-Jul-21		
Long-ter m loans	Mizuho Bank, Ltd.	634,000	1	ı	634,000	5,610	ı	1	5,610	0.436	14-Mar-20	(2)	Unsecure d and
payable	Developme nt Bank of Japan Inc.	1,000,000	-	-	1,000,000	8,849	-	-	8,849	0.436	14-Mar-20	(2)	unguara nteed
	Resona Bank, Limited.	333,000	ı	ı	333,000	2,946	ı	1	2,946	0.436	14-Mar-20		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.436	14-Mar-20		
	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.436	14-Mar-20		
	The Towa Bank, Ltd.	252,000	-	-	252,000	2,230	-	-	2,230	0.436	14-Mar-20		
	The Shizuoka Bank, Ltd.	200,000	-	-	200,000	1,769	-	-	1,769	0.436	14-Mar-20		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,460	-	-	1,460	0.436	14-Mar-20		
	Mizuho Bank, Ltd.	1,633,000	-	-	1,633,000	14,451	-	-	14,451	0.536	14-Mar-21		
	Resona Bank, Limited.	333,000	-	-	333,000	2,946	ī	-	2,946	0.536	14-Mar-21		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.536	14-Mar-21		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	nds of yen)			(in thousands of	U.S. dollars)		rate (%) (1)	date	proceeds	Remarks
	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.536	14-Mar-21		
	The Towa Bank, Ltd.	253,000	-	-	253,000	2,238	-	-	2,238	0.536	14-Mar-21		
	The Shizuoka Bank, Ltd.	200,000	1	-	200,000	1,769	-	-	1,769	0.536	14-Mar-21		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,460	-	-	1,460	0.536	14-Mar-21		
	Mizuho Bank, Ltd.	1,733,000	-	1	1,733,000	15,336	1	1	15,336	0.636	14-Mar-22		
	Resona Bank, Limited.	333,000	-	-	333,000	2,946	-	-	2,946	0.636	14-Mar-22		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.636	14-Mar-22		
	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	2,946	-	-	2,946	0.636	14-Mar-22		
	AEON Bank, Ltd.	900,000	-	-	900,000	7,964	-	-	7,964	0.636	14-Mar-22		
Long-ter m loans	The Towa Bank, Ltd.	253,000	-	-	253,000	2,238	-	-	2,238	0.636	14-Mar-22	(2)	Unsecure d and
payable	The Shizuoka Bank, Ltd.	200,000	-	-	200,000	1,769	-	-	1,769	0.636	14-Mar-22	(2)	unguara nteed
	The Dai-ichi Life Insurance company, Limited	500,000	-	-	500,000	4,424	-	-	4,424	0.636	14-Mar-22		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,460	-	-	1,460	0.636	14-Mar-22		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	1	3,000,000	26,548	1	1	26,548	0.486	14-Sep-20		
	Mizuho Bank, Ltd.	7,321,000	-	3,000,000	4,321,000	64,787	-	26,548	38,238	0.586	29-Nov-21		
	The Dai-ichi Life Insurance company, Limited	-	3,000,000	-	3,000,000	-	26,548	-	26,548	0.586	29-Nov-21		
	Shinsei Bank, Limited.	1	355,000	-	355,000	-	3,141	-	3,141	0.344	13-Oct-20		
	Citibank, N.A., Japan Branches	-	355,000	-	355,000	-	3,141	-	3,141	0.344	13-Oct-20		
	Resona Bank, Limited.	-	334,000	-	334,000	-	2,955	-	2,955	0.344	13-Oct-20		
	The Bank of Fukuoka, Ltd.	-	300,000	-	300,000	-	2,654	-	2,654	0.344	13-Oct-20		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Donata
ation	lender		(in thousa	ınds of yen)			(in thousands of	'U.S. dollars)		rate (%) (1)	date	proceeds	Remarks
	AEON Bank, Ltd.	-	190,000	-	190,000	-	1,681	-	1,681	0.344	13-Oct-20		
	The Nomura Trust and Banking Co., Ltd.	-	167,000	-	167,000	-	1,477	-	1,477	0.344	13-Oct-20		
	The Hiroshima Bank, Ltd.	-	167,000	-	167,000	-	1,477	-	1,477	0.344	13-Oct-20		
	Shinsei Bank, Limited.	1	355,000	-	355,000	-	3,141	-	3,141	0.444	13-Oct-21		
	Citibank, N.A., Japan Branches	1	355,000	-	355,000	-	3,141	-	3,141	0.444	13-Oct-21		
	Resona Bank, Limited.	ı	333,000	ı	333,000	ı	2,946	ı	2,946	0.444	13-Oct-21		
	The Bank of Fukuoka, Ltd.	1	300,000	-	300,000	1	2,654	-	2,654	0.444	13-Oct-21		
	AEON Bank, Ltd.	ı	190,000	ı	190,000	ı	1,681	ı	1,681	0.444	13-Oct-21		
	The Nomura Trust and Banking Co., Ltd.	-	167,000	-	167,000	-	1,477	-	1,477	0.444	13-Oct-21		
Long-ter m loans	The Hiroshima Bank, Ltd.	-	167,000	-	167,000	-	1,477	-	1,477	0.444	13-Oct-21	(2)	Unsecure d and
payable	Mizuho Bank, Ltd.	-	500,000	-	500,000	-	4,424	-	4,424	0.644	13-Oct-22	(2)	unguara nteed
	Sumitomo Mitsui Trust Bank, Limited	-	500,000	-	500,000	-	4,424	-	4,424	0.644	13-Oct-22		
	Sumitomo Mitsui Banking Corporation	-	500,000	-	500,000	-	4,424	-	4,424	0.644	13-Oct-22		
	Shinsei Bank, Limited.	-	355,000	-	355,000	-	3,141	-	3,141	0.644	13-Oct-22		
	Citibank, N.A., Japan Branches	-	355,000	-	355,000	-	3,141	-	3,141	0.644	13-Oct-22		
	Resona Bank, Limited.	-	333,000	-	333,000	-	2,946	-	2,946	0.644	13-Oct-22		
	Developme nt Bank of Japan Inc.	-	1,500,000	-	1,500,000	-	13,274	-	13,274	0.644	13-Oct-22		
	The Bank of Fukuoka, Ltd.	-	300,000	-	300,000	-	2,654	-	2,654	0.644	13-Oct-22		
	AEON Bank, Ltd.	-	190,000	-	190,000	-	1,681	-	1,681	0.644	13-Oct-22		
	The Nomura Trust and Banking Co., Ltd.	-	166,000	-	166,000	-	1, <del>4</del> 69	-	1,469	0.644	13-Oct-22		

Classific	Name of	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest	Maturity	Use of	Remarks
ation	lender		(in thousa	nds of yen)			(in thousands of	FU.S. dollars)		rate (%) (1)	date	proceeds	Remuns
	The Hiroshima Bank, Ltd.	-	166,000	-	166,000	-	1,469	-	1,469	0.644	13-Oct-22		
	The Dai-ichi Life Insurance company, Limited	-	500,000	-	500,000	-	4,424	-	4,424	0.644	13-Oct-22		
	Mizuho Bank, Ltd.	-	1,250,000	-	1,250,000	-	11,061	-	11,061	0.744	13-Oct-23		
	Sumitomo Mitsui Trust Bank, Limited	-	1,065,000	-	1,065,000	-	9,424	-	9,424	0.744	13-Oct-23		
	Sumitomo Mitsui Banking Corporation	-	1,250,000	-	1,250,000	-	11,061	-	11,061	0.744	13-Oct-23	(2)	Unsecure d and
Long-ter m loans payable	Mizuho Bank, Ltd.	-	1,250,000	-	1,250,000	-	11,061	-	11,061	0.844	11-Oct-24		unguara nteed
	Sumitomo Mitsui Trust Bank, Limited	-	1,060,000	-	1,060,000	-	9,380	-	9,380	0.844	11-Oct-24		
	Sumitomo Mitsui Banking Corporation	-	1,250,000	-	1,250,000	-	11,061	-	11,061	0.844	11-Oct-24		
	Mizuho Bank, Ltd.	-	1,850,000	-	1,850,000	-	16,371	-	16,371	0.294	13-Oct-19		
	Sumitomo Mitsui Banking Corporation	-	1,850,000	ı	1,850,000	ı	16,371	1	16,371	0.294	13-Oct-19		
	Total Long-term loans payable	163,990,000	22,925,000	3,000,000	183,915,000	1,451,238	202,876	26,548	1,627,566	-	-		
Total lo	ans payable	163,990,000	25,993,000	3,000,000	186,983,000	1,451,238	230,026	26,548	1,654,716	-	-	-	-

#### Notes:

- (1) The average interest rate indicates a weighted average interest rate for each six-month period, rounded to three decimal places.
- (2) The funds are mainly used to acquire properties in trust and for repayment of loans payable.
- (3) Long-term loans payable include current portion.
- (4) Repayment schedule of long-term loans payable (except for the current portion) for the next five years after each balance sheet date are as follows:

		Asc	of	
		December 31,		December 31,
		2017		2017
		(in thousands of yen)		(in thousands of U.S. dollars)
1-2 years	¥	54,745,000	\$	484,469
2-3 years		50,130,000		443,628
3-4 years		32,821,000		290,451
4-5 years		10,115,000		89,513

## 9. Net Assets

The Company issues only non-par value units in accordance with the Investment Trust Act, and the entire amount of the issue price of new investment units is allocated to unitholders' capital within net assets. The Company is required to maintain net assets of at least \$50,000 thousand (US\$ 442 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of investment units authorized was 10,000,000 units as of June 30, 2017 and December 31, 2017.

The number of investment units issued and outstanding were 3,860,824 as of June 30, 2017 and 4,793,181 December 31, 2017 respectively.

## 10. Appropriation of Retained Earnings

In accordance with the distribution policy in Article 17, Paragraph 1, of the Company's articles of incorporation which stipulates making distributions in excess of 90% of distributable profit as defined in Article 67-15, Paragraph 1 of the Special Taxation Measures Act of Japan for the fiscal period.

The following table shows the appropriation of retained earnings for the six months ended June 30, 2017 and December 31, 2017.

		For the	six months ended	
	June 30, 2017	Ι	December 31, 2017	December 31, 2017
	(in thousan	ds of yen	n)	(in thousands of U.S. dollars)
Unappropriated retained earnings — ¥	4,708,487	¥	7,212,580	\$ 63,828
Distributions in excess of retained earnings				
Allowance for temporary differences adjustment	(46,329)		-	-
Deduction from unitholders capital surplus	(34,747)		(172,554)	(1,527)
Distributions	(4,880,081)		(7,496,535)	(66,341)
Of which, distributions of earnings	(4,799,004)		(7,323,980)	(64,813)
Of which, allowance for adjustment of temporary differences	(46,329)		-	-
Of which, deduction from unitholders capital surplus	(34,747)		(172,554)	 (1,527)
Retained earnings carried forward	(90,516)	¥	(111,399)	\$ (985)

The distributions in respect of the six months ended December 31, 2017 of \$1,564 (US\$13.8) per investment unit, amounting to a total distributions of \$7,496,535 thousand (US\$66,341 thousand), including distributions in excess of retained earnings, were proposed and approved at the Board of Directors meeting on February 20, 2018. These financial statements do not reflect these distributions payable. Cash distributions per investment unit were \$1,264 and \$1,564 (US\$13.8) for the six months ended June 30, 2017, and December 31, 2017, respectively.

Notes related to provision and reversal of allowance for temporary differences adjustment is below.

For the six months ended June 30, 2017

In this table, the Company recorded allowance for temporary differences adjustment below.

## (a) Reasons, related assets and allowance

(in thousands of yen)

Related assets, etc.	Reason for occurrence	Allowance for temporary difference adjustments
Leasehold rights in trust	Occurrence of amortization of leasehold rights in trust	46,329

## (b) Method of reversal

Related assets, etc.	Method of reversal
Leasehold rights in trust	Upon sale, the corresponding amount is scheduled to be reversed.

For the six months ended December 31, 2017

Not Applicable.

## 11. Rent Revenues — Real Estate and Expenses Related to Property Rental Business

Rent revenue – real estate and expenses related to property rental business for the six months ended June 30, 2017 and December 31, 2017 consist of the following:

			For the si	x months ended		
		June 30, 2017	D	ecember 31, 2017	Dec	cember 31, 2017
Rental revenue and common area charges (*)  Other  Total rental revenue – real estate  Expenses related to property rental business:  Facility management fees  Property related taxes  Insurance expense  Depreciation  Other  Total expenses related to property rental business		(in thousand	s of yen)	_		ousands of 5. dollars)
Rental revenue – real estate:						
Rental revenue and common area charges (*)	¥	8,927,781	¥	11,060,128	\$	97,877
Other		333,135		343,107		3,036
Total rental revenue – real estate	¥	9,260,917	¥	11,403,236	\$	100,913
Expenses related to property rental business:						
Facility management fees	¥	646,226	¥	707,458	\$	6,260
Property related taxes		390 <i>,</i> 797		470,600		4,164
Insurance expense		10,195		11,499		101
Depreciation		2,281,374		2,567,215		22,718
Other		190,090		205,408		1,817
Total expenses related to property rental business	¥	3,518,684	¥	3,962,183	\$	35,063
Operating income from property leasing activities	¥	5,742,232	¥	7,441,052	\$	65,850
(*)Variable rental revenue of hotels	¥	2,932,843	¥	3,741,186	\$	33,107

## 12. Breakdown of Gain on sales of Properties

For the six months ended June 30, 2017

Not Applicable.

For the six months ended December 31, 2017

	_	Kindai Kagaku Sha Building		Times Kanda- Sudacho 4th		Shinjuku Island
			(in tl	nousands of yen)		
Revenue from sales of properties	¥	1,364,791	¥	130,217	¥	705,102
Cost of properties sold		1,197,764		100,818		701,931
Other sale-related costs		51,333		3,658		10,228
Gain or loss on sales of properties	¥	115,693	¥	25,740	¥	(7,057)
		Casa Eremitaggio	Le	xel Mansion Ueno Matsugaya	1	Sun Terrace Minami-Ikebukuro
	¥		(in tl	nousands of yen)		
Revenue from sales of properties	¥	1,312,035	¥	1,329,240	¥	934,980
Cost of properties sold		948,287		853,265		591,335
Other sale-related costs		28,743		26,547		18,419
Gain or loss on sales of properties	¥	335,004	¥	449,428	¥	325,224

	Kindai Kagaku Sha Building		Times Kanda- Sudacho 4th	Shinjuku Island
		(in tl	nousands of yen)	
Revenue from sales of properties	\$ 12,077	\$	1,152	\$ 6,239
Cost of properties sold	10,599		892	6,211
Other sale-related costs	454		32	 90

Gain or loss on sales of properties	\$ 1,023	\$	227	\$	(62)
	Casa Eremitaggio	Lex	el Mansion Ueno Matsugaya	N	Sun Terrace finami-Ikebukuro
		(in the	ousands of yen)		
Revenue from sales of properties	\$ 11,610	\$	11,763	\$	8,274
Cost of properties sold	8,391		7,551		5,233
Other sale-related costs	254		234		163
Gain or loss on sales of properties	\$ 2,964	\$	3,977	\$	2,878

## 13. Impairment Loss

Property name	Use	Location	Туре	Impairment (in thousands of yen)	Impairment (in thousands of U.S dollars)
Ohki Aoba Building	Commercial Facility	Sendai, Miyagi	Land in trust	15,677	138

For the purpose of calculating impairment loss, the properties' book value were reduced to the recoverable amount and the difference was recorded as impairment loss of land in trust under operating expenses. The recoverable amount was measured by the net realizable value, calculated by subtracting the expected disposal cost from the actual sales prices.

## 14. Income Taxes

The Company is subject to corporate income taxes in Japan. The Company may deduct from its taxable income the amounts distributed to its unitholders, provided the requirements are met under the Special Taxation Measures Act of Japan. Under this act, the Company must meet a number of tax requirements, including a requirement to distribute in excess of 90% of distributable profit for the fiscal period in order to be able to deduct such amounts. If the Company does not satisfy all of the requirements, the entire taxable income of the Company will be subject to regular corporate income taxes in Japan.

The Company has a policy of making distributions in excess of 90% of its distributable profit for the fiscal period to qualify for conditions set forth in the Special Taxation Measures Act of Japan to achieve a deduction of distributions for income tax purpose and it distributes approximately 100% of distributable profit. Hence, the Company has treated the distributions as a tax allowable deduction as defined in the Special Taxation Measures Act of Japan.

## (a) Reconciliations of the Company's effective tax rates and statutory tax rates are as follows:

	For the six mor	nths ended
	2017 (Rate)	December 31, 2017
_	(Rate)	
Statutory tax rates	31.74 %	31.74 %
Deductible cash distributions	(32.06)	(30.49)
Increase (decrease) in valuation allowance	0.32	(1.25)
Other	0.02	0.01
Effective tax rates	0.01 %	0.01 %

## (b) Deferred tax assets and liabilities consist of the following:

	As of				
June 30,	December 31,	December 31,			
2017	, ,				
(in thousa	nds of yen)	(in thousands of			

				U.S. dollars)
Deferred tax assets:				
Current:				
Enterprise tax payable¥	996	¥	1,331	\$ 11
Impairment	-		2,367	20
Allowance for doubtful accounts	10		28	0
Total	1,006		3,726	32
Non-current:				
Buildings and other (merger)	689,159		730,990	6,468
Land (merger)	2,092,087		1,918,655	16,979
Net loss carried forward	7,200,289		7,200,289	63,719
Asset retirement obligations	9,987		10,055	88
Fixed-term leasehold	42,149		79,644	704
Subtotal	10,033,674		9,939,635	87,961
Deferred tax liabilities:				
Non-current				
Asset retirement obligations	9,797		9 <i>,</i> 797	86
Deferred gains or losses on hedges	29,278		36,054	319
Subtotal	39,075		45,851	405
Valuation allowance	(9,994,598)		(9,893,783)	(87,555)
Total	-		-	-
Net deferred tax assets ———¥	-	¥	-	\$ -

## 15. Leases

## (a) Lease rental revenues

The future minimum rental revenues pursuant to existing rental contracts as of June 30, 2017 and December 31, 2017 scheduled to be received are summarized as follows:

			As of		
_	June 30, 2017	Ι	December 31, 2017	De	ecember 31, 2017
	(in thousan	ds of y	ren)	•	nousands of S. dollars)
Due within one year¥	6,579,788	¥	7,970,088	\$	70,531
Due over one year	47,397,583		56,088,357		496,357
Total¥	53,977,372	¥	64,058,446	\$	566,888

## (b) Lease rental expenses

The future minimum rental expenses pursuant to existing rental contracts as of June 30, 2017 and December 31, 2017 scheduled to be paid are summarized as follows:

			As of				
	June 30, 2017	I	December 31, 2017	December 31, 2017			
	(in thousan	ds of y	ven)		ousands of dollars)		
Due within one year¥	312,959	¥	312,959	\$	2,769		
Due over one year	10,403,515		10,247,035		90,681		
Total¥	10,716,474	¥	10,559,994	\$	93,451		

## **16. Financial Instruments**

## (a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

The Company raises funds through loans payable and the issuance of investment units to acquire real estate properties, pay property maintenance expenses and/or repay existing loans payable. Surplus funds are managed carefully through investments in financial instruments taking into account liquidity and safety in light of the current financial market conditions. Derivative instruments are used only for hedging purposes and not for speculation.

(ii) Nature and extent of risks arising from financial instruments and risk management

The funds raised through loans payable are mainly used to acquire real estate properties or properties in trust and for the repayment of existing loans payable. Liquidity risks relating to loans payable are managed by the finance department of the Asset Manager by preparing monthly plans for funds, and monitoring the covenants defined in loan agreements.

(iii) Supplemental information for financial instruments

The fair value of financial instruments is based on quoted market prices if available. When quoted market prices are not available, fair value is estimated using valuation techniques which contain various assumptions. If other valuation models or assumptions were used, the estimated value may differ.

## (b) Quantitative information for financial instruments

The following table shows the carrying amounts, fair values and valuation differences of financial instruments for which fair value is available as of June 30, 2017 and December 31, 2017.

								A	sof									
_	June 30, 2017						December 31, 2017							December 31, 2017				
_	Carrying amounts		Fair value	Di	fference		Carrying amounts		Fair value	Dif	ference		Carrying amounts	I	air value	Differ	ence	
					(in thousa	nds of	ds of yen)						(in t	housa	ınds of U.S. d	lollars)		
Assets:																		
Current:																		
(1) Cash and bank deposits¥	3,532,405	¥	3,532,405	¥	-	¥	14,367,140	¥	14,367,140	¥	-	\$	127,142	\$	127,142	\$	-	
(2) Cash and bank deposits in trust	6,065,755		6,065,755		-		6,326,653		6,326,653				55,988		55,988		-	
Total assets ——————————————————————————————————	9,598,161	¥	9,598,161	¥	-	¥	20,693,794	¥	20,693,794	¥		\$	183,130	\$	183,130	\$	-	
Liabilities:																		
(3)Short-term loans payable	-		-		-		3,068,000		3,068,000		-		27,150		27,150		-	
(4) Current portion of long-term loans payable	-		-		-		28,979,000		28,979,000		-		256,451		256,451		-	
(5) Long-term loans payable	163,990,000		163,990,000		-		154,936,000		154,936,000		-		1,371,115		1,371,115		-	
Total liabilities ————————————————————————————————————	163,990,000	¥	163,990,000	¥	-	¥	186,983,000	¥	186,983,000	¥	-	\$	1,654,716	\$	1,654,716	\$	-	

## Notes

- (i) The methods and assumptions used to estimate fair value are as follows:
  - Cash and bank deposits and
     Cash and bank deposits in trust
     Short-term loans payable
     Because of their short maturities, the carrying amounts approximate their fair value.
  - (4) Current portion of long-term loans payable (5) Long-term loans payable

    Long-term loans payable with floating interest rates reflecting changes in market rates within a short term period are stated at their carrying amounts as their carrying amounts approximate their fair values.
- (ii) Financial instruments for which fair value is difficult to determine are as follows:

			As of	
	June 30, 2017		December 31, 2017	December 31, 2017
	(in thousan	ds of	yen)	(in thousands of U.S. dollars)
Tenant leasehold and security deposits¥	28,663	¥	-	\$ -
Tenant leasehold and security deposits in trust¥	2,240,373	¥	2,215,299	\$ 19,604
Investment securities ————¥	-	¥	17,854,460	\$ 158,004

Tenant leasehold and security deposits are not publicly traded, and it is difficult to determine their fair value based on estimated future cash flows because the repayment dates of those deposits are not certain. Therefore, these financial instruments are not included in the above quantitative information.

Fair values of preferred securities are not subject to disclosure of fair value as they have no market value and their fair values are extremely difficult to recognize.

(iii) Cash flow schedule of financial assets after the balance sheet date

	TAPAL: 4		1.0		2.2		0.4		4.5		
	Within 1 year		1-2 years	_	2-3 years	_	3-4 years	_	4-5 years		Over 5 years
. 47					(in thousa	nds	of yen)				
As of June 30, 2017:	V 2 522 405					.,		.,		1/	
Cash and bank deposits		¥	-	¥	-	¥	-	¥	-	¥	-
Cash and bank deposits in trust		V		· ·						V	
Total	…¥ 9,598,161	¥		¥		¥		¥		¥	
A (D 21, 2017)											
As of December 31, 2017:  Cash and bank deposits	···¥ 14,367,140	¥		¥		¥		¥		¥	
Cash and bank deposits in trust		Ť	_	+	_	Ť	_	+	_	+	-
Total		¥		¥		¥		¥		¥	
Total	20,093,794	T		<u> </u>		-		=		<u> </u>	
	Within 1 year	-	1-2 years		2-3 years		3-4 years		4-5 years	(	Over 5 years
	- Tridilli I year		- years	_	in thousands			_	10 years	_	over o years
As of December 21, 2017				,	in inousanus	oi C	.5. donars)				
As of December 31, 2017:  Cash and bank deposits	···\$ 127,142	\$		\$		\$	_	¢	_	\$	_
Cash and bank deposits in trust		Ψ	_	Ψ	_	ψ	_	Ψ	_	ψ	_
Total		\$		\$		\$		<b>¢</b>		¢	
Total	ψ 100,130	Ψ		Ψ		Ψ		Ψ		Ψ	
	Within 1 year	1	1-2 years		2-3 years	_	3-4 years	_	4-5 years	(	Over 5 years
					(in thousa	nds	of yen)				
As of June 30, 2017:											
Long-term loans payable			46,663,000		48,044,000		55,512,000	<del>.</del>	13,771,000		
Total	<u>¥ -</u>	¥	46,663,000	¥	48,044,000	¥	55,512,000	¥	13,771,000	¥	
As of December 31, 2017:											
Short-term loans payable	3,068,000		_		_		-		_		_
Current portion of long-term loans payable			_		_		_		_		_
Long-term loans payable			54,745,000		50,130,000		32,821,000		10,115,000		7,125,000
				· ·						V	
Total	… <u>¥ 32,047,000</u>	¥	54,745,000	¥	50,130,000	¥	32,821,000	¥	10,115,000	¥	7,125,000
	Within 1 year	1	1-2 years		2-3 years		3-4 years		4-5 years	C	Over 5 years
				(	in thousands	of U	.S. dollars)				
As of December 31, 2017:											
Short-term loans payable	27,150		-		-		-		-		-
Current portion of long-term loans payable			_		_		_		-		_
Long-term loans payable			484,469		443,628		290,451		89,513		63,053
		ď		ø		<u>.</u>		ф		d.	
Total	···\$ 283,601	\$	484,469	\$	443,628	\$	290,451	\$	89,513	\$	63,053

## 17. Investment securities

For the six months ended June 30, 2017

Not Applicable.

For the six months ended December 31, 2017

Fair values of preferred securities recorded on the Balance Sheet at ¥17,854,460 thousand (US\$158,004 thousand) are not subject to disclosure of fair value as they have no market value and their fair values are extremely difficult to recognize.

## 18. Derivatives

Information on derivative transactions undertaken by the Company as of June 30, 2017 and December 31, 2017 is as follows. Derivative instruments are used for hedging purposes only and are subject to hedge accounting.

## As of June 30, 2017:

					Conti	ract amount(*1)		
Method of hedge accounting	Type of derivative transaction	Main hedged item		Total		Over1 year		Fair Value(*2)
					(in the	ousands of yen)		
Principle accounting method	Interest rate swap transaction floating rate receivable and Fixed rate payable	Long-term borrowings	¥	99,119,000	¥	99,119,000	¥	92,243
Total ·····		·······	¥	99,119,000	¥	99,119,000	¥	92,243

<sup>(\*1)</sup> The contract amount is based on the notional principal amount.

## As of December 31, 2017:

					Contr	act amount(*1)				Contr	ract amount(*	1)	
Method of hedge accounting	Type of derivative transaction	Main hedged item		Total		Over1 year		Fair Value(*2)	Total		Over 1 year		Fair Value(*2)
					(in the	usands of yen)			(in	housa	nds of U.S. d	ollars)	
Principle accounting method	Interest rate swap transaction floating rate receivable and Fixed rate payable	Long-term borrowings	¥	99,119,000	¥	70,140,000	¥	113,592	\$ 877,159	\$	620,707	\$	1,005
Total ·····			¥	99,119,000	¥	70,140,000	¥	113,592	\$ 877,159	\$	620,707	\$	1,005

<sup>(\*1)</sup> The contract amount is based on the notional principal amount.

## 19. Asset Retirement Obligations

The Company has an obligation under a fixed-term leasehold agreement to restore its leased land, which represents the land where COMFORT HOTEL MAEBASHI, owned by the Company, is located upon the termination of agreement. The estimated period of use of property is estimated at 43 years based on the lease period per the agreement. The assets retirement obligation for the restoration is recognized as a liability using discount rate at 1.342%.

Movements of asset retirement obligations for the six month ended June 30, 2017 and December 31, 2017 are as follows.

<sup>(\*2)</sup> The fair value is provided by the financial institution.

<sup>(\*2)</sup> The fair value is provided by the financial institution.

		For the six month ende	d	
	June 30, 2017	December 31, 2017		December 31, 2017
	(in thousan	ds of yen)		(in thousands of U.S. dollars)
Balance at the beginning of the period ——— ¥	31,260	¥ 31,468	\$	278
Liabilities incurred due to the acquisition of properties	-	-		-
Accretion expense	208	212	_	1
Balance at the end of the period $\longrightarrow$	31,468	¥ 31,680	\$	280

## 20. Segment Information

Segment information for the six months ended June 30, 2017 and December 31, 2017 is as follows:

## (a) Operating Segment Information

Disclosure is omitted as the Company is comprised of a single reportable segment engaged in the property rental business.

## (b) Enterprise-wide Disclosures

(i) Information about Products and Services

Disclosure is not required as revenues from external customers for the single segment are in excess of 90% of total revenues.

- (ii) Information about Geographic Areas
  - (1) Revenues from Overseas Customers:

Disclosure is not required as revenues from external customers located in Japan are in excess of 90% of total revenues.

(2) Tangible Fixed Assets:

Disclosure is not required as tangible fixed assets located in Japan are in excess of 90% of total tangible fixed assets.

## (c) Information about Major Customers

Information about major clients for the six-month periods ended June 30, 2017 and December 31, 2017 were as follows:

For the six months ended June 30, 2017

Name of client	Operating Revenues (in thousands of yen)	Related segment
Mystays Hotel Management Co.,Ltd.	¥3,852,826	Real estate investing business

For the six months ended December 31, 2017

Name of client	Operating Revenues (in thousands of yen)	Operating Revenues (in thousands of U.S. dollars)	Related segment
Mystays Hotel Management Co.,Ltd.	¥4,794,080	<i>\$42,425</i>	Real estate investing business

## 21. Related-Party Transactions

## (a) Parent Company and Major Corporate Unitholders

For the six months ended June 30, 2017

				Share capital	Voting	Dalatian dala	Transactions for	the period	Balance at	the end of period
Type of related-party	Company name	Location	Business	(in millions of yen)	interest in the Company	Relationship with the Company	Type of transactions	Amounts (1) (in thousands of yen)	Balance sheet account	Amounts(1) (in thousands of yen)
	Sakura TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥21,879,000	-	-
	Momo TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥2,683,000	-	-
Interested party of the Asset Manager	Septentrio2 TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥8,000,000	-	-
	Naqua Hotel & Resorts Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 10	-	Lease holder and operator of hotel	Rental Revenues	¥549,169	Rental receivables	¥198,247
	Mystays Hotel Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 100	-	Lease holder and operator of hotel	Rental Revenues	¥3,852,826	Rental receivables	¥1,043,190

#### Notes:

- (1) Consumption taxes are not included in the transaction amount, but are included in the balance at the end of periods.
- (2) Terms and conditions are decided pursuant to the Asset Manager's Regulations on Transactions with Sponsor-related Persons and the Management Manual regarding Transactions with Sponsor-related Persons.
- (3) The seller, Sakura TMK, Momo TMK, Septentrio 2TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd has no relationship to be stated, but they receive investment through funds that are managed by FIG, ans affiliate of Calliope. Accordingly, we treat Sakura TMK, Momo TMK, Septentrio 2TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd as a related party.
- (4) Calliope holds 609,942 units(holding ratio: 15.8%) of the issued investment units of the Company.
- (5) The transaction amount exclude adjusted amount of real property tax and city planning tax, as well as consumption tax and local consumption tax.

For the six months ended December 31, 2017

				Shan	e capital			Tran	sactions for the po	eriod	Bal	ance at the end of p	eriod
Type of	Company			_	(in	Voting interest in	Relationship		Amo	unts(1)		Amo	unts(1)
related-party	name	Location	Business	(in millions of yen)	thousands of U.S. dollars)	the Company	with the Company	Type of transactions	(in thousands of yen)	(in thousands of U.S. dollars)	Balance sheet account	(in thousands of yen)	(in thousands of U.S. dollars)
	HL Investments TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥13,068,000	\$ 115,646	-	-	-
	Septentrio3 TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥9,781,000	\$86,557	-	-	-
Interested party of the	Monza TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥8,870,000	\$ <i>78,</i> 495	-	1	1
Asset Manager	Suisei TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥7,880,000	\$69,734	1	1	1
	Naqua Hotel & Resorts Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 10	\$ 88	-	Lease holder and operator of hotel	Rental Revenues	¥1,103,226	\$ 9,763	Rental receivables	¥130,953	\$ 1,158
	Mystays Hotel Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 100	\$ 884	1	Lease holder and operator of hotel	Rental Revenues	¥4,794,080	\$ <i>42,</i> 425	Rental receivables	¥1,551,920	\$13,733

#### Notes:

- (1) Consumption taxes are not included in the transaction amount, but are included in the balance at the end of periods.
- (2) Terms and conditions are decided pursuant to the Asset Manager's Regulations on Transactions with Sponsor-related Persons and the Management Manual regarding Transactions with Sponsor-related Persons.

- (3) The seller, HL Investments TMK, Septentrio 3 TMK, Monza TMK, Suisei TMK, Naqua Hotel & Management Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd has no relationship to be stated, but they receive investment through funds that are managed by FIG, ans affiliate of Calliope. Accordingly, we treat HL Investments TMK, Septentrio 3 TMK, Monza TMK, Suisei TMK, Naqua Hotel & Management Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd as a related party.
- (4) Calliope holds 609,942 units(holding ratio: 12.7%) of the issued investment units of the Company.
- (5) The transaction amount exclude adjusted amount of real property tax and city planning tax, as well as consumption tax and local consumption tax.

Acquisition of real estate trust beneficiary rights are relating to below

Property No.	Property name	Seller	Acquisition cost (in thousands of yen)	Acquisition cost (in thousands of US dollars)
D50	Hotel MyStays Shin Osaka Conference Center	HL Investments TMK	13,068,000	115,646
D51	Hotel MyStays Premier Omori	Septentrio3 TMK	9,781,000	86,557
D52	Beppu Kamenoi Hotel	Monza TMK	8,870,000	78,495
D53	Hotel MyStays Sapporo Station	Suisei TMK	7,880,000	69,734
		Total	39,599,000	350,433

## (b) Board of Directors and Major Individual Unitholders

For the six months ended June 30, 2017

			Voting	Transactions for the	period	Balance at th	ne end of period
Type of related-party	Type of related-party Name Business/Occupation	interest in the	T. () ()	Amounts (3)	Balance sheet	Amounts (3)	
			Company	Type of transactions	(in thousands of yen)	account	(in thousands of yen)
Directors	NT 1:	Executive officer of the Company and		Payment of the assets management fee to Consonant Investment Management Co., Ltd.(1)	¥ 253,256	Accrued expenses	¥ 135,000
and close relatives	Naoki Fukuda	management director of Consonant Investment Management Co., Ltd.	-	Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥ 600	Accrued expenses	¥ 324

#### Notes:

- (1) Naoki Fukuda serves as a representative of the Asset Manager and the asset management fee is established in the Articles of Incorporation of the Company.
- (2) Naoki Fukuda serves as a representative of Asset Manager and the fee is established in the "Administrative Agency Agreement for Organizational Management" which was agreed between the Asset Manager and the Company.
- (3) Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

For the six months ended December 31, 2017

				Transactions for	the period		Balano	e at the end of po	eriod
Type of		Business/	Voting interest in		Amou	nts (3)		Amou	nts (3)
related-party	Name	Occupation	the Company	Type of transactions	(in thousands of yen)	(in thousands of U.S. dollars)	Balance sheet account	(in thousands of yen)	(in thousands of U.S. dollars)
Directors	Naoki	Executive officer of the Company and management director of		Payment of the assets management fee to Consonant Investment Management Co., Ltd.(1)	¥ 276,823	\$ 2,449	Accrued expenses	¥ 159,138	\$ 1,408
and close relatives	Fukuda	Consonant Investment Management Co., Ltd.	-	Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥ 1,100	\$ 9	Accrued expenses	¥ 864	\$ 7

## Notes:

- (1) Naoki Fukuda serves as a representative of the Asset Manager and the asset management fee is established in the Articles of Incorporation of the Company.
- (2) Naoki Fukuda serves as a representative of Asset Manager and the fee is established in the "Administrative Agency Agreement for Organizational Management" which was agreed between the Asset Manager and the Company.
- (3) Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.

## 22. Per Unit Information

The following table shows net asset value per unit as of June 30, 2017 and December 31, 2017 and net income per unit for the six months then ended. Net income per unit is calculated by dividing the net income attributable to unitholders by the weighted average number of units outstanding during the six-month period. The Company has no potentially dilutive units.

	As of / For the six months ended					
_	June 30, 2017		December 31, 2017		December 31, 2017	
_	(Ye	en)			(U.S. dollars)	
Net asset value per unit	36,019	¥	37,829	\$	334	
Net income per unit ————————————————————————————————————	1,241	¥	1,712	\$	15	
Weighted average number of units	3,788,254		4,266,437		-	

## 23. Subsequent Events

## (a) Sales of assets

The Company completed sales of 5 properties as shown in the following table on January 31, 2018.

Use	Property number	Property name	Book value (JPY million) (Note 1)	Sales price (JPY million) (Note 2)	Anticipated gain on sales (JPY million) (Note 3)	Transferee	Category of specified asset
Residential	A31	Harmonie Ochanomizu	1,346	1,603	220	Undisclosed (Note 4)	Trust beneficial interest
Residential	A36	Growth Maison Ikebukuro	743	1,057	288	Undisclosed (Note 4)	Trust beneficial interest
Residential	A42	Capital Heights Kagurazaka	623	732	87	Undisclosed (Note 4)	Trust beneficial interest
Office Building	B15	Cross Square NAKANO	1,125	1,350	199	Taisei-Yuraku Real Estate Co.,Ltd.	Trust beneficial interest
Commercial Facility	B16	Ohki Aoba Building	709	721	-	Kubota Honten & Co.,Ltd.	Trust beneficial interest

The Company decided to sell 1 property as shown in the following table on February 13, 2018 and the sale has been closed on March 9, 2018.

Use	Property number	Property name	Book value (JPY million) (Note 1)	Sales price (JPY million) (Note 2)	Anticipated gain on sales (JPY million) (Note 3)	Transferee	Category of specified asset
Office Building	B14	Lexington Plaza Nishi-Gotanda	4,639	5,160	431	Undisclosed (Note 4)	Trust beneficial interest

(Note 1) The book values are amount as of December 31, 2017

(Note 2) Sales prices do not include sales-related expenses, adjustments for fixed asset taxes or city planning taxes, or national and local consumption taxes.

(Note 3) Anticipated gain on sales are the differences between sales price and the total of book value and anticipated sales-related expenses.

(Note 4) The name of the transferee is not disclosed, as the transferee's consent has not been obtained for disclosure.

## (b)Acquisition of assets (properties)

The Company decided to acquire 4 hotel properties as shown in the following table on February 5, 2018, entered into the purchase and sale agreement on the same date, and the acquisitions have been closed on February 7, 2018, using a part of funds from "(a) Sales of assets" for these acquisitions.

Use	Property number	Property name	Location	Acquisition price (JPY million) (Note 5)	Total rentable area	Seller	Category of specified asset
Hotel	D54	Hotel MyStays Yokohama-Kannai	Yokohama, Kanagawa	5,326	4,567.24 m <sup>2</sup>	Ginga Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D55	Art Hotel Joetsu	Joetsu, Niiigata	2,772	7,551.78 m²	HL Investments Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D56	Art Hotel Hirosaki City	Hirosaki, Aomori	2,723	18,889.26 m <sup>2</sup>	Monza Tokuteki Mokuteki Kaisha	Trust beneficial interest
Hotel	D57	Hotel MyStays Oita	Oita, Oita	1,604	3,766.72 m <sup>2</sup>	Suisei Tokutei Mokuteki Kaisha	Trust beneficial interest

(Note 5) Acquisition prices show purchase prices set forth in the purchase and sale agreements. Acquisition prices do not include adjustments for property taxes or city planning taxes, or national and local consumption taxes.