

Invincible Investment
Corporation

**Audited Financial Statements
for the 30th Fiscal Period
(from January 1, 2018 to June 30, 2018)**

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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 30th fiscal period (covering the period from January 1, 2018 to June 30, 2018; 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 continued with the Asset Recycling Program started in the previous fiscal period for further enhancement of portfolio revenues. Under the program, INV acquired 6 hotels which are highly competitive in terms of location and specifications in their respective areas and also expected to deliver high yields, while disposing a total of 6 properties (3 residential properties and 3 office buildings).

As to internal growth of existing properties, INV implemented large-scale renovations at 5 hotels to enhance competitiveness which temporarily impacted occupancy rate and revenue due to associated partial downtime. However, NOI of the existing hotel portfolio (1) excluding the 5 hotels increased 2.6% year on year, achieving solid growth. Concerning residential properties, the portfolio NOI increased 3.2% year on year as a result of successful ongoing efforts to increase rents for both new and renewal leases at each unit. Specifically, at Royal Parks Tower Minami Senju, INV’s flagship residential property, INV achieved strong results with rent increases for 84.9% (based on the number of contracts) of the new/renewed lease contracts with an average unit rent increase of 10.1% compared to the previous rent across all new leases (2).

INV issued its first investment corporation bonds in May 2018 which successfully reduced financing costs, lengthened the average maturity period of its interest-bearing debt and diversified the maturity dates of its interest-bearing debt and funding sources, and provided partial funds for property acquisition.

As a result of the operations mentioned above, operating revenues reached JPY 13,104 million, operating income JPY 8,433 million and net income JPY 7,721 million. INV internally reserved JPY 756 million for stabilization of the distribution level in the future and decided on distribution per unit of JPY 1,430, an increase of 13.1% year on year (3).

In addition, INV conducted a global public offering of new investment units in August 2018 (after the end of the Reporting Period) for the fifth consecutive year to acquire 4 hotels in Japan also decided to acquire the TK interest in two overseas hotels as underlying assets, becoming the first J-REIT to do so.

The 2 overseas hotels are highly competitive and profitable and are located in the Cayman Islands which have highly stable political and economic systems. The Cayman Islands anticipate an increase in hotel demand due to higher inbound tourism and an airport expansion currently underway. The hotels thus are expected to improve and stabilize INV’s revenues through the geographical diversification of investments as well as to moderate revenue fluctuations caused by seasonal effects since they have different demand peak seasons compared to hotels in Japan.

The 4 hotels which INV acquired in Japan are prime properties located in Tokyo, Osaka and central Sapporo, including 2 under the Hotel MyStays “Premier” brand. INV believes these hotels will contribute to stability and growth of quality as well as to revenue of its hotel portfolio. INV believes that the effectuation of the Private Lodging Business Act (New Private Lodging Business Act) in June 2018 will significantly decrease the number of “illegal private lodgings” operating without permission or license centering on central Tokyo where these properties are located and result in an increase in demand for existing hotels.

Domestic properties acquired by INV in the Reporting Period and after the end of the Reporting Period were all from the sponsor pipeline properties. In conjunction with the decision on acquisition of new properties, INV renewed a Memorandum of Understanding (the “MOU”) with affiliates of Fortress Group with respect to preferential negotiating rights and increased the number of pipeline properties (19 hotels with 3,882 rooms, 9 residential properties with 743 units) for further growth. Going forward, INV aims to improve revenue and distribution per unit through external growth.

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) Existing hotel portfolio refers to 40 properties among 54 properties owned by INV at the beginning of the fiscal period ended June 2018 (including Sheraton Grande Tokyo Bay Hotel, the underlying asset of the preferred equity interest of a special purpose company owned by INV), excluding the 9 properties with fixed rent and the 5 properties which went under renovation.
- (2) The comparison is made between the total of monthly rents based on new or renewed lease contracts and the total of monthly rents under previous contracts, concerning contracts which were subject to a new lease contract or contract renewal.
- (3) Comparison with the fiscal period ended June 2017. In order to eliminate the seasonal effects of hotel variable rent, 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 December 2017).

Distribution per unit for the 30th fiscal period
(the fiscal period ended June 2018)

JPY 1,430

(Note) The forward-looking statements, forecasts and goals described in this report are based on available information, assumptions and estimates as of August 31, 2018. 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.

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 June 30, 2018, 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 June 30, 2018, and its financial performance and cash flows for the six months then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 27 to the financial statements, which describe the followings.

1. A decision was made on the issuance of new investment units and secondary offering of investment units on July 17, 2018 and July 25, 2018 and the payment was completed on August 1, 2018 and August 21, 2018.
2. A decision was made on the implementation of borrowings on July 17, 2018.
3. A decision was made to acquire 4 hotel properties on July 17, 2018 and the acquisitions have been closed on August 2, 2018.
4. A decision was made to acquire TK interest on July 17, 2018 and the TK agreement was executed on the same day.

Our opinion is not qualified in respect of these matters.

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 4.

Ernst & Young ShinNihon LLC

September 25, 2018
Tokyo, Japan

INVINCIBLE INVESTMENT CORPORATION

BALANCE SHEET

As of June 30, 2018

	As of		
	December 31, 2017	June 30, 2018	
	(in thousands of yen)		(in thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash and bank deposits (Notes 6 and 18)	¥ 14,367,140	¥ 8,505,792	\$ 77,010
Cash and bank deposits in trust (Notes 6 and 18)	6,326,653	6,566,761	59,454
Accounts receivable	-	6,483	58
Rental receivables	1,984,728	1,826,596	16,537
Prepaid expenses	489,098	428,536	3,879
Income taxes receivable	8	149,632	1,354
Consumption taxes receivable	613,566	-	-
Other	0	0	0
Allowance for doubtful accounts	(89)	(89)	0
Total current assets	23,781,107	17,483,714	158,295
Non-current assets:			
Property and equipment (Notes 7 and 8):			
Tools, furniture and fixtures, at cost	3,192	3,192	28
Buildings in trust, at cost	128,867,905	133,579,099	1,209,407
Buildings and accompanying facilities in trust, at cost	28,454,395	28,918,145	261,821
Structures in trust, at cost	262,372	225,353	2,040
Tools, furniture and fixtures in trust, at cost	1,065,760	1,395,339	12,633
Land in trust	167,845,958	173,298,062	1,569,018
Subtotal	326,499,585	337,419,193	3,054,949
Less: Accumulated depreciation	(15,618,522)	(17,196,907)	(155,698)
Total property and equipment, net	310,881,062	320,222,285	2,899,251
Intangible assets:			
Leasehold rights in trust	16,828,843	16,712,637	151,314
Total intangible assets	16,828,843	16,712,637	151,314
Investments and other assets:			
Investment securities (Note 19 and 23)	17,854,460	17,856,387	161,669
Guarantee deposits	1,651,565	1,681,565	15,224
Long-term prepaid expenses	587,753	426,222	3,858
Derivatives assets (Note 20)	113,592	92,561	838
Other	59,869	12,667	114
Total investments and other assets	20,267,241	20,069,404	181,705
Total non-current assets	347,977,146	357,004,327	3,232,270
Deferred assets:			
Investment corporation bond issuance costs	-	24,295	225
Total deferred assets	-	24,295	225
TOTAL ASSETS	¥ 371,758,254	¥ 374,512,988	\$ 3,390,792

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
LIABILITIES			
Current liabilities:			
Accounts payable	¥ 254,936	¥ 598,870	\$ 5,422
Short-term loans payable (Note 10)	3,068,000	2,000,000	18,107
Current portion of long-term loans payable (Note 10)	28,979,000	46,663,000	422,480
Accounts payable-other	51,836	131,783	1,193
Accrued expenses	270,486	195,481	1,769
Income taxes payable	605	605	5
Consumption taxes payable	-	14,902	134
Advances received	600,752	551,506	4,993
Deposits received	29,190	21,697	196
Total current liabilities	33,254,807	50,177,846	454,303
Non-current liabilities:			
Investment corporation bonds (Note 9)	-	2,000,000	18,107
Long-term loans payable (Notes 10 and 18)	154,936,000	138,752,000	1,256,242
Tenant leasehold and security deposits in trust (Note 18)	2,215,299	2,026,400	18,346
Tenant leasehold and security deposits (Note 18)	-	1,586	14
Asset retirement obligations (Note 21)	31,680	31,891	288
Total non-current liabilities	157,182,980	142,811,878	1,293,000
TOTAL LIABILITIES	190,437,787	192,989,724	1,747,303
NET ASSETS (Note 11)			
Unitholders' equity:			
Unitholders' capital	168,798,455	168,798,455	1,528,279
Surplus:			
Capital surplus	6,264,432	6,264,432	56,717
Allowance for temporary differences			
Adjustment (Note 5)	(46,329)	(46,329)	(419)
Other deduction of capital surplus	(1,022,263)	(1,194,818)	(10,817)
Total deduction of capital surplus	(1,068,593)	(1,241,148)	(11,237)
Capital surplus (net)	5,195,838	5,023,283	45,480
Voluntary reserve			
Retained earnings	7,212,580	7,610,548	68,904
Total surplus	12,408,419	12,633,832	114,385
Total unitholders' equity	181,206,874	181,432,288	1,642,664
Valuation and translation adjustments:			
Deferred gains or losses on hedges	113,592	90,975	823
Total valuation and translation adjustments	113,592	90,975	823
TOTAL NET ASSETS	181,320,466	181,523,263	1,643,488
TOTAL LIABILITIES AND NET ASSETS	¥ 371,758,254	¥ 374,512,988	\$ 3,390,792

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 June 30, 2018

	For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Operating revenue			
Rental revenue—real estate (Note 13)	¥ 11,403,236	¥ 11,122,481	\$ 100,701
Gain on sales of properties (Note 14)	1,244,033	1,249,645	11,314
Dividend income	-	732,714	6,633
Total operating revenue	<u>12,647,270</u>	<u>13,104,714</u>	<u>118,649</u>
Operating expenses			
Property related expenses (Note 13)	3,962,183	4,136,619	37,452
Impairment loss (Note 15)	15,677	-	-
Asset management fees	250,000	275,000	2,489
Directors' compensation	4,800	4,800	43
Asset custody fees	15,230	18,162	164
Administrative service fees	37,347	39,697	359
Provision of allowance for doubtful accounts	89	2	0
Other	138,288	197,039	1,783
Total operating expenses	<u>4,423,618</u>	<u>4,671,320</u>	<u>42,293</u>
Operating income	<u>8,223,652</u>	<u>8,433,520</u>	<u>76,356</u>
Non-operating income			
Interest income	54	78	0
Interest on tax refund	234	3,086	27
Other	507	1,181	10
Total non-operating income	<u>796</u>	<u>4,347</u>	<u>39</u>
Non-operating expenses			
Interest expenses	445,855	479,456	4,340
Interest expenses on investment corporation bonds	-	1,216	11
Amortization of investment corporation bond issuance costs	-	379	3
Loan-related costs	304,073	234,197	2,120
Investment unit issuance costs	170,817	-	-
Other-non-operating expenses	-	64	0
Total non-operating expenses	<u>920,746</u>	<u>715,314</u>	<u>6,476</u>
Ordinary income	<u>7,303,702</u>	<u>7,722,553</u>	<u>69,919</u>
Income before income taxes	<u>7,303,072</u>	<u>7,722,553</u>	<u>69,919</u>
Income taxes (Note 16):			
Current	605	605	5
Total income taxes	<u>605</u>	<u>605</u>	<u>5</u>
Net income	<u>7,303,097</u>	<u>7,721,948</u>	<u>69,913</u>
Retained earnings / losses brought forward	<u>(90,516)</u>	<u>(111,399)</u>	<u>(1,008)</u>
Unappropriated retained earnings / losses (Note 12)	<u>¥ 7,212,580</u>	<u>¥ 7,610,548</u>	<u>\$ 68,904</u>

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 June 30, 2018

	Unitholders' equity					
	Surplus					Capital surplus (net)
	Unitholders' capital	Capital surplus				
		Capital surplus	Deduction of capital surplus		Deduction of capital surplus	
			Allowance for temporary differences adjustment	Other deduction of capital surplus		
(in thousands of yen)						
Balance as of July 1, 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 allowance for temporary differences adjustment			(46,329)		(46,329)	(46,329)
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
Changes during the period						
Distributions from surplus						
Other distributions in excess of retained earnings				(172,554)	(172,554)	(172,554)
Net income						
Changes other than unitholders' equity (net)						
Total changes during the period	-	-	-	(172,554)	(172,554)	(172,554)
Balance as of June 30, 2018	¥ 168,798,455	¥ 6,264,432	¥ (46,329)	¥ (1,194,818)	¥ (1,241,148)	¥ 5,023,283

	Unitholders' equity			Valuation and translation adjustments		Total net assets
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Retained earnings	Total surplus				
	(in thousands of yen)					
Balance as of July 1, 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 allowance for temporary differences adjustment		(46,329)	(46,329)			(46,329)
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
Changes during the period						
Distributions from surplus	(7,323,980)	(7,323,980)	(7,323,980)			(7,323,980)
Other distributions in excess of retained earnings		(172,554)	(172,554)			(172,554)
Net income	7,721,948	7,721,948	7,721,948			7,721,948
Changes other than unitholders' equity (net)				(22,616)	(22,616)	(22,616)
Total changes during the period	397,968	225,413	225,413	(22,616)	(22,616)	202,796
Balance as of June 30, 2018	¥ 7,610,548	¥ 12,633,832	¥ 181,432,288	¥ 90,975	¥ 90,975	¥ 181,523,263

Unitholders' equity

	Unitholders' equity					Capital surplus (net)
	Unitholders' capital	Surplus				
		Capital surplus				
		Capital surplus	Deduction of capital surplus		Deduction of capital surplus	
Allowance for temporary differences adjustment	Other deduction of capital surplus					
	(in thousands of US dollars)					
Balance as of January 1, 2018	\$ 1,528,279	\$ 56,717	\$ (419)	\$ (9,255)	\$ (9,674)	\$ 47,042
Changes during the period						
Distributions from surplus						
Other distributions in excess of retained earnings				(1,562)	(1,562)	(1,562)
Net income						
Changes other than unitholders' equity (net)						
Total changes during the period	-	-	-	(1,562)	(1,562)	(1,562)
Balance as of June 30, 2018	\$ 1,528,279	\$ 56,717	\$ (419)	\$ (10,817)	\$ (11,237)	\$ 45,480

	Unitholders' equity			Valuation and translation adjustments		Total net assets
	Surplus		Total unitholders' equity	Deferred gains or losses on hedges	Total valuation and translation adjustments	
	Retained earnings	Total surplus				
	(in thousands of US dollars)					
Balance as of January 1, 2018	\$ 65,301	\$ 112,344	\$ 1,640,623	\$ 1,028	\$ 1,028	\$ 1,641,652
Changes during the period						
Distributions from surplus	(66,310)	(66,310)	(66,310)			(66,310)
Other distributions in excess of retained earnings		(1,562)	(1,562)			(1,562)
Net income	69,913	69,913	69,913			69,913
Changes other than unitholders' equity (net)				(204)	(204)	(204)
Total changes during the period	3,603	2,040	2,040	(204)	(204)	1,836
Balance as of June 30, 2018	\$ 68,904	\$ 114,385	\$ 1,642,664	\$ 823	\$ 823	\$ 1,643,488

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

INVINCIBLE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS For the six months ended June 30, 2018

	For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes	¥ 7,303,702	¥ 7,722,553	\$ 69,919
Depreciation and amortization	2,567,215	2,772,510	25,101
Impairment	15,677	-	-
Investment unit issuance costs	170,817	-	-
Amortization of investment corporation bond issuance costs	-	379	3
Loan-related costs	304,073	234,197	2,120
Interest income	(54)	(78)	0
Interest expenses	445,855	480,672	4,351
Changes in assets and liabilities			
Increase (decrease) in allowance for doubtful accounts	55	0	0
Decrease (increase) in rental receivables	(564,535)	158,132	1,431
Decrease (increase) in receivable income taxes	2	(149,624)	(1,354)
Decrease (increase) in consumption taxes receivable	(640,464)	661,287	5,987
Increase (decrease) in accounts payable	(7,867)	39,752	359
Increase (decrease) in consumption taxes payable	47,721	(32,819)	(297)
Increase (decrease) in accounts payable-other	(67,922)	49,627	449
Increase (decrease) in accrued expenses	98,065	(75,177)	(680)
Increase (decrease) in advances received	60,077	(49,246)	(445)
Increase (decrease) in deposits received	(7,567)	(47,348)	(428)
Decrease in property and equipment, due to sale	802,750	-	-
Decrease in property and equipment, due to sale in trust	3,590,653	9,181,866	83,131
Other, net	(1,277)	20,177	182
Subtotal	14,116,980	20,966,865	189,831
Interest income received	54	78	0
Interest expenses paid	(439,861)	(483,261)	(4,375)
Income taxes paid	(605)	(605)	(5)
Net cash provided by operating activities	13,676,568	20,483,077	185,451
Cash flows from investing activities:			
Purchases of property and equipment	(797)	-	-
Purchases of property and equipment in trust	(42,111,738)	(20,847,991)	(188,755)
Purchases of investment securities	(17,854,460)	(1,927)	(17)
Repayments of tenant leasehold and security deposits	(28,663)	-	-
Repayments of tenant leasehold and security deposits in trust	(139,629)	(320,542)	(2,902)
Proceeds from tenant leasehold and security deposits in trust	115,173	132,593	1,200
Payments of tenant leasehold and security deposits	-	(30,000)	(271)
Other, net	(14,807)	47,201	427
Net cash used in investing activities	(60,034,922)	(21,020,665)	(190,318)
Cash flows from financing activities:			
Proceeds from short-term loans payable	3,068,000	-	-
Repayments of short-term loans payable	-	(1,068,000)	(9,669)
Proceeds from long-term loans payable	19,925,000	1,500,000	13,580
Proceeds from issuance of investment corporation bonds	-	1,977,436	17,903
Payments for loan-related costs	(325,727)	(40,494)	(366)
Payments of distributions of earnings	(4,776,561)	(7,280,040)	(65,912)
Payments of distributions in excess of retained earnings from allowance for temporary differences adjustment	(46,329)	-	-
Payments of other distributions in excess of retained earnings	(34,747)	(172,554)	(1,562)
Proceeds from issuance of investment units	39,644,352	-	-
Net cash provided by (used in) financing activities	57,453,986	(5,083,652)	(46,026)
Net increase (decrease) in cash and cash equivalents	11,095,633	(5,621,240)	(50,893)
Cash and cash equivalents at beginning of period	9,598,161	20,693,794	187,358
Cash and cash equivalents at end of period (Note 6)	¥ 20,693,794	¥ 15,072,553	\$ 136,464

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 June 30, 2018

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 ¥369,734 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 ¥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 ¥21,873 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 ¥23.9 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:

	<u>For the six months ended</u>
	<u>June 30, 2018</u>
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) Investment corporation bond issuance costs

Investment corporation bond issuance costs are amortized using the straight-line method over the period through the redemption of the bonds.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 ¥77,833 (US\$704) thousand for the six months ended June 30, 2018.

3. Notes on Change in Presentation Method

“Income taxes receivable” which was included in “Accounts receivable” under “Current assets” in the previous fiscal period, is presented separately, starting from the fiscal period under review, due to greater quantitative materiality.

As a result, in the Balance sheet for the previous fiscal period, the JPY 8 thousand that was presented in “Accounts receivable” under “Current assets” is reclassified as “Income taxes receivable”.

Besides this change, in the Statement of cash flows for the previous fiscal period, the minus JPY 1,274 thousand that was presented in "Other, net" under "Cash flows from operating activities" is reclassified as the JPY 2 thousand of "Decrease (increase) in receivable income taxes" and the minus JPY 1,277 thousand of "Other, net".

4. 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 ¥110.45 = US\$1, the effective rate of exchange prevailing at June 30, 2018. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended June 30, 2018 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.

5. Allowance for temporary differences adjustment

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)	-	¥ (46,329)	-	¥ (46,329)	-
Total		¥ (46,329)	-	¥ (46,329)	-	¥ (46,329)	

2. Method of reversal

(1) Leasehold rights in trust

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

For the six months ended June 30, 2018

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)	¥ (46,329)	-	-	¥ (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	\$ (419)	\$ (419)	-	-	\$ (419)	-
Total		\$ (419)	\$ (419)	-	-	\$ (419)	

2. Method of reversal

(1) Leasehold rights in trust

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

6. Cash and Cash Equivalents

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

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 14,367,140	¥ 8,505,792	\$ 77,010
Cash and bank deposits in trust	6,326,653	6,566,761	59,454
Cash and cash equivalents	¥ 20,693,794	¥ 15,702,553	\$ 136,464

7. Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended June 30, 2018.

	At cost						
	Beginning balance	Increase	Decrease	Ending balance	Accumulated depreciation	Depreciation for the period	Net property and equipment
	(in thousands of yen)						
Tools, furniture and fixtures	¥ 3,192	¥ -	¥ -	¥ 3,192	¥ 444	¥ 225	¥ 2,748
Buildings in trust	128,867,905	8,355,693	3,644,499	133,579,099	10,479,742	1,647,721	123,099,357
Buildings and accompanying facilities in trust	28,454,395	1,296,290	832,540	28,918,145	6,237,852	922,331	22,680,292
Structures in trust	262,372	6,108	43,126	225,353	86,498	5,880	138,854
Tools, furniture and fixtures in trust	1,065,760	366,058	36,479	1,395,339	392,369	80,146	1,002,969
Land in trust	167,845,958	11,155,034	5,702,931	173,298,062	-	-	173,298,062
Leasehold rights in trust	17,079,771	-	-	17,079,771	367,133	116,205	16,712,637
Total	¥ 343,579,356	¥ 21,179,184	¥ 10,259,576	¥ 354,498,964	¥ 17,564,040	¥ 2,772,510	¥ 336,934,923

	At cost						
	Beginning balance	Increase	Decrease	Ending balance	Accumulated depreciation	Depreciation for the period	Net property and equipment
	(in thousands of U.S dollars)						
Tools, furniture and fixtures	\$ 28	\$ -	\$ -	\$ 28	\$ 4	\$ 2	\$ 24
Buildings in trust	1,166,753	75,651	32,996	1,209,407	94,882	14,918	1,114,525
Buildings and accompanying facilities in trust	257,622	11,736	7,537	261,821	56,476	8,350	205,344

Structures in trust	2,375	55	390	2,040	783	53	1,257
Tools, furniture and fixtures in trust	9,649	3,314	330	12,633	3,552	725	9,080
Land in trust	1,519,655	100,996	51,633	1,569,018	-	-	1,569,018
Leasehold rights in trust	154,638	-	-	154,638	3,323	1,052	151,314
Total	<u>\$ 3,110,723</u>	<u>\$ 191,753</u>	<u>\$ 92,888</u>	<u>\$ 3,209,587</u>	<u>\$ 159,022</u>	<u>\$ 25,101</u>	<u>\$ 3,050,565</u>

Increases in the net book values are mainly due to the acquisition of 6 properties (¥19,750,000 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)
D54	Hotel MyStays Yokohama Kannai	5,326,000	48,220
D55	Art Hotel Joetsu	2,772,000	25,097
D56	Art Hotel Hirosaki City	2,723,000	24,653
D57	Hotel MyStays Oita	1,604,000	14,522
D58	Hotel MyStays Gotanda	4,068,000	36,831
D59	Hotel MyStays Tachikawa	3,257,000	29,488
Total		19,750,000	178,813

8. 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 December 31, 2017 and June 30, 2018.

Residential

	As of / For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 93,113,195	¥ 89,949,664	\$ 814,392
Net increase (decrease) during period	(3,163,531)	(3,380,554)	(30,607)
Balance at the end of period	89,949,664	86,569,109	783,785
Fair value	¥ 102,353,000	¥ 100,387,000	\$ 908,890

Office

	As of / For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 8,424,734	¥ 6,474,931	\$ 58,623
Net increase (decrease) during period	(1,949,803)	(6,474,931)	(58,623)
Balance at the end of period	6,474,931	-	-
Fair value	¥ 6,130,000	¥ -	\$ -

Retail facilities

	As of / For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 5,001,269	¥ 4,957,292	\$ 44,882
Net increase (decrease) during period	(43,977)	(44,824)	(405)
Balance at the end of period	4,957,292	4,912,468	44,476
Fair value	¥ 6,100,000	¥ 6,170,000	\$ 55,862

Parking lots

As of / For the six months ended

	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 100,818	¥ -	\$ -
Net increase (decrease) during period	(100,818)	-	-
Balance at the end of period	-	-	-
Fair value	¥ -	¥ -	\$ -

Hotel

	As of / For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 185,897,957	¥ 226,328,017	\$ 2,049,144
Net increase (decrease) during period	40,430,059	19,125,328	173,158
Balance at the end of period	226,328,017	245,453,345	2,222,302
Fair value	¥ 285,424,000	¥ 304,985,000	\$ 2,761,294

Total

	As of / For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 292,537,976	¥ 327,709,905	\$ 2,967,043
Net increase (decrease) during period	35,171,929	9,225,018	83,522
Balance at the end of period	327,709,905	336,934,923	3,050,565
Fair value	¥ 400,007,000	¥ 411,542,000	\$ 3,726,047

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 December 31, 2017 and June 30, 2018, please refer to "Note 12: Rent Revenues—Real Estate and Expenses Related to Property Rental Business"

9. Investment corporation bonds

The following table shows the details of investment corporation bonds for the six months ended June 30, 2018.

For the six months ended June 30, 2018

	Beginning balance	Ending balance	Beginning balance	Ending balance	Interest rate (%)
	(in thousands of yen)		(in thousands of U.S. dollars)		
1st unsecured investment corporation bond (Issued on May 25, 2018 and due on May 25, 2023)(1)(2)	-	1,000,000	-	9,053	0.400
2nd unsecured investment corporation bond (Issued on May 25, 2018 and due on May 25, 2028) (1)(2)	-	1,000,000	-	9,053	0.800
Total investment corporation bonds	-	2,000,000	-	18,107	

Notes:

- (1) The bonds were issued with pari passu conditions among specified investment corporation bonds.
- (2) The funds are mainly used to acquire properties in trust.
- (3) Repayment schedule of investment corporation bonds for the next five years after each balance sheet date are as follows:

As of

	June 30, 2018	June 30, 2018
	(in thousands of yen)	(in thousands of U.S. dollars)
Within 1 year	¥ -	\$ -
1-2 years	-	-
2-3 years	-	-
3-4 years	-	-
4-5 years	1,000,000	9,053

10. Loans Payable

The following table shows the details of loans payable for the six months ended June 30, 2018.

For the six months ended June 30, 2018

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Short-term loans payable	Mizuho Bank, Ltd.	1,023,000	-	356,000	667,000	9,261	-	3,223	6,038	0.253	13-Oct-18	(2)	Unsecured and unguaranteed
	Sumitomo Mitsui Trust Bank, Limited	1,022,000	-	356,000	666,000	9,252	-	3,223	6,029	0.253	13-Oct-18		
	Sumitomo Mitsui Banking Corporation	1,023,000	-	356,000	667,000	9,261	-	3,223	6,038	0.253	13-Oct-18		
	Total Short-term loans payable	3,068,000	-	1,068,000	2,000,000	27,777	-	9,669	18,107				
Long-term loans payable	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.375	16-Jul-18	(2)	Unsecured and unguaranteed
	MUFG Bank, Ltd.(4)	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.375	16-Jul-18		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.375	16-Jul-18		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	30,149	-	-	30,149	0.375	16-Jul-18		
	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.375	16-Jul-18		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	24,173	-	-	24,173	0.375	16-Jul-18		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	12,086	-	-	12,086	0.375	16-Jul-18		
	MUFG Bank, Ltd.(5)	668,000	-	-	668,000	6,047	-	-	6,047	0.375	16-Jul-18		
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.480	16-Jul-19		
	MUFG Bank, Ltd. (4)	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.480	16-Jul-19		

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.480	16-Jul-19	(2)	Unsecured and unguaranteed
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	30,149	-	-	30,149	0.480	16-Jul-19		
	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.480	16-Jul-19		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	24,173	-	-	24,173	0.480	16-Jul-19		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	12,086	-	-	12,086	0.480	16-Jul-19		
	MUFG Bank, Ltd. (5)	668,000	-	-	668,000	6,047	-	-	6,047	0.480	16-Jul-19		
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.590	16-Jul-20		
	MUFG Bank, Ltd. (4)	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.590	16-Jul-20		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	54,250	-	-	54,250	0.590	16-Jul-20		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	30,149	-	-	30,149	0.590	16-Jul-20		
	Citibank, N.A., Japan Branches.	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.590	16-Jul-20		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	24,173	-	-	24,173	0.590	16-Jul-20		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	12,086	-	-	12,086	0.590	16-Jul-20		
	MUFG Bank, Ltd. (5)	668,000	-	-	668,000	6,047	-	-	6,047	0.590	16-Jul-20		
	Mizuho Bank, Ltd.	3,682,000	-	-	3,682,000	33,336	-	-	33,336	0.480	28-Aug-19		
	Sumitomo Mitsui Trust Bank, Limited	3,400,000	-	-	3,400,000	30,783	-	-	30,783	0.343	22-Jan-19		
	MUFG Bank, Ltd. (5)	850,000	-	-	850,000	7,695	-	-	7,695	0.343	22-Jan-19		
	Sumitomo Mitsui Trust Bank, Limited	3,400,000	-	-	3,400,000	30,783	-	-	30,783	0.600	22-Jan-21		
	MUFG Bank, Ltd. (5)	850,000	-	-	850,000	7,695	-	-	7,695	0.600	22-Jan-21		
Mizuho Bank, Ltd.	465,000	-	-	465,000	4,210	-	-	4,210	0.453	30-Mar-19			

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	MUFG Bank, Ltd. (4)	1,125,000	-	-	1,125,000	10,185	-	-	10,185	0.453	30-Mar-19	(2)	Unsecured and unguaranteed
	Sumitomo Mitsui Trust Bank, Limited	2,181,000	-	-	2,181,000	19,746	-	-	19,746	0.453	30-Mar-19		
	Shinsei Bank, Limited	570,000	-	-	570,000	5,160	-	-	5,160	0.453	30-Mar-19		
	Resona Bank, Limited	570,000	-	-	570,000	5,160	-	-	5,160	0.453	30-Mar-19		
	MUFG Bank, Ltd. (5)	650,000	-	-	650,000	5,885	-	-	5,885	0.453	30-Mar-19		
	Japan Post Bank Co., Ltd.	2,000,000	-	-	2,000,000	18,107	-	-	18,107	0.453	30-Mar-19		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.453	30-Mar-19		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.453	30-Mar-19		
	The Shizuoka Bank, Ltd.	1,270,000	-	-	1,270,000	11,498	-	-	11,498	0.453	30-Mar-19		
	The Daiichi Bank, Ltd.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.453	30-Mar-19		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,444	-	-	2,444	0.453	30-Mar-19		
	Mizuho Bank, Ltd.	965,000	-	-	965,000	8,736	-	-	8,736	0.553	30-Mar-20		
	MUFG Bank, Ltd. (4)	1,125,000	-	-	1,125,000	10,185	-	-	10,185	0.553	30-Mar-20		
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	-	-	2,180,000	19,737	-	-	19,737	0.553	30-Mar-20		
	Shinsei Bank, Limited	570,000	-	-	570,000	5,160	-	-	5,160	0.553	30-Mar-20		
	Resona Bank, Limited	570,000	-	-	570,000	5,160	-	-	5,160	0.553	30-Mar-20		
	MUFG Bank, Ltd. (5)	650,000	-	-	650,000	5,885	-	-	5,885	0.553	30-Mar-20		
	Japan Post Bank Co., Ltd.	2,000,000	-	-	2,000,000	18,107	-	-	18,107	0.553	30-Mar-20		
The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.553	30-Mar-20			
The Shizuoka Bank, Ltd.	270,000	-	-	270,000	2,444	-	-	2,444	0.553	30-Mar-20			

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	The Kagawa Bank, Ltd.	500,000	-	-	500,000	4,526	-	-	4,526	0.553	30-Mar-20	(2)	Unsecured and unguaranteed
	The Hyogo Bank, Ltd.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.553	30-Mar-20		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,444	-	-	2,444	0.553	30-Mar-20		
	Mizuho Bank, Ltd.	1,965,000	-	-	1,965,000	17,790	-	-	17,790	0.653	30-Mar-21		
	MUFG Bank, Ltd. (4)	1,125,000	-	-	1,125,000	10,185	-	-	10,185	0.653	30-Mar-21		
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	-	-	2,180,000	19,737	-	-	19,737	0.653	30-Mar-21		
	Shinsei Bank, Limited.	570,000	-	-	570,000	5,160	-	-	5,160	0.653	30-Mar-21		
	Resona Bank, Limited.	570,000	-	-	570,000	5,160	-	-	5,160	0.653	30-Mar-21		
	MUFG Bank, Ltd. (5)	650,000	-	-	650,000	5,885	-	-	5,885	0.653	30-Mar-21		
	The Bank of Fukuoka, Ltd.	1,333,000	-	-	1,333,000	12,068	-	-	12,068	0.653	30-Mar-21		
	The Shizuoka Bank, Ltd.	270,000	-	-	270,000	2,444	-	-	2,444	0.653	30-Mar-21		
	The Kagawa Bank, Ltd.	500,000	-	-	500,000	4,526	-	-	4,526	0.653	30-Mar-21		
	The Hiroshima Bank, Ltd.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.653	30-Mar-21		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,444	-	-	2,444	0.653	30-Mar-21		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.453	15-Jun-19		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.553	15-Jun-20		
	Citibank, N.A., Japan Branches.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.653	15-Jun-21		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.453	30-Jun-19		
	AEON Bank, Ltd.	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.653	30-Jun-21		
	The Tokyo Star Bank, Limited	700,000	-	-	700,000	6,337	-	-	6,337	0.453	20-Jul-19		

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	The Tokyo Star Bank, Limited	1,600,000	-	-	1,600,000	14,486	-	-	14,486	0.553	20-Jul-20	(2)	Unsecured and unguaranteed
	The Tokyo Star Bank, Limited	1,700,000	-	-	1,700,000	15,391	-	-	15,391	0.653	20-Jul-21		
	Mizuho Bank, Ltd.	634,000	-	-	634,000	5,740	-	-	5,740	0.453	14-Mar-20		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	9,053	-	-	9,053	0.453	14-Mar-20		
	Resona Bank, Limited.	333,000	-	-	333,000	3,014	-	-	3,014	0.453	14-Mar-20		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.453	14-Mar-20		
	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.453	14-Mar-20		
	The Toyou Bank, Ltd.	252,000	-	-	252,000	2,281	-	-	2,281	0.453	14-Mar-20		
	The Shizuoka Bank, Ltd.	200,000	-	-	200,000	1,810	-	-	1,810	0.453	14-Mar-20		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,493	-	-	1,493	0.453	14-Mar-20		
	Mizuho Bank, Ltd.	1,633,000	-	-	1,633,000	14,784	-	-	14,784	0.553	14-Mar-21		
	Resona Bank, Limited.	333,000	-	-	333,000	3,014	-	-	3,014	0.553	14-Mar-21		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.553	14-Mar-21		
	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.553	14-Mar-21		
	The Toyou Bank, Ltd.	253,000	-	-	253,000	2,290	-	-	2,290	0.553	14-Mar-21		
	The Shizuoka Bank, Ltd.	200,000	-	-	200,000	1,810	-	-	1,810	0.553	14-Mar-21		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,493	-	-	1,493	0.553	14-Mar-21		
	Mizuho Bank, Ltd.	1,733,000	-	-	1,733,000	15,690	-	-	15,690	0.653	14-Mar-22		
	Resona Bank, Limited.	333,000	-	-	333,000	3,014	-	-	3,014	0.653	14-Mar-22		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.653	14-Mar-22		

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	The Nomura Trust and Banking Co., Ltd.	333,000	-	-	333,000	3,014	-	-	3,014	0.653	14-Mar-22	(2)	Unsecured and unguaranteed
	AEON Bank, Ltd.	900,000	-	-	900,000	8,148	-	-	8,148	0.653	14-Mar-22		
	The Toyou Bank, Ltd.	253,000	-	-	253,000	2,290	-	-	2,290	0.653	14-Mar-22		
	The Shizuoka Bank, Ltd.	200,000	-	-	200,000	1,810	-	-	1,810	0.653	14-Mar-22		
	The Dai-ichi Life Insurance company, Limited	500,000	-	-	500,000	4,526	-	-	4,526	0.653	14-Mar-22		
	The Gunma Bank, Ltd.	165,000	-	-	165,000	1,493	-	-	1,493	0.653	14-Mar-22		
	Sumitomo Mitsui Banking Corporation	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.503	14-Sep-20		
	Mizuho Bank, Ltd.	4,321,000	-	-	4,321,000	39,121	-	-	39,121	0.603	29-Nov-21		
	The Dai-ichi Life Insurance company, Limited	3,000,000	-	-	3,000,000	27,161	-	-	27,161	0.603	29-Nov-21		
	Shinsei Bank, Limited.	355,000	-	-	355,000	3,214	-	-	3,214	0.353	13-Oct-20		
	Citibank, N.A., Japan Branches	355,000	-	-	355,000	3,214	-	-	3,214	0.353	13-Oct-20		
	Resona Bank, Limited.	334,000	-	-	334,000	3,023	-	-	3,023	0.353	13-Oct-20		
	The Bank of Fukuoka, Ltd.	300,000	-	-	300,000	2,716	-	-	2,716	0.353	13-Oct-20		
	AEON Bank, Ltd.	190,000	-	-	190,000	1,720	-	-	1,720	0.353	13-Oct-20		
	The Nomura Trust and Banking Co., Ltd.	167,000	-	-	167,000	1,511	-	-	1,511	0.353	13-Oct-20		
	The Hiroshima Bank, Ltd.	167,000	-	-	167,000	1,511	-	-	1,511	0.353	13-Oct-20		
	Shinsei Bank, Limited.	355,000	-	-	355,000	3,214	-	-	3,214	0.453	13-Oct-21		
	Citibank, N.A., Japan Branches	355,000	-	-	355,000	3,214	-	-	3,214	0.453	13-Oct-21		
	Resona Bank, Limited.	333,000	-	-	333,000	3,014	-	-	3,014	0.453	13-Oct-21		
	The Bank of Fukuoka, Ltd.	300,000	-	-	300,000	2,716	-	-	2,716	0.453	13-Oct-21		

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	AEON Bank, Ltd.	190,000	-	-	190,000	1,720	-	-	1,720	0.453	13-Oct-21	(2)	Unsecured and unguaranteed
	The Nomura Trust and Banking Co., Ltd.	167,000	-	-	167,000	1,511	-	-	1,511	0.453	13-Oct-21		
	The Hiroshima Bank, Ltd.	167,000	-	-	167,000	1,511	-	-	1,511	0.453	13-Oct-21		
	Mizuho Bank, Ltd.	500,000	-	-	500,000	4,526	-	-	4,526	0.653	13-Oct-22		
	Sumitomo Mitsui Trust Bank, Limited	500,000	-	-	500,000	4,526	-	-	4,526	0.653	13-Oct-22		
	Sumitomo Mitsui Banking Corporation	500,000	-	-	500,000	4,526	-	-	4,526	0.653	13-Oct-22		
	Shinsei Bank, Limited.	355,000	-	-	355,000	3,214	-	-	3,214	0.653	13-Oct-22		
	Citibank, N.A., Japan Branches	355,000	-	-	355,000	3,214	-	-	3,214	0.653	13-Oct-22		
	Resona Bank, Limited.	333,000	-	-	333,000	3,014	-	-	3,014	0.653	13-Oct-22		
	Development Bank of Japan Inc.	1,500,000	-	-	1,500,000	13,580	-	-	13,580	0.653	13-Oct-22		
	The Bank of Fukuoka, Ltd.	300,000	-	-	300,000	2,716	-	-	2,716	0.653	13-Oct-22		
	AEON Bank, Ltd.	190,000	-	-	190,000	1,720	-	-	1,720	0.653	13-Oct-22		
	The Nomura Trust and Banking Co., Ltd.	166,000	-	-	166,000	1,502	-	-	1,502	0.653	13-Oct-22		
	The Hiroshima Bank, Ltd.	166,000	-	-	166,000	1,502	-	-	1,502	0.653	13-Oct-22		
	The Dai-ichi Life Insurance company, Limited	500,000	-	-	500,000	4,526	-	-	4,526	0.653	13-Oct-22		
	Mizuho Bank, Ltd.	1,250,000	-	-	1,250,000	11,317	-	-	11,317	0.753	13-Oct-23		
	Sumitomo Mitsui Trust Bank, Limited	1,065,000	-	-	1,065,000	9,642	-	-	9,642	0.753	13-Oct-23		
	Sumitomo Mitsui Banking Corporation	1,250,000	-	-	1,250,000	11,317	-	-	11,317	0.753	13-Oct-23		
	Mizuho Bank, Ltd.	1,250,000	-	-	1,250,000	11,317	-	-	11,317	0.853	11-Oct-24		
	Sumitomo Mitsui Trust Bank, Limited	1,060,000	-	-	1,060,000	9,597	-	-	9,597	0.853	11-Oct-24		

Classification	Name of lender	Beginning balance	Increase	Decrease	Ending balance	Beginning balance	Increase	Decrease	Ending balance	Average interest rate (%) (1)	Maturity date	Use of proceeds	Remarks
		(in thousands of yen)				(in thousands of U.S. dollars)							
Long-term loans payable	Sumitomo Mitsui Banking Corporation	1,250,000	-	-	1,250,000	11,317	-	-	11,317	0.853	11-Oct-24	(2)	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	1,850,000	-	-	1,850,000	16,749	-	-	16,749	0.303	13-Oct-19		
	Sumitomo Mitsui Banking Corporation	1,850,000	-	-	1,850,000	16,749	-	-	16,749	0.303	13-Oct-19		
	Shinsei Bank, Limited.	-	1,000,000	-	1,000,000	-	9,053	-	9,053	0.750	27-Oct-23		
	MUFG Bank, Ltd.	-	500,000	-	500,000	-	4,526	-	4,526	0.750	27-Oct-23		
	Total Long-term loans payable	183,915,000	1,500,000	-	185,415,000	1,665,142	13,580	-	1,678,723	-	-		
Total loans payable	186,983,000	1,500,000	1,068,000	187,415,000	1,692,919	13,580	9,669	1,696,831	-	-	-	-	

Notes:

- The average interest rate indicates a weighted average interest rate for each six-month period, rounded to three decimal places.
- The funds are mainly used to acquire properties in trust and for repayment of loans payable.
- Long-term loans payable include current portion.
- MUFG Bank, Ltd. has changed its name from The Bank of Tokyo-Mitsubishi UFJ, Ltd. on April 1, 2018
- MUFG Bank, Ltd. succeeded Mitsubishi UFJ Trust and Banking Corporation's position as lender upon the transfer of Mitsubishi UFJ Trust and Banking Corporation's corporate-loan-related businesses to MUFG Bank, Ltd., effective April 16, 2018.
- 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:

	As of	
	June 30, 2018 (in thousands of yen)	June 30, 2018 (in thousands of U.S. dollars)
1-2 years.....	¥ 51,744,000	\$ 468,483
2-3 years.....	57,380,000	519,511
3-4 years.....	15,638,000	141,584
4-5 years.....	6,865,000	62,154

11. 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\$ 452 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 December 31, 2017 and June 30, 2018.

The number of investment units issued and outstanding were 4,793,181 as of December 31, 2017 and June 30, 2018 respectively.

12. 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 December 31, 2017 and June 30, 2018.

For the six months ended		
December 31,	June 30,	June 30,

	2017	2018	
	(in thousands of yen)	(in thousands of U.S. dollars)	
Unappropriated retained earnings	¥ 7,212,580	¥ 7,610,548	\$ 68,904
Distributions in excess of retained earnings			
Deduction from unitholders capital surplus	(172,554)	-	-
Distributions	(7,496,535)	(6,854,248)	(62,057)
Of which, distributions of earnings	(7,323,980)	(6,854,248)	(62,057)
Of which, deduction from unitholders capital surplus	(172,554)	-	-
Retained earnings / losses carried forward	¥ (111,399)	¥ 756,300	\$ 6,847

The distribution in respect of the six months ended June 30, 2018 of ¥1,430 (US\$12.9) per investment unit, amounting to a total distribution of ¥6,854,248 thousand (US\$62,057 thousand) was proposed and approved at the Board of Directors meeting on August 22, 2018. These financial statements do not reflect these distributions payable.

Cash distributions per investment unit were ¥1,564 and ¥1,430 (US\$12.9) for the six months ended December 31, 2017, and June 30, 2018, respectively.

13. 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 December 31, 2017 and June 30, 2018 consist of the following:

	For the six months ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Rental revenue – real estate:			
Rental revenue and common area charges (*)	¥ 11,060,128	¥ 10,769,777	\$ 97,508
Other	343,107	352,704	3,193
Total rental revenue – real estate	¥ 11,403,236	¥ 11,122,481	\$ 100,701
Expenses related to property rental business:			
Facility management fees	¥ 707,458	¥ 665,093	\$ 6,021
Property related taxes	470,600	470,692	4,261
Insurance expense	11,499	12,845	116
Depreciation	2,567,215	2,772,510	25,101
Other	205,408	215,476	1,950
Total expenses related to property rental business	¥ 3,962,183	¥ 4,136,619	\$ 37,452
Operating income from property leasing activities	¥ 7,441,052	¥ 6,985,862	\$ 63,249
(*)Variable rental revenue of hotels	¥ 3,741,186	¥ 3,789,484	\$ 34,309

14. Breakdown of Gain on sales of Properties

For the six months ended December 31, 2017

	Kindai Kagaku Sha Building	Times Kanda-Sudacho 4th	Shinjuku Island
	(in thousands 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	Lexel Mansion Ueno Matsugaya	Sun Terrace Minami-Ikebukuro
	(in thousands 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
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For the six months ended June 30, 2018

	Harmonie Ochanomizu	Growth Maison Ikebukuro	Capital Heights Kagurazaka
(in thousands of yen)			
Revenue from sales of properties	¥ 1,606,646	¥ 1,059,850	¥ 734,817
Cost of properties sold	1,346,372	743,659	623,867
Other sale-related costs	38,843	26,625	20,817
Gain or loss on sales of properties	¥ 221,430	¥ 289,565	¥ 90,132

	Cross Square NAKANO	Ohki Aoba Building	Lexington Plaza Nishi-Gotanda
(in thousands of yen)			
Revenue from sales of properties	¥ 1,357,090	¥ 728,446	¥ 5,180,003
Cost of properties sold	1,125,668	709,604	4,632,693
Other sale-related costs	23,268	11,439	114,348
Gain or loss on sales of properties	¥ 208,153	¥ 7,402	¥ 432,961

	Harmonie Ochanomizu	Growth Maison Ikebukuro	Capital Heights Kagurazaka
(in thousands of U.S. dollars)			
Revenue from sales of properties	\$ 14,546	\$ 9,595	\$ 6,652
Cost of properties sold	12,189	6,732	5,648
Other sale-related costs	351	241	188
Gain or loss on sales of properties	\$ 2,004	\$ 2,621	\$ 816

	Cross Square NAKANO	Ohki Aoba Building	Lexington Plaza Nishi-Gotanda
(in thousands of U.S. dollars)			
Revenue from sales of properties	\$ 12,286	\$ 6,595	\$ 46,899
Cost of properties sold	10,191	6,424	41,943
Other sale-related costs	210	103	1,035
Gain or loss on sales of properties	\$ 1,884	\$ 67	\$ 3,919

15. Impairment Loss

For the six months ended December 31, 2017

Property name	Use	Location	Type	Impairment (in thousands of yen)
Ohki Aoba Building	Commercial Facility	Sendai, Miyagi	Land in trust	15,677

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.

For the six months ended June 30, 2018

Not Applicable.

16. 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 months ended	
	December 31, 2017	June 30, 2018
	(Rate)	
Statutory tax rates	31.74 %	31.74 %
Deductible cash distributions	(30.49)	(22.95)
Increase (decrease) in valuation allowance	(1.25)	(8.79)
Other	0.01	0.01
Effective tax rates	0.01 %	0.01 %

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

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Deferred tax assets:			
Current:			
Enterprise tax payable	¥ 1,331	¥ 1,325	\$ 12
Impairment	2,367	-	-
Allowance for doubtful accounts	28	28	0
Total	3,726	1,354	12
Non-current:			
Buildings and other (merger)	730,990	561,751	5,086
Land (merger)	1,918,655	1,374,216	12,441
Net loss carried forward	7,200,289	7,200,289	65,190
Asset retirement obligations	10,055	10,122	91
Fixed-term leasehold	79,644	116,528	1,055
Subtotal	9,939,635	9,262,907	83,865
Deferred tax liabilities:			
Non-current			
Asset retirement obligations	9,797	9,797	88
Deferred gains or losses on hedges	36,054	28,875	261
Subtotal	45,851	38,673	350
Valuation allowance	(9,893,783)	(9,224,234)	(83,515)
Total	-	-	-
Net deferred tax assets	¥ -	¥ -	\$ -

17. Leases

(a) Lease rental revenues

The future minimum rental revenues pursuant to existing rental contracts as of December 31, 2017 and June 30, 2018 scheduled to be received are summarized as follows:

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 7,970,088	¥ 8,623,053	\$ 78,072
Due over one year	56,088,357	58,058,083	525,650

Total	¥	64,058,446	¥	66,681,137	\$	603,722
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(b) Lease rental expenses

The future minimum rental expenses pursuant to existing rental contracts as of December 31, 2017 and June 30, 2018 scheduled to be paid are summarized as follows:

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 312,959	¥ 312,959	\$ 2,833
Due over one year	10,247,035	10,090,556	91,358
Total	¥ 10,559,994	¥ 10,403,515	\$ 94,192

18. Financial Instruments

(a) Qualitative information for financial instruments

(i) Policy for financial instrument transactions

The Company raises funds through loans payable, investment corporation bonds, 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 and investment corporation bonds 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 December 31, 2017 and June 30, 2018.

	As of								
	December 31, 2017			June 30, 2018			June 30, 2018		
	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference	Carrying amounts	Fair value	Difference
	(in thousands of yen)						(in thousands of U.S. dollars)		
Assets:									
Current:									
(1) Cash and bank deposits	¥ 14,367,140	¥ 14,367,140	¥ -	¥ 8,505,792	¥ 8,505,792	¥ -	\$ 77,010	\$ 77,010	\$ -
(2) Cash and bank deposits in trust	6,326,653	6,326,653	-	6,566,761	6,566,761	-	59,454	59,454	-
Total assets	¥ 20,693,794	¥ 20,693,794	¥ -	¥ 15,072,553	¥ 15,072,553	¥ -	\$ 136,464	\$ 136,464	\$ -
Liabilities:									
(3) Short-term loans payable	3,068,000	3,068,000	-	2,000,000	2,000,000	-	18,107	18,107	-
(4) Current portion of long-term loans payable	28,979,000	28,979,000	-	46,663,000	46,663,000	-	422,480	422,480	-
(5) Investment corporation bonds	-	-	-	2,000,000	1,998,500	(1,500)	18,107	18,094	(13)
(6) Long-term loans payable	154,936,000	154,936,000	-	138,752,000	138,752,000	-	1,256,242	1,256,242	-
Total liabilities	¥ 186,983,000	¥ 186,983,000	¥ -	¥ 189,415,000	¥ 189,413,500	¥ (1,500)	\$ 1,714,938	\$ 1,714,925	\$ (13)

Notes

(i) The methods and assumptions used to estimate fair value are as follows:

- (1) Cash and bank deposits and (2) Cash and bank deposits in trust (3) Short-term loans payable

Because of their short maturities, the carrying amounts approximate their fair value.

- (4) Current portion of long-term loans payable (6) 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.

- (5) Investment corporation bonds

The fair values of investment corporate bonds are determined based on the present value of contractual cash flows discounted at current market interest rates which would be applicable to new investment corporate bonds under the same conditions and terms.

(ii) Financial instruments for which fair value is difficult to determine are as follows:

	As of		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Tenant leasehold and security deposits in trust	¥ 2,215,299	¥ 2,026,400	\$ 18,346
Investment securities	¥ 17,854,460	¥ 17,856,387	\$ 161,669

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

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of yen)					
As of December 31, 2017:						
Cash and bank deposits	¥ 14,367,140	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	6,326,653	-	-	-	-	-
Total	¥ 20,693,794	¥ -	¥ -	¥ -	¥ -	¥ -

As of June 30, 2018:						
Cash and bank deposits	¥ 8,505,792	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	6,566,761	-	-	-	-	-
Total	¥ 15,072,553	¥ -	¥ -	¥ -	¥ -	¥ -

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of U.S. dollars)					
As of June 30, 2018:						
Cash and bank deposits	\$ 77,010	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and bank deposits in trust	59,454	-	-	-	-	-
Total	\$ 136,464	\$ -	\$ -	\$ -	\$ -	\$ -

(iv) Cash flow schedule of financial liabilities after the balance sheet date

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of yen)					
As of December 31, 2017:						
Short-term loans payable	3,068,000	-	-	-	-	-
Current portion of long-term loans payable	28,979,000	-	-	-	-	-
Long-term loans payable	-	54,745,000	50,130,000	32,821,000	10,115,000	7,125,000
Total	¥ 32,047,000	¥ 54,745,000	¥ 50,130,000	¥ 32,821,000	¥ 10,115,000	¥ 7,125,000

As of June 30, 2018:						
Short-term loans payable	2,000,000	-	-	-	-	-
Current portion of long-term loans payable	46,663,000	-	-	-	-	-
Investment corporation bonds	-	-	-	-	1,000,000	1,000,000

Long-term loans payable	-	51,744,000	57,380,000	15,638,000	6,865,000	7,125,000
Total	¥ 48,663,000	¥ 51,744,000	¥ 57,380,000	¥ 15,638,000	¥ 7,865,000	¥ 8,125,000

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of U.S. dollars)					
As of June 30, 2018:						
Short-term loans payable	18,107	-	-	-	-	-
Current portion of long-term loans payable ...	422,480	-	-	-	-	-
Investment corporation bonds	-	-	-	-	9,053	9,053
Long-term loans payable	-	468,483	519,511	141,584	62,154	64,508
Total	\$ 440,588	\$ 468,483	\$ 519,511	\$ 141,584	\$ 71,208	\$ 73,562

19. Investment securities

As of December 31, 2017

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

As of June 30, 2018

Fair values of preferred securities recorded on the Balance Sheet at ¥17,856,387 thousand (US\$ 161,669 thousand) are not subject to disclosure of fair value as they have no market value and their fair values are extremely difficult to recognize.

20. Derivatives

Information on derivative transactions undertaken by the Company as of December 31, 2017 and June 30, 2018 is as follows. Derivative instruments are used for hedging purposes only and are subject to hedge accounting.

As of December 31, 2017:

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount(*1)		
			Total	Over 1 year	Fair Value(*2)
(in thousands of yen)					
Principle accounting method	Interest rate swap transaction	Long-term borrowings	¥ 99,119,000	¥ 70,140,000	¥ 113,592
	floating rate receivable and Fixed rate payable				
Total			¥ 99,119,000	¥ 70,140,000	¥ 92,243

(*1) The contract amount is based on the notional principal amount.

(*2) The fair value is provided by the financial institution.

As of June 30, 2018:

Method of hedge accounting	Type of derivative transaction	Main hedged item	Contract amount(*1)			Contract amount(*1)		
			Total	Over 1 year	Fair Value(*2)	Total	Over 1 year	Fair Value(*2)
(in thousands of yen)						(in thousands of U.S. dollars)		
Principle accounting method	Interest rate swap transaction	Long-term borrowings	¥ 100,619,000	¥ 67,390,000	¥ 90,975	\$ 910,991	\$ 610,140	\$ 823
	floating rate receivable and							

Fixed rate
payable

Total	¥ 100,619,000	¥ 67,390,000	¥ 90,975	\$ 910,991	\$ 610,140	\$ 823
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(*1) The contract amount is based on the notional principal amount.

(*2) The fair value is provided by the financial institution.

21. 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 December 31, 2017 and June 30, 2018 are as follows.

	For the six month ended		
	December 31, 2017	June 30, 2018	June 30, 2018
	(in thousands of yen)		(in thousands of U.S. dollars)
Balance at the beginning of the period	¥ 31,468	¥ 31,680	\$ 286
Liabilities incurred due to the acquisition of properties	-	-	-
Accretion expense	212	210	1
Balance at the end of the period	¥ 31,680	¥ 31,891	\$ 288

22. Segment Information

Segment information for the six months ended December 31, 2017 and June 30, 2018 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 December 31, 2017 and June 30, 2018 were as follows:

For the six months ended December 31, 2017

Name of client	Operating Revenues (in thousands of yen)	Related segment
Mystays Hotel Management Co., Ltd.	¥4,794,080	Real estate investing business

For the six months ended June 30, 2018

Name of client	Operating Revenues (in thousands of yen)	Operating Revenues (in thousands of U.S. dollars)	Related segment
Mystays Hotel Management Co.,Ltd.	5,324,738	48,209	Real estate investing business

23. Profit or Loss from Equity Method, etc

For the six months ended December 31, 2017

Not Applicable.

For the six months ended June 30, 2018

	(in thousands of yen)	(in thousands of US dollars)
Investments in affiliates	17,856,387	161,669
Investments, if equity method was adopted	17,845,800	161,573
Investment gains (losses), if equity method was adopted	722,127	6,538

24. Related-Party Transactions

(a) Parent Company and Major Corporate Unitholders

For the six months ended December 31, 2017

Type of related-party	Company name	Location	Business	Share capital (in millions of yen)	Voting interest in the Company	Relationship with the Company	Transactions for the period		Balance at the end of period	
							Type of transactions	Amounts(1) (in thousands of yen)	Balance sheet account	Amounts(1) (in thousands of yen)
Interested party of the Asset Manager	HL Investments 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)	¥13,068,000	-	-
	Septentrio3 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)	¥9,781,000	-	-
	Morza 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)	¥8,870,000	-	-
	Suisei 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)	¥7,880,000	-	-
	Naqua Hotel & Resorts Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥10	-	Lease holder and operator of hotel	Rental Revenues	¥1,103,226	Rental receivables	¥130,953
	Mystays Hotel Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥100	-	Lease holder and operator of hotel	Rental Revenues	¥4,794,080	Rental receivables	¥1,551,920

Notes:

- Consumption taxes are not included in the transaction amount, but are included in the balance at the end of periods.
- 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.
- The seller, HL Investments TMK, Septentrio3 TMK, Morza 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, an affiliate of Calliope. Accordingly, we treat HL Investments TMK, Septentrio3 TMK, Morza TMK, Suisei TMK, Naqua Hotel & Management Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd as a related party.
- Calliope holds 609,942 units(holding ratio: 12.7%) of the issued investment units of the Company
- 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 June 30, 2018

Type of related-party	Company name	Location	Business	Share capital		Voting interest in the Company	Relationship with the Company	Transactions for the period			Balance at the end of period		
				(in millions of yen)	(in thousands of U.S.)			Type of transactions	Amounts(1)		Balance sheet account	Amounts(1)	
									(in thousands)	(in thousands)		(in thousands)	(in thousands of U.S.)

					dollars)				of yen)	of U.S. dollars)		of yen)	dollars)
Interested party of the Asset Manager	Ginga 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)(4)	¥5,326,000	\$48,220	-	-	-
	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)(4)	¥2,772,000	\$25,097	-	-	-
	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)(4)	¥2,723,000	\$24,653	-	-	-
	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)(4)	¥1,604,000	\$14,522	-	-	-
	Calvis 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)(4)	¥7,325,000	\$66,319	-	-	-
	Naqua Hotel & Resorts Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥10	\$88	-	Lease holder and operator of hotel	Rental Revenues	¥576,941	\$5,223	Rental receivables	¥221,582	\$2,006
	Mystays Hotel Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥100	\$884	-	Lease holder and operator of hotel	Rental Revenues	¥5,324,738	\$48,209	Rental receivables	¥1,387,974	\$12,566

Notes:

- Consumption taxes are not included in the transaction amount, but are included in the balance at the end of periods.
- 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.
- The seller, Ginga TMK, HL Investments TMK, Monza TMK, Suisei TMK, Calvis TMK, Naqua Hotel & Management Resorts Management Co. Ltd, and Mystays Hotel Management, Co. Ltd has no relationship to be stated, but (i) Ginga TMK, HL Investments TMK, Monza TMK, and Suisei TMK used to receive investment through funds that are managed by FIG, an affiliate of Calliope; a parent company of the asset manager directly owning 100% of issued shares, (ii) Calvis TMK used to receive investment through funds that are managed by FIG, a subsidiary of Softbank Group; a parent company of the asset manager directly and indirectly owning 100% of issued shares, (iii) Naqua Hotel & Management Resorts Management Co. Ltd and Mystays Hotel Management, Co. Ltd receive investment through funds that are managed by FIG, an affiliate of Calliope; a parent company of the asset manager directly owning 100% of issued shares until March 29, 2018, a subsidiary of Softbank Group; a parent company of the asset manager directly and indirectly owning 100% of issued shares after March 29, 2018. Accordingly, we treat Ginga TMK, HL Investments TMK, Monza TMK, Suisei TMK, Calvis TMK, Naqua Hotel & Management Resorts Management Co. Ltd, and Mystays Hotel Management, Co. Ltd as a related party.
- 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)
D54	Hotel MyStays Yokohama Kannai	Ginga TMK	5,326,000	48,220
D55	Art Hotel Joetsu	HL Investments TMK	2,772,000	25,097
D56	Art Hotel Hirosaki City	Monza TMK	2,723,000	24,653
D57	Hotel MyStays Oita	Suisei TMK	1,604,000	14,522
D58	Hotel MyStays Gotanda	Calvis TMK	4,068,000	36,831
D59	Hotel MyStays Tachikawa	Calvis TMK	3,257,000	29,488
Total			19,750,000	178,813

(b) Board of Directors and Major Individual Unitholders

For the six months ended December 31, 2017

Type of related-party	Name	Business /Occupation	Voting interest in the Company	Transactions for the period		Balance at the end of period	
				Type of transactions	Amounts(3) (in thousands of yen)	Balance sheet account	Amounts(3) (in thousands of yen)
Directors and close relatives	Naoki Fukuda	Executive officer of the Company and management director of Consonant Investment Management Co., Ltd.	-	Payment of the assets management fee to Consonant Investment Management Co., Ltd.(1)	¥276,823	Accrued expenses	¥159,138
				Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥1,100	Accrued expenses	¥864

Notes:

- 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 June 30, 2018

Type of related-party	Name	Business / Occupation	Voting interest in the Company	Transactions for the period			Balance at the end of period		
				Type of transactions	Amounts(3)		Balance sheet account	Amounts(3)	
					(in thousands of yen)	(in thousands of U.S. dollars)		(in thousands of yen)	(in thousands of U.S. dollars)
Directors and close relatives	Naoki Fukuda	Executive officer of the Company and management director of Consonant Investment Management Co., Ltd.	-	Payment of the assets management fee to Consonant Investment Management Co., Ltd.(1)	¥ 308,849	\$ 2,796	Accrued expenses	¥ 149,291	\$ 1,351
				Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥ 600	\$ 5	Accrued expenses	¥ 324	\$ 2

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.

25. Parent company and/or significant affiliates

(a) Information on the parent company

Not Applicable.

(b) Summary of financial statements of the significant affiliates

The significant affiliates in the year ended June 30, 2018 is Kingdom TMK. Summary of financial statements are as follows:

	Kingdom TMK	
	(in thousands of yen)	(in thousands of US dollars)
Total specified assets	100,422,370	909,211
Total other assets	5,409,900	48,980
Total current liabilities	1,436,173	13,002
Total non-current liabilities	66,480,660	601,907
Total net assets	37,915,436	343,281
Operating revenue	1,957,744	17,725
Income before income taxes	1,496,394	13,548
Net income	1,495,336	13,538

26. Per Unit Information

The following table shows net asset value per unit as of December 31, 2017 and June 30, 2018 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		
December 31, 2017	June 30, 2018	June 30, 2018
	(Yen)	(U.S. dollars)

Net asset value per unit	¥	37,829	¥	37,871	\$	342
Net income per unit	¥	1,712	¥	1,611	\$	14
Weighted average number of units		4,266,437		4,793,181		-

27. Subsequent Events

(a) Issuance of New Investment Units

The board of directors held on July 17, 2018 and July 25, 2018 approved the issuance of new investment units and secondary distribution of investment units. Payment for the new investment units issued via public offering was completed on August 1, 2018. In addition, with the respect to the issuance of new investment units through the third-party allotment in connection with the over-allotment for the public offering, the payment was completed on August 21, 2018. As a result, holders' capital becomes JPY211,092 million and the number of investment units issued and outstanding become 5,748,181 units.

(i) Issuance of new investment units through public offering

Number of investment units	Domestic public offering : 432,024 units
	International : 477,500 units
	Total : 909,524 units
Issue price (offer price)	: JPY45,776 per unit
Total issue price (total offer price)	: JPY 41,634,370,624
Amount paid in (issue value)	: JPY 44,287 per unit
Total amount paid in (total issue value)	: JPY 40,280,089,388
Payment date	: August 1, 2018

(ii) Secondary offering of investment units (over-allotment secondary offering)

Number of investment units	: 45,476 units
Offer price	: JPY 45,776 per unit
Total offer value	: JPY 2,081,709,376
Delivery date	: August 2, 2018

(iii) Issuance of new investment units through third-party allotment

Number of investment units	: 45,476 units
Amount paid in (issue value)	: JPY 44,287 per unit
Total amount paid in (total issue value)	: JPY 2,013,995,612
Payment date	: August 21, 2018
Allotee	: Mizuho Securities Co, Ltd.

(b) New borrowings

In order to raise a part of the funds to be used for the acquisition of the 4 hotel properties acquired on August 2, 2018 and TK interest with overseas real estate as underlying assets to be acquired on October 31, 2018 or the date separately agreed, the Company decided on the implementation of the following borrowings at its board of directors' meeting held on July 17, 2018 and entered into the borrowing agreement on July 31, 2018.

New Syndicate Loan (J)

Lender	Syndicate formed by Mizuho Bank, Ltd.
Borrowing amount	JPY 40,458 million
Interest rate, etc.	Base rate (1-month JPY TIBOR)(Note 1) + 0.50%, 0.40%, 0.30%, 0.30%, 0.20%
Interest payment date	(i) The last Japanese business day of each month before the principal maturity date, beginning with September 28, 2018, and (ii) the principal maturity date, (i) The last Japanese business day of each month before the principal maturity date, beginning with October 31, 2018(Note 2), and (ii) the principal maturity date
Principal repayment method	Lump-sum repayment
Borrowing method	Unsecured / with no guarantee
Borrowing date	August 2, 2018, September 26, 2018 (Note 2)
Maturity date	August 2, 2019, August 2, 2021, September 26, 2021(Note 2), September 26, 2022(Note 2), September 26, 2023(Note 2)

(Note 1) The interest rate applicable for the first interest calculation period only will be two-month JPY TIBOR (Base Rate) + spread (0.50%, 0.40%, 0.30%, 0.30%, 0.20%).

(Note 2) Borrowing Date and Maturity Date is scheduled as of the date of this document, and it may be changed in the future.

(c) Acquisition of assets (properties)

The Company decided to acquire 4 hotel properties as shown in the following table, of which the total acquisition price is JPY 47,745 million, on July 17, 2018 and the acquisitions have been closed on August 2, 2018.

Use	Property number	Property name	Location	Construction completion date	Acquisition price (JPY million) (Note)	Total rentable area	Seller	Category of specified asset
Hotel	D60	Hotel MyStays Premier Akasaka	Minato-ku, Tokyo	June 2016	20,691	8,620.69 m ²	Aki Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D61	Hotel MyStays Premier Sapporo Park	Sapporo, Hokkaido	March 1998	16,731	21,670.64 m ²	Raetia Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D62	Hotel MyStays Ueno East	Taito-ku, Tokyo	September 1991	5,286	4,396.02 m ²	HL Investments 2 Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D53	Hotel MyStays Midosuji Honmachi	Osaka, Osaka	October 2017	5,039	3,429.43 m ²	Dogo Tokutei Mokuteki Kaisha	Trust beneficial interest

(Note) Acquisition prices do not include adjustments for property taxes or city planning taxes, or national or local consumption taxes; hereinafter the same.

(d) Acquisition of an asset (TK interest with overseas real estate as underlying assets)

The Company decided to acquire TK interest as shown in the following table on July 17, 2018 and executed the TK agreement on the same day.

Overview of the acquisition

Asset to be acquired	TK interest in a Cayman Islands special purpose company that plans to acquire Leasehold Interests in overseas real estate as underlying assets
Anticipated acquisition price	USD 339,836,000 (JPY 37,534 million) (Note 1) for 100.0% of the Cayman Hotel TK Interest
Name of underlying asset	Westin Grand Cayman Seven Mile Beach Resort & Spa and Sunshine Suites Resort
Anticipated acquisition date	One business day prior to the acquisition date of the underlying assets, which is expected to close by October 31, 2018 or the date separately agreed
TK operator	Seven Mile Resort Holdings Ltd.

(Note 1) The anticipated investment amount is fixed by the foreign exchange forward contract executed on July 26, 2018 in Japanese Yen denomination which were calculated using an exchange rate of 1 USD=110.45.

Outline of the Underlying Asset

Property name	Westin Grand Cayman Seven Mile Beach Resort & Spa
Anticipated acquisition price (Note1)(Note2)	USD 255,300,000 (JPY 28,197 million)
Location	Seven Mile Beach Road, Grand Cayman, Cayman Islands
Construction completion date	1994
Total floor area	231,728 ft ² (21,528 m ²)

Property name	Sunshine Suites Resort
Anticipated acquisition price (Note1)(Note2)	USD 49,700,000 (JPY 5,489 million)
Location	Esterley Tibbetts Highway, Grand Cayman, Cayman Islands
Construction completion date	1999
Total floor area	72,367 ft ² (6,723 m ²)

(Note 2) This price is not the anticipate acquisition price of the Cayman Hotel TK Interest acquired by INV but the anticipated acquisition price of the Leasehold, etc. of the Underlying Asset acquired by the Cayman SPC.