

Financial Statements

Invincible Investment Corporation

*The six months ended December 31, 2014
with Independent Auditor's Report*

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Greetings.....	1
Independent Auditor's Report	3
Balance Sheet as of December 31, 2014	4
Statement of Income and Retained Earnings for the six months ended December 31, 2014.....	6
Statement of Changes in Net Assets for the six months ended December 31, 2014	7
Statement of Cash Flows for the six months ended December 31, 2014	8
Notes to Financial Statements as of and for the six months ended December 31, 2014.....	9

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

It is my pleasure to take this opportunity to express my sincere gratitude to all investors of Invincible Investment Corporation (“INV”) for your ongoing support.

We hereby provide you with a report on INV’s asset management and financial results for the 23rd period (covering the period from July 1, 2014 to December 31, 2014).

First, with respect to the operation of our properties, we acquired 18 limited service hotels through the issuance of investment units via a global public offering in July 2014 to establish a portfolio that realizes both growth and stability in rent revenue from a well-positioned set of hotel and residential assets.

With respect to the financial operations, we borrowed a new JPY 57.3 billion syndicated loan at a lower interest rate than that of existing loans in order to fund the acquisition of the new properties and prepay existing loans.

For the reporting period ended December 2014, INV achieved strong earnings growth due to the expansion of assets and the robust performance from the acquired 20 hotels. Net income increased by 117.1% to JPY 1,958 million from JPY 901 million in the previous period, and DPU (distribution per unit) increased to JPY 733, 27.9% higher than the previous period (JPY 573) and 22.2% higher than the forecast (JPY 600) announced in August 2014. The market capitalization as of February 27, 2015 was JPY 142.24 billion and we achieved our mid-term market capitalization target of JPY 100 billion announced in February 2014 in a short period of time.

After the implementation of the public offering, we continue to seek additional acquisitions of limited service hotels, and acquired two hotels from the sponsor’s pipeline and one hotel from a third-party on February 6, 2015. As these acquisitions were completed using cash-on-hand and new loans without issuing new investment units, the annual DPU for 2015 is expected to increase to JPY 1,571, a 10.5% increase from the previous forecast (JPY 1,422).

We will continue to generate external growth through the acquisition of high quality assets with stable revenue and upside potential for rent by mainly utilizing the pipeline of the Fortress Group, INV’s sponsor. As for internal growth, we continue to seek rent increases and further improvement in profitability by strengthening revenue management for hotel assets, rent increase for residential assets and minimizing leasing costs. As for the financial management, we aim to obtain an external

credit rating and refinance existing debt with unsecured loans, as well as work on the further reduction of borrowing costs, diversifying loan durations and fixing portions of the interest expense of the loans.

We seek to continue maximizing unitholders' value by increasing the net income per unit and DPU, which have steadily increased since the inception of the sponsorship from the Fortress Group, by realizing continued external and internal growth as well as further improvements in the financial operations as stated above.

We look forward to receiving the continued support of all of our unitholders.

Naoki Fukuda

Executive Officer, Invincible Investment Corporation

President and Representative Director, Consonant Investment Management Co. Ltd

Fixed Distributions	The 23rd fiscal period (the fiscal period ended December 2014)	Per investment unit JPY 733
Forecast Distributions	The 24th fiscal period (the fiscal period ending June 2015)	Per investment unit JPY 712
Forecast Distributions	The 25th fiscal period (the fiscal period ending December 2015)	Per investment unit JPY 859

(Note) The forward-looking statements, forecasts and goals mentioned above are based on available information, assumptions and estimates as of February 25, 2015. 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 December 31, 2014, and the statements of income and retained earnings, changes in net assets, and cash flows for the six months then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Invincible Investment Corporation as at December 31, 2014, and its financial performance and cash flows for the six months then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

March 25, 2015
Tokyo, Japan

Ernst & Young Shin Nihon
LLC.

INVINCIBLE INVESTMENT CORPORATION

BALANCE SHEET As of December 31, 2014

	As of		December 31, 2014 <small>(in thousands of U.S. dollars)</small>
	June 30, 2014 <small>(in thousands of yen)</small>	December 31, 2014	
ASSETS			
Current assets:			
Cash and bank deposits (Notes 4, 7 and 15)	¥ 759,058	¥ 9,153,872	\$ 75,934
Cash and bank deposits in trust (Notes 4, 7 and 15)	2,765,504	4,011,521	33,276
Accounts receivable	2,574	82	0
Rental receivables	71,193	644,552	5,346
Prepaid expenses	120,941	233,324	1,935
Consumption taxes receivable	-	1,319,253	10,943
Advances paid	17,138	-	-
Other	0	0	0
Allowance for doubtful accounts	(1,391)	(1,968)	(16)
Total current assets	3,735,018	15,360,637	127,421
Non-current assets:			
Property and equipment (Notes 5, 6 and 7):			
Buildings, at cost	85,914	85,914	712
Buildings and accompanying facilities, at cost	38,862	38,862	322
Structures, at cost	2,779	2,779	23
Land	711,834	711,834	5,904
Buildings in trust, at cost	31,162,188	45,227,883	375,179
Buildings and accompanying facilities in trust, at cost	7,151,824	10,400,867	86,278
Structures in trust, at cost	321,317	321,799	2,669
Tools, furniture and fixtures in trust, at cost	177,438	268,476	2,227
Land in trust	40,447,565	63,258,940	524,752
Subtotal	80,099,725	120,317,357	998,070
Less: Accumulated depreciation	(4,736,504)	(5,573,763)	(46,236)
Total property and equipment, net	75,363,220	114,743,593	951,834
Intangible assets:			
Other	106	76	0
Total intangible assets	106	76	0
Investments and other assets:			
Guarantee deposits	10,000	10,000	82
Long-term prepaid expenses	119,338	328,159	2,722
Other	34,070	34,765	288
Total investments and other assets	163,409	372,924	3,093
Total non-current assets	75,526,736	115,116,594	954,928
TOTAL ASSETS	¥ 79,261,754	¥ 130,477,232	\$ 1,082,349

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
LIABILITIES			
Current liabilities:			
Accounts payable	¥ 143,439	¥ 141,428	\$ 1,173
Short-term loans payable (Notes 7, 8 and 15)	13,488,750	-	-
Current portion of long-term loans payable (Notes 7, 8 and 15)	17,552,100	1,200,000	9,954
Current portion of long-term loans payable in trust (Notes 7, 8 and 15)	-	18,167	150
Accounts payable-other	32,733	22,872	189
Accrued expenses	121,934	127,170	1,054
Income taxes payable	520	578	4
Consumption taxes payable	143,637	-	-
Advances received	357,522	371,084	3,078
Deposits received	32,927	23,896	198
Total current liabilities	31,873,567	1,905,197	15,804
Non-current liabilities:			
Long-term loans payable (Notes 7, 8 and 15)	-	56,100,000	465,367
Long-term loans payable in trust (Notes 7, 8 and 15)	9,960,000	9,941,832	82,470
Tenant leasehold and security deposits in trust (Note 15)	1,025,726	1,109,146	9,200
Tenant leasehold and security deposits (Note 15)	28,663	28,663	237
Total non-current liabilities	11,014,390	67,179,642	557,276
TOTAL LIABILITIES	42,887,957	69,084,839	573,080
NET ASSETS (Note 9)			
Unitholders' equity:			
Unitholders' capital	29,134,389	53,096,413	440,451
Capital surplus	6,264,432	6,264,432	51,965
Retained earnings	974,975	2,031,546	16,852
Total unitholders' equity	36,373,796	61,392,392	509,269
TOTAL NET ASSETS	36,373,796	61,392,392	509,269
TOTAL LIABILITIES AND NET ASSETS	¥ 79,261,754	¥ 130,477,232	\$ 1,082,349

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

INVINCIBLE INVESTMENT CORPORATION
STATEMENT OF INCOME AND RETAINED EARNINGS
For the six months ended December 31, 2014

	For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Operating revenue			
Rental revenue—real estate (Note 11)	¥ 2,772,419	¥ 4,610,717	\$ 38,247
Gain on sales of properties (Note 13)	1,003,352	-	-
Total operating revenue	<u>3,775,772</u>	<u>4,610,717</u>	<u>38,247</u>
Operating expenses			
Property related expenses (Note 11)	1,281,791	1,586,854	13,163
Directors' compensation	4,800	4,800	39
Asset management fees	125,000	125,000	1,036
Asset custody fees	3,906	3,976	32
Administrative service fees	18,224	26,672	221
Provision of allowance for doubtful accounts	-	1,527	12
Other	107,404	91,966	762
Total operating expenses	<u>1,541,127</u>	<u>1,840,796</u>	<u>15,269</u>
Operating income	<u>2,234,644</u>	<u>2,769,920</u>	<u>22,977</u>
Non-operating income			
Interest income	404	537	4
Reversal of allowance for doubtful accounts	475	-	-
Other	898	483	4
Total non-operating income	<u>1,777</u>	<u>1,021</u>	<u>8</u>
Non-operating expenses			
Interest expenses	376,514	365,480	3,031
Loan-related costs	842,043	294,738	2,444
Investment unit issuance costs	115,438	152,101	1,261
Other	5	14	0
Total non-operating expenses	<u>1,334,001</u>	<u>812,334</u>	<u>6,738</u>
Ordinary income	<u>902,420</u>	<u>1,958,607</u>	<u>16,247</u>
Income before income taxes	<u>902,420</u>	<u>1,958,607</u>	<u>16,247</u>
Income taxes (Note 12):			
Current	605	605	5
Deferred	-	-	-
Total income taxes	<u>605</u>	<u>605</u>	<u>5</u>
Net income	<u>901,815</u>	<u>1,958,002</u>	<u>16,242</u>
Retained earnings brought forward	<u>73,159</u>	<u>73,543</u>	<u>610</u>
Unappropriated retained earnings (Note 10)	<u>¥ 974,975</u>	<u>¥ 2,031,546</u>	<u>\$ 16,852</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 December 31, 2014

	Unitholders' equity					Total net assets
	Unitholders' capital	Surplus			Total unitholders' equity	
		Capital surplus	Retained earnings	Total surplus		
(in thousands of yen)						
Balance as of December 31, 2013	¥ 29,134,389	¥ 6,264,432	¥ 446,003	¥ 6,710,435	¥ 35,844,824	¥ 35,844,824
Changes during the period						
Dividends from surplus	-	-	(372,843)	(372,843)	(372,843)	(372,843)
Net income	-	-	901,815	901,815	901,815	901,815
Total changes during the period	-	-	528,972	528,972	528,972	528,972
Balance as of June 30, 2014	¥ 29,134,389	¥ 6,264,432	¥ 974,975	¥ 7,239,407	¥ 36,373,796	¥ 36,373,796
Changes during the period						
Issuance of new investment units	23,962,024	-	-	-	23,962,024	23,962,024
Dividends from surplus	-	-	(901,431)	(901,431)	(901,431)	(901,431)
Net income	-	-	1,958,002	1,958,002	1,958,002	1,958,002
Total changes during the period	23,962,024	-	1,056,571	1,056,571	25,018,595	25,018,595
Balance as of December 31, 2014	¥ 53,096,413	¥ 6,264,432	¥ 2,031,546	¥ 8,295,978	¥ 61,392,392	¥ 61,392,392

	Unitholders' equity					Total net assets
	Unitholders' capital	Surplus			Total unitholders' equity	
		Capital surplus	Retained earnings	Total surplus		
(in thousands of U.S. dollars)						
Balance as of June 30, 2014	\$ 241,678	\$ 51,965	\$ 8,087	\$ 60,053	\$ 301,732	\$ 301,732
Changes during the period						
Issuance of new investment units	198,772	-	-	-	198,772	198,772
Dividends from surplus	-	-	(7,477)	(7,477)	(7,477)	(7,477)
Net income	-	-	16,242	16,242	16,242	16,242
Total changes during the period	198,772	-	8,764	8,764	207,537	207,537
Balance as of December 31, 2014	\$ 440,451	\$ 51,965	\$ 16,852	\$ 68,817	\$ 509,269	\$ 509,269

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

INVINCIBLE INVESTMENT CORPORATION

STATEMENT OF CASH FLOWS For the six months ended December 31, 2014

	For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes	¥ 902,420	¥ 1,958,607	\$ 16,247
Depreciation and amortization	527,945	837,289	6,945
Investment unit issuance costs	115,438	152,101	1,261
Loan-related costs	842,043	294,738	2,444
Amortization of tenant leasehold and security deposits in trust	(435)	(378)	(3)
Interest income	(404)	(537)	(4)
Interest expenses	376,514	365,480	3,031
Changes in assets and liabilities			
Increase (decrease) in allowance for doubtful accounts	(1,181)	577	4
Decrease (increase) in rental receivables	(60,244)	(573,359)	(4,756)
Decrease (increase) in consumption taxes receivable	7,419	(1,319,253)	(10,943)
Increase (decrease) in consumption taxes payable	143,637	(143,637)	(1,191)
Increase (decrease) in accounts payable	(87,869)	(673)	(5)
Increase (decrease) in accounts payable-other	(1,613)	(10,409)	(86)
Increase (decrease) in accrued expenses	18,110	2,933	24
Increase (decrease) in advances received	(28,364)	13,561	112
Increase (decrease) in deposits received	10,909	(9,776)	(81)
Decrease in property and equipment, due to sale	4,367,451	-	-
Other, net	(6,762)	5,533	45
Subtotal	7,125,015	1,572,798	13,046
Interest income received	404	537	4
Interest expenses paid	(502,533)	(363,177)	(3,012)
Income taxes paid	(609)	(547)	(4)
Net cash provided by operating activities	6,622,276	1,209,610	10,034
Cash flows from investing activities:			
Purchases of property and equipment in trust	(5,618,018)	(40,203,087)	(333,497)
Repayments of tenant leasehold and security deposits	(154,916)	-	-
Repayments of tenant leasehold and security deposits in trust	(93,087)	(47,787)	(396)
Proceeds from tenant leasehold and security deposits in trust	81,527	131,585	1,091
Other, net	(17,833)	(694)	(5)
Net cash used in investing activities	(5,802,328)	(40,119,985)	(332,807)
Cash flows from financing activities:			
Proceeds from short-term loans payable	13,500,000	-	-
Repayments of short-term loans payable	(11,250)	(13,488,750)	(111,893)
Proceeds from long-term loans payable	-	57,300,000	475,321
Repayments of long-term loans payable	(2,797,899)	(17,552,100)	(145,600)
Repayments of long-term loans payable in trust	(11,000,000)	-	-
Payments for loan-related costs	(732,126)	(618,099)	(5,127)
Distribution payments	(342,802)	(900,512)	(7,470)
Proceeds from issuance of investment units	-	23,962,024	198,772
Payment of Investment unit issuance costs	(98,468)	(151,356)	(1,255)
Net cash used in financing activities	(1,482,546)	48,551,206	402,747
Net increase (decrease) in cash and cash equivalents	(662,597)	9,640,831	79,973
Cash and cash equivalents at beginning of period	4,187,160	3,524,562	29,237
Cash and cash equivalents at end of period (Note 4)	¥ 3,524,562	¥ 13,165,393	\$ 109,211

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

INVINCIBLE INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of and for the six months ended December 31, 2014

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 17, 2014, the Company completed its fourth public offering totaling 1,040,000 new investment units at a price of ¥22,688 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 an additional 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 incurred in connection with the acquisition of 18 properties 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) 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>December 31, 2014</u>
Buildings	77 years
Buildings and accompanying facilities	8-24
Structures	7-18
Buildings in trust	2-66
Buildings and accompanying facilities in trust	2-32
Structures in trust	4-55
Tools, furniture and fixtures in trust	2-15

(d) Intangible Assets

Intangible assets are amortized on a straight-line basis.

(e) Long-term Prepaid Expenses

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

(f) Investment Unit Issuance Costs

Investment unit issuance costs are recorded as expenses when incurred.

(g) Allowance for Doubtful Accounts

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

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

Taxes on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥76,921 (US\$638) thousand for the six months ended December 31, 2014.

3. U.S. Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥120.55 = US\$1, the effective rate of exchange prevailing at December 31, 2014. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended December 31, 2014 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

4. Cash and Cash Equivalents

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

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 759,058	¥ 9,153,872	\$ 75,934
Cash and bank deposits in trust	2,765,504	4,011,521	33,276
Cash and cash equivalents	¥ 3,524,562	¥ 13,165,393	\$ 109,211

5. Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended December 31, 2014.

	At cost						Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance	Accumulated depreciation	Depreciation for the period	
	(in thousands of yen)						
Buildings	¥ 85,914	¥ -	¥ -	¥ 85,914	¥ 8,324	¥ 541	¥ 77,589
Buildings and accompanying facilities	38,862	-	-	38,862	18,548	1,196	20,314
Structures	2,779	-	-	2,779	1,204	65	1,574
Land	711,834	-	-	711,834	-	-	711,834
Buildings in trust	31,162,188	14,065,694	-	45,227,883	3,136,903	513,499	42,090,979
Buildings and accompanying facilities in trust	7,151,824	3,249,043	-	10,400,867	2,186,062	294,183	8,214,804
Structures in trust	321,317	481	-	321,799	118,744	9,697	203,054
Tools, furniture and fixtures in trust	177,438	91,038	-	268,476	103,974	18,076	164,502
Land in trust	40,447,565	22,811,374	-	63,258,940	-	-	63,258,940
Total	¥ 80,099,725	¥ 40,217,632	¥ -	¥ 120,317,357	¥ 5,573,763	¥ 837,259	¥ 114,743,593

	At cost			Ending balance	Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease				
(in thousands of U.S. dollars)							
Buildings	\$ 712	\$ -	\$ -	\$ 712	\$ 69	\$ 4	\$ 643
Buildings and accompanying facilities	322	-	-	322	153	9	168
Structures	23	-	-	23	9	0	13
Land	5,904	-	-	5,904	-	-	5,904
Buildings in trust	258,500	116,679	-	375,179	26,021	4,259	349,157
Buildings and accompanying facilities in trust	59,326	26,951	-	86,278	18,134	2,440	68,144
Structures in trust	2,665	3	-	2,669	985	80	1,684
Tools, furniture and fixtures in trust	1,471	755	-	2,227	862	149	1,364
Land in trust	335,525	189,227	-	524,752	-	-	524,752
Total	\$ 664,452	\$ 333,617	\$ -	\$ 998,070	\$ 46,236	\$ 6,945	\$ 951,834

Increases in the net book values are mainly due to the acquisition of 18 properties (¥39,938,580 thousand) as shown below and capitalized construction costs.

Property No.	Property name	Acquisition cost (in thousands of yen)	Acquisition cost (in thousands of U.S. dollars)
D3	Hotel MyStays Kyoto-Shijo	6,024,460	49,974
D4	MyStays Shin-Urayasu Conference Center	4,930,200	40,897
D5	Hotel MyStays Maihama	4,870,312	40,400
D6	Hotel Vista Premio Dojima	3,845,400	31,898
D7	Hotel MyStays Nagoya-Sakae	2,958,000	24,537
D8	Hotel MyStays Sakaisuji-Honmachi	2,514,820	21,064
D9	Hotel MyStays Yokohama	2,119,900	17,585
D10	Hotel MyStays Nippori	1,898,540	15,748
D11	Hotel MyStays Fukuoka-Tenjin-Minami	1,570,520	13,027
D12	Flexstay Inn Iidabashi	1,381,660	11,461
D13	Hotel MyStays Ueno Inaricho	1,331,960	11,049
D14	Flexstay Inn Shinagawa	1,242,500	10,306
D15	Flexstay Inn Tokiwadai	1,242,500	10,306
D16	Flexstay Inn Sugamo	1,192,800	9,894
D17	Hotel MyStays Otemae	1,192,800	9,894
D18	Flexstay Inn Kiyosumi Shirakawa	749,476	6,217
D19	Flexstay Inn Nakanobu P1	589,442	4,889
D20	Flexstay Inn Nakanobu P2	283,290	2,349

6. Fair Value of Investment and Rental Properties

The following tables show the net book value and the fair value of the investment and rental properties in the aggregate for the six months ended June 30, 2014 and December 31, 2014.

Residential

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 56,192,804	¥ 55,874,464	\$ 463,496
Net increase (decrease) during period	(318,340)	(304,706)	(2,527)
Balance at the end of period	55,874,464	55,569,758	460,968
Fair value	¥ 58,865,000	¥ 60,775,000	\$ 504,147

Office

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 8,585,639	¥ 8,579,951	\$ 71,173
Net increase (decrease) during period	(5,687)	(28,342)	(235)
Balance at the end of period	8,579,951	8,551,609	70,938
Fair value	¥ 7,288,000	¥ 7,227,000	\$ 59,950

Retail facilities

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 5,318,657	¥ 5,275,638	\$ 43,763
Net increase (decrease) during period	(43,018)	(50,243)	(416)
Balance at the end of period	5,275,638	5,225,394	43,346
Fair value	¥ 5,520,000	¥ 5,690,000	\$ 47,200

Parking lots

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 100,838	¥ 100,825	\$ 836
Net increase (decrease) during period	(13)	(1)	(0)
Balance at the end of period	100,825	100,823	836
Fair value	¥ 105,000	¥ 107,000	\$ 887

Senior Living

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 4,385,522	¥ -	\$ -
Net increase (decrease) during period	(4,385,522)	-	-
Balance at the end of period	-	-	-
Fair value	¥ -	¥ -	\$ -

Hotel

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ -	¥ 5,532,341	\$ 45,892
Net increase (decrease) during period	5,532,341	39,763,665	329,852
Balance at the end of period	5,532,341	45,296,007	375,744
Fair value	¥ 5,490,000	¥ 52,759,000	\$ 437,652

Notes:

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

For rental revenues and expenses for the six months ended June 30, 2014 and December 31, 2014, please refer to "Note 11: Rent Revenues—Real Estate and Expenses Related to Property Rental Business"

7. Collateral

The following table shows the assets pledged as collateral to secure short-term loans payable, long-term loans payable and long-term loans payable in trust.

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 153,187	¥ 4,262,187	\$ 35,356
Cash and bank deposits in trust	2,765,504	4,011,521	33,276
Buildings	78,131	77,589	643
Buildings and accompanying facilities	21,510	20,314	168
Structures	1,640	1,574	13
Land	711,834	711,834	5,904
Buildings in trust	28,538,783	42,090,979	349,157
Buildings and accompanying facilities in trust	5,259,944	8,214,804	68,144
Structures in trust	212,270	203,054	1,684
Tools, furniture and fixtures in trust	91,540	164,502	1,364
Land in trust	40,447,565	63,258,940	524,752
Total	¥ 78,281,912	¥ 123,017,302	\$ 1,020,467

The following table shows the loans payable secured by collateral.

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Short-term loans payable	¥ 13,488,750	¥ -	\$ -
Current portion of long-term loans payable	17,552,100	1,200,000	9,954
Current portion of long-term loans payable in trust	-	18,167	150
Long-term loans payable	-	56,100,000	465,367
Long-term loans payable in trust	9,960,000	9,941,832	82,470
Total	¥ 41,000,850	¥ 67,260,000	\$ 557,942

8. Loans Payable

The following table shows the details of loans payable for the six months ended December 31, 2014.

For the six months ended December 31, 2014

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	Sumitomo Mitsui Banking Corporation(4)	3,497,083	-	3,497,083	-	29,009	-	29,009	-	0.946	May 22, 2015	(2)	Secured and unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (4)	3,497,083	-	3,497,083	-	29,009	-	29,009	-	0.946			
	Mizuho Bank Ltd.(4)	3,497,083	-	3,497,083	-	29,009	-	29,009	-	0.946			
	Sumitomo Mitsui Trust Bank, Limited(4)	2,997,500	-	2,997,500	-	24,865	-	24,865	-	0.946			
	Total Short-term loans payable	13,488,750	-	13,488,750	-	111,893	-	111,893	-	-	-	-	-
Long-term loans payable (7)	Sumitomo Mitsui Banking Corporation (4)	4,743,811	-	4,743,811	-	39,351	-	39,351	-	1.646	December 20, 2016	(2)	Secured and unguaranteed

	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (4)	4,743,811	—	4,743,811	—	39,351	—	39,351	—	1.646	December 20, 2016		
	Shinsei Bank, Limited (4)	3,450,044	—	3,450,044	—	28,619	—	28,619	—	1.646	December 20, 2016		
	Citibank Japan Ltd. (4)	1,725,022	—	1,725,022	—	14,309	—	14,309	—	1.646	December 20, 2016		
	Shinsei Trust & Banking Co., Ltd.(4)	1,725,022	—	1,725,022	—	14,309	—	14,309	—	1.646	December 20, 2016		
	Aozora Bank, Ltd.(4)	1,164,389	—	1,164,389	—	9,658	—	9,658	—	1.646	December 20, 2016		
	Sumitomo Mitsui Banking Corporation (5)	—	12,400,000	—	12,400,000	—	102,861	—	102,861	0.951	July 14, 2017	(3)	Secured and unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (5)	—	12,400,000	—	12,400,000	—	102,861	—	102,861	0.951	July 14, 2017		
	Mizuho Bank, Ltd. (5)	—	12,400,000	—	12,400,000	—	102,861	—	102,861	0.951	July 14, 2017		
	Shinsei Bank, Limited (5)	—	6,500,000	—	6,500,000	—	53,919	—	53,919	0.951	July 14, 2017		
	Citibank Japan Ltd. (5)	—	6,500,000	—	6,500,000	—	53,919	—	53,919	0.951	July 14, 2017		
	Sumitomo Mitsui Trust Bank, Limited. (5)	—	5,000,000	—	5,000,000	—	41,476	—	41,476	0.951	July 14, 2017		
	Resona Bank, Limited. (5)	—	2,100,000	—	2,100,000	—	17,420	—	17,420	0.951	July 14, 2017		
	Total long-term loans payable	17,552,100	57,300,000	17,552,100	57,300,000	145,600	475,321	145,600	475,321	—	—		
Long-term loans payable in trust (8)	Mitsubishi UFJ Trust and Banking Corporation (6)	2,700,000	—	—	2,700,000	22,397	—	—	22,397	1.900	March 31, 2018	(3)	Secured and unguaranteed
	Mitsubishi UFJ Trust and Banking Corporation (6)	2,860,000	—	—	2,860,000	23,724	—	—	23,724	1.900	March 31, 2019		
	Mitsubishi UFJ Trust and Banking Corporation (6)	1,830,000	—	—	1,830,000	15,180	—	—	15,180	1.900	March 31, 2020		
	Mitsubishi UFJ Trust and Banking Corporation (6)	2,570,000	—	—	2,570,000	21,318	—	—	21,318	1.900	March 31, 2019		
	Total long-term loans payable in trust	9,960,000	—	—	9,960,000	82,621	—	—	82,621	—	—	—	—
	Total loans payable	41,000,850	57,300,000	31,040,850	67,260,000	340,114	475,321	257,493	557,942	—	—	—	—

Notes:

- (1) The average interest rate indicates a weighted average interest rate for each six month period, rounded to three decimal places.
- (2) Used for repayment of loans payable.
- (3) The funds are mainly used to acquire real estate properties or properties in trust.
- (4) The principal was repaid in full on July 17, 2014.
- (5) The principal is to be repaid in full on the principal maturity date.
- (6) The Company will repay the amount of ¥2,700 million on the principal maturity date. As for the amounts of ¥2,860 million and ¥1,830 million, the Company will start to repay principal on every interest due date (every 3 months) after 5 years from the borrowing date. Each repayment is calculated on the assumption that the remaining balance is repaid in equal installments over 30 years (120 payments in total). The remaining balance after the above repayments will be paid fully on the principal maturity date. As for the amount of ¥2,570 million, the Company will start to repay principal on every interests due date (every 3 months) after 3 years from the borrowing date. Each repayment is calculated on the assumption that the remaining balance is repaid in equal installments over 27 years (108 repayments in total). The balance after the above payments will be repaid fully on the principal maturity date. Mitsubishi UFJ Trust and Banking Corporation (“Mitsubishi UFJ Trust”), the trustee of real estate held in trust for which the

Company is the beneficiary, borrows money from Prudential Mortgage Asset Holdings 1 Japan Investment Business Limited Partnership, a part of the Prudential Financial, Inc as of September 28, 2012. The Company will receive the borrowed funds (after deducting reserves and other proceeds) from Mitsubishi UFJ Trust as payment of the trust principal for the real estate in trust on the same day.

- (7) Long-term loans payable include current portion.

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	
	December 31, 2014	December 31, 2014
	(in thousands of yen)	(in thousands of U.S. dollars)
1-2 years	¥ -	\$ -
2-3 years	56,100,000	465,367
3-4 years	-	-
4-5 years	-	-

- (8) Long-term loans payable in trust include current portion.

Repayment schedule of long-term loans payable in trust (except for the current portion) for the next five years after each balance sheet date are as follows:

	As of	
	December 31, 2014	December 31, 2014
	(in thousands of yen)	(in thousands of U.S. dollars)
1-2 years	¥ 73,807	\$ 612
2-3 years	104,256	864
3-4 years	2,894,530	24,011
4-5 years	5,143,274	42,665

9. Net Assets

The Company issues only non-par value units in accordance with the Investment Trust Act, and the entire amount of the issue price of new investment units is allocated to unitholders' capital within net assets. The Company is required to maintain net assets of at least ¥50,000 thousand (US\$ 414 thousand) as required by Article 67-4 of the Investment Trust Act.

The number of investment units authorized were 10,000,000 units as of June 30, 2014 and December 31, 2014.

The number of investment units issued and outstanding were 1,573,179 and 2,668,686 units as of June 30, 2014 and December 31, 2014 respectively.

10. Appropriation of Retained Earnings

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

The following table shows the appropriation of retained earnings for the six months ended June 30, 2014 and December 31, 2014.

	For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Unappropriated retained earnings	¥ 974,975	¥ 2,031,546	\$ 16,852
Cash distribution declared	(901,431)	(1,956,146)	(16,226)
Retained earnings carried forward.	¥ 73,543	¥ 75,399	\$ 625

A dividend in respect of the six months ended December 31, 2014 of ¥733 (US\$6.0) per investment unit, amounting to a total dividend of ¥1,956,146 thousand (US\$16,226 thousand) was proposed and approved at the Board of Directors meeting on February 25, 2015. These financial statements do not reflect this dividend payable.

Cash distributions per investment unit were ¥573 and ¥733 (US\$6.0) for the six months ended June 30, 2014, and December 31, 2014, respectively.

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

Rent revenue – real estate and expenses related to property rental business for the six months ended June 30, 2014 and December 31, 2014 consist of the following:

	For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Rental revenue – real estate:			
Rental revenue and common area charges	¥ 2,555,746	¥ 4,408,874	\$ 36,572
Other	216,673	201,843	1,674
Total rental revenue – real estate	¥ 2,772,419	¥ 4,610,717	\$ 38,247
Expenses related to property rental business:			
Facility management fees	¥ 446,688	¥ 460,196	\$ 3,817
Property related taxes	174,451	163,789	1,358
Insurance expense	4,952	6,084	50
Other	127,784	119,524	991
Depreciation	527,914	837,259	6,945
Total expenses related to property rental business	¥ 1,281,791	¥ 1,586,854	\$ 13,163
Operating income from property leasing activities	¥ 1,490,627	¥ 3,023,863	\$ 25,083

12. 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	
	June 30, 2014	December 31, 2014
	(Rate)	
Statutory tax rates	36.59 %	34.16 %
Deductible cash distributions	—	(33.54)
Increase (decrease) in valuation allowance	(34.98)	(0.46)
Other	(1.54)	(0.13)
Effective tax rates	0.07 %	0.03 %

(b) Deferred tax assets consist of the following:

	As of		
	June 30, 2014 (in thousands of yen)	December 31, 2014	December 31, 2014 (in thousands of U.S. dollars)
Deferred tax assets:			
Current:			
Enterprise tax payable	¥ 517	¥ -	\$ -
Rental receivables (merger)	197	197	1
Allowance for doubtful accounts	475	672	5
Total	1,190	870	7
Non-current:			
Buildings and other (merger)	812,820	801,025	6,644
Land (merger)	2,251,597	2,251,597	18,677
Net loss carried forward	7,746,144	7,749,271	64,282
Subtotal	10,810,561	10,801,895	89,605
Valuation allowance	(10,811,751)	(10,802,765)	(89,612)
Total	—	—	—
Net deferred tax assets	¥ —	¥ —	\$ —

(c) Revision of the amount of deferred tax assets and liabilities by the change of income tax rate

With the Local Corporation Tax Act (Act No. 11 of 2014) and the Act for Partial Amendment to Local Tax Law, Etc. (Act No. 4 of 2014) promulgated on March 31, 2014, the local corporation tax has been established and part of the special local corporation tax has been restored to corporate enterprise tax, effective from fiscal year beginning on or after October 1, 2014. Accordingly, the effective tax rate used to calculate deferred tax assets and deferred tax liabilities concerning temporary differences, etc. expected to be resolved in accounting periods beginning on or after January 1, 2015 will be changed to 34.16%.

As a result of this change, there are no effect on net deferred tax assets and income taxes.

13. Breakdown of Gain on Sales of Properties

For the six months ended June 30, 2014

	Bon Sejour Chitose Funabashi	Bon Sejour Yotsugi	Bon Sejour Hino	Bon Sejour Musashi-Shinjo
	(in thousands of yen)			
Revenue from sales of properties	¥ 832,153	¥ 777,256	¥ 730,459	¥ 587,138
Cost of properties sold	657,193	622,386	551,565	468,167
Other sales-related costs	6,623	5,450	5,414	4,363
Gain on sales of properties	¥ 168,337	¥ 149,419	¥ 173,480	¥ 114,607

	Bon Sejour Komaki	Bon Sejour Hadano Shibusawa	Bon Sejour Itami
	(in thousands of yen)		
Revenue from sales of properties	¥ 1,280,824	¥ 735,268	¥ 472,718
Cost of properties sold	984,869	633,486	449,783
Other sales-related costs	12,563	6,243	4,357
Gain on sales of properties	¥ 283,391	¥ 95,539	¥ 18,577

14. Leases

(a) Lease rental revenues

The future minimum rental revenues pursuant to existing rental contracts as of June 30, 2014 and December 31, 2014 scheduled to be received are summarized as follows:

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 507,089	¥ 1,843,409	\$ 15,291
Due over one year	4,342,958	15,485,197	128,454
Total	¥ 4,850,048	¥ 17,328,607	\$ 143,746

(b) Lease rental expenses

The future minimum rental expenses pursuant to existing rental contracts as of June 30, 2014 and December 31, 2014 scheduled to be paid are summarized as follows:

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 112,249	¥ 112,249	\$ 931
Due over one year	2,280,288	2,224,164	18,450
Total	¥ 2,392,537	¥ 2,336,413	\$ 19,381

15. Financial Instruments

(a) Qualitative information for financial instruments

i. Policy for financial instrument transactions

The Company raises funds through loans payable and the issuance of investment units to acquire real estate properties, pay property maintenance expenses and/or repay existing loans payable. Surplus funds are managed carefully through investments in financial instruments taking into account liquidity and safety in light of the current financial market conditions. Derivative instruments are used only for hedging purposes and not for speculation. The Company did not enter into any derivative transactions for the six months ended June 30, 2014 and December 31, 2014.

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

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

iii. Supplemental information for financial instruments

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

(b) Quantitative information for financial instruments

The following table shows the carrying amounts, fair values and valuation differences of financial instruments for which fair value is available as of June 30, 2014 and December 31, 2014.

	As of								
	June 30, 2014			December 31, 2014			December 31, 2014		
	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	¥ 759,058	¥ 759,058	¥ -	¥ 9,153,872	¥ 9,153,872	¥ -	\$ 75,934	\$ 75,934	\$ -
(2) Cash and bank deposits in trust	2,765,504	2,765,504	-	4,011,521	4,011,521	-	33,276	33,276	-
Total assets	¥ 3,524,562	¥ 3,524,562	¥ -	¥ 13,165,393	¥ 13,165,393	¥ -	\$ 109,211	\$ 109,211	\$ -
Liabilities:									
(3) Short-term loans payable	¥ 13,488,750	¥ 13,488,750	¥ -	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
(4) Current portion of long-term loans payable	17,552,100	17,552,100	-	1,200,000	1,200,000	-	9,954	9,954	-
(5) Long-term loans payable	-	-	-	56,100,000	56,100,000	-	465,367	465,367	-
(6) Current portion of long-term loans payable in trust	-	-	-	18,167	18,251	84	150	151	0
(7) Long-term loans payable in trust	9,960,000	10,122,527	162,527	9,941,832	10,156,234	214,401	82,470	84,249	1,778
Total liabilities	¥ 41,000,850	¥ 41,163,378	¥ 162,527	¥ 67,260,000	¥ 67,474,486	¥ 214,486	\$ 557,942	\$ 559,721	\$ 1,779

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

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

- (3) Short-term loans payable

Because of their short maturities and floating interest rates reflecting changes in market rates within a short term period, the carrying amounts of short-term loans payable approximate their fair values.

- (4) Current portion of long-term loans payable, (5) Long-term loans payable, (6) Current portion of long-term loans payable in trust and (7) Long-term loans payable in trust

The fair values of long-term loans payable with fixed interest rates are determined based on the present value of contractual cash flows discounted at current market interest rates which would be applicable to new loans payable under the same conditions and terms. Long-term loans payable with floating interest rates reflecting changes in market rates within a short term period are stated at their carrying amounts as their carrying amounts approximate their fair values.

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

	As of		
	June 30, 2014	December 31, 2014	December 31, 2014
	(in thousands of yen)	(in thousands of yen)	(in thousands of U.S. dollars)
Tenant leasehold and security deposits	¥ 28,663	¥ 28,663	\$ 237
Tenant leasehold and security deposits in trust	1,025,726	1,109,146	9,200

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.

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

	As of					
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	(in thousands of yen)					
As of June 30, 2014:						
Cash and bank deposits	¥ 759,058	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	2,765,504	-	-	-	-	-
Total	¥ 3,524,562	¥ -	¥ -	¥ -	¥ -	¥ -
As of December 31, 2014:						
Cash and bank deposits	¥ 9,153,872	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	4,011,521	-	-	-	-	-
Total	¥ 13,165,393	¥ -	¥ -	¥ -	¥ -	¥ -

	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 December 31, 2014:						
Cash and bank deposits	\$ 75,934	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and bank deposits in trust	33,276	-	-	-	-	-
Total	\$ 109,211	\$ -	\$ -	\$ -	\$ -	\$ -

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 June 30, 2014:						
Current portion of long-term loans payable	¥ 17,552,100	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	-	-	-	-	-	-
Current portion of long-term loans payable in trust	-	-	-	-	-	-
Long-term loans payable in trust	-	54,894	74,639	2,863,679	5,217,347	1,749,439
Total	¥ 17,552,100	¥ 54,894	¥ 74,639	¥ 2,863,679	¥ 5,217,347	¥ 1,749,439

As of December 31, 2014:						
Current portion of long-term loans payable	¥ 1,200,000	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	-	-	56,100,000	-	-	-
Current portion of long-term loans payable in trust	18,167	-	-	-	-	-
Long-term loans payable in trust	-	73,807	104,256	2,894,530	5,143,274	1,725,963
Total	¥ 1,218,167	¥ 73,807	¥ 56,204,256	¥ 2,894,530	¥ 5,143,274	¥ 1,725,963

	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 December 31, 2014:						
Current portion of long-term loans payable	\$ 9,954	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term loans payable	-	-	465,367	-	-	-
Current portion of long-term loans payable in trust	150	-	-	-	-	-
Long-term loans payable in trust	-	612	864	24,011	42,665	14,317
Total	\$ 10,105	\$ 612	\$ 466,231	\$ 24,011	\$ 42,665	\$ 14,317

16. Segment Information

Effective from the six months ended June 30, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, revised on March 27, 2009), and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

Segment information for the six months ended June 30, 2014 and December 31, 2014 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

Revenues from Overseas Customers:

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

Tangible Fixed Assets:

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

(c) Information about Major Customers

Information about major clients for the six-month periods ended June 30, 2014 and December 31, 2014 were as follows:

For the six months ended June 30, 2014

Disclosure is omitted as net sales to a single external customer account for less than 10% of the operating revenue on the statement of operations and retained earnings.

For the six months ended December 31, 2014

Name of client	Operating Revenues (in thousands of yen)	Revenues(in thousands of U.S. dollars)	Related segment
Mystays Hotel Management Co.,Ltd.	¥1,722,789	\$14,291	Real estate investing business

17. Related-Party Transactions

(a) Parent Company and Major Corporate Unitholders

For the six months ended June 30, 2014

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)			Type of transactions	Amounts(1) (in thousands of yen)	Balance sheet account	Amounts(1) (in thousands of yen)
Interested party of the Asset Manager	Zephyrus TMK(3)	Minato-ku Tokyo	Investment management business	¥ 01	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	\$2,851,000	—	—
	Nishi TMK(3)	Minato-ku Tokyo	Investment management business	¥ 01	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	\$ 2,584,000	—	—

Notes:

- Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.
- 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, Zephyrus TMK and Nishi TMK, has no relationship to be stated, but they receives investment through funds that are managed by FIG, an affiliate of Calliope. Accordingly, we treat Zephyrus TMK and Nishi TMK as a related party.
- Calliope holds 609,942 units (holding ratio: 38.77%) of the issued investment units of the Company.
- Sale price and acquisition price 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	Acquisition cost (in thousands of yen)
D1	Hotel MyStays Kanda	2,880,000
D2	Hotel MyStays Asakusa	2,610,000

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. dollars)			Type of transactions	Amounts(1)		Balance sheet account	Amounts(1)	
									(in thousands of yen)	(in thousands of U.S. dollars)		(in thousands of yen)	(in thousands of U.S. dollars)
Interested party of the Asset Manager	Zephyrus TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥ 14,878,412	\$ 123,421	—	—	—
	Nishi TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥ 4,473,000	\$ 37,104	—	—	—
	Shijodori holding TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 2.9	\$ 2	—	Seller of real estate trust beneficiary rights	beneficiary rights(2)(5)	¥ 7,394,980	\$ 63,002	—	—	—
	Danube TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥ 3,845,400	\$ 31,898	—	—	—
	Nagahoribashi holding TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 82	\$ 0	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥ 2,514,820	\$ 20,861	—	—	—
	Aki TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	—	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥ 6,631,968	\$ 55,014	—	—	—
	Mystays Hotel Management, Co.Ltd(5)	Minato-ku, Tokyo	Hotel management business	¥ 100	\$ 0	—	Lease holder and operator of hotel	Rental Revenues	¥ 1,722,789	\$ 14,291	Rental receivables	540,064	4,480

Notes:

- Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.
- 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, Zephyrus TMK, Nishi TMK, Shijodori holding TMK, Danube TMK, Nagahoribashi holding TMK, Aki TMK and Mystays Hotel Management, Co.Ltd has no relationship to be stated, but they receives investment through funds that are managed by FIG, an affiliate of Calliope. Accordingly, we treat Zephyrus TMK, Nishi TMK, Shijodori holding TMK, Danube TMK, Nagahoribashi holding TMK, Aki TMK and Mystays Hotel Management, Co.Ltd as a related party.
- Calliope holds 609,942 units (holding ratio: 22.85%) of the issued investment units of the Company.
- Sale price and acquisition price 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 U.S. dollars)
D3	Hotel MyStays Kyoto-Shijo	Shijodori holding TMK	6,024,460	49,974
D4	MyStays Shin-Urayasu Conference Center	Zephyrus TMK	4,930,200	40,897
D5	Hotel MyStays Maihama	Zephyrus TMK	4,870,312	40,400
D6	Hotel Vista Premio Dojima	Danube TMK	3,845,400	31,898
D7	Hotel MyStays Nagoya-Sakae	Zephyrus TMK	2,958,000	24,537
D8	Hotel MyStays Sakaisuji-Honmachi	Nagahoribashi holding TMK	2,514,820	21,064
D9	Hotel MyStays Yokohama	Zephyrus TMK	2,119,900	17,585
D10	Hotel MyStays Nippori	Nishi TMK	1,898,540	15,748
D11	Hotel MyStays Fukuoka-Tenjin-Minami	Shijodori holding TMK	1,570,520	13,027
D12	Flexstay Inn Iidabashi	Aki TMK	1,381,660	11,461
D13	Hotel MyStays Ueno Inaricho	Nishi TMK	1,331,960	11,049
D14	Flexstay Inn Shinagawa	Nishi TMK	1,242,500	10,306
D15	Flexstay Inn Tokiwadai	Aki TMK	1,242,500	10,306
D16	Flexstay Inn Sugamo	Aki TMK	1,192,800	9,894
D17	Hotel MyStays Ottemae	Aki TMK	1,192,800	9,894

Property No.	Property name	Seller	Acquisition cost (in thousands of yen)	Acquisition cost (in thousands of U.S. dollars)
D18	Flexstay Inn Kiyosumi Shirakawa	Aki TMK	749,476	6,217
D19	Flexstay Inn Nakanobu P1	Aki TMK	589,442	4,889
D20	Flexstay Inn Nakanobu P2	Aki TMK	283,290	2,349

(b) Board of Directors and Major Individual Unitholders

For the six months ended June 30, 2014

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)	¥ 126,083	Accrued expenses	¥ 68,670
				Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥ 600	Accrued expenses	¥ 324

Notes:

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

For the six months ended December 31, 2014

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)	Amounts (3) (in thousands of U.S. dollars)	Balance sheet account	Amounts (3) (in thousands of yen)	Amounts (3) (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)	¥ 128,993	\$ 1,070	Accrued expenses	¥ 67,500	\$ 559
				Payment of institution management fee to Consonant Investment Management Co., Ltd.(2)	¥ 1,100	\$ 9	Accrued expenses	¥ 864	\$ 7

Notes:

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

18. Per Unit Information

The following table shows net asset value per unit as of June 30, 2014 and December 31, 2014, and net income per unit for the six months then ended. Net income per unit is calculated by dividing the net income attributable to unitholders by the weighted average number of units outstanding during the six-month period. The Company has no potentially dilutive units.

	As of / For the six months ended		
	June 30, 2014	December 31, 2014	December 31, 2014
	(Yen)		(U.S. dollars)
Net asset value per unit	¥ 23,121	¥ 23,005	\$ 190
Net income per unit	573	762	6
Weighted average number of units	1,573,179	2,570,932	—

19. Subsequent Events

(a) New borrowing

The Company entered into a new loan agreement on February 6, 2015 to fund a portion of the acquisition of 3 Hotel properties.

New Syndicate Loan (D)

(i) Lender	:	Sumitomo Mitsui Banking Corporation The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd. Citibank Japan Ltd. Shinsei Bank, Limited Sumitomo Mitsui Trust Bank, Limited Resona Bank, Limited
(ii) Borrowing Amount	:	JPY 6,241 million (US\$ 51 million)
(iii) Interest Rate	:	One-month JPY TIBOR + spread (0.8%)
(iv) Interest payment date	:	Last business day of each month from borrowing date through principal maturity date, with the first interest payment date set on February 27, 2015.
(v) Method of principal repayment	:	To be repaid in full on the principal maturity date
(vi) Borrowing Method	:	Secured (Note 1) / with no guarantee
(vii) Borrowing Date	:	February 6, 2015
(viii) Principal Maturity Date	:	February 6, 2018

(Note 1) First priority pledges over the real estate trust beneficiary interests for 3 properties: APA Hotel Yokohama-Kannai, Hotel Nets Hakodate, Flexstay Inn Shirogane and 65 properties: Nisshin Palacestage Daitabashi, Nisshin Palacestage Higashi-Nagasaki, Growth Maison Gotanda, Growth Maison Kameido, Emerald House, Harmonie Ochanomizu, Suncrest Shakujii Koen, Growth Maison Shin-Yokohama, Belle Face Ueno Okachimachi, Grand Rire Kameido, Growth Maison Ikebukuro, Growth Maison Yoga, Route Tachikawa, Shibuya Honmachi Mansion, City Heights Kinuta, Acseeds Tower Kawaguchi Namiki, Capital Heights Kagurazaka, College Square Machida, Belair Meguro, Wacore Tsunashima I, Foros Nakamurabashi, Growth Maison Kaijin, College Square Machiya, City House Tokyo Shinbashi, Winbell Kagurazaka, Nishiwaseda Crescent Mansion, Lexington Square Akebonobashi, Casa Eremitaggio, Towa City Coop Shinotsuka II, Bichsel Musashiseki, Lexel Mansion Ueno Matsugaya, Towa City Coop Sengencho, Royal Park Omachi, Lexington Square Haginomachi, Visconti Kakuozan, Lexington Square Daitabashi, Lexington Square Honjo Azumabashi, AMS TOWER Minami 6-Jo, Spacia Ebisu, Kindai Kagakusha Building, Lexington Plaza Nishigotanda, Cross Square NAKANO, Ohki Aoba Building, Lexington Plaza Hachiman, AEON TOWN Sukagawa, Hotel MyStays Kanda, Hotel MyStays Asakusa, Hotel MyStays Kyoto-Shijo, MyStays Shin Urayasu Conference Center, Hotel MyStays Maihama, Hotel Vista Premio Dojima, Hotel MyStays Nagoya-Sakae, Hotel MyStays Sakaisuji-Honmachi, Hotel MyStays Yokohama, Hotel MyStays Nippori, Hotel MyStays Fukuoka-Tenjin-Minami, Flexstay Inn Iidabashi, Hotel MyStays Ueno Inaricho, Flexstay Inn Shinagawa, Flexstay Inn Tokiwadai, Flexstay Inn Sugamo, Hotel MyStays Otemae, Flexstay Inn Kiyosumi Shirakawa, Flexstay Inn Nakanobu P1 and Flexstay Inn Nakanobu P2. First priority mortgages over 2 properties: Shinjuku Island and Times Kanda-Sudacho 4th.

(b) Acquisition of Assets

The Company acquired 3 Hotels, which exhibit stable revenue and have a high potential to achieve further revenue growth, on February 6, 2015.

The overview of the 3 Hotels is as follows,

Use	Property Number	Property Name	Location	Acquisition Price (Note 1)	Total rentable area	Seller	Category of Specified Assets
Hotel	D21	Apa Hotel Yokohama Kannai	Yokohama-shi, Kanagawa	JPY 8,350 million (US\$ 69 million)	6,568.51 m ²	AYK Tokutei Mokuteki Kaisha	Trust Beneficial Interest
	D22	Hotel Nets Hakodate	Hakodate-shi, Hokkaido	JPY 2,792 million (US\$ 23 million)	7,961.26 m ²	Zephyrus Tokutei Mokuteki Kaisha	Trust Beneficial Interest
	D23	Flexstay Inn Shirogane	Minato-ku, Tokyo	JPY 2,119 million (US\$ 17 million)	1,754.06 m ²	Nishi Tokutei Mokuteki Kaisha	Trust Beneficial Interest
Total				JPY 13,261 million (US\$ 110 million)	16,283.83 m ²		

(Note 1) Acquisition prices do not include adjustments for property taxes or city planning taxes, or national or local consumption taxes; hereinafter the same.