

Invincible Investment
Corporation

**Audited Financial Statements
for the 28th Fiscal Period
(from January 1, 2017 to June 30, 2017)**

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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 28th fiscal period (covering the period from January 1, 2017 to June 30, 2017; the “Reporting Period”).

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

During the Reporting Period, INV acquired two residential properties with proceeds from the March 2017 public offering along with new borrowings. Royal Parks Tower Minami-Senju, one of the properties acquired, is a 39 story high-rise apartment with 555 residential units. It serves as the flagship residential property in the portfolio as it is the largest residential property by acquisition value and is also the second largest property in the entire portfolio (by acquisition value). Following the acquisition of these two high-quality residential properties, INV acquired Hotel MyStays Premier Hamamatsucho in May 2017 with new borrowings and cash on hand without issuing new equity. The hotel is one of five MyStays branded hotels with the “Premier” distinction in its name. Hotel MyStays Premier Hamamatsucho has 120 recently renovated guest rooms and boasts a large room size of 28.5 m², capable of accommodating three to five guests and offers excellent access to Haneda Airport and nearby connections to the Shinkansen (bullet train), making the property an attractive destination for both domestic and foreign guests. These transactions are a continuation of INV’s efforts to provide steady external growth in its core asset classes of hotels and residential properties.

INV benefits from an abundant pipeline of assets from affiliates of Fortress Group based on the Memorandum of Understanding (MOU). The MOU provides INV with preferential negotiation rights to acquire both hotels and residential properties, and consists of 30 properties as of the end of the Reporting Period (21 hotels with 6,007 rooms and 9 residential properties with 743 units).

In regards to the hotel portfolio, INV continues to work closely with MyStays Hotel Management Co., Ltd. (“MHM”), a hotel operator in the sponsor group, and recently implemented the conversion of smoking rooms to non-smoking rooms to reflect changes in customer preferences in order to achieve higher daily rates, a strategic increase in the overbooking ratio to reduce last-minute cancellations and improve guest room daily rates. At the same time, INV continues to focus on maximizing revenue by capturing a large percentage of inbound guests by capitalizing on the strong increase in foreign visitors to Japan by promoting MHM hotels via tie-ups with Asian airline companies/credit card companies, and by improving the booking website.

As for the residential portfolio, INV conducts proactive asset management to further improve property performance and streamline operational management, and has been working to consolidate master lessees and property managers (the “ML/PM”). Since the end of last year, INV changed the ML/PM at 20 properties, further improving rates of rent increases as well as reducing operational costs including PM fees which all contribute to higher net operating income.

As a result, operating revenues reached JPY 9,260 million, operating income JPY 5,344 million and net income JPY 4,702 million, with a distribution per unit (DPU) of JPY 1,264, an increase of 6.6% year-on-year⁽¹⁾.

INV will continue to implement its basic policy to “increase DPU,” and will ensure the implementation of measures to maximize unitholder value.

Your continued support is highly appreciated.



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

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

Distribution per unit for the 28th fiscal period
(the fiscal period ended June 2017)

JPY 1,264

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

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, 2017, and the statements of income and retained earnings, changes in net assets, and cash flows for the six months then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Invincible Investment Corporation as at June 30, 2017, 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 21 to the financial statements, which describe the followings.

1. A decision was made to acquire 4 hotel properties on September 21, 2017 and the purchase and sales agreement was entered into on the same date.
2. A decision was made to acquire a preferred equity interests on September 21, 2017.
3. A decision was made on the issuance of new investment units and secondary offering of investment units on September 21, 2017.
4. A decision was made on the implementation of borrowings on September 21, 2017 and the borrowing agreement was entered into on the same date.

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 3.

Ernst & Young ShinNihon LLC

September 21, 2017
Tokyo, Japan

INVINCIBLE INVESTMENT CORPORATION

BALANCE SHEET

As of June 30, 2017

	As of		
	December 31, 2016	June 30, 2017	
	(in thousands of yen)		(in thousands of U.S. dollars)
ASSETS			
Current assets:			
Cash and bank deposits (Notes 6 and 15)	¥ 8,714,907	¥ 3,532,405	\$ 31,550
Cash and bank deposits in trust (Notes 6 and 15)	5,499,826	6,065,755	54,177
Accounts receivable	19	8,204	73
Rental receivables	1,398,433	1,420,192	12,684
Prepaid expenses	387,328	445,116	3,975
Consumption taxes receivable	-	20,823	185
Other	32	0	0
Allowance for doubtful accounts	(1,334)	(33)	(0)
Total current assets	15,999,214	11,492,465	102,647
Non-current assets:			
Property and equipment (Notes 7 and 8):			
Buildings, at cost	85,914	85,914	767
Buildings and accompanying facilities, at cost	38,862	38,862	347
Structures, at cost	2,779	2,779	24
Tools, furniture and fixtures, at cost	-	2,395	21
Land	711,834	711,834	6,357
Buildings in trust, at cost	102,029,376	118,192,822	1,055,670
Buildings and accompanying facilities in trust, at cost	23,379,828	26,991,646	241,082
Structures in trust, at cost	340,005	345,467	3,085
Tools, furniture and fixtures in trust, at cost	651,007	898,892	8,028
Land in trust	135,384,518	142,046,411	1,268,724
Subtotal	262,624,127	289,317,026	2,584,110
Less: Accumulated depreciation	(11,526,460)	(13,726,024)	(122,597)
Total property and equipment, net	251,097,667	275,591,001	2,461,513
Intangible assets:			
Leasehold rights in trust	8,840,627	16,946,974	151,366
Total intangible assets	8,840,627	16,946,974	151,366
Investments and other assets:			
Guarantee deposits	613,914	1,651,565	14,751
Long-term prepaid expenses	616,340	601,737	5,374
Derivatives assets (Note 16)	151,259	92,243	823
Other	42,851	45,062	402
Total investments and other assets	1,424,366	2,390,608	21,352
Total non-current assets	261,362,660	294,928,585	2,634,231
TOTAL ASSETS	¥ 277,361,874	¥ 306,421,050	\$ 2,736,879

	As of		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
LIABILITIES			
Current liabilities:			
Accounts payable	¥ 182,601	¥ 170,911	\$ 1,526
Accounts payable-other	51,825	175,062	1,563
Accrued expenses	166,066	164,764	1,471
Income taxes payable	605	605	5
Consumption taxes payable	460,521	-	-
Advances received	522,072	540,675	4,829
Deposits received	13,583	15,932	142
Total current liabilities	1,397,276	1,067,951	9,538
Non-current liabilities:			
Long-term loans payable (Notes 9 and 15)	142,419,000	163,990,000	1,464,719
Tenant leasehold and security deposits in trust (Note 15)	2,030,396	2,240,373	20,010
Tenant leasehold and security deposits (Note 15) ..	28,663	28,663	256
Asset retirement obligations(Note 17)	31,260	31,468	281
Total non-current liabilities	144,509,319	166,290,505	1,485,267
TOTAL LIABILITIES	145,906,596	167,358,457	1,494,805
NET ASSETS (Note 10)			
Unitholders' equity:			
Unitholders' capital	120,367,271	128,984,946	1,152,062
Surplus:			
Capital surplus	6,264,432	6,264,432	55,952
Allowance for temporary differences adjustment(Note 5)	(224,225)	-	-
Other deduction of capital surplus	(763,290)	(987,516)	(8,820)
Capital surplus (net)	5,276,915	5,276,915	47,132
Voluntary reserve			
Retained earnings	5,659,831	4,708,487	42,055
Total surplus	10,936,747	9,985,403	89,187
Total unitholders' equity	131,304,019	138,970,350	1,241,250
Valuation and translation adjustments:			
Deferred gains or losses on hedges	151,259	92,243	823
Total valuation and translation adjustments	151,259	92,243	823
TOTAL NET ASSETS	131,455,278	139,062,593	1,242,073
TOTAL LIABILITIES AND NET ASSETS	¥ 277,361,874	¥ 306,421,050	\$ 2,736,879

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, 2017

	For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Operating revenue			
Rental revenue—real estate (Note 12)	¥ 9,511,466	¥ 9,260,917	\$ 82,716
<i>Total operating revenue</i>	<u>9,511,466</u>	<u>9,260,917</u>	<u>82,716</u>
Operating expenses			
Property related expenses (Note 12)	3,162,067	3,518,684	31,428
Asset management fees	250,000	250,000	2,232
Directors' compensation	4,800	4,800	42
Asset custody fees	14,026	13,594	121
Administrative service fees	27,890	29,983	267
Provision of allowance for doubtful accounts	1,123	33	0
Other	117,347	99,360	887
<i>Total operating expenses</i>	<u>3,577,255</u>	<u>3,916,456</u>	<u>34,980</u>
Operating income	<u>5,934,211</u>	<u>5,344,461</u>	<u>47,735</u>
Non-operating income			
Interest income	129	70	0
Interest on tax refund	6,722	150	1
Refund of consumption taxes	35,949	-	-
Other	385	1,077	9
<i>Total non-operating income</i>	<u>43,186</u>	<u>1,297</u>	<u>11</u>
Non-operating expenses			
Interest expenses	359,540	377,451	3,371
Loan-related costs	186,249	223,228	1,993
Investment unit issuance costs	-	42,401	378
<i>Total non-operating expenses</i>	<u>545,789</u>	<u>643,080</u>	<u>5,743</u>
Ordinary income	<u>5,431,608</u>	<u>4,702,678</u>	<u>42,003</u>
Income before income taxes	<u>5,431,608</u>	<u>4,702,678</u>	<u>42,003</u>
Income taxes (Note 13):			
Current	605	605	5
<i>Total income taxes</i>	<u>605</u>	<u>605</u>	<u>5</u>
Net income	<u>5,431,003</u>	<u>4,702,073</u>	<u>41,997</u>
Retained earnings brought forward	<u>228,827</u>	<u>6,414</u>	<u>57</u>
Unappropriated retained earnings (Note 11)	<u>¥ 5,659,831</u>	<u>¥ 4,708,487</u>	<u>\$ 42,055</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, 2017

	Unitholders' equity							
	Surplus						Voluntary reserve	
	Unitholders' capital	Capital surplus			Capital surplus (net)	Reserve for temporary differences adjustment		
		Capital surplus	Deduction of capital surplus			Reserve for temporary differences adjustment		Voluntary reserve
		Allowance for temporary differences adjustment	Other deduction of capital surplus	Deduction of capital surplus				
(in thousands of yen)								
Balance as of July 1, 2016	¥ 120,367,271	¥ 6,264,432	¥ -	¥ (763,290)	¥ (763,290)	¥ 5,501,141	¥ 708	¥ 708
Changes during the period								
Reversal of reserve for temporary differences adjustment							(708)	(708)
Distributions from surplus								
Distributions in excess of retained earnings from allowance for temporary differences adjustment			(224,225)		(224,225)	(224,225)		
Net income								
Changes other than unitholders' equity (net)								
Total changes during the period	-	-	(224,225)	-	(224,225)	(224,225)	(708)	(708)
Balance as of December 31, 2016	¥ 120,367,271	¥ 6,264,432	¥ (224,225)	¥ (763,290)	¥ (987,516)	¥ 5,276,915	¥ -	¥ -
Changes during the period								
Issuance of new investment units	8,393,450							
Reversal of allowance for temporary differences adjustment	224,225		224,225	(224,225)	-	-		
Distributions from surplus								
Net income								
Changes other than unitholders' equity (net)								
Total changes during the period	8,617,675	-	224,225	(224,225)	-	-	-	-
Balance as of June 30, 2017	¥ 128,984,946	¥ 6,264,432	¥ -	¥ (987,516)	¥ (987,516)	¥ 5,276,915	¥ -	¥ -

	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, 2016	¥ 4,363,420	¥ 9,865,270	¥ 130,232,542	¥ (227,532)	¥ (227,532)	¥ 130,005,009
Changes during the period						
Reversal of reserve for temporary differences adjustment	708	-	-			-
Distributions from surplus	(4,135,302)	(4,135,302)	(4,135,302)			(4,135,302)
Distributions in excess of retained earnings from allowance for temporary differences adjustment		(224,225)	(224,225)			(224,225)
Net income	5,431,003	5,431,003	5,431,003			5,431,003
Changes other than unitholders' equity (net)				378,792	378,792	378,792
Total changes during the period	1,296,410	1,071,476	1,071,476	378,792	378,792	1,450,268
Balance as of December 31, 2016	¥ 5,659,831	¥ 10,936,747	¥ 131,304,019	¥ 151,259	¥ 151,259	¥ 131,455,278
Changes during the period						
Issuance of new investment units			8,393,450			8,393,450
Reversal of allowance for temporary differences adjustment	(224,225)	(224,225)	-			-
Distributions from surplus	(5,429,192)	(5,429,192)	(5,429,192)			(5,429,192)
Net income	4,702,073	4,702,073	4,702,073			4,702,073
Changes other than unitholders' equity (net)				(59,016)	(59,016)	(59,016)
Total changes during the period	(951,344)	(951,344)	7,666,331	(59,016)	(59,016)	7,607,315
Balance as of June 30, 2017	¥ 4,708,487	¥ 9,985,403	¥ 138,970,350	¥ 92,243	¥ 92,243	¥ 139,062,593

	Unitholders' equity						
	Unitholders' capital	Surplus					Capital surplus (net)
		Capital surplus	Deduction of capital surplus			Capital surplus (net)	
			Allowance for temporary differences adjustment	Other deduction of capital surplus	Deduction of capital surplus		
	(in thousands of US dollars)						
Balance as of December 31, 2016	\$ 1,075,091	\$ 55,952	\$ (2,002)	\$ (6,817)	\$ (8,820)	\$ 47,132	
Changes during the period							
Issuance of new investment units	74,968						
Reversal of allowance for temporary differences adjustment	2,002		2,002	(2,002)	-	-	
Distributions from surplus							
Net income							
Changes other than unitholders' equity (net)							
Total changes during the period	76,971	-	2,002	(2,002)	-	-	
Balance as of June 30, 2017	\$ 1,152,062	\$ 55,952	\$ -	\$ (8,820)	\$ (8,820)	\$ 47,132	

	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 December 31, 2016	\$ 50,552	\$ 97,684	\$ 1,172,776	\$ 1,351	\$ 1,351	\$ 1,174,127
Changes during the period						
Issuance of new investment units			74,968			74,968
Reversal of allowance for temporary differences adjustment	(2,002)	(2,002)	-			-
Distributions from surplus	(48,492)	(48,492)	(48,492)			(48,492)
Net income	41,997	41,997	41,997			41,997
Changes other than unitholders' equity (net)				(527)	(527)	(527)
Total changes during the period	(8,497)	(8,497)	68,473	(527)	(527)	67,946
Balance as of June 30, 2017	\$ 42,055	\$ 89,187	\$ 1,241,250	\$ 823	\$ 823	\$ 1,242,073

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, 2017

	For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash flows from operating activities:			
Income before income taxes	¥ 5,431,608	¥ 4,702,678	\$ 42,003
Depreciation and amortization	2,065,066	2,281,374	20,376
Investment unit issuance costs	-	42,401	378
Loan-related costs	186,249	223,228	1,993
Interest income	(129)	(70)	(0)
Interest expenses	359,540	377,451	3,371
Changes in assets and liabilities			
Increase (decrease) in allowance for doubtful accounts	(1,430)	(1,301)	(11)
Decrease (increase) in rental receivables	(22,587)	(21,759)	(194)
Decrease (increase) in consumption taxes receivable	2,672,787	(20,823)	(185)
Increase (decrease) in accounts payable	(66,883)	81,748	730
Increase (decrease) in consumption taxes payable	460,521	(460,521)	(4,113)
Increase (decrease) in accounts payable-other	(881,047)	25,473	227
Increase (decrease) in accrued expenses	(5,946)	444	3
Increase (decrease) in advances received	14,936	18,602	166
Increase (decrease) in deposits received	(23,418)	(21,461)	(191)
Other, net	(12,451)	(17,577)	(156)
Subtotal	10,176,817	7,209,888	64,397
Interest income received	129	70	0
Interest expenses paid	(358,219)	(379,198)	(3,386)
Income taxes paid	(605)	(605)	(5)
Net cash provided by operating activities	9,818,122	6,830,155	61,005
Cash flows from investing activities:			
Purchases of property and equipment	-	(2,395)	(21)
Purchases of property and equipment in trust	(8,449,701)	(26,684,589)	(238,340)
Purchases of leasehold rights in trust	-	(8,187,950)	(73,132)
Repayments of tenant leasehold and security deposits in trust	(53,815)	(79,334)	(708)
Proceeds from tenant leasehold and security deposits in trust	48,371	290,004	2,590
Payments of tenant leasehold and security deposits	-	(1,037,651)	(9,268)
Other, net	(2,211)	(2,211)	(19)
Net cash used in investing activities	(8,457,356)	(35,704,126)	(318,900)
Cash flows from financing activities:			
Repayments of short-term loans payable	(3,498,000)	-	-
Proceeds from long-term loans payable	4,000,000	21,571,000	192,667
Payments for loan-related costs	(53,775)	(257,922)	(2,303)
Payments of distributions of earnings	(4,118,229)	(5,406,728)	(48,291)
Payments of distributions in excess of retained earnings from allowance for temporary differences adjustment	(224,225)	-	-
Proceeds from issuance of investment units	-	8,351,048	74,589
Other, net	(15,879)	-	-
Net cash provided by (used in) financing activities	(3,910,109)	24,257,397	216,661
Net increase (decrease) in cash and cash equivalents	(2,549,344)	(4,616,573)	(41,234)
Cash and cash equivalents at beginning of period	16,764,078	14,214,734	126,962
Cash and cash equivalents at end of period (Note 6)	¥ 14,214,734	¥ 9,598,161	\$ 85,728

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, 2017

1. Organization

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

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

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

On February 7, 2005, the Company completed its second public offering of 10,650 investment units at a price of ¥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 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 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 an additional 25,000 investments 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 an additional 22,626 investments 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.

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>June 30, 2017</u>
Buildings	77 years
Buildings and accompanying facilities	8-24
Structures	7-18
Tools, furniture and fixtures.....	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

(d) 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.

(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 on 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.

Tax on property and equipment capitalized as part of the acquisition cost of properties amounted to ¥78,074 (US\$697) thousand for the six months ended June 30, 2017.

3. U.S. Dollar Amounts

The Company maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetical result of translating Japanese yen into U.S. dollars at the rate of ¥111.96 = US\$1, the effective rate of exchange prevailing at June 30, 2017. The inclusion of such U.S. dollar amounts associated with the fiscal six months ended June 30, 2017 is solely for the convenience of readers outside Japan. Such translations should not be construed as representations that the Japanese yen amounts represent, or have been, or could be converted into, U.S. dollars at that or any other rate.

4. Reserve for temporary differences adjustment

For the six months ended December 31, 2016

JPY 708 thousand reserve for temporary differences adjustment was distributed

For the six months ended June 30, 2017

Not Applicable.

5. Allowance for temporary differences adjustment

For the six months ended December 31, 2016

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

1. Reason, related assets and amounts

(in thousands of yen)

Related assets, etc.	Reason for occurrence	Initial amount	Beginning balance	Allowance set aside during period	Reversal during period	Ending balance	Reason for reversal
Deferred gains or losses on hedges	Loss on interest rate swaps recognized at the end of the fiscal period	¥ (224,225)	-	¥ (224,225)	-	¥ (224,225)	-
Total		¥ (224,225)	-	¥ (224,225)	-	¥ (224,225)	-

2. Method of reversal

(1) Deferred gains or losses on hedges

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

For the six months ended June 30, 2017

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

1. Reason, related assets and amounts

(in thousands of yen)

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

(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
Deferred gains or losses on hedges	-	\$ (2,002)	\$ (2,002)	-	\$ 2,002	-	Changes in the fair value of derivatives
Total		\$ (2,002)	\$ (2,002)	-	\$ 2,002	-	-

2. Method of reversal

(1) Deferred gains or losses on hedges

Based on changes in the fair value of derivatives used as hedging instruments, the corresponding amount is 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, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Cash and bank deposits	¥ 8,714,907	¥ 3,532,405	\$ 31,550
Cash and bank deposits in trust	5,499,826	6,065,755	54,177
Cash and cash equivalents	¥ 14,214,734	¥ 9,598,161	\$ 85,728

7. Property and Equipment

The following tables show the summary of movement in property and equipment for the six months ended June 30, 2017.

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance			
(in thousands of yen)							
Buildings	¥ 85,914	¥ -	¥ -	¥ 85,914	¥ 11,031	¥ 541	¥ 74,883
Buildings and accompanying facilities	38,862	-	-	38,862	22,925	774	15,937
Structures	2,779	-	-	2,779	1,533	65	1,245
Tools, furniture and fixtures	-	2,395	-	2,395	67	67	2,327
Land	711,834	-	-	711,834	-	-	711,834
Buildings in trust	102,029,376	16,163,446	-	118,192,822	8,155,443	1,354,965	110,037,378
Buildings and accompanying facilities in trust	23,379,828	3,611,817	-	26,991,646	5,092,225	780,169	21,899,421
Structures in trust	340,005	5,461	-	345,467	169,049	10,623	176,417
Tools, furniture and fixtures in trust	651,007	247,884	-	898,892	273,748	52,564	625,143
Land in trust	135,384,518	6,661,892	-	142,046,411	-	-	142,046,411
Leasehold rights in trust	8,891,821	8,187,950	-	17,079,771	132,796	81,603	16,946,974
Total	¥ 271,515,949	¥ 34,880,848	¥ -	¥ 306,396,797	¥ 13,858,821	¥ 2,281,374	¥ 292,537,976

	At cost				Accumulated depreciation	Depreciation for the period	Net property and equipment
	Beginning balance	Increase	Decrease	Ending balance			
(in thousands of U.S. dollars)							
Buildings	\$ 767	\$ -	\$ -	\$ 767	\$ 98	\$ 4	\$ 668
Buildings and accompanying facilities	347	-	-	347	204	6	142
Structures	24	-	-	24	13	0	11
Tools, furniture and fixtures	-	21	-	21	0	0	20
Land	6,357	-	-	6,357	-	-	6,357
Buildings in trust	911,302	144,368	-	1,055,670	72,842	12,102	982,827
Buildings and accompanying facilities in trust	208,823	32,259	-	241,082	45,482	6,968	195,600
Structures in trust	3,036	48	-	3,085	1,509	94	1,575
Tools, furniture and fixtures in trust	5,814	2,214	-	8,028	2,445	469	5,583
Land in trust	1,209,222	59,502	-	1,268,724	-	-	1,268,724
Leasehold rights in trust	79,419	73,132	-	152,552	1,186	728	151,366
Total	\$ 2,425,115	\$ 311,547	\$ -	\$ 2,736,663	\$ 123,783	\$ 20,376	\$ 2,612,879

Increases in the net book values are mainly due to the acquisition of 3 properties (¥32,562,000 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)
A105	Royal Parks Tower Minami-Senju	21,879,000	195,418
A106	Royal Parks Seasir Minami-Senju	2,683,000	23,963
D49	Hotel MyStays Premier Hamamatsucho	8,000,000	71,454
Total		32,562,000	290,836

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, 2016 and June 30, 2017.

Residential

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 68,274,496	¥ 67,835,839	\$ 605,893
Net increase (decrease) during period	(438,657)	25,277,356	225,771
Balance at the end of period	67,835,839	93,113,195	831,664
Fair value	¥ 77,843,000	¥ 104,752,000	\$ 935,619

Office

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 8,470,387	¥ 8,440,981	\$ 75,392
Net increase (decrease) during period	(29,405)	(16,247)	(145)
Balance at the end of period	8,440,981	8,424,734	75,247
Fair value	¥ 7,406,000	¥ 7,636,000	\$ 68,202

Retail facilities

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 5,087,525	¥ 5,049,226	\$ 45,098
Net increase (decrease) during period	(38,298)	(47,956)	(428)
Balance at the end of period	5,049,226	5,001,269	44,670
Fair value	¥ 5,890,000	¥ 5,980,000	\$ 53,411

Parking lots

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 100,820	¥ 100,819	\$ 900
Net increase (decrease) during period	(1)	(1)	(0)
Balance at the end of period	100,819	100,818	900
Fair value	¥ 113,000	¥ 113,000	\$ 1,009

Hotel

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 179,537,920	¥ 178,511,427	\$ 1,594,421
Net increase (decrease) during period	(1,026,493)	7,386,530	65,974
Balance at the end of period	178,511,427	185,897,957	1,660,396
Fair value	¥ 236,940,000	¥ 245,021,000	\$ 2,188,469

Total

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Net book value			
Balance at the beginning of period	¥ 261,471,150	¥ 259,938,294	\$ 2,321,706
Net increase (decrease) during period	(1,532,855)	32,599,681	291,172
Balance at the end of period	259,938,294	292,537,976	2,612,879
Fair value	¥ 328,192,000	¥ 363,502,000	\$ 3,246,713

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, 2016 and June 30, 2017, please refer to "Note 12: Rent Revenues—Real Estate and Expenses Related to Property Rental Business"

9. Loans Payable

The following table shows the details of loans payable for the six months ended June 30, 2017.

For the six months ended June 30, 2017

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	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.375	16-Jul-18	(2)	Unsecured and unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.375	16-Jul-18		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.375	16-Jul-18		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,742	-	-	29,742	0.375	16-Jul-18		
	Citibank Japan Ltd.	3,000,000	-	-	3,000,000	26,795	-	-	26,795	0.375	16-Jul-18		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	23,847	-	-	23,847	0.375	16-Jul-18		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,923	-	-	11,923	0.375	16-Jul-18		

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	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,966	-	-	5,966	0.375	16-Jul-18	(2)	Unsecured and unguaranteed
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.480	16-Jul-19		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.480	16-Jul-19		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.480	16-Jul-19		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,742	-	-	29,742	0.480	16-Jul-19		
	Citibank Japan Ltd.	3,000,000	-	-	3,000,000	26,795	-	-	26,795	0.480	16-Jul-19		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	23,847	-	-	23,847	0.480	16-Jul-19		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,923	-	-	11,923	0.480	16-Jul-19		
	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,966	-	-	5,966	0.480	16-Jul-19		
	Mizuho Bank, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.590	16-Jul-20		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.590	16-Jul-20		
	Sumitomo Mitsui Banking Corporation	5,992,000	-	-	5,992,000	53,519	-	-	53,519	0.590	16-Jul-20		
	Shinsei Bank, Limited.	3,330,000	-	-	3,330,000	29,742	-	-	29,742	0.590	16-Jul-20		
	Citibank Japan Ltd.	3,000,000	-	-	3,000,000	26,795	-	-	26,795	0.590	16-Jul-20		
	Sumitomo Mitsui Trust Bank, Limited	2,670,000	-	-	2,670,000	23,847	-	-	23,847	0.590	16-Jul-20		
	Resona Bank, Limited.	1,335,000	-	-	1,335,000	11,923	-	-	11,923	0.590	16-Jul-20		
	Mitsubishi UFJ Trust and Banking Corporation	668,000	-	-	668,000	5,966	-	-	5,966	0.590	16-Jul-20		
	Mizuho Bank, Ltd.	3,682,000	-	-	3,682,000	32,886	-	-	32,886	0.480	28-Aug-19		
Sumitomo Mitsui Trust Bank, Limited	3,400,000	-	-	3,400,000	30,367	-	-	30,367	0.343	22-Jan-19			
Mitsubishi UFJ Trust and Banking Corporation	850,000	-	-	850,000	7,591	-	-	7,591	0.343	22-Jan-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 Trust Bank, Limited	3,400,000	-	-	3,400,000	30,367	-	-	30,367	0.600	22-Jan-21	(2)	Unsecured and unguaranteed
	Mitsubishi UFJ Trust and Banking Corporation	850,000	-	-	850,000	7,591	-	-	7,591	0.600	22-Jan-21		
	Mizuho Bank, Ltd.	465,000	-	-	465,000	4,153	-	-	4,153	0.430	30-Mar-19		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,125,000	-	-	1,125,000	10,048	-	-	10,048	0.430	30-Mar-19		
	Sumitomo Mitsui Trust Bank, Limited	2,181,000	-	-	2,181,000	19,480	-	-	19,480	0.430	30-Mar-19		
	Shinsei Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.430	30-Mar-19		
	Resona Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.430	30-Mar-19		
	Mitsubishi UFJ Trust and Banking Corporation	650,000	-	-	650,000	5,805	-	-	5,805	0.430	30-Mar-19		
	Japan Post Bank Co., Ltd.	2,000,000	-	-	2,000,000	17,863	-	-	17,863	0.430	30-Mar-19		
	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.430	30-Mar-19		
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	2,974	-	-	2,974	0.430	30-Mar-19		
	The Shizuoka Bank, Ltd.	1,270,000	-	-	1,270,000	11,343	-	-	11,343	0.430	30-Mar-19		
	The Daiichi Bank, Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.430	30-Mar-19		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,411	-	-	2,411	0.430	30-Mar-19		
	Mizuho Bank, Ltd.	965,000	-	-	965,000	8,619	-	-	8,619	0.530	30-Mar-20		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,125,000	-	-	1,125,000	10,048	-	-	10,048	0.530	30-Mar-20		
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	-	-	2,180,000	19,471	-	-	19,471	0.530	30-Mar-20		
	Shinsei Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.530	30-Mar-20		
	Resona Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.530	30-Mar-20		
	Mitsubishi UFJ Trust and Banking Corporation	650,000	-	-	650,000	5,805	-	-	5,805	0.530	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	Japan Post Bank Co., Ltd.	2,000,000	-	-	2,000,000	17,863	-	-	17,863	0.530	30-Mar-20	(2)	Unsecured and unguaranteed
	The Bank of Fukuoka, Ltd.	333,000	-	-	333,000	2,974	-	-	2,974	0.530	30-Mar-20		
	The Shizuoka Bank, Ltd.	270,000	-	-	270,000	2,411	-	-	2,411	0.530	30-Mar-20		
	The Kagawa Bank, Ltd.	500,000	-	-	500,000	4,465	-	-	4,465	0.530	30-Mar-20		
	The Hyogo Bank, Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.530	30-Mar-20		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,411	-	-	2,411	0.530	30-Mar-20		
	Mizuho Bank, Ltd.	1,965,000	-	-	1,965,000	17,550	-	-	17,550	0.630	30-Mar-21		
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,125,000	-	-	1,125,000	10,048	-	-	10,048	0.630	30-Mar-21		
	Sumitomo Mitsui Trust Bank, Limited	2,180,000	-	-	2,180,000	19,471	-	-	19,471	0.630	30-Mar-21		
	Shinsei Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.630	30-Mar-21		
	Resona Bank, Limited.	570,000	-	-	570,000	5,091	-	-	5,091	0.630	30-Mar-21		
	Mitsubishi UFJ Trust and Banking Corporation	650,000	-	-	650,000	5,805	-	-	5,805	0.630	30-Mar-21		
	The Bank of Fukuoka, Ltd.	1,333,000	-	-	1,333,000	11,906	-	-	11,906	0.630	30-Mar-21		
	The Shizuoka Bank, Ltd.	270,000	-	-	270,000	2,411	-	-	2,411	0.630	30-Mar-21		
	The Kagawa Bank, Ltd.	500,000	-	-	500,000	4,465	-	-	4,465	0.630	30-Mar-21		
	The Hiroshima Bank, Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.630	30-Mar-21		
	The Nomura Trust and Banking Co., Ltd.	270,000	-	-	270,000	2,411	-	-	2,411	0.630	30-Mar-21		
	Citibank Japan Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.430	15-Jun-19		
	Citibank Japan Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.530	15-Jun-20		
	Citibank Japan Ltd.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.630	15-Jun-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	Development Bank of Japan Inc.	1,000,000	-	-	1,000,000	8,931	-	-	8,931	0.430	30-Jun-19	(2)	Unsecured and unguaranteed
	AEON Bank, Ltd.	3,000,000	-	-	3,000,000	26,795	-	-	26,795	0.630	30-Jun-21		
	The Tokyo Star Bank, Limited	700,000	-	-	700,000	6,252	-	-	6,252	0.430	20-Jul-19		
	The Tokyo Star Bank, Limited	1,600,000	-	-	1,600,000	14,290	-	-	14,290	0.530	20-Jul-20		
	The Tokyo Star Bank, Limited	1,700,000	-	-	1,700,000	15,183	-	-	15,183	0.630	20-Jul-21		
	Mizuho Bank, Ltd.	-	634,000	-	634,000	-	5,662	-	5,662	0.430	14-Mar-20		
	Development Bank of Japan Inc.	-	1,000,000	-	1,000,000	-	8,931	-	8,931	0.430	14-Mar-20		
	Resona Bank, Limited	-	333,000	-	333,000	-	2,974	-	2,974	0.430	14-Mar-20		
	The Bank of Fukuoka, Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.430	14-Mar-20		
	The Nomura Trust and Banking Co., Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.430	14-Mar-20		
	The Toyou Bank, Ltd.	-	252,000	-	252,000	-	2,250	-	2,250	0.430	14-Mar-20		
	The Shizuoka Bank, Ltd.	-	200,000	-	200,000	-	1,786	-	1,786	0.430	14-Mar-20		
	The Gunma Bank, Ltd.	-	165,000	-	165,000	-	1,473	-	1,473	0.430	14-Mar-20		
	Mizuho Bank, Ltd.	-	1,633,000	-	1,633,000	-	14,585	-	14,585	0.530	14-Mar-21		
	Resona Bank, Limited	-	333,000	-	333,000	-	2,974	-	2,974	0.530	14-Mar-21		
	The Bank of Fukuoka, Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.530	14-Mar-21		
	The Nomura Trust and Banking Co., Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.530	14-Mar-21		
	The Toyou Bank, Ltd.	-	253,000	-	253,000	-	2,259	-	2,259	0.530	14-Mar-21		
	The Shizuoka Bank, Ltd.	-	200,000	-	200,000	-	1,786	-	1,786	0.530	14-Mar-21		
	The Gunma Bank, Ltd.	-	165,000	-	165,000	-	1,473	-	1,473	0.530	14-Mar-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	Mizuho Bank, Ltd.	-	1,733,000	-	1,733,000	-	15,478	-	15,478	0.630	14-Mar-22	(2)	Unsecured and unguaranteed
	Resona Bank, Limited.	-	333,000	-	333,000	-	2,974	-	2,974	0.630	14-Mar-22		
	The Bank of Fukuoka, Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.630	14-Mar-22		
	The Nomura Trust and Banking Co., Ltd.	-	333,000	-	333,000	-	2,974	-	2,974	0.630	14-Mar-22		
	AEON Bank, Ltd.	-	900,000	-	900,000	-	8,038	-	8,038	0.630	14-Mar-22		
	The Tokai Bank, Ltd.	-	253,000	-	253,000	-	2,259	-	2,259	0.630	14-Mar-22		
	The Shizuoka Bank, Ltd.	-	200,000	-	200,000	-	1,786	-	1,786	0.630	14-Mar-22		
	The Dai-ichi Life Insurance company, Limited	-	500,000	-	500,000	-	4,465	-	4,465	0.630	14-Mar-22		
	The Gunma Bank, Ltd.	-	165,000	-	165,000	-	1,473	-	1,473	0.630	14-Mar-22		
	Sumitomo Mitsui Banking Corporation	-	3,000,000	-	3,000,000	-	26,795	-	26,795	0.480	14-Sep-20		
	Mizuho Bank, Ltd.	-	7,321,000	-	7,321,000	-	65,389	-	65,389	0.580	19-Nov-21		
	Total long-term loans payable	142,419,000	21,571,000	-	163,990,000	1,272,052	192,667	-	1,464,719	-	-		
Total loans payable	¥142,419,000	¥21,571,000	-	¥163,990,000	\$1,272,052	\$192,667	-	\$1,464,719	-	-	-	-	

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.
- 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, 2017 (in thousands of yen)	June 30, 2017 (in thousands of U.S. dollars)
1-2 years.....	¥ 46,663,000	\$ 416,782
2-3 years.....	48,044,000	429,117
3-4 years.....	55,512,000	495,819
4-5 years.....	13,771,000	122,999

10. 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\$ 446 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, 2016 and June 30, 2017.

The number of investment units issued and outstanding were 3,675,824 as of December 31, 2016 and 3,860,824 June 30, 2017 respectively.

11. 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, 2016 and June 30, 2017.

	For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Unappropriated retained earnings	¥ 5,659,831	¥ 4,708,487	\$ 42,055
Reversal of allowance for temporary differences adjustment	(224,225)	-	-
Distributions in excess of retained earnings			
Allowance for temporary differences adjustment	-	(46,329)	(413)
Deduction from unitholders capital surplus	-	(34,747)	(310)
Distributions	(5,429,192)	(4,880,081)	(43,587)
Of which, distributions of earnings	(5,429,192)	(4,799,004)	(42,863)
Of which, allowance for adjustment of temporary differences	-	(46,329)	(413)
Of which, deduction from unitholders capital surplus	-	(34,747)	(310)
Retained earnings carried forward	¥ 6,414	¥ (90,516)	\$ (808)

The distributions in respect of the six months ended June 30, 2017 of ¥1,264 (US\$11.2) per investment unit, amounting to a total distributions of ¥4,880,081 thousand (US\$43,587 thousand), including distributions in excess of retained earnings, were proposed and approved at the Board of Directors meeting on August 22, 2017. These financial statements do not reflect these distributions payable. Cash distributions per investment unit were ¥1,477 and ¥1,264 (US\$11.2) for the six months ended December 31, 2016, and June 30, 2017, respectively.

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

For the six months ended December 31, 2016

In this table, the Company reversed JPY224,225 thousand of allowance for temporary differences adjustment corresponding to the change in the fair value of interest-rate swaps.

For the six months ended June 30, 2017

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

(a) Reasons, related assets and allowance

(in thousands of yen)

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

(in thousands of U.S dollars)

Related assets, etc.	Reason for occurrence	Allowance for temporary difference adjustments
Leasehold rights in trust	Occurrence of amortization of leasehold rights in trust	413

(b) Method of reversal

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

12. 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, 2016 and June 30, 2017 consist of the following:

	For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Rental revenue – real estate:			
Rental revenue and common area charges	¥ 9,237,784	¥ 8,927,781	\$ 79,740
Other	273,682	333,135	2,975
Total rental revenue – real estate	¥ 9,511,466	¥ 9,260,917	\$ 82,716
Expenses related to property rental business:			
Facility management fees	¥ 580,896	¥ 646,226	\$ 5,771
Property related taxes	356,372	390,797	3,490
Insurance expense	11,807	10,195	91
Depreciation	2,065,066	2,281,374	20,376
Other	147,924	190,090	1,697
Total expenses related to property rental business	¥ 3,162,067	¥ 3,518,684	\$ 31,428
Operating income from property leasing activities	¥ 6,349,399	¥ 5,742,232	\$ 51,288

13. 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, 2016	June 30, 2017
	(Rate)	
Statutory tax rates	31.74 %	31.74 %
Deductible cash distributions	(31.71)	(32.06)
Increase (decrease) in valuation allowance	(0.09)	(0.32)
Other	0.08	0.65
Effective tax rates	0.01 %	0.01 %

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

	As of		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Deferred tax assets:			
Current:			
Enterprise tax payable	¥ 661	¥ 996	\$ 8
Allowance for doubtful accounts	423	10	0
Total	1,084	1,006	8
Non-current:			
Buildings and other (merger)	700,210	689,159	6,155
Land (merger)	2,092,087	2,092,087	18,686
Net loss carried forward	7,200,289	7,200,289	64,311
Asset retirement obligations	9,921	9,987	89
Fixed-term leasehold	16,248	42,149	376
Subtotal	10,018,757	10,033,674	89,618
Deferred tax liabilities:			
Non-current			
Asset retirement obligations	9,797	9,797	87
Deferred gains or losses on hedges	48,009	29,278	261
Subtotal	57,807	39,075	349
Valuation allowance	(9,960,950)	(9,994,598)	(89,269)
Total	-	-	-
Net deferred tax assets	¥ -	¥ -	\$ -

14. Leases

(a) Lease rental revenues

The future minimum rental revenues pursuant to existing rental contracts as of December 31, 2016 and June 30, 2017 scheduled to be received are summarized as follows:

	As of		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 5,988,176	¥ 6,579,788	\$ 58,769
Due over one year	47,412,300	47,397,583	423,343
Total	¥ 53,400,477	¥ 53,977,372	\$ 482,113

(b) Lease rental expenses

The future minimum rental expenses pursuant to existing rental contracts as of December 31, 2016 and June 30, 2017 scheduled to be paid are summarized as follows:

	As of		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Due within one year	¥ 244,619	¥ 312,959	\$ 2,795
Due over one year	7,367,989	10,403,515	92,921
Total	¥ 7,612,609	¥ 10,716,474	\$ 95,716

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.

(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 December 31, 2016 and June 30, 2017.

	As of								
	December 31, 2016			June 30, 2017			June 30, 2017		
	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	¥ 8,714,907	¥ 8,714,907	¥ -	¥ 3,532,405	¥ 3,532,405	¥ -	\$ 31,550	\$ 31,550	\$ -
(2) Cash and bank deposits in trust	5,499,826	5,499,826	-	6,065,755	6,065,755	-	54,177	54,177	-
Total assets	¥ 14,214,734	¥ 14,214,734	¥ -	¥ 9,598,161	¥ 9,598,161	¥ -	\$ 85,728	\$ 85,728	\$ -
Liabilities:									
(3) Long-term loans payable	142,419,000	142,419,000	-	163,990,000	163,990,000	-	1,464,719	1,464,719	-
Total liabilities	¥ 142,419,000	¥ 142,419,000	¥ -	¥ 163,990,000	¥ 163,990,000	¥ -	\$ 1,464,719	\$ 1,464,719	\$ -

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) Long-term loans payable in trust

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		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Tenant leasehold and security deposits	¥ 28,663	¥ 28,663	\$ 256
Tenant leasehold and security deposits in trust	¥ 2,030,396	¥ 2,240,373	\$ 20,010

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

	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, 2016:						
Cash and bank deposits	¥ 8,714,907	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	5,499,826	-	-	-	-	-
Total	¥ 14,214,734	¥ -	¥ -	¥ -	¥ -	¥ -

As of June 30, 2017:						
Cash and bank deposits	¥ 3,532,405	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and bank deposits in trust	6,065,755	-	-	-	-	-
Total	¥ 9,598,161	¥ -	¥ -	¥ -	¥ -	¥ -

	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, 2017:						
Cash and bank deposits	\$ 31,550	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and bank deposits in trust	54,177	-	-	-	-	-
Total	\$ 85,728	\$ -	\$ -	\$ -	\$ -	\$ -

(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, 2016:						
Long-term loans payable	-	28,979,000	51,045,000	42,012,000	20,383,000	-
Total	¥ -	¥ 28,979,000	¥ 51,045,000	¥ 42,012,000	¥ 20,383,000	¥ -

As of June 30, 2017:						
Long-term loans payable	-	46,663,000	48,044,000	55,512,000	13,771,000	-
Total	¥ -	¥ 46,663,000	¥ 48,044,000	¥ 55,512,000	¥ 13,771,000	¥ -

	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, 2017:						
Long-term loans payable	-	416,782	429,117	495,819	122,999	-
Total	\$ -	\$ 416,782	\$ 429,117	\$ 495,819	\$ 122,999	\$ -

16. Derivatives

Information on derivative transactions undertaken by the Company as of December 31, 2016 and June 30, 2017 is as follows. Derivative instruments are used for hedging purposes only and are subject to hedge accounting.

As of December 31, 2016:

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 floating rate receivable and Fixed rate payable	Long-term borrowings	¥ 99,119,000	¥ 99,119,000	¥ 151,259
Total			¥ 99,119,000	¥ 99,119,000	¥ 151,259

(*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, 2017:

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 floating rate receivable and Fixed rate payable	Long-term borrowings	¥ 99,119,000	¥ 99,119,000	¥ 92,243	\$ 885,307	\$ 885,307	\$ 823
Total			¥ 99,119,000	¥ 99,119,000	¥ 92,243	\$ 885,307	\$ 885,307	\$ 823

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

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

17. 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, 2016 and June 30, 2017 are as follows.

	For the six month ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(in thousands of yen)		(in thousands of U.S. dollars)
Balance at the beginning of the period	¥ 31,050	¥ 31,260	\$ 279
Liabilities incurred due to the acquisition of properties	-	-	-
Accretion expense	209	208	1
Balance at the end of the period	¥ 31,260	¥ 31,468	\$ 281

18. Segment Information

Segment information for the six months ended December 31, 2016 and June 30, 2017 is as follows:

(a) Operating Segment Information

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

(b) Enterprise-wide Disclosures

(i) Information about Products and Services

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

(ii) Information about Geographic Areas

(1) Revenues from Overseas Customers:

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

(2) Tangible Fixed Assets:

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

(c) Information about Major Customers

Information about major clients for the six-month periods ended December 31, 2016 and June 30, 2017 were as follows:

For the six months ended December 31, 2016

Name of client	Operating Revenues (in thousands of yen)	Related segment
Mystays Hotel Management Co.,Ltd.	¥4,043,845	Real estate investing business
Naqua Hotel & Resorts Management Co.,Ltd.	¥1,040,790	Real estate investing business

For the six months ended June 30, 2017

Name of client	Operating Revenues (in thousands of yen)	Operating Revenues (in thousands of U.S. dollars)	Related segment
Mystays Hotel Management Co.,Ltd.	¥3,852,826	\$34,412	Real estate investing business

19. Related-Party Transactions

(a) Parent Company and Major Corporate Unitholders

For the six months ended December 31, 2016

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 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	Ginga TMK(2)	Minato-ku, Tokyo	Investment management business	¥ 0.1	-	-	Seller of real estate trust beneficiary rights	Payment of accounts payable	¥8,800,548	Accounts payable-other	-
	Naqua Hotel & Resorts Management Co., Ltd.(2)	Minato-ku, Tokyo	Hotel management business	¥ 10	-	-	Lease holder and operator of hotel	Rental Revenues	¥1,040,790	Rental receivables	¥92,474
	Mystays Hotel Management Co., Ltd.(2)	Minato-ku, Tokyo	Hotel management business	¥ 100	-	-	Lease holder and operator of hotel	Rental Revenues	¥4,043,845	Rental receivables	¥1,146,414

Notes:

- Consumption taxes are not included in the transaction amount, but are included in the balance at the end of period.
- Ginga TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd has no relationship to be stated, but they receive investment through funds that are managed by FIG, an affiliate of Calliope. Accordingly, we treat Ginga TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd as a related party.
- Calliope holds 609,942 units (holding ratio: 16.6%) of the issued investment units of the Company.

For the six months ended June 30, 2017

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) (in thousands of yen)	(in thousands of U.S. dollars)	Balance sheet account	(in thousands of yen)	(in thousands of U.S. dollars)
Interested party of the Asset Manager	Sakura 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)	¥21,879,000	\$ 195,418	-	-	-
	Momo 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)	¥2,683,000	\$ 23,963	-	-	-
	Septentrio2 TMK(3)	Minato-ku, Tokyo	Investment management business	¥ 0.1	\$ 0	-	Seller of real estate trust beneficiary rights	Acquisition of real estate trust beneficiary rights(2)(5)	¥8,000,000	\$ 71,454	-	-	-
	Naqua Hotel & Resorts Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 10	\$ 89	-	Lease holder and operator of hotel	Rental Revenues	¥549,169	\$ 4,905	Rental receivables	¥198,247	\$ 1,770
	Mystays Hotel Management Co., Ltd.(3)	Minato-ku, Tokyo	Hotel management business	¥ 100	\$ 893	-	Lease holder and operator of hotel	Rental Revenues	¥3,852,826	\$ 34,412	Rental receivables	¥1,043,190	\$ 9,317

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, Sakura TMK, Momo TMK, Septentrio2 TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd has no relationship to be stated, but they receive investment through funds that are managed by FIG, an affiliate of Calliope. Accordingly, we treat Sakura TMK, Momo TMK, Septentrio2 TMK, Naqua Hotel & Resorts Management Co., Ltd and Mystays Hotel Management, Co. Ltd as a related party.
- Calliope holds 609,942 units (holding ratio: 15.8%) 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.

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)
A105	Royal Parks Tower Minami-Serju	Sakura TMK	21,879,000	195,418
A106	Royal Parks Seasir Minami-Serju	Momo TMK	2,683,000	23,963
D49	Hotel MyStays Premier Hamamatsucho	Septentrio2 TMK	8,000,000	71,454

Property No.	Property name	Seller	Acquisition cost (in thousands of yen)	Acquisition cost (in thousands of US dollars)
Total			32,562,000	290,836

(b) Board of Directors and Major Individual Unitholders

For the six months ended December 31, 2016

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 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)	¥ 250,000	Accrued expenses	¥ 135,000
				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 June 30, 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)		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)	¥ 253,256	\$ 2,262	Accrued expenses	¥ 135,000	\$ 1,205
				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.

20. Per Unit Information

The following table shows net asset value per unit as of December 31, 2016 and June 30, 2017 and net income per unit for the six months then ended. Net income per unit is calculated by dividing the net income attributable to unitholders by the weighted average number of units outstanding during the six-month period. The Company has no potentially dilutive units.

	As of / For the six months ended		
	December 31, 2016	June 30, 2017	June 30, 2017
	(Yen)		(U.S. dollars)
Net asset value per unit	¥ 35,762	¥ 36,019	\$ 321
Net income per unit	¥ 1,477	¥ 1,241	\$ 11
Weighted average number of units	3,675,824	3,788,254	-

21. Subsequent Events

(a) Sales of assets

The Company decided to sell 2 properties as shown in the following table on July 25, 2017 and Sales has been closed on July 31, 2017.

Use	Property number	Property name	Book value (JPY million) (Note 1)	Sales price (JPY million) (Note 2)	Anticipated gain on sales (JPY million) (Note 3)	Transferee	Category of specified asset
Office Building	B08	Kindai Kagaku Sha Building	1,201	1,361	96	Undisclosed (Note 4)	Trust beneficial interest
Parking Lot	C01	Times Kanda-Sudacho 4th	100	130	23	Wastec HOLDINGS Co., Ltd.	Real property

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

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

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

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

(b) Acquisition of assets (properties)

The Company decided to acquire an additional portion of a hotel on July 25, 2017 and entered into the purchase and sales agreement on the same date. The closing date will be October 31, 2017.

Use	Property number	Property name	Location	Anticipated acquisition price (JPY million) (Note 1)	Additional acquisition portion area	Seller	Category of specified asset
Hotel	D43	Hotel MyStays Gotanda Station (Additional Acquisition Portion)	Shinagawa-ku, Tokyo	1,880	1,385.46 m ²	Undisclosed (Note 2)	Trust beneficial interest

(Note 1) Anticipated acquisition price is the total of (i) purchase price set forth in the PSA, (ii) expenses with regard to the Conversion, (iii) transfer price of the furniture, fixture and equipment (FF&E),(those (ii) and (iii) are estimated amount as of the date of the acquisition decision). The anticipated acquisition price does not include adjustments for fixed asset taxes or city planning taxes, as well as national or local consumption taxes.

(Note 2) The name of the seller is not disclosed, as the seller's consent has not been obtained for disclosure.

The Company decided to acquire 4 hotel properties as shown in the following table, of which the total acquisition price is JPY 39,599 million, on September 21, 2017 and entered into the purchase and sales agreement on the same date. The closing date will be October 13, 2017.

Use	Property number	Property name	Location	Anticipated acquisition price (JPY million) (Note 3)	Total rentable area	Seller	Category of specified asset
Hotel	D50	Hotel MyStays Shin Osaka Conference Center	Osaka, Osaka	13,068	13,026.99 m ²	HL Investments Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D51	Hotel MyStays Premier Omori	Shinagawa-ku, Tokyo	9,781	11,849.61 m ²	Septentrio3 Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D52	Beppu Kamenoi Hotel	Beppu, Oita	8,870	19,422.08 m ²	Monza Tokutei Mokuteki Kaisha	Trust beneficial interest
Hotel	D53	Hotel MyStays Sapporo Station Hotel	Sapporo, Hokkaido	7,880	7,267.88 m ²	Suisei Tokutei Mokuteki Kaisha	Trust beneficial interest

(Note 3) Acquisition prices do not include adjustments for property taxes or city planning taxes, or national or local consumption taxes; hereinafter the same.

(c) Acquisition of an asset (preferred equity interests)

The Company decided to acquire a preferred equity interests as shown in the following table on September 21, 2017 and closing date will be October 13, 2017.

Overview of the acquisition

Asset to be acquired	Preferred equity interest, issued by Kingdom Tokutei Mokuteki Kaisha, provided in Article 2(9) of the Act on Securitization of Assets (Act No. 105 of 1998, as amended)
Number of units of preferred equity to be issued	364,200 units
Number of units of preferred equity to be acquired (ratio of interest holding)	178,458 units (49.0%)
Anticipated acquisition price (Note)	JPY 17,845 million (49.0% of the preferred equity interest)
Name of underlying asset	The Sheraton Grande Tokyo Bay Hotel (the "Underlying Asset")
Seller	Kingdom Tokutei Mokuteki Kaisha

Outline of the Underlying Asset

Property name	The Sheraton Grande Tokyo Bay Hotel
Location	Urayasu, Chiba
Seller	Granada Tokutei Mokuteki Kaisha
Total rentable area	118,186.86 m ²

(Note) Acquisition prices do not include national or local consumption taxes; hereinafter the same.

(d) Issuance of new investment units

The Company decided on the issuance of new investment units and secondary offering of investment units at its board of directors' meeting on September 21, 2017. Issue price per unit and other details are scheduled to be determined at future board of directors' meeting.

(i) Issuance of new investment units through public offering

Number of investment units	: 887,959 units (Note 1)
Issue value	: To be determined (Note 2)
Payment date	: October 12, 2017 (Note 3)
Use of proceeds	: The Company will use the proceeds to raise a part of the funds of its acquisition of 5 hotel properties (see "(b)Acquisition of assets (properties)") and preferred equity interests (see "(c)Acquisition of an asset (preferred equity interests)")

(Note 1) Number of investment units is the total of the domestic public offering and the overseas offering mainly in the U.S., European, and Asian markets.

(Note 2) The issue value will be determined on October 4, 2017 or October 5, 2017 (the "Issue price determination date").

(Note 3) If the Issue price determination date is October 5, 2017, payment date will be October 13, 2017.

(ii) Secondary offering of investment units (overallotment secondary offering)

Number of investment units	: 44,398 units
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(Note) In the offering(i), taking into consideration the level of demand and other factors in the domestic public offering, Mizuho Securities Co, Ltd. (the domestic underwriter) may conduct the overallotment secondary offering of investment units in Japan, using units to be borrowed from a holder of investment units of the Company. The above number of investment units to be offered in the overallotment secondary offering is the maximum number of investment units for the secondary offering. Depending on the level of demand and other factors, such number of investment units to be offered may decrease, or the overallotment secondary offering itself may not take place at all.

(iii) Issuance of new investment units through third - party allotment (Note 1)

Number of investment units (maximum)	: 44,398 units
Allottee	: Mizuho Securities Co, Ltd.
Issue value	: To be determined (Note 2)
Payment date	: November 1, 2017
Use of proceeds	: The Company will use the proceeds to fund the cash reserve decreased by the acquisition of 5 hotel properties (see "(b)Acquisition of assets (properties)") and preferred equity interests (see "(c)Acquisition of an asset (preferred equity interests)") or retain as cash reserve to fund for the future acquisitions.

(Note 1) The purpose is, in relation to the overallotment secondary offering, to allow Mizuho Securities Co, Ltd. to acquire investment units required for returning the borrowed investment units. There may be cases where there will be no subscription for whole or part of the investment units to be issued through the third-party allotment, resulting in a commensurate shortfall in the ultimate number of investment units to be issued through the third-party allotment, due to forfeiture, or there may be cases where such issuance itself will not take place at all.

(Note 2) The issue value will be same as “(i) Issuance of new investment units through public offering”.

(e)New borrowing

In order to raise a part of the funds to be used for the acquisition of the 4 hotel properties to be acquired on October 13, 2017, the Company decided on the implementation of the following borrowings at its board of directors’ meeting held on September 21, 2017 and entered into the borrowing agreement on the same date.

New Syndicate Loan (H)

Lender	Syndicate formed by Mizuho Bank, Ltd.
Borrowing amount	JPY 22,993 million
Interest rate, etc.	Base rate (1-month JPY TIBOR)(Note) + 0.20%, 0.25%, 0.30%, 0.40%, 0.60%, 0.70%, 0.80%
Interest payment date	(i) The last Japanese business day of each month before the principal maturity date, beginning with November 30, 2017, and (ii) the principal maturity date
Principal repayment method	Lump-sum repayment
Borrowing method	Unsecured / with no guarantee
Borrowing date	October 13, 2017
Maturity date	October 13, 2018, October 13, 2019, October 13, 2020, October 13, 2021, October 13, 2022, October 13, 2023, October 11, 2024

(Note) The interest rate applicable for the first interest calculation period only will be two-month JPY TIBOR (Base Rate) + spread (0.20%, 0.25%, 0.30%, 0.40%, 0.60%, 0.70%, 0.80%).