

Semiannual Financial Report

The 38th Fiscal Period

(From June 1, 2020 to November 30, 2020)



Independent auditor's report

To the Board of Directors of HEIWA REAL ESTATE REIT, Inc.:

Opinion

We have audited the accompanying financial statements of HEIWA REAL ESTATE REIT, Inc. ("HEIWA REAL ESTATE REIT"), which comprise the balance sheets as at November 30, 2020 and May 31, 2020, and the statements of income and retained earnings, statements of changes in net assets and statements of cash flows for each of the six-month periods then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of HEIWA REAL ESTATE REIT as at November 30, 2020 and May 31, 2020, and its financial performance and cash flows for each of the six-month periods then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of HEIWA REAL ESTATE REIT in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 20 to the financial statements, which states acquisition of a property, disposition of a property and borrowing of funds. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Supervisory Directors for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing HEIWA REAL ESTATE REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Supervisory directors are responsible for overseeing the executive director's performance of his duties including the design, implementation and maintenance of HEIWA REAL ESTATE REIT's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of HEIWA REAL ESTATE REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on HEIWA REAL ESTATE REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause HEIWA REAL ESTATE REIT to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the executive director regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the executive director with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with him all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in HEIWA REAL ESTATE REIT which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Hisao Dotan

Designated Engagement Partner

Certified Public Accountant

/S/ Namiko Kuramochi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

February 26, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

HEIWA REAL ESTATE REIT, Inc.

BALANCE SHEETS

As of November 30, 2020 and May 31, 2020

	As of	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Assets		
Current Assets:		
Cash and deposits (Notes 3 and 4)	¥ 13,630,841	¥ 12,276,641
Cash and deposits in trust (Notes 3 and 4)	3,492,005	3,476,218
Tenant receivables	38,871	60,832
Prepaid expenses	127,810	129,710
Other current assets	1,838	2,216
Allowance for doubtful accounts	(2)	(99)
Total Current Assets	17,291,364	15,945,520
Investment Properties (Notes 5 and 6):		
Land	31,475,029	30,680,398
Buildings	15,849,108	15,396,247
Structures	78,849	77,367
Machinery and equipment	295,496	279,096
Tools, furniture and fixtures	243,426	218,648
Construction in progress	251,683	—
Land in trust	86,446,317	86,910,985
Buildings in trust	47,307,050	48,591,753
Structures in trust	270,754	276,315
Machinery and equipment in trust	591,806	631,223
Tools, furniture and fixtures in trust	1,096,045	1,122,278
Less: accumulated depreciation	(18,226,725)	(17,755,809)
Leasehold rights	1,910,049	1,910,049
Leasehold rights in trust	3,315,665	3,315,665
Total Investment Properties, Net	170,904,559	171,654,221
Other Assets:		
Software	3,609	4,285
Lease and guarantee deposits	14,617	14,617
Long-term prepaid expenses	235,228	254,569
Derivative assets (Note 4)	36,349	65,393
Deferred investment corporation bond issuance costs	50,563	40,606
Others	380,305	347,752
Total Other Assets	720,673	727,226
Total Assets	¥ 188,916,598	¥ 188,326,967

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

HEIWA REAL ESTATE REIT, Inc.

BALANCE SHEETS, CONTINUED

As of November 30, 2020 and May 31, 2020

	As of	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Liabilities		
Current Liabilities:		
Operating accounts payable	¥ 507,184	¥ 471,246
Long-term debt due within one year (Notes 4 and 7)	11,904,200	11,914,200
Accrued expenses	732,134	730,698
Income taxes payable	271	594
Accrued consumption taxes	160,415	54,944
Advances received	1,071,742	1,050,248
Other current liabilities	25,029	41,746
Total Current Liabilities	14,400,978	14,263,678
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 8)	7,900,000	6,400,000
Long-term debt (Notes 4 and 7)	66,363,000	66,353,000
Tenant security deposits (Note 4)	720,120	712,675
Tenant security deposits in trust (Note 4)	4,381,685	4,420,602
Derivative liabilities (Note 4)	240,601	202,353
Total Long-Term Liabilities	79,605,408	78,088,631
Total Liabilities	94,006,386	92,352,310
Net Assets (Notes 9)		
Unitholders' Equity:		
Unitholders' capital	81,370,715	81,370,715
Units authorized: 8,000,000 units		
Units issued and outstanding: 999,933 units as of November 30, 2020 and 1,014,847 units as of May 31, 2020		
Capital surplus	7,406,652	7,406,652
Deduction from capital surplus	(1,699,990)	—
Reserve for reduction entry	415,683	415,683
Reserve for temporary difference adjustment (Note 10)	1,704,003	1,744,597
Retained earnings	5,933,582	5,205,178
Total Unitholders' Equity	95,130,645	96,142,826
Valuation and translation adjustments:		
Deferred gains or losses on hedges	(220,434)	(168,168)
Total valuation and translation adjustments	(220,434)	(168,168)
Total Net Assets	94,910,211	95,974,657
Total Liabilities and Net Assets	¥ 188,916,598	¥ 188,326,967

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

HEIWA REAL ESTATE REIT, Inc.
STATEMENTS OF INCOME AND RETAINED EARNINGS

For the six months ended November 30, 2020 and May 31, 2020

	For the six months ended	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Operating Revenues:		
Rental revenues (Note 11)	¥ 5,715,947	¥ 5,769,961
Other revenues related to property leasing (Note 11)	465,482	486,708
Gain on sales of investment properties (Note 12)	890,700	331,669
Total Operating Revenues	7,072,131	6,588,338
Operating Expenses:		
Property-related expenses (Note 11)	2,590,863	2,583,827
Asset management fees	586,845	580,720
Asset custody fees	11,473	11,247
Administrative service fees	39,215	41,293
Directors' compensation	6,293	6,289
Independent auditors' fees	11,660	13,660
Other operating expenses	148,308	144,868
Total Operating Expenses	3,394,658	3,381,906
Operating Income	3,677,472	3,206,432
Non-Operating Revenues:		
Interest income	1,118	1,118
Reversal of distributions payable	465	737
Insurance income	4,970	2,680
Compensation income	—	8,365
Other non-operating revenues	375	839
Total Non-Operating Revenues	6,930	13,740
Non-Operating Expenses:		
Interest expenses	327,047	351,626
Borrowing related expenses	53,496	55,430
Interest expenses on investment corporation bonds	19,647	19,460
Amortization of deferred investment corporation bond issuance costs	3,546	3,434
Other non-operating expenses	4,390	1,296
Total Non-Operating Expenses	408,128	431,248
Ordinary Income	3,276,274	2,788,925
Income Before Income Taxes	3,276,274	2,788,925
Income taxes – current	605	605
Income Taxes (Note 15)	605	605
Net Income	3,275,669	2,788,320
Retained Earnings Brought Forward	2,657,912	2,416,858
Retained Earnings at End of Period	¥ 5,933,582	¥ 5,205,178

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

HEIWA REAL ESTATE REIT, Inc.

STATEMENTS OF CHANGES IN NET ASSETS

For the six months ended November 30, 2020 and May 31, 2020

	Unitholders' Equity						
	Number of Units	Unitholders' Capital	Capital Surplus	Deduction from Capital Surplus	Reserve for Reduction Entry	Reserve for Temporary Difference Adjustment	Retained Earnings
	(Units)	(Thousands of Yen)					
Balance as of November 30, 2019	1,014,847	¥ 81,370,715	¥ 7,406,652	¥ —	¥ 415,683	¥ 1,785,190	¥ 4,913,382
Cash distributions declared	—	—	—	—	—	—	(2,537,117)
Net income	—	—	—	—	—	—	2,788,320
Reversal of reserve for temporary difference adjustment	—	—	—	—	—	(40,593)	40,593
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—
Balance as of May 31, 2020	1,014,847	¥ 81,370,715	¥ 7,406,652	¥ —	¥ 415,683	¥ 1,744,597	¥ 5,205,178
Cash distributions declared	—	—	—	—	—	—	(2,587,859)
Net income	—	—	—	—	—	—	3,275,669
Reversal of reserve for temporary difference adjustment	—	—	—	—	—	(40,593)	40,593
Acquisition of treasury investment units	—	—	—	—	—	—	—
Cancellation of treasury investment units	(14,914)	—	—	(1,699,990)	—	—	—
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—
Balance as of November 30, 2020	999,933	¥ 81,370,715	¥ 7,406,652	¥ (1,699,990)	¥ 415,683	¥ 1,704,003	¥ 5,933,582

	Unitholders' Equity		Valuation and Translation Adjustments		
	Treasury Investment Units	Total Unitholders' Equity	Deferred Gains or Losses on Hedges	Total Valuation and Translation Adjustments	Total Net Assets
	(Thousands of Yen)				
Balance as of November 30, 2019	¥ —	¥ 95,891,623	¥ (243,700)	¥ (243,700)	¥ 95,647,923
Cash distributions declared	—	(2,537,117)	—	—	(2,537,117)
Net income	—	2,788,320	—	—	2,788,320
Reversal of reserve for temporary difference adjustment	—	—	—	—	—
Net changes of items other than unitholders' equity	—	—	75,531	75,531	75,531
Balance as of May 31, 2020	¥ —	¥ 96,142,826	¥ (168,168)	¥ (168,168)	¥ 95,974,657
Cash distributions declared	—	(2,587,859)	—	—	(2,587,859)
Net income	—	3,275,669	—	—	3,275,669
Reversal of reserve for temporary difference adjustment	—	—	—	—	—
Acquisition of treasury investment units	(1,699,990)	(1,699,990)	—	—	(1,699,990)
Cancellation of treasury investment units	1,699,990	—	—	—	—
Net changes of items other than unitholders' equity	—	—	(52,265)	(52,265)	(52,265)
Balance as of November 30, 2020	¥ —	¥ 95,130,645	¥ (220,434)	¥ (220,434)	¥ 94,910,211

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

HEIWA REAL ESTATE REIT, Inc.

STATEMENTS OF CASH FLOWS

For the six months ended November 30, 2020 and May 31, 2020

	For the six months ended	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Cash Flows from Operating Activities:		
Income before income taxes	¥ 3,276,274	¥ 2,788,925
Depreciation and amortization	951,615	964,743
(Decrease) increase in allowance for doubtful accounts	(96)	21
Amortization of deferred investment corporation bond issuance costs	3,546	3,434
Interest income	(1,118)	(1,118)
Interest expenses	346,695	371,086
Decrease (increase) in tenant receivables	20,601	(12,332)
Increase (decrease) in accrued consumption taxes	105,471	(21,563)
Decrease (increase) in long-term prepaid expenses	19,340	(11,123)
Increase (decrease) in operating accounts payable	148,877	(55,660)
Increase in accrued expenses	2,964	21,117
Increase in advances received	21,493	18,122
Increase (decrease) in deposits received	11	(205)
Decrease due to sale of investment properties in trust	1,685,113	1,092,477
Other, net	(55,265)	28,211
Interest income received	2,175	68
Interest expenses paid	(351,457)	(356,632)
Income taxes paid	(927)	(235)
Net Cash Provided by Operating Activities	6,175,314	4,829,336
Cash Flows from Investing Activities:		
Proceeds from withdrawals of time deposits	3,000,000	—
Payment for deposits of time deposits	(3,000,000)	—
Payment for purchases of investment properties other than intangible assets	(1,521,296)	(2,831,262)
Payment for purchases of investment properties in trust	(494,557)	(2,602,759)
Payment for purchases of intangible assets	—	(716,174)
Proceeds from tenant security deposits	28,573	39,344
Refunds of tenant security deposits	(20,663)	(29,695)
Proceeds from tenant security deposits in trust	206,764	190,084
Refunds of tenant security deposits in trust	(205,389)	(102,950)
Proceeds from payment of trust deposits corresponding to tenant security deposits in trust	16,473	5,924
Deposit of trust deposits corresponding to tenant security deposits in trust	—	(105,673)
Net Cash Used in Investing Activities	(1,990,095)	(6,153,162)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	6,030,000	7,720,000
Repayments of long-term debt	(6,030,000)	(5,520,000)
Proceeds from issuance of investment corporation bonds	1,489,730	—
Payment for acquisition of treasury investment units	(1,699,990)	—
Distributions paid	(2,588,499)	(2,536,714)
Net Cash Used in Financing Activities	(2,798,759)	(336,714)
Net Change in Cash and Cash Equivalents	1,386,459	(1,660,540)
Cash and Cash Equivalents at Beginning of Period	12,326,184	13,986,725
Cash and Cash Equivalents at End of Period (Note 3)	¥ 13,712,643	¥ 12,326,184

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

HEIWA REAL ESTATE REIT, Inc.

Notes to Financial Statements

For the six months ended November 30, 2020 and May 31, 2020

Note 1 – Organization and Basis of Presentation

(a) Organization

HEIWA REAL ESTATE REIT, Inc. (“HEIWA REAL ESTATE REIT”) was established on January 31, 2002 as an investment corporation under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent revisions, hereinafter referred to as the “Investment Trust Act”) by the founder (the former Canal Investment Trust Co., Ltd.; now, HEIWA REAL ESTATE REIT Asset Management, Inc., the Asset Management Company).

HEIWA REAL ESTATE REIT is an externally managed real estate fund, established as an investment corporation. HEIWA REAL ESTATE REIT Asset Management, Inc., as HEIWA REAL ESTATE REIT’s asset management company, is engaged in acquiring, managing, leasing, and renovating office properties, residential properties and commercial properties. HEIWA REAL ESTATE CO., LTD. (“HEIWA REAL ESTATE”) currently own 100% of HEIWA REAL ESTATE REIT Asset Management, Inc.

Investment units in HEIWA REAL ESTATE REIT have been listed on the Real Estate Investment Trust Section (J-REIT Section) of the Tokyo Stock Exchange since March 8, 2005. Subsequently, HEIWA REAL ESTATE REIT issued new investment units through public offerings and third-party allotments on several occasions, and executed an investment unit split and investment unit issuance due to a merger with Japan Single-residence REIT Inc. on October 1, 2010.

As of November 30, 2020, HEIWA REAL ESTATE REIT has ownership or trust beneficiary interests in 107 properties with approximately 251,595.26 square meters of rentable space and has leased space to 5,194 tenants. The occupancy rate for the properties is approximately 97.94%.

(b) Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trust Act, the Financial Instruments and Exchange Act and their related accounting regulations and in conformity with Generally Accepted Accounting Principles of Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from both International Financial Reporting Standards (“IFRS”) and U.S. Generally Accepted Accounting Principles.

The accompanying financial statements have been reformatted and translated into English from the financial statements of HEIWA REAL ESTATE REIT prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. In preparing the accompanying financial statements, relevant notes have been expanded and certain reclassifications have been made from the Japanese GAAP financial statements. Certain supplementary information included in the statutory Japanese GAAP financial statements, but not required for fair presentation, is not presented in the accompanying financial statements. Certain reclassifications have been made to the prior period’s financial statements to conform to the presentation for the current period.

As permitted by Japanese GAAP, amounts of less than one thousand yen have been omitted. Consequently, the totals shown in the accompanying financial statements do not necessarily agree with sums of the individual amounts.

Note 2 – Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and cash in trust, demand deposits and deposits in trust and short-term investments which are highly liquid and readily convertible to cash and which have insignificant risk of market value fluctuation and maturities of three months or less from the date of acquisition.

(b) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at the amount considered sufficient to cover probable losses on collection. The amount is determined by estimating an uncollectible amount based on the analysis of certain individual accounts that may not be collectable.

(c) Investment Properties

Investment properties that include investment properties in trust are recorded at cost, which includes the allocated purchase price, related costs and expenses for acquisition of the trust beneficiary interests in real estate. Investment property balances are depreciated using the straight-line method over the estimated useful lives as follows:

	(Years)
Buildings	2-65
Structures	4-62
Machinery and equipment	3-15
Tools, furniture and fixtures	2-18

(d) Software

Software for internal use is amortized using the straight-line method over its useful lives (5 years).

(e) Long-Term Prepaid Expenses

Long-term prepaid expenses are amortized using the straight-line method.

(f) Deferred Investment Corporation Bond Issuance Costs

Deferred investment corporation bond issuance costs are amortized on a straight-line basis over the respective terms of the bonds.

(g) Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statements and income tax bases of assets and liabilities using the statutory rate.

(h) Real Estate Taxes

Investment properties are subject to various taxes such as property taxes and city planning taxes. Owners of the properties are registered by records maintained in each jurisdiction by the local government. The taxes are imposed on the registered record owner as of January 1 of each year based on an assessment made by the local government.

When a property is purchased within the calendar year, the taxes for the corresponding calendar year are imposed on the seller. HEIWA REAL ESTATE REIT pays the seller the corresponding amount of the taxes for the period from the property acquisition date to December 31 of the calendar year and capitalizes these amounts as acquisition costs of the property rather than expensing them. In subsequent calendar years, such taxes on investment properties are charged as operating expenses in each fiscal period.

The following is a summary of capitalized real estate taxes.

	For the six-month periods ended	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Capitalized real estate taxes	¥ 1,274	¥ 15,267

(i) Consumption Taxes

Consumption taxes are excluded from transaction amounts. Non-deductible consumption taxes related to the acquisition of properties are treated as the cost of the applicable properties.

(j) Hedge Accounting

HEIWA REAL ESTATE REIT enters into derivative transactions for the purpose of hedging risks defined in the Articles of Incorporation of HEIWA REAL ESTATE REIT in accordance with its financial policy. HEIWA REAL ESTATE REIT uses interest rate swaps as hedging instruments in order to hedge the risk of interest rate fluctuations related to borrowings. In principle, the deferral method is applied for hedge transactions. For interest rate swaps which qualify for hedge accounting and meet specific criteria, the special treatment is applied. Under the special treatment, the related differentials paid or received under such swap contracts can be recognized and included in interest expense or income of the hedged assets or liabilities, and the interest rate swaps are not required to be measured at fair value separately. HEIWA REAL ESTATE REIT evaluates hedge effectiveness by comparing the cumulative changes in cash flows of hedging instruments and the hedged items and assessing the ratio between the changes. However, the assessment of hedge effectiveness for interest rate swaps which meet the special criteria is omitted.

(k) Revenue Recognition

Revenues from property leasing consist of rental revenues including base rents, common area charges and other revenues related to property leasing such as parking space rental revenues and others. Rental revenues are generally recognized when earned and considered realizable over the life of each lease.

(l) Accounting Treatment of Trust Beneficiary Interests in Real Estate

For trust beneficiary interests in real estate owned by HEIWA REAL ESTATE REIT, all accounts of assets and liabilities within the assets in trust and all accounts of revenue generated and expenses incurred from the assets in trust are recognized in the relevant accounts of the balance sheets and statements of income and retained earnings.

The following assets in trust are recognized and presented separately on the balance sheets.

- (i) Cash and deposits in trust
- (ii) Land in trust, buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust and leasehold rights in trust
- (iii) Tenant security deposits in trust

(m) New accounting standards not yet adopted

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 31, 2020.)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guideline No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) jointly developed a comprehensive accounting standard for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS No. 15 is effective from the fiscal year beginning on or after January 1, 2018 and Topic 606 is effective from the fiscal year beginning after December 15, 2017. In accordance with the IASB and FASB standard, the ASBJ developed its own comprehensive accounting standard for revenue recognition and issued it with the implementation guidances.

The ASBJ’s basic policy in developing the accounting standard for revenue recognition was to establish accounting standards with the incorporation of the basic principles of IFRS No. 15 as a starting point from a viewpoint of comparability between financial statements, which is one of benefits of maintaining consistency with IFRS No. 15, and to add alternative treatments to the extent necessary to address practices conducted in Japan, but not to the extent that would impair comparability.

(2) Effective date

HEIWA REAL ESTATE REIT will adopt the new standard and related guidances from the beginning of the six-month period ending November 30, 2021.

(3) Effect of application

HEIWA REAL ESTATE REIT is currently assessing the effect of applying the new standard and related guidances on the financial statements.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The ASBJ promoted an initiative to ensure consistency of the requirements between the Japanese accounting standards and international accounting standards, primarily in the areas of guidance on the fair values of financial instruments and their disclosures, and issued “Accounting Standard for Fair Value Measurement,” etc., considering the circumstance where the IASB and the FASB have prescribed almost the similar detailed guidance (IFRS No. 13 “Fair Value Measurement” issued by IASB and Accounting Standard Codification Topic 820 “Fair Value Measurement” issued by FASB).

The ASBJ’s fundamental policies adopted for developing the “Accounting Standard for Fair Value Measurement,” etc. are, in principle, to implement all the requirements of IFRS No. 13 from the viewpoint of enhancing the comparability of the financial statements of domestic and overseas companies by prescribing unified measurement methods, and also to prescribe exceptional treatments for individual matters so that comparability would not be impaired while the accounting practices that have conventionally been adopted in Japan are taken into account.

(2) Effective date

HEIWA REAL ESTATE REIT will adopt the new standards and related guidances from the beginning of the six-month period ending November 30, 2021.

(3) Effect of application

HEIWA REAL ESTATE REIT is currently assessing the effect of applying the new standards and related guidances on the financial statements.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The ASBJ developed and issued “Accounting Standard for Disclosure of Accounting Estimates” considering the circumstance where the ASBJ received comments requesting consideration for disclosure requirement regarding sources of estimation uncertainty in the Japanese accounting standards since disclosure of such information is required by Paragraph 125 of IAS No. 1 “Presentation of Financial Statements” and is highly useful for users of financial statements.

The ASBJ’s fundamental policies adopted for developing the ASBJ Statement No. 31 are, in principle, to make reference to the requirements of Paragraph 125 of IAS No. 1, not enhancing existing notes disclosures, but by presenting principles (disclosure objectives) and requiring each entity to determine specific contents of disclosure along with the disclosure objectives.

(2) Effective date

HEIWA REAL ESTATE REIT will adopt the new standard from the end of the six-month period ending May 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

The ASBJ made required revisions and issued the revised “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” considering the circumstance where the ASBJ received proposals for consideration of enhancement of notes disclosure information on accounting policies and procedures adopted when requirements under the relating accounting standards are not clearly defined.

When enhancing notes disclosure on accounting policies and procedures adopted when requirements under the relating accounting standards are not clearly defined, note 1-2 of the Business Accounting Principles is carried over to avoid affecting accounting practices when requirements under the relating accounting standards are clearly defined.

(2) Effective date

HEIWA REAL ESTATE REIT will adopt the revised standard from the end of the six-month period ending May 31, 2021.

Note 3 – Cash and Cash Equivalents

Reconciliation between cash and deposits and cash and deposits in trust in the balance sheets and cash and cash equivalents in the statements of cash flows is as follows:

	As of	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Cash and deposits	¥ 13,630,841	¥ 12,276,641
Cash and deposits in trust	3,492,005	3,476,218
Trust deposits retained for repayment of tenant security deposits	(410,203)	(426,676)
Time deposits with maturities exceeding three months	(3,000,000)	(3,000,000)
Cash and cash equivalents	¥ 13,712,643	¥ 12,326,184

Note 4 – Financial Instruments

(a) Qualitative Information for Financial Instruments

Policy for Financial Instrument Transactions

HEIWA REAL ESTATE REIT raises funds through borrowings, issuance of investment corporation bonds and issuance of investment units for acquisition of investment properties. HEIWA REAL ESTATE REIT enters into derivative transactions only for the purpose of hedging interest rate risks arising from borrowings and does not engage in speculative transactions. Surplus funds can be invested into securities and other monetary assets. However, HEIWA REAL ESTATE REIT currently does not actively make such investments.

Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Proceeds from borrowings and investment corporation bonds are mainly used to acquire investment properties and repay outstanding borrowings. These are exposed to liquidity risk on their repayments and redemptions. Such risk is managed in ways such as preparing cash flow analyses by the Asset Management Company, securing funds on hand, diversifying maturities and lenders, executing commitment type term loan contracts, and other measures. Floating-rate borrowings are exposed to the risk of rising interest rates. HEIWA REAL ESTATE REIT uses derivatives (interest rate swaps) to manage such risk. Derivatives are executed and administered in accordance with the risk management rules and based on advices from the Asset Management Company. HEIWA REAL ESTATE REIT enters into derivatives only with financial institutions with high ratings in order to mitigate credit risk.

Tenant security deposits are exposed to liquidity risk arising from the vacating of properties by tenants. Such risk is managed by reserving sufficient funds to make repayments in principle.

Supplemental Explanation Regarding Fair Value of Financial Instruments

The fair value of financial instruments is based on quoted market prices. When there is no observable market price available, fair value is based on a price that may be reasonably estimated. Since certain assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in a different value. Also, the contractual amounts of derivatives do not represent the market risk involved in these derivatives.

(b) *Estimated Fair Value of Financial Instruments*

Book values, fair values and differences between them are as follows:

	As of November 30, 2020			As of May 31, 2020		
	(Thousands of Yen)			(Thousands of Yen)		
Assets	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	¥ 13,630,841	¥ 13,630,841	¥ —	¥ 12,276,641	¥ 12,276,641	¥ —
Cash and deposits in trust	3,492,005	3,492,005	—	3,476,218	3,476,218	—
Total	¥ 17,122,846	¥ 17,122,846	¥ —	¥ 15,752,860	¥ 15,752,860	¥ —
Liabilities						
Long-term debt due within one year	¥ 11,904,200	¥ 11,915,280	¥ 11,080	¥ 11,914,200	¥ 11,929,924	¥ 15,724
Investment corporation bonds	7,900,000	7,830,130	(69,870)	6,400,000	6,314,740	(85,260)
Long-term debt	66,363,000	66,381,643	18,643	66,353,000	66,373,808	20,808
Total	¥ 86,167,200	¥ 86,127,053	¥ (40,146)	¥ 84,667,200	¥ 84,618,472	¥ (48,727)
Derivatives (*)	¥ (220,434)	¥ (288,759)	¥ (68,325)	¥ (168,168)	¥ (235,640)	¥ (67,471)

(*) The value of assets and liabilities arising from derivatives is shown at net value and with the amount in parenthesis indicating the net liability position.

The financial instruments whose fair values are deemed extremely difficult to determine are excluded from the above table.

Notes:

1. Methods used to estimate the fair value of financial instruments and derivatives

Assets and Liabilities:

(1) Cash and deposits and cash and deposits in trust

Due to the short maturities, the book value of these assets is deemed a reasonable approximation of the fair value; therefore, the book value is used as the fair value equivalent.

(2) Long-term debt due within one year, investment corporation bonds and long-term debt

The fair value of investment corporation bonds is based on their indicative market price obtained from Japan Securities Dealers Association. For long-term debt with floating interest rates that reflects market interest rates within a short period of time, the book value is deemed a reasonable approximation of the fair value; therefore, the book value is used as the fair value equivalent. For long-term debts with fixed interest rates, the fair value is calculated based on the total amount of principle and interest discounted at the current interest rate applicable to similar borrowings.

Derivatives:

There are no derivatives to which hedge accounting is not applied as of November 30, 2020 and May 31, 2020.

Derivatives to which hedge accounting is applied are as follows:

Hedge accounting method	Type	Hedged item	As of November 30, 2020		
			Contractual amount		Fair value (*)
			Total	Due after one year	
(Thousands of Yen)					
Deferral hedge accounting method	Interest rate swaps Receive floating/ Pay fixed	Long-term debt	¥ 60,361,700	¥ 49,433,000	¥ (220,434)
Special treatment for interest rate swaps	Interest rate swaps Receive floating/ Pay fixed	Long-term debt	4,880,000	4,880,000	(68,325)
			¥ 65,241,700	¥ 54,313,000	¥ (288,759)

Hedge accounting method	Type	Hedged item	As of May 31, 2020		
			Contractual amount		Fair value (*)
			Total	Due after one year	
(Thousands of Yen)					
Deferral hedge accounting method	Interest rate swaps Receive floating/ Pay fixed	Long-term debt	¥ 67,291,700	¥ 55,653,000	¥ (168,168)
Special treatment for interest rate swaps	Interest rate swaps Receive floating/ Pay fixed	Long-term debt	4,880,000	4,880,000	(67,471)
			¥ 72,171,700	¥ 60,533,000	¥ (235,640)

(*) The fair value is determined at the quoted price provided by financial institutions.

2. Financial instruments whose fair value are deemed extremely difficult to determine

	As of	
	November 30, 2020	May 31, 2020
(Thousands of Yen)		
Tenant security deposits	¥ 720,120	¥ 712,675
Tenant security deposits in trust	4,381,685	4,420,602
	¥ 5,101,806	¥ 5,133,277

The fair value of tenant security deposits and tenant security deposits in trust are not disclosed because these deposits do not have a readily available market price, and it is difficult to estimate a period as to when these deposits will be returned, which in turn makes it difficult to reasonably estimate the future cash flows.

3. Redemption schedule for monetary claims

As of November 30, 2020	Due within one year	Due after one year to two years	Due after two years to three years	Due after three years to four years	Due after four years to five years	Due after five years
	(Thousands of Yen)					
Cash and deposits	¥ 13,630,841	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and deposits in trust	3,492,005	—	—	—	—	—
Total	¥ 17,122,846	¥ —	¥ —	¥ —	¥ —	¥ —

As of May 31, 2020	Due within one year	Due after one year to two years	Due after two years to three years	Due after three years to four years	Due after four years to five years	Due after five years
	(Thousands of Yen)					
Cash and deposits	¥ 12,276,641	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and deposits in trust	3,476,218	—	—	—	—	—
Total	¥ 15,752,860	¥ —	¥ —	¥ —	¥ —	¥ —

4. Redemption schedule for short-term debt, investment corporation bonds and long-term debt

As of November 30, 2020	Due within one year	Due after one year to two years	Due after two years to three years	Due after three years to four years	Due after four years to five years	Due after five years
	(Thousands of Yen)					
Long-term debt due within one year	¥ 11,904,200	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	1,000,000	—	1,000,000	—	5,900,000
Long-term debt	—	10,669,000	11,760,000	10,530,000	12,172,000	21,232,000
Total	¥ 11,904,200	¥ 11,669,000	¥ 11,760,000	¥ 11,530,000	¥ 12,172,000	¥ 27,132,000

As of May 31, 2020	Due within one year	Due after one year to two years	Due after two years to three years	Due after three years to four years	Due after four years to five years	Due after five years
	(Thousands of Yen)					
Long-term debt due within one year	¥ 11,914,200	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	1,000,000	1,000,000	—	4,400,000
Long-term debt	—	11,869,000	10,400,000	9,280,000	11,607,000	23,197,000
Total	¥ 11,914,200	¥ 11,869,000	¥ 11,400,000	¥ 10,280,000	¥ 11,607,000	¥ 27,597,000

Note 5 – Investment Properties

Investment properties consist of the following:

	As of November 30, 2020			As of May 31, 2020		
	(Thousands of Yen)			(Thousands of Yen)		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	¥ 31,475,029	¥ —	¥ 31,475,029	¥ 30,680,398	¥ —	¥ 30,680,398
Buildings	15,849,108	(4,647,199)	11,201,909	15,396,247	(4,434,403)	10,961,843
Structures	78,849	(43,237)	35,611	77,367	(41,083)	36,284
Machinery and equipment	295,496	(215,093)	80,403	279,096	(207,144)	71,952
Tools, furniture and fixtures	243,426	(151,897)	91,529	218,648	(141,910)	76,738
Construction in progress	251,683	—	251,683	—	—	—
Land in trust	86,446,317	—	86,446,317	86,910,985	—	86,910,985
Buildings in trust	47,307,050	(12,050,916)	35,256,133	48,591,753	(11,774,871)	36,816,881
Structures in trust	270,754	(99,918)	170,835	276,315	(95,316)	180,999
Machinery and equipment in trust	591,806	(288,451)	303,354	631,223	(308,690)	322,533
Tools, furniture and fixtures in trust	1,096,045	(730,009)	366,035	1,122,278	(752,388)	369,889
Leasehold rights	1,910,049	—	1,910,049	1,910,049	—	1,910,049
Leasehold rights in trust	3,315,665	—	3,315,665	3,315,665	—	3,315,665
Total	¥ 189,131,284	¥(18,226,725)	¥ 170,904,559	¥ 189,410,030	¥(17,755,809)	¥ 171,654,221

Note 6 – Fair Value of Investment and Rental Properties

HEIWA REAL ESTATE REIT owns rental properties for office and residential use in Tokyo and other regions throughout Japan. The book value, net changes in the book value and the fair value of the investment and rental properties are as follows:

	As of	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Book value:		
Balance at beginning of period	¥ 171,654,221	¥ 167,747,498
Change during the period	(1,001,344)	3,906,722
Balance at end of period	¥ 170,652,876	¥ 171,654,221
Fair value	¥ 210,006,000	¥ 210,237,000

Notes:

1. Book value represents acquisition costs after deducting accumulated depreciation.
2. For the six months ended November 30, 2020, the increases are primarily due to acquisition of HF OHORI RESIDENCE BAYSIDE (¥1,192,413 thousand), and the decreases are primarily due to disposal of HF UMEDA RESIDENCE TOWER (¥1,685,113 thousand) and depreciation (¥951,615 thousand). For the six months ended May 31, 2020, the increases are primarily due to acquisitions of KABUTO-CHO UNI-SQUARE and three other properties (¥5,563,648 thousand), and the decreases are primarily due to disposal of HF AZABUJUBAN RESIDENCE (¥1,092,477 thousand) and depreciation (¥964,743 thousand).

The information on Operating Revenues and Expenses is disclosed in Note 11.

Note 7 – Short-Term Debt and Long-Term Debt

Short-term debt and long-term debt consist of the following:

	As of	
	November 30, 2020	May 31, 2020
(Thousands of Yen)		
Long-term debt		
0.29% - 1.20% unsecured loans due 2020 (Notes 1 and 3)	¥ —	¥ 6,030,000
0.26% - 1.46% unsecured loans due 2021 (Notes 1, 2 and 3)	11,904,200	11,904,200
0.27% - 1.24% unsecured loans due 2022 (Notes 1 and 3)	10,669,000	10,669,000
0.33% - 1.08% unsecured loans due 2023 (Notes 1 and 3)	11,760,000	9,980,000
0.49% - 1.21% unsecured loans due 2024 (Notes 1 and 3)	10,530,000	10,530,000
0.51% - 0.94% unsecured loans due 2025 (Notes 1 and 3)	12,172,000	12,172,000
0.58% - 0.98% unsecured loans due 2026 (Notes 1 and 3)	12,362,000	12,362,000
0.57% - 0.68% unsecured loans due 2027 (Notes 1 and 3)	8,870,000	4,620,000
Less: amount due within one year	(11,904,200)	(11,914,200)
Total long-term debt due after one year	¥ 66,363,000	¥ 66,353,000

Notes:

- Interest rates presented are average interest rates applicable to individual loans during the period ended November 30, 2020. The average interest rates are stated after reflecting the effect of the interest rate swaps as to the loans with interest rate swaps for the purpose of hedging the risk of interest rate fluctuations.
- HEIWA REAL ESTATE REIT repaid a 0.26% unsecured loan due 2021 of ¥1,100,000 thousand before maturity on December 11, 2020.
- Funds are used for the acquisition of real estate, and refinancing of borrowings.

HEIWA REAL ESTATE REIT maintains commitment line contracts with three financial institutions. The amounts of unused commitments on loans as of November 30, 2020 and May 31, 2020 and are as follows:

	As of	
	November 30, 2020	May 31, 2020
(Thousands of Yen)		
Total amounts of borrowing commitment lines	¥ 7,000,000	¥ 6,000,000
Borrowing execution balances	—	—
Net unused balance	¥ 7,000,000	¥ 6,000,000

Note 8 – Investment Corporation Bonds

Investment corporation bonds consist of the following:

	Issued date	Maturity date	Interest rate	As of	
				November 30, 2020	May 31, 2020
				(Thousands of Yen)	
1st unsecured bonds	June 30, 2017	June 30, 2022	0.30%	¥ 1,000,000	¥ 1,000,000
2nd unsecured bonds	June 30, 2017	June 30, 2027	0.65%	1,800,000	1,800,000
3rd unsecured bonds	May 7, 2018	May 2, 2028	0.70%	1,000,000	1,000,000
4th unsecured bonds	June 4, 2019	May 31, 2024	0.41%	1,000,000	1,000,000
5th unsecured bonds	June 4, 2019	May 31, 2029	0.82%	1,600,000	1,600,000
6th unsecured bonds	November 25, 2020	November 25, 2030	0.75%	1,500,000	—
Total				¥ 7,900,000	¥ 6,400,000

Note 9 – Net Assets

HEIWA REAL ESTATE REIT issues non-par value units in accordance with the Investment Trust Act. HEIWA REAL ESTATE REIT maintains a minimum of ¥50,000 thousand of net assets as required by the Investment Trust Act.

The following table shows the total number and amount of treasury investment units cancelled as of November 30, 2020 and May 31, 2020.

	As of	
	November 30, 2020	May 31, 2020
(Thousands of Yen)		
Total number of treasury investment units cancelled	14,914	—
Total amounts of treasury investment units cancelled	¥ 1,699,990	¥ —

Note 10 – Reserve for Temporary Difference Adjustment

The following table shows the amount of provision and reversal of reserve for temporary difference adjustment and the reason for provision or reversal.

For the six months ended November 30, 2020	Original amount	Balance as of June 1, 2020	Provision during the period	Reversal during the period	Balance as of November 30, 2020	Reason for provision or reversal
(Thousands of Yen)						
Gain on bargain purchase	¥ 2,497,604	¥ 1,744,597	¥ —	¥ (40,593)	¥ 1,704,003	Allocation for distributions
For the six months ended May 31, 2020	Original amount	Balance as of December 1, 2019	Provision during the period	Reversal during the period	Balance as of May 31, 2020	Reason for provision or reversal
(Thousands of Yen)						
Gain on bargain purchase	¥ 2,497,604	¥ 1,785,190	¥ —	¥ (40,593)	¥ 1,744,597	Allocation for distributions

Note 11 – Operating Revenues and Expenses

Details of rental revenues and expenses are as follows:

	For the six months ended	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Revenues from property leasing:		
Rental revenues:		
Base rents	¥ 5,090,113	¥ 5,132,890
Common area charges	625,833	637,070
Total rental revenues	5,715,947	5,769,961
Other revenues related to property leasing:		
Parking space rental revenues	137,417	138,067
Incidental income	299,967	334,365
Cancellation penalty income	9,933	2,703
Others	18,164	11,572
Total other revenues related to property leasing	465,482	486,708
Total revenues from property leasing	6,181,430	6,256,669
Property-related expenses:		
Rental expenses:		
Property management expenses	668,692	640,588
Taxes and dues	397,640	398,259
Utilities expenses	184,752	189,572
Repair expenses	222,842	230,868
Insurance expenses	8,313	8,068
Trust fees	32,439	33,316
Depreciation	951,615	964,743
Others	124,567	118,410
Total property-related expenses	2,590,863	2,583,827
Operating income from property leasing	¥ 3,590,566	¥ 3,672,841

Note 12 – Gain on Sales of Investment Properties

Details of gain on sales of investment properties are as follows:

For the six months ended November 30, 2020

	(Thousands of Yen)	
HF UMEDA RESIDENCE TOWER:		
Proceeds from sales of investment properties	¥	2,620,000
Cost of sales of investment properties		1,685,113
Other expenses related to sales		44,185
Gain on sales of investment properties	¥	890,700

For the six months ended May 31, 2020

	(Thousands of Yen)	
HF AZABUJUBAN RESIDENCE:		
Proceeds from sales of investment properties	¥	1,450,000
Cost of sales of investment properties		1,092,477
Other expenses related to sales		25,852
Gain on sales of investment properties	¥	331,669

Note 13 – Leases

Future minimum rental revenues under existing non-cancelable operating leases are as follows:

	As of			
	November 30, 2020		May 31, 2020	
	(Thousands of Yen)			
Due within one year	¥	174,436	¥	174,436
Due after one year		290,726		377,944
Total	¥	465,162	¥	552,381

Note 14 – Income Taxes

The following table summarizes the significant differences between the statutory tax rate and HEIWA REAL ESTATE REIT's effective tax rate.

	For the six months ended	
	November 30, 2020	May 31, 2020
Statutory tax rate	31.46%	31.46%
Deductible cash distributions	(25.27)	(29.19)
Changes in valuation allowance	(6.19)	(2.54)
Others	0.02	0.29
Effective tax rate	0.02%	0.02%

The significant components of deferred tax assets and liabilities are as follows:

	As of	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Deferred tax assets:		
Allowance for doubtful accounts	¥ 0	¥ 31
Deferred gains or losses on hedges	69,348	52,905
Valuation differences due to merger	2,112,097	2,314,948
Total deferred tax assets	2,181,446	2,367,885
Valuation allowance	(2,181,446)	(2,367,885)
Net deferred tax assets	¥ —	¥ —

Note 15 – Distribution Information

Cash distributions are declared by the Board of Directors of HEIWA REAL ESTATE REIT after the end of each period. Such distributions are payable to unitholders of record at the end of each period. Information on retained earnings brought forward after the cash distributions and cash distributions per unit is as follows:

	For the six months ended	
	November 30, 2020	May 31, 2020
	(Yen)	
Unappropriated retained earnings	¥ 5,933,582,253	¥ 5,205,178,779
Reversal of reserve for temporary difference adjustment (Note)	39,997,320	40,593,880
Cash distributions declared	2,679,820,440	2,587,859,850
(Cash distributions per unit)	(2,680)	(2,550)
Provision of reserve for temporary difference adjustment	338,693,498	—
Retained earnings carried forward	¥ 2,955,065,635	¥ 2,657,912,809

Note: In accordance with transitional measures of the Supplementary Provisions paragraph No. 3 of the Ordinance on Accounting of Investment Corporations (Cabinet Office Order No. 27 of 2015), HEIWA REAL ESTATE REIT provided reserve for temporary difference adjustment of ¥2,497,604,770, which was the outstanding amount allocated to gain on bargain purchase recognized in past periods from unappropriated retained earnings in the statement of distributions for the six months ended November 30, 2015. The provided amount has been reversed every period by an amount equal to or more than the initial amount divided by 50 years from the six months ended May 31, 2016. HEIWA REAL ESTATE REIT reversed ¥39,997,320 and ¥40,593,880 for the six months ended November 30, 2020 and May 31, 2020, respectively.

In addition, HEIWA REAL ESTATE REIT provided reserve for temporary difference adjustment of ¥338,693,498, which was a part of differences between tax and accounting due to gain on sales of investment properties for the six months ended November 30, 2020. The provided amount will be reversed every period by an amount equal to or more than the initial amount divided by 50 years from the six months ended May 31, 2021.

Pursuant to the terms of the distribution policy set forth in Article 32(1) of HEIWA REAL ESTATE REIT's Articles of Incorporation, the amount of distributions is defined to be in excess of an amount equivalent to 90% of HEIWA REAL ESTATE REIT's distributable profit as defined in Article 67-15 of the Special Taxation Measure Act of Japan, but not in excess of the amount of retained earnings at the end of period.

Based on the policy, HEIWA REAL ESTATE REIT declared total distributions of ¥2,679,820,440 and ¥2,587,859,850 for the six months ended November 30, 2020 and May 31, 2020, respectively, which are calculated by deducting ¥635,846,324 (including provision of reserve for temporary difference adjustment of ¥338,693,498) and ¥241,054,054 from the amount obtained by adding reversal of reserve for temporary difference adjustment of ¥39,997,320 (¥40 per unit) and ¥40,593,880 (¥40 per unit) to net income of ¥3,275,669,444 and ¥2,788,320,024 for the six months ended November 30, 2020 and May 31, 2020, respectively. Furthermore, HEIWA REAL ESTATE REIT does not make cash distributions in excess of profit as set forth in Article 32(2) of HEIWA REAL ESTATE REIT's Articles of Incorporation.

Note 16 – Per Unit Information

Information about earnings per unit and net assets per unit is as follows:

	For the six months ended			
	November 30, 2020		May 31, 2020	
Earnings per unit:	(Yen)			
Net income per unit	¥	3,254	¥	2,747
Weighted average number of units outstanding (units)		1,006,388		1,014,847
	As of			
	November 30, 2020		May 31, 2020	
	(Yen)			
Net assets per unit	¥	94,916	¥	94,570

The net income per unit is calculated by dividing the net income by the weighted average number of units outstanding during the period. The net assets per unit is computed based on the number of units outstanding at each period end. Diluted earnings per unit and related information are not disclosed as no dilutive units are outstanding.

Note 17 – Related-Party Transactions

Related-party transactions are as follows:

For the six months ended November 30, 2020

Classification	Name	Location	Capital stock (Thousands of Yen)	Principal business	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Note 1) (Thousands of Yen)	Account	Balance at the end of period (Note 1) (Thousands of Yen)
Major corporate unitholder	HEIWA REAL ESTATE CO., LTD.	Chuo-ku, Tokyo	¥21,492,822	Real estate	13.5% (directly owned) 0.3% (indirectly owned)	Provision of property management services	Payment of property management fees (Note 3)	¥ 210,718	Operating accounts payable	¥ 35,072
Companies whose majority of voting rights are owned by a major corporate unitholder	Heiwa Service Co., Ltd. (Note 4)	Chuo-ku, Tokyo	134,000	Property management	-	Provision of property management services	Payment of property management fees	4,897	Operating accounts payable	816
							Payment of insurance premium	7,860	-	-
	Payment of repair work		30,483	Operating accounts payable	20,986					
	HEIWA REAL ESTATE Asset Management CO., LTD. (Note 4)		295,575	Investment management	0.3% (directly owned)	Provision of asset management services	Payment of asset management fees	624,545 (Note 5)	Accrued expenses	645,529

Notes:

- Consumption taxes are not included in transaction amounts, but are included in the balance at the end of the period.
- Terms and conditions of transactions are determined based on market price.
- The property management fees include building management fees which HEIWA REAL ESTATE paid to the following subcontractors.
Heiwa Service Co., Ltd. ¥103,145 thousand
Third parties other than Heiwa Service Co., Ltd. ¥33,171 thousand
- The major corporate unitholder, HEIWA REAL ESTATE, directly owns 100% of voting rights of these companies.
- The asset management fees include acquisition fees and transfer fees of ¥37,700 thousand.

For the six months ended May 31, 2020

Classification	Name	Location	Capital stock (Thousands of Yen)	Principal business	Ratio of voting rights	Relation to the related party	Nature of transaction	Amount of transaction (Note 1) (Thousands of Yen)	Account	Balance at the end of period (Note 1) (Thousands of Yen)
Major corporate unitholder	HEIWA REAL ESTATE CO., LTD.	Chuo-ku, Tokyo	¥21,492,822	Real estate	13.3% (directly owned) 0.3% (indirectly owned)	Provision of property management services	Payment of property management fees (Note 3)	¥ 202,486	Operating accounts payable	¥ 33,822
							Purchase of real estate (Note 4)	1,153,093	-	-
Companies whose majority of voting rights are owned by a major corporate unitholder	Heiwa Service Co., Ltd. (Note 5)	Chuo-ku, Tokyo	134,000	Property management	-	Provision of property management services	Payment of property management fees	4,897	Operating accounts payable	816
							Payment of insurance premium	7,933	-	-
							Payment of repair work	19,548	Operating accounts payable	3,015
	HEIWA REAL ESTATE Asset Management CO., LTD. (Note 5)	295,575	Investment management	0.3% (directly owned)	Provision of asset management services	Payment of asset management fees	642,970 (Note 6)	Accrued expenses	677,842	

Notes:

- Consumption taxes are not included in transaction amounts, but are included in the balance at the end of the period.
- Terms and conditions of transactions are determined based on market price.
- The property management fees include building management fees which HEIWA REAL ESTATE paid to the following subcontractors.
Heiwa Service Co., Ltd. ¥102,893 thousand
Third parties other than Heiwa Service Co., Ltd. ¥34,664 thousand
- The purchase of real estate is related to HF SHOKOJI AKABANE RESIDENCE. The amount of transaction includes the transfer price stated in the transfer agreement and related property taxes and city planning taxes settled between the seller, but not include other ancillary expenses related to the acquisition.
- The major corporate unitholder, HEIWA REAL ESTATE, directly owns 100% of voting rights of these companies.
- The asset management fees include acquisition fees and transfer fees of ¥62,250 thousand.

Note 18 – Transactions with Major Unitholders

Amounts of transactions with major unitholders are as follows:

	For the six months ended	
	November 30, 2020	May 31, 2020
	(Thousands of Yen)	
Operating expenses	¥ 210,718	¥ 202,486

Note 19 – Segment Information

Segment Information

Segment information is omitted as HEIWA REAL ESTATE REIT has only one segment, which is the property leasing business.

Related Information

Information about Products and Services

Disclosure of this information is omitted as operating revenues to external customers for a single product/service category accounts for more than 90% of the operating revenues on the statements of income and retained earnings.

Information by Geographic Areas

(1) Operating revenues

Disclosure of this information is omitted as domestic operating revenues account for more than 90% of total operating revenues.

(2) Investment properties

Disclosure of this information is omitted as domestic investment properties account for more than 90% of the book value of the total investment properties.

Information on Major Tenants

Disclosure of this information is omitted as there is no tenant that accounts for 10% or more of the operating revenues recorded in the statements of income and retained earnings.

Note 20 – Subsequent Events

A. Acquisition of Assets

HEIWA REAL ESTATE REIT acquired one real estate described below on December 17, 2020.

Of-46 TORYO BUILDING

Type of specified asset	Real estate
Agreement date	October 27, 2020
Acquisition date	December 17, 2020
Acquisition price (Note)	¥2,501,000 thousand
Location (lot number)	1-8-1 Ichibancho, Aoba-ku, Sendai City, Miyagi
Purpose of use	Office, Parking
Construction date	March 25, 1996
Structure	Office: Steel-framed reinforced concrete with flat roof, 1 floor below ground and 9 floors above ground Parking: Steel-framed with flat roof, 1 floor above ground
Total floor space	4,944.22m ² (including annex building (parking) of 51.57m ²)
Total rentable space	3,212.49m ²

Note: “Acquisition price” is the price described in the real estate purchase agreement (consumption tax excluded), and does not include the amounts of settlement for fixed property tax, city planning tax, etc.

B. Disposition of Assets

HEIWA REAL ESTATE REIT entered into a transfer agreement of one trust beneficiary interest in real estate described below on December 25, 2020 and the transaction has been executed on January 22, 2021 accordingly.

Re-37 HF TAKANAWA RESIDENCE

Type of specified asset	Trust beneficiary interest
Location (lot number)	4-17-22 Mita, Minato-ku, Tokyo
Transfer value (Note 1)	¥1,130,000 thousand
Book value (Note 2)	¥704,000 thousand
Agreement date	December 25, 2020
Disposition date	January 22, 2021
Buyer (Note 3)	Not disclosed

Notes:

1. “Transfer value” is the price described in the trust beneficiary interest transaction agreement (consumption tax excluded), and does not include the amounts of settlement for fixed property tax, city planning tax, etc.
2. “Book value” represents the carrying amount as of November 30, 2020.
3. Not disclosed as consent has not been obtained from the buyer.

C. Borrowing of Funds

HEIWA REAL ESTATE REIT borrowed funds as described below on December 17, 2020 (total borrowing amount of ¥1,000,000 thousand) to partly fund for acquisition of one office property on the same date (as described in A. *Acquisition of Assets* above.)

Term loan-49

Lender	Borrowing Amount (Thousands of Yen)	Maturity Date	Repayment Method	Usage of Fund	Collateral and Guarantee
The 77 Bank, Ltd.	¥1,000,000	November 30, 2028 (Note)	Lump-sum repayment	To fund for acquisition of property and others	Unsecured/ non-guaranteed

Note: In the event that the maturity date is not a business day, the repayment shall be made on the business day immediately preceding it.