

Semiannual Financial Reprt

The 37th Fiscal Period
(From December 1, 2019 to May 31, 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 May 31, 2020 and November 30, 2019, 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 May 31, 2020 and November 30, 2019, 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 that HEIWA REAL ESTATE REIT disposed of a property and resolved to purchase own investment units. 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 managing director's performance of their 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 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 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

August 28, 2020

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 May 31, 2020 and November 30, 2019

	As of	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Assets		
Current Assets:		
Cash and deposits (Notes 3 and 4)	¥ 12,276,641	¥ 13,956,919
Cash and deposits in trust (Notes 3 and 4)	3,476,218	3,356,732
Tenant receivables	60,832	47,450
Prepaid expenses	129,710	141,194
Other current assets	2,216	4,376
Allowance for doubtful accounts	(99)	(77)
Total Current Assets	15,945,520	17,506,595
Investment Properties (Notes 5 and 6):		
Land	30,680,398	29,462,479
Buildings	15,396,247	13,878,172
Structures	77,367	69,402
Machinery and equipment	279,096	272,682
Tools, furniture and fixtures	218,648	198,580
Land in trust	86,910,985	85,722,111
Buildings in trust	48,591,753	48,711,978
Structures in trust	276,315	279,867
Machinery and equipment in trust	631,223	637,868
Tools, furniture and fixtures in trust	1,122,278	1,067,695
Less: accumulated depreciation	(17,755,809)	(17,062,880)
Leasehold rights	1,910,049	1,193,875
Leasehold rights in trust	3,315,665	3,315,665
Total Investment Properties, Net	171,654,221	167,747,498
Other Assets:		
Software	4,285	4,962
Lease and guarantee deposits	14,617	14,617
Long-term prepaid expenses	254,569	243,445
Derivative assets (Note 4)	65,393	4,791
Deferred investment corporation bond issuance costs	40,606	44,041
Others	347,752	362,012
Total Other Assets	727,226	673,871
Total Assets	¥ 188,326,967	¥ 185,927,964

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

HEIWA REAL ESTATE REIT, Inc.

BALANCE SHEETS, CONTINUED

As of May 31, 2020 and November 30, 2019

	As of	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Liabilities		
Current Liabilities:		
Operating accounts payable	¥ 471,246	¥ 737,128
Long-term debt due within one year (Notes 4 and 7)	11,914,200	11,550,000
Accrued expenses	730,698	709,527
Income taxes payable	594	225
Accrued consumption taxes	54,944	76,507
Advances received	1,050,248	1,032,126
Other current liabilities	41,746	38,754
Total Current Liabilities	14,263,678	14,144,269
Long-Term Liabilities:		
Investment corporation bonds (Notes 4 and 8)	6,400,000	6,400,000
Long-term debt (Notes 4 and 7)	66,353,000	64,517,200
Tenant security deposits (Note 4)	712,675	703,047
Tenant security deposits in trust (Note 4)	4,420,602	4,308,792
Derivative liabilities (Note 4)	202,353	206,732
Total Long-Term Liabilities	78,088,631	76,135,772
Total Liabilities	92,352,310	90,280,041
Net Assets (Notes 9)		
Unitholders' Equity:		
Unitholders' capital	81,370,715	81,370,715
Units authorized: 8,000,000 units		
Units issued and outstanding: 1,014,847 units		
Capital surplus	7,406,652	7,406,652
Reserve for reduction entry	415,683	415,683
Reserve for temporary difference adjustment (Note 10)	1,744,597	1,785,190
Retained earnings	5,205,178	4,913,382
Total Unitholders' Equity	96,142,826	95,891,623
Valuation and translation adjustments:		
Deferred gains or losses on hedges	(168,168)	(243,700)
Total valuation and translation adjustments	(168,168)	(243,700)
Total Net Assets	95,974,657	95,647,923
Total Liabilities and Net Assets	¥ 188,326,967	¥ 185,927,964

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 May 31, 2020 and November 30, 2019

	For the six months ended	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Operating Revenues:		
Rental revenues (Note 11)	¥ 5,769,961	¥ 5,664,093
Other revenues related to property leasing (Note 11)	486,708	462,252
Gain on sales of investment properties (Note 12)	331,669	201,840
Total Operating Revenues	6,588,338	6,328,186
Operating Expenses:		
Property-related expenses (Note 11)	2,583,827	2,584,288
Asset management fees	580,720	576,282
Asset custody fees	11,247	11,080
Administrative service fees	41,293	40,444
Directors' compensation	6,289	7,122
Independent auditors' fees	13,660	9,660
Other operating expenses	144,868	131,771
Total Operating Expenses	3,381,906	3,360,650
Operating Income	3,206,432	2,967,536
Non-Operating Revenues:		
Interest income	1,118	1,249
Reversal of distributions payable	737	584
Insurance income	2,680	2,804
Compensation income	8,365	—
Other non-operating revenues	839	548
Total Non-Operating Revenues	13,740	5,186
Non-Operating Expenses:		
Interest expenses	351,626	379,191
Borrowing related expenses	55,430	61,114
Interest expenses on investment corporation bonds	19,460	19,271
Amortization of deferred investment corporation bond issuance costs	3,434	3,434
Other non-operating expenses	1,296	2,623
Total Non-Operating Expenses	431,248	465,635
Ordinary Income	2,788,925	2,507,087
Income Before Income Taxes	2,788,925	2,507,087
Income taxes – current	605	605
Income Taxes (Note 14)	605	605
Net Income	2,788,320	2,506,482
Retained Earnings Brought Forward	2,416,858	2,406,900
Retained Earnings at End of Period	¥ 5,205,178	¥ 4,913,382

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 May 31, 2020 and November 30, 2019

	Unitholders' Equity					Valuation and Translation Adjustments			Total Net Assets	
	Number of Units	Unitholders' Capital	Capital Surplus	Reserve for Reduction Entry	Reserve for Temporary Difference Adjustment	Retained Earnings	Total Unitholders' Equity	Deferred Gains or Losses on Hedges		Total Valuation and Translation Adjustments
	(Units)	(Thousands of Yen)								
Balance as of May 31, 2019	1,014,847	¥ 81,370,715	¥ 7,406,652	¥ 415,683	¥ 1,825,784	¥ 4,827,310	¥ 95,846,145	¥ (383,930)	¥ (383,930)	¥ 95,462,214
Cash distributions declared	—	—	—	—	—	(2,461,003)	(2,461,003)	—	—	(2,461,003)
Net income	—	—	—	—	—	2,506,482	2,506,482	—	—	2,506,482
Reversal of reserve for temporary difference adjustment	—	—	—	—	(40,593)	40,593	—	—	—	—
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—	140,230	140,230	140,230
Balance as of November 30, 2019	1,014,847	¥ 81,370,715	¥ 7,406,652	¥ 415,683	¥ 1,785,190	¥ 4,913,382	¥ 95,891,623	¥ (243,700)	¥ (243,700)	¥ 95,647,923
Cash distributions declared	—	—	—	—	—	(2,537,117)	(2,537,117)	—	—	(2,537,117)
Net income	—	—	—	—	—	2,788,320	2,788,320	—	—	2,788,320
Reversal of reserve for temporary difference adjustment	—	—	—	—	(40,593)	40,593	—	—	—	—
Net changes of items other than unitholders' equity	—	—	—	—	—	—	—	75,531	75,531	75,531
Balance as of May 31, 2020	1,014,847	¥ 81,370,715	¥ 7,406,652	¥ 415,683	¥ 1,744,597	¥ 5,205,178	¥ 96,142,826	¥ (168,168)	¥ (168,168)	¥ 95,974,657

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 May 31, 2020 and November 30, 2019

	For the six months ended	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Cash Flows from Operating Activities:		
Income before income taxes	¥ 2,788,925	¥ 2,507,087
Depreciation and amortization	964,743	943,822
Increase (decrease) in allowance for doubtful accounts	21	(718)
Amortization of deferred investment corporation bond issuance costs	3,434	3,434
Interest income	(1,118)	(1,249)
Interest expenses	371,086	398,463
(Increase) decrease in tenant receivables	(12,332)	5,525
(Decrease) increase in accrued consumption taxes	(21,563)	42,674
(Increase) decrease in long-term prepaid expenses	(11,123)	15,678
(Decrease) increase in operating accounts payable	(55,660)	72,629
Increase (decrease) in accrued expenses	21,117	(3,809)
Increase in advances received	18,122	5,777
(Decrease) increase in deposits received	(205)	458
Decrease due to sale of investment properties in trust	1,092,477	1,294,548
Other, net	28,211	(40,134)
Interest income received	68	2,477
Interest expenses paid	(356,632)	(368,549)
Income taxes paid	(235)	(973)
Net Cash Provided by Operating Activities	4,829,336	4,877,141
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	(2,831,262)	(37,596)
Payment for purchases of investment properties in trust	(2,602,759)	(3,327,795)
Payment for purchases of intangible assets	(716,174)	—
Proceeds from tenant security deposits	39,344	37,555
Refunds of tenant security deposits	(29,695)	(41,046)
Proceeds from tenant security deposits in trust	190,084	292,137
Refunds of tenant security deposits in trust	(102,950)	(216,503)
Proceeds from payment of trust deposits corresponding to tenant security deposits in trust	5,924	44,529
Deposit of trust deposits corresponding to tenant security deposits in trust	(105,673)	(126,012)
Net Cash Used in Investing Activities	(6,153,162)	(3,374,733)
Cash Flows from Financing Activities:		
Repayments of short-term debt	—	(500,000)
Proceeds from long-term debt	7,720,000	6,000,000
Repayments of long-term debt	(5,520,000)	(8,100,000)
Proceeds from issuance of investment corporation bonds	—	2,581,406
Distributions paid	(2,536,714)	(2,461,847)
Net Cash Used in Financing Activities	(336,714)	(2,480,441)
Net Change in Cash and Cash Equivalents	(1,660,540)	(978,033)
Cash and Cash Equivalents at Beginning of Period	13,986,725	14,964,758
Cash and Cash Equivalents at End of Period (Note 3)	¥ 12,326,184	¥ 13,986,725

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 May 31, 2020 and November 30, 2019

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 May 31, 2020, HEIWA REAL ESTATE REIT has ownership or trust beneficiary interests in 107 properties with approximately 253,195.83 square meters of rentable space and has leased space to 5,114 tenants. The occupancy rate for the properties is approximately 96.55%.

(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	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Capitalized real estate taxes	¥ 15,267	¥ 2,537

(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 and interest rate caps 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	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Cash and deposits	¥ 12,276,641	¥ 13,956,919
Cash and deposits in trust	3,476,218	3,356,732
Trust deposits retained for repayment of tenant security deposits	(426,676)	(326,926)
Time deposits with maturities exceeding three months	(3,000,000)	(3,000,000)
Cash and cash equivalents	¥ 12,326,184	¥ 13,986,725

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 and interest rate caps) 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 May 31, 2020			As of November 30, 2019		
	(Thousands of Yen)			(Thousands of Yen)		
Assets	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	¥ 12,276,641	¥ 12,276,641	¥ —	¥ 13,956,919	¥ 13,956,919	¥ —
Cash and deposits in trust	3,476,218	3,476,218	—	3,356,732	3,356,732	—
Total	¥ 15,752,860	¥ 15,752,860	¥ —	¥ 17,313,651	¥ 17,313,651	¥ —
Liabilities						
Long-term debt due within one year	¥ 11,914,200	¥ 11,929,924	¥ 15,724	¥ 11,550,000	¥ 11,550,000	¥ —
Investment corporation bonds	6,400,000	6,314,740	(85,260)	6,400,000	6,379,000	(21,000)
Long-term debt	66,353,000	66,373,808	20,808	64,517,200	64,561,781	44,581
Total	¥ 84,667,200	¥ 84,618,472	¥ (48,727)	¥ 82,467,200	¥ 82,490,781	¥ 23,581
Derivatives (*)	¥ (168,168)	¥ (235,640)	¥ (67,471)	¥ (229,300)	¥ (300,622)	¥ (71,321)

(*) 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 May 31, 2020 and November 30, 2019.

Derivatives to which hedge accounting is applied are as follows:

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)
Hedge accounting method	Type	Hedged item	As of November 30, 2019		
			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	¥ 54,729,700	¥ 47,799,700	¥ (229,331)
	Interest rate caps	Long-term debt	6,070,000	—	30
Special treatment for interest rate swaps	Interest rate swaps Receive floating/ Pay fixed	Long-term debt	4,880,000	4,880,000	(71,321)
			¥ 65,679,700	¥ 52,679,700	¥ (300,622)

(*) 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	
	May 31, 2020	November 30, 2019
(Thousands of Yen)		
Tenant security deposits	¥ 712,675	¥ 703,047
Tenant security deposits in trust	4,420,602	4,308,792
	¥ 5,133,277	¥ 5,011,840

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 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	¥ —	¥ —	¥ —	¥ —	¥ —
As of November 30, 2019	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	¥ 13,956,919	¥ —	¥ —	¥ —	¥ —	¥ —
Cash and deposits in trust	3,356,732	—	—	—	—	—
Total	¥ 17,313,651	¥ —	¥ —	¥ —	¥ —	¥ —

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

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
As of November 30, 2019	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	¥ 11,550,000	¥ —	¥ —	¥ —	¥ —	¥ —
Investment corporation bonds	—	—	1,000,000	—	1,000,000	4,400,000
Long-term debt	—	10,804,200	9,669,000	9,980,000	9,530,000	24,534,000
Total	¥ 11,550,000	¥ 10,804,200	¥ 10,669,000	¥ 9,980,000	¥ 10,530,000	¥ 28,934,000

Note 5 – Investment Properties

Investment properties consist of the following:

	As of May 31, 2020			As of November 30, 2019		
	(Thousands of Yen)			(Thousands of Yen)		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	¥ 30,680,398	¥ —	¥ 30,680,398	¥ 29,462,479	¥ —	¥ 29,462,479
Buildings	15,396,247	(4,434,403)	10,961,843	13,878,172	(4,232,153)	9,646,018
Structures	77,367	(41,083)	36,284	69,402	(39,059)	30,342
Machinery and equipment	279,096	(207,144)	71,952	272,682	(199,427)	73,255
Tools, furniture and fixtures	218,648	(141,910)	76,738	198,580	(133,192)	65,387
Land in trust	86,910,985	—	86,910,985	85,722,111	—	85,722,111
Buildings in trust	48,591,753	(11,774,871)	36,816,881	48,711,978	(11,358,585)	37,353,393
Structures in trust	276,315	(95,316)	180,999	279,867	(94,434)	185,433
Machinery and equipment in trust	631,223	(308,690)	322,533	637,868	(302,769)	335,098
Tools, furniture and fixtures in trust	1,122,278	(752,388)	369,889	1,067,695	(703,257)	364,437
Leasehold rights	1,910,049	—	1,910,049	1,193,875	—	1,193,875
Leasehold rights in trust	3,315,665	—	3,315,665	3,315,665	—	3,315,665
Total	¥ 189,410,030	¥(17,755,809)	¥ 171,654,221	¥ 184,810,378	¥ (17,062,880)	¥ 167,747,498

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	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Book value:		
Balance at beginning of period	¥ 167,747,498	¥ 166,465,089
Change during the period	3,906,722	1,282,408
Balance at end of period	¥ 171,654,221	¥ 167,747,498
Fair value	¥ 210,237,000	¥ 205,638,000

Notes:

1. Book value represents acquisition costs after deducting accumulated depreciation.
2. 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). For the six months ended November 30, 2019, the increases are primarily due to acquisition of KINSHICHO SQUARE BUILDING (¥2,873,577 thousand), and the decreases are primarily due to disposal of HF GOTANDA BUILDING (¥1,294,548 thousand) and depreciation (¥943,822 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	
	May 31, 2020	November 30, 2019
(Thousands of Yen)		
Long-term debt		
0.29% - 1.20% unsecured loans due 2020 (Notes 1, 2 and 3)	¥ 6,030,000	¥ 11,550,000
0.27% - 1.46% unsecured loans due 2021 (Notes 1 and 3)	11,904,200	10,804,200
0.26% - 1.24% unsecured loans due 2022 (Notes 1 and 3)	10,669,000	9,669,000
0.37% - 1.08% unsecured loans due 2023 (Notes 1 and 3)	9,980,000	9,980,000
0.49% - 1.21% unsecured loans due 2024 (Notes 1 and 3)	10,530,000	9,530,000
0.55% - 0.94% unsecured loans due 2025 (Notes 1 and 3)	12,172,000	12,172,000
0.67% - 0.98% unsecured loans due 2026 (Notes 1 and 3)	12,362,000	12,362,000
0.57% - 0.67% unsecured loans due 2027 (Notes 1 and 3)	4,620,000	—
Less: amount due within one year	(11,914,200)	(11,550,000)
Total long-term debt due after one year	¥ 66,353,000	¥ 64,517,200

Notes:

1. Interest rates presented are average interest rates applicable to individual loans during the period ended May 31, 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.
2. Interest rate caps are used in order to hedge the risk of rising interest rates.
3. 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 May 31, 2020 and November 30, 2019 and are as follows:

	As of	
	May 31, 2020	November 30, 2019
(Thousands of Yen)		
Total amounts of borrowing commitment lines	¥ 6,000,000	¥ 6,000,000
Borrowing execution balances	—	—
Net unused balance	¥ 6,000,000	¥ 6,000,000

Note 8 – Investment Corporation Bonds

Investment corporation bonds consist of the following:

	Issued date	Maturity date	Interest rate	As of			
				May 31, 2020		November 30, 2019	
				(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
Total				¥	6,400,000	¥	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.

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 May 31, 2020	Original amount	Balance as of December 1, 2018	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
For the six months ended November 30, 2019	Original amount	Balance as of June 1, 2019	Provision during the period	Reversal during the period	Balance as of November 30, 2019	Reason for provision or reversal
(Thousands of Yen)						
Gain on bargain purchase	¥ 2,497,604	¥ 1,825,784	¥ —	¥ (40,593)	¥ 1,785,190	Allocation for distributions

Note 11 – Operating Revenues and Expenses

Details of rental revenues and expenses are as follows:

	For the six months ended	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Revenues from property leasing:		
Rental revenues:		
Base rents	¥ 5,132,890	¥ 5,026,078
Common area charges	637,070	638,015
Total rental revenues	5,769,961	5,664,093
Other revenues related to property leasing:		
Parking space rental revenues	138,067	135,005
Incidental income	334,365	311,922
Cancellation penalty income	2,703	3,088
Others	11,572	12,236
Total other revenues related to property leasing	486,708	462,252
Total revenues from property leasing	6,256,669	6,126,346
Property-related expenses:		
Rental expenses:		
Property management expenses	640,588	650,358
Taxes and dues	398,259	398,491
Utilities expenses	189,572	207,047
Repair expenses	230,868	216,548
Insurance expenses	8,068	7,757
Trust fees	33,316	41,075
Depreciation	964,743	943,822
Others	118,410	119,187
Total property-related expenses	2,583,827	2,584,288
Operating income from property leasing	¥ 3,672,841	¥ 3,542,058

Note 12 – Gain on Sales of Investment Properties

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

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

For the six months ended November 30, 2019

	(Thousands of Yen)	
HF GOTANDA BUILDING:		
Proceeds from sales of investment properties	¥	1,550,000
Cost of sales of investment properties		1,294,548
Other expenses related to sales		53,611
Gain on sales of investment properties	¥	201,840

Note 13 – Leases

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

	As of			
	May 31, 2020		November 30, 2019	
	(Thousands of Yen)			
Due within one year	¥	174,436	¥	174,436
Due after one year		377,944		465,162
Total	¥	552,381	¥	639,599

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	
	May 31, 2020	November 30, 2019
Statutory tax rate	31.46%	31.51%
Deductible cash distributions	(29.19)	(31.00)
Changes in valuation allowance	(2.54)	(0.51)
Others	0.29	0.02
Effective tax rate	0.02%	0.02%

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

	As of	
	May 31, 2020	November 30, 2019
	(Thousands of Yen)	
Deferred tax assets:		
Allowance for doubtful accounts	¥ 31	¥ 24
Deferred gains or losses on hedges	52,905	81,403
Valuation differences due to merger	2,314,948	2,326,727
Tax loss carry-forward	—	59,026
Total deferred tax assets	2,367,885	2,467,181
Valuation allowance	(2,367,885)	(2,467,181)
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	
	May 31, 2020	November 30, 2019
	(Yen)	
Unappropriated retained earnings	¥ 5,205,178,779	¥ 4,913,382,375
Reversal of reserve for temporary difference adjustment (Note)	40,593,880	40,593,880
Cash distributions declared	2,587,859,850	2,537,117,500
(Cash distributions per unit)	(2,550)	(2,500)
Retained earnings carried forward	¥ 2,657,912,809	¥ 2,416,858,755

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 evenly reversed every period over within 50 years from the six months ended May 31, 2016.

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 ¥2,587,859,850 and ¥2,537,117,500 for the six months ended May 31, 2020 and November 30, 2019, respectively, which are calculated by deducting ¥241,054,054 and ¥9,958,716 from the amount obtained by adding reversal of reserve for temporary difference adjustment of ¥40,593,880 (¥40 per unit) and ¥40,593,880 (¥40 per unit) to net income of ¥2,788,320,024 and ¥2,506,482,336 for the six months ended May 31, 2020 and November 30, 2019, 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	
	May 31, 2020	November 30, 2019
	(Yen)	
Earnings per unit:		
Net income per unit	¥ 2,747	¥ 2,469
Weighted average number of units outstanding (units)	1,014,847	1,014,847
	As of	
	May 31, 2020	November 30, 2019
	(Yen)	
Net assets per unit	¥ 94,570	¥ 94,248

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 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 unitholder, HEIWA REAL ESTATE, directly owns 100% of voting rights of these companies.
- The asset management fees include acquisition fees which are included in the book value of the acquired properties and transfer fees of ¥62,250 thousand.

For the six months ended November 30, 2019

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)	¥ 220,515	Operating accounts payable	¥ 38,567
							Payment of brokerage fees	46,500	-	-
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	5,137	Operating accounts payable	856
							Payment of insurance premium	7,547	-	-
	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	604,682 (Note 5)	Accrued expenses	626,069

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. ¥105,508 thousand
Third parties other than Heiwa Service Co., Ltd. ¥32,135 thousand
- The major unitholder, HEIWA REAL ESTATE, directly owns 100% of voting rights of these companies.
- The asset management fees include acquisition fees of ¥28,400 thousand which are included in the book value of the acquired properties.

Note 18 – Transactions with Major Unitholders

Amounts of transactions with major unitholders are as follows:

	For the six months ended			
	May 31, 2020		November 30, 2019	
	(Thousands of Yen)			
Operating expenses	¥	202,486	¥	267,015

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. Disposition of Assets

Based on the basic policies of asset management, etc., set out in its Article of Incorporation, HEIWA REAL ESTATE REIT entered into a transfer agreement of one trust beneficiary interest in real estate described below on July 6, 2020 and the transaction has been executed on August 5, 2020 accordingly.

Re-44 HF UMEDA RESIDENCE TOWER

Type of specified asset	Trust beneficial interest
Location	1-3-6 Sonezaki, Kita ku, Osaka City, Osaka
Transfer value (Note 1)	¥2,620,000 thousand
Book value (Note 2)	¥1,695,755 thousand
Agreement date	July 6, 2020
Disposition date	August 5, 2020
Buyer (Note 3)	Not disclosed

Notes:

1. “Transfer value” is the price described in the trust beneficial 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 May 31, 2020.
3. Not disclosed as consent has not been obtained from the buyer.

B. Purchase of Own Investment Units

At the Board of Directors Meeting held on July 15, 2020, HEIWA REAL ESTATE REIT resolved to purchase own investment units based on Article 80-2 applied by replacing terms pursuant to Article 80-5, Paragraph 2 of the Investment Trust Act. HEIWA REAL ESTATE REIT plans to cancel all own investment units to be purchased in the six months ending November 30, 2020.

(1) Reasons for the purchase of own investment units

HEIWA REAL ESTATE REIT believes that the purchase and cancellation of own investment units will help enhance unitholder value including improvement of capital efficiency and others as the investment unit price of HEIWA REAL ESTATE REIT declined sharply due to the effect of the COVID-19, considering the overall circumstances, such as financial condition and market environment as well as the increase of cash on hand obtained from sales of investment properties in connection with the transfer of assets as described in A. Transfer of Assets above.

(2) Details of the purchase of own investment units

Total number of investment units to be purchased	Up to 25,000 units
Total amount of investment units to be purchased	Up to ¥1,700,000 thousand
Purchase period	From July 16 to September 15, 2020
Method of purchase	Purchase through a market on the Tokyo Stock Exchange based on a discretionary transaction contract with a securities company