



Independent auditor's report

To the Board of Directors of MORI TRUST Hotel Reit, Inc.:

Opinion

We have audited the accompanying financial statements of MORI TRUST Hotel Reit, Inc., which comprise the balance sheets as at August 31, 2020 and February 28, 2021, the statements of income, statements of changes in net assets, statements of cash distributions and statements of cash flows for the six-month periods then ended, and the notes to financial statements, and the supplementary schedules.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MORI TRUST Hotel Reit, Inc. as at August 31, 2020 and February 28, 2021, and its financial performance and cash flows for 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 MORI TRUST Hotel Reit, Inc. 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.

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 MORI TRUST Hotel Reit, Inc.'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 its duties including the design, implementation and maintenance of MORI TRUST Hotel Reit, Inc.'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 MORI TRUST Hotel Reit, Inc.'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 MORI TRUST Hotel Reit, Inc.'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 MORI TRUST Hotel Reit, Inc. 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 MORI TRUST Hotel Reit, Inc. which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

道丹 久男 

Hisao Dotan

Designated Engagement Partner

Certified Public Accountant

小林 英之 

Hideyuki Kobayashi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

June 11, 2021

Asset Management Report
MORI TRUST Hotel Reit, Inc.
10th Fiscal Period
(September 1, 2020 – February 28, 2021)

1. Methods of Preparation of Financial Statements

The financial statements of MORI TRUST Hotel Reit, Inc. have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Ministry of Finance Ordinance No.59 of 1963, as amended; hereinafter the “Ordinance on Financial Statements, etc.”) as well as the Ordinance on Accountings of Investment Corporations (Cabinet Office Ordinance No. 47 of 2006, as amended) under the provisions of Article 2 of the Ordinance on Financial Statements, etc.

Unless otherwise specified, amounts have been rounded down to the nearest thousand yen in the accompanying financial statements and the notes thereto, as permitted by the Financial Instruments and Exchange Act of Japan. As a result, the totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

2. Consolidated Financial Statements

MORI TRUST Hotel Reit, Inc. does not prepare consolidated financial statements because it has no subsidiaries.

1. Financial statements

(1) Balance sheets

(Thousands of yen)

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
Assets		
Current assets		
Cash and deposits	2,677,922	2,147,750
Cash and deposits in trust	776,211	921,761
Operating accounts receivable	1,752	3,825
Prepaid expenses	1,381	16,279
Total current assets	3,457,268	3,089,617
Non-current assets		
Property and equipment		
Machinery and equipment	7,645	8,803
Accumulated depreciation	(401)	(943)
Machinery and equipment, net	7,243	7,860
Tools, furniture and fixtures	37,281	40,322
Accumulated depreciation	(4,854)	(7,408)
Tools, furniture and fixtures, net	32,426	32,914
Buildings in trust	20,570,910	20,598,556
Accumulated depreciation	(2,616,842)	(2,975,800)
Buildings in trust, net	17,954,068	17,622,756
Structures in trust	8,590	8,590
Accumulated depreciation	(4,676)	(4,959)
Structures in trust, net	3,914	3,630
Machinery and equipment in trust	5,034	5,034
Accumulated depreciation	(486)	(744)
Machinery and equipment in trust, net	4,548	4,290
Tools, furniture and fixtures in trust	15,851	17,801
Accumulated depreciation	(3,205)	(4,391)
Tools, furniture and fixtures in trust, net	12,645	13,410
Land in trust	88,512,726	88,512,726
Total property and equipment	106,527,572	106,197,587
Intangible assets		
Software	1,199	874
Total intangible assets	1,199	874
Investments and other assets		
Guarantee deposits	10,000	10,000
Long-term prepaid expenses	—	5,383
Deferred tax assets	18	10
Total investments and other assets	10,018	15,394
Total non-current assets	106,538,789	106,213,856
Total assets	109,996,057	109,303,473

(Thousands of yen)

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
Liabilities		
Current liabilities		
Operating accounts payable	112,356	18,782
Short-term loans payable	5,975,000	*2 5,975,000
Current portion of long-term loans payable	7,000,000	*2 11,500,000
Accounts payable	112,319	105,574
Accrued expenses	49,592	47,007
Distribution payable	3,383	3,197
Income taxes payable	979	824
Accrued consumption taxes	130,209	7,071
Advances received	176,435	265,525
Deposits received	582	404
Total current liabilities	13,560,859	17,923,387
Non-current liabilities		
Long-term loans payable	41,000,000	*2 36,500,000
Tenant leasehold and security deposits	4,554,473	4,554,473
Other non-current liabilities	9	1
Total non-current liabilities	45,554,483	41,054,474
Total liabilities	59,115,342	58,977,862
Net assets		
Unitholders' equity		
Unitholders' capital	50,000,000	50,000,000
Surplus		
Unappropriated retained earnings	880,715	325,611
Total surplus	880,715	325,611
Total unitholders' equity	50,880,715	50,325,611
Total net assets	*1 50,880,715	*1 50,325,611
Total liabilities and net assets	109,996,057	109,303,473

(2) Statements of income

(Thousands of yen)

	Previous fiscal period (March 1, 2020 – August 31, 2020)		Current fiscal period (September 1, 2020 – February 28, 2021)	
Operating revenues				
Rental revenues	*1	1,768,455	*1	1,211,834
Other rental revenues	*1	2,264	*1	2,231
Total operating revenues		1,770,720		1,214,065
Operating expenses				
Rental expenses	*1	651,187	*1	655,828
Asset management fee		91,733		86,429
Asset custody and administrative service fees		12,370		12,617
Directors' compensations		3,600		3,600
Other operating expenses		23,751		22,856
Total operating expenses		782,642		781,331
Operating income		988,077		432,733
Non-operating income				
Interest income		21		16
Reversal of distributions payable		2,830		482
Interest on refund		616		—
Other		40		—
Total non-operating income		3,507		498
Non-operating expenses				
Interest expenses		109,919		106,981
Other		—		20
Total non-operating expenses		109,919		107,002
Ordinary income		881,665		326,229
Income before income taxes		881,665		326,229
Income taxes - current		983		826
Income taxes - deferred		(11)		7
Total income taxes		971		834
Net income		880,694		325,395
Retained earnings brought forward		21		215
Unappropriated retained earnings		880,715		325,611

(3) Statements of changes in net assets

Previous fiscal period (March 1, 2020 – August 31, 2020)

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings	Total surplus		
Balance at beginning of current period	50,000,000	1,781,521	1,781,521	51,781,521	51,781,521
Changes of items during period					
Distribution of retained earnings		(1,781,500)	(1,781,500)	(1,781,500)	(1,781,500)
Net income		880,694	880,694	880,694	880,694
Total changes of items during period	—	(900,805)	(900,805)	(900,805)	(900,805)
Balance at end of current period	*1 50,000,000	880,715	880,715	50,880,715	50,880,715

Current fiscal period (September 1, 2020 – February 28, 2021)

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings	Total surplus		
Balance at beginning of current period	50,000,000	880,715	880,715	50,880,715	50,880,715
Changes of items during period					
Distribution of retained earnings		(880,500)	(880,500)	(880,500)	(880,500)
Net income		325,395	325,395	325,395	325,395
Total changes of items during period	—	(555,104)	(555,104)	(555,104)	(555,104)
Balance at end of current period	*1 50,000,000	325,611	325,611	50,325,611	50,325,611

(4) Statements of cash distributions

(yen)

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
I. Unappropriated retained earnings	880,715,669	325,611,470
II. Distributions (Distributions per unit)	880,500,000 (1,761)	325,500,000 (651)
III. Retained earnings brought forward	215,669	111,470
Calculation method of distribution amount	Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. In consideration of this policy, MORI TRUST Hotel Reit, Inc. will pay distributions of profits at the total amount of ¥880,500,000, which is the amount that does not exceed the unappropriated retained earnings and is the greatest value among integral multiples of 500,000, which is the number of investment units issued and outstanding.	Pursuant to the policy for cash distribution set forth in Article 36, paragraph 1 of the Articles of Incorporation of MORI TRUST Hotel Reit, Inc., distributions shall be limited to the amount within profits, which shall be an amount exceeding ninety hundredths (90/100) of distributable profits, as stipulated in Article 67-15, paragraph 1 of the Act on Special Measures Concerning Taxation. In consideration of this policy, MORI TRUST Hotel Reit, Inc. will pay distributions of profits at the total amount of ¥325,500,000, which is the amount that does not exceed the unappropriated retained earnings and is the greatest value among integral multiples of 500,000, which is the number of investment units issued and outstanding.

(5) Statements of cash flows

(Thousands of yen)

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
Cash flows from operating activities		
Income before income taxes	881,665	326,229
Depreciation	363,150	364,105
Interest income	(21)	(16)
Interest expenses	109,919	106,981
Decrease (increase) in operating accounts receivable	(1,752)	(2,073)
Decrease (increase) in consumption taxes receivable	169,524	—
Decrease (increase) in prepaid expenses	5,891	(14,898)
Decrease (increase) in long-term prepaid expenses	—	(5,383)
Increase (decrease) in operating accounts payable	109,330	(105,683)
Increase (decrease) in accounts payable	2,698	(6,745)
Increase (decrease) in accrued consumption taxes	130,209	(123,137)
Increase (decrease) in advances received	(305,636)	89,090
Other, net	(2,879)	(668)
Subtotal	1,462,099	627,801
Interest income received	21	16
Interest expenses paid	(108,961)	(109,566)
Income taxes paid	(735)	(982)
Net cash provided by operating activities	1,352,423	517,268
Cash flows from investing activities		
Purchase of property and equipment	(7,645)	(4,199)
Purchase of property and equipment in trust	(29,069)	(17,486)
Purchase of intangible assets	(250)	—
Net cash used in investing activities	(36,964)	(21,686)
Cash flows from financing activities		
Proceeds from short-term loans payable	5,975,000	—
Repayments of short-term loans payable	(6,500,000)	—
Proceeds from long-term loans payable	—	3,000,000
Repayments of long-term loans payable	—	(3,000,000)
Distributions paid	(1,781,055)	(880,203)
Net cash provided by (used in) financing activities	(2,306,055)	(880,203)
Net increase (decrease) in cash and cash equivalents	(990,595)	(384,622)
Cash and cash equivalents at beginning of period	4,444,729	3,454,134
Cash and cash equivalents at end of period	*1 3,454,134	*1 3,069,511

(6) Notes to financial statements

[Significant accounting policies]

1. Method of depreciation of non-current assets	<p>(1) Property and equipment (including trust accounts) The straight-line method is used. The useful lives of major property and equipment components are as follows:</p> <table border="0"> <tr> <td>Machinery and equipment</td> <td>8 to 10 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td>4 to 15 years</td> </tr> <tr> <td>Buildings in trust</td> <td>6 to 72 years</td> </tr> <tr> <td>Structures in trust</td> <td>2 to 15 years</td> </tr> <tr> <td>Machinery and equipment in trust</td> <td>8 to 10 years</td> </tr> <tr> <td>Tools, furniture and fixtures in trust</td> <td>3 to 15 years</td> </tr> </table> <p>(2) Intangible assets The straight-line method is used. Internal-use software are amortized by the straight-line method over their useful lives (5 years).</p>	Machinery and equipment	8 to 10 years	Tools, furniture and fixtures	4 to 15 years	Buildings in trust	6 to 72 years	Structures in trust	2 to 15 years	Machinery and equipment in trust	8 to 10 years	Tools, furniture and fixtures in trust	3 to 15 years
Machinery and equipment	8 to 10 years												
Tools, furniture and fixtures	4 to 15 years												
Buildings in trust	6 to 72 years												
Structures in trust	2 to 15 years												
Machinery and equipment in trust	8 to 10 years												
Tools, furniture and fixtures in trust	3 to 15 years												
2. Recognition of revenue and expenses	<p>Accounting treatment of property tax, etc. For property taxes, city planning taxes, depreciable assets taxes, etc., for real estate held, the amount of tax levied corresponding to the relevant accounting period is recorded as rental expenses. The amount equivalent to property taxes, etc. to be paid by MORI TRUST Hotel Reit, Inc. in the first year for acquisition of trust beneficiary rights in real estate is not recorded as expenses but included in the acquisition costs for the related trust beneficiary rights. No property taxes, etc. were included in acquisition costs for trust beneficiary rights for the previous fiscal period and the current fiscal period.</p>												
3. Scope of cash and cash equivalents in the statements of cash flows	<p>Cash and cash equivalents in the statements of cash flows include the following:</p> <ol style="list-style-type: none"> (1) cash on hand and cash in trust; (2) deposits and deposits in trust that can be withdrawn at any time; and (3) short-term investments that are readily convertible, bear little risk in price fluctuations, and mature within three months of the date of acquisition. 												
4. Accounting treatment of trust beneficiary interests in real estate, etc.	<p>For trust beneficiary interests in real estate owned by MORI TRUST Hotel Reit, Inc., all accounts of assets and liabilities within the assets in trust as well as 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. The following assets in trust recognized in the relevant accounts are presented separately on the balance sheets due to their materiality.</p> <ol style="list-style-type: none"> (1) Cash and deposits in trust (2) Buildings in trust, structures in trust, machinery and equipment in trust, tools, furniture and fixtures in trust, and land in trust 												
5. Accounting treatment of consumption taxes, etc.	<p>Consumption taxes and local consumption taxes are accounted for by the tax exclusion method.</p>												

[Additional information]

Impact related to the spread of the novel coronavirus (COVID-19)

Although the state of emergency by the government declared in January 2021 was lifted by March 2021, it was reimposed in April, and demand by hotel services for domestic and foreign tourists, business guests, banquets, etc. is still weak due to the worldwide spread of the novel coronavirus (COVID-19).

Under such circumstances, in the course of real estate rental business of MORI TRUST Hotel Reit, Inc., variable rents based on hotel operating performance have decreased significantly.

The timing of the convergence of COVID-19 is uncertain and difficult to estimate. MORI TRUST Hotel Reit, Inc. made estimate on accounting to apply accounting for impairment of non-current assets based on assumptions that impact by COVID-19 will continue through fiscal period ending August 31, 2021 (from March 1, 2021 to August 31, 2021) and gradually recover after certain period of time.

Since it is difficult to predict with certainty when the spread of COVID-19 will be eliminated and the extent of the impact, any change in the spread of COVID-19 and impact on the economy may affect the status of asset, profit and loss, cash flow of MORI TRUST Hotel Reit, Inc.

[Notes to balance sheets]

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
*1 Minimum net assets as provided in Article 67, paragraph 4 of the Investment Trust Law	50,000 thousand yen	50,000 thousand yen
*2 Financial covenants	—	Due to the impact of the COVID-19 pandemic, the SDSCR value (an index that determines the ability to pay principal and interest in a certain stress scenario) fell below the standard value. As a result, MORI TRUST Hotel Reit has retained a certain amount within the range of depreciation recorded in the previous fiscal year in the principal and interest reserve account in accordance with the borrowing agreement between MORI TRUST Hotel Reit and financial institutions, and it also plans to retain a certain amount within the range of depreciation recorded in the current fiscal year. If the SDSCR value remains below the standard value in the next fiscal year and beyond, prepayments could be made using the money reserved in the relevant principal and interest reserve account.

[Notes to statements of income]

(Thousands of yen)

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
*1 Breakdown of real estate rental income	<p>A. Real estate rental revenues</p> <p>Rental revenues</p> <p>Rent 1,768,455</p> <p>Other rental revenues</p> <p>Others 2,264</p> <p>Total real estate rental revenues 1,770,720</p> <p>B. Real estate rental expenses</p> <p>Rental expenses</p> <p>Property and other taxes 280,361</p> <p>Insurance expenses 4,578</p> <p>Repairs and maintenance expenses 2,447</p> <p>Depreciation 362,850</p> <p>Other rental expenses 950</p> <p>Total real estate rental expenses 651,187</p> <p>C. Real estate rental income (A – B) 1,119,533</p>	<p>A. Real estate rental revenues</p> <p>Rental revenues</p> <p>Rent 1,211,834</p> <p>Other rental revenues</p> <p>Others 2,231</p> <p>Total real estate rental revenues 1,214,065</p> <p>B. Real estate rental expenses</p> <p>Rental expenses</p> <p>Property and other taxes 280,357</p> <p>Insurance expenses 5,394</p> <p>Repairs and maintenance expenses 5,321</p> <p>Depreciation 363,805</p> <p>Other rental expenses 950</p> <p>Total real estate rental expenses 655,828</p> <p>C. Real estate rental income (A – B) 558,237</p>

[Notes to statements of changes in net assets]

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
*1 Total number of authorized investment units and total number of investment units issued and outstanding		
Total number of authorized investment units	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding at the end of the fiscal period	500,000 units	500,000 units

[Notes to statements of cash flows]

(Thousands of yen)

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
*1 Reconciliation between cash and cash equivalents at the end of period and relevant amounts on the balance sheets	(as of August 31, 2020)	(as of February 28, 2021)
	Cash and deposits 2,677,922	Cash and deposits 2,147,750
	Cash and deposits in trust 776,211	Cash and deposits in trust 921,761
	Cash and cash equivalents 3,454,134	Cash and cash equivalents 3,069,511

[Lease transactions]

Operating lease transactions (Lessor)

Future lease payments

(Thousands of yen)

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
Due within 1 year	1,304,673	1,304,673
Due after 1 year	7,828,040	7,175,703
Total	9,132,713	8,480,376

[Financial instruments]

1. Matters regarding financial instruments

(1) Policy for financial instruments

To conduct the efficient management of assets and contribute to the management stability, MORI TRUST Hotel Reit, Inc. procures funds for the acquisition of assets, the payment of repair and maintenance expenses and dividends, the repayment of debt (including the repayment of leasehold deposits, etc. and loans as well as the obligations of investment corporation bonds), working capital, etc. mainly by borrowing, issuing investment corporation bonds, or issuing investment units.

Surplus funds are carefully invested in consideration of the safety of the investment and convertibility into cash and in view of interest rates and cash flows.

(2) Types of financial instruments, related risk and risk management for financial instruments

Proceeds from borrowings are used mainly to acquire trust beneficiary interests in real estate.

These borrowings are exposed to liquidity risks at maturity. However, MORI TRUST Hotel Reit, Inc. appropriately manages the LTV ratio to limit the impact of higher market interest rates on MORI TRUST Hotel Reit, Inc.'s operations, and also seeks to disperse of maturities to manage this risk.

(3) Supplementary remarks on fair value of financial instruments

The fair value of financial instruments is based on market prices or a reasonably calculated value if there is no market price available. As certain assumptions are used in calculating these values, these values may vary if different assumptions are used.

2. Matters regarding fair value of financial instruments

Balance sheet carrying amounts, fair values, and the differences between them as of August 31, 2020 are as shown below. Financial instruments whose fair values are considered to be extremely difficult to determine are not included in the table below (Note 2).

(Thousands of yen)

	Balance sheet carrying amount	Fair value	Difference
(1) Cash and deposits	2,677,922	2,677,922	—
(2) Cash and deposits in trust	776,211	776,211	—
Total assets	3,454,134	3,454,134	—
(1) Short-term loans payable	5,975,000	5,975,000	—
(2) Current portion of long-term loans payable	7,000,000	7,008,112	8,112
(3) Long-term loans payable	41,000,000	41,142,377	142,377
Total liabilities	53,975,000	54,125,489	150,489

Balance sheet carrying amounts, fair values, and the differences between them as of February 28, 2021 are as shown below. Financial instruments whose fair values are considered to be extremely difficult to determine are not included in the table below (Note 2).

(Thousands of yen)

	Balance sheet carrying amount	Fair value	Difference
(1) Cash and deposits	2,147,750	2,147,750	—
(2) Cash and deposits in trust	921,761	921,761	—
Total assets	3,069,511	3,069,511	—
(1) Short-term loans payable	5,975,000	5,975,000	—
(2) Current portion of long-term loans payable	11,500,000	11,524,819	24,819
(3) Long-term loans payable	36,500,000	36,599,282	99,282
Total liabilities	53,975,000	54,099,102	124,102

(Note 1) Measurement of fair values of financial instruments

Assets

(1) Cash and deposits and (2) Cash and deposits in trust

As these items are settled within a short-term period, their fair value approximates the balance sheet carrying amount. Therefore, for these items, the carrying value is reported as the fair value.

Liabilities

(1) Short-term loans payable

As short-term loans payable are settled within a short-term period, the fair value approximates the balance sheet carrying amount. Therefore, for this item, the carrying value is reported as the fair value.

(2) Current portion of long-term loans payable and (3) Long-term loans payable

The fair value of these items are calculated by discounting the total of principal and interest at the rate to be applied if similar new loans were entered into.

(Note 2) Balance sheet carrying amount of financial instruments whose fair value is considered to be extremely difficult to determine

(Thousands of yen)

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
Tenant leasehold and security deposits	4,554,473	4,554,473

Tenant leasehold and security deposits, which are deposited by lessees of rental properties, are not subject to fair value disclosure because there are no market prices for them and it is not possible to reasonably estimate future cash flow because it is impossible to estimate the actual deposit term, and therefore it is considered to be extremely difficult to determine their fair values.

(Note 3) Redemption schedule for monetary claims after balance sheet date (as of August 31, 2020)

(Thousands of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Cash and deposits	2,677,922	—	—	—	—	—
Cash and deposits in trust	776,211	—	—	—	—	—
Total	3,454,134	—	—	—	—	—

Redemption schedule for monetary claims after balance sheet date (as of February 28, 2021)

(Thousands of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Cash and deposits	2,147,750	—	—	—	—	—
Cash and deposits in trust	921,761	—	—	—	—	—
Total	3,069,511	—	—	—	—	—

(Note 4) Expected amount of repayments of loans after balance sheet date (as of August 31, 2020)

(Thousands of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	5,975,000	—	—	—	—	—
Current portion of long-term loans payable	7,000,000	—	—	—	—	—
Long-term loans payable	—	14,500,000	10,500,000	12,500,000	2,500,000	1,000,000
Total	12,975,000	14,500,000	10,500,000	12,500,000	2,500,000	1,000,000

Expected amount of repayments of loans after balance sheet date (as of February 28, 2021)

(Thousands of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	5,975,000	—	—	—	—	—
Current portion of long-term loans payable	11,500,000	—	—	—	—	—
Long-term loans payable	—	13,500,000	14,500,000	5,000,000	2,500,000	1,000,000
Total	17,475,000	13,500,000	14,500,000	5,000,000	2,500,000	1,000,000

[Tax effect accounting]

(Thousands of Yen)

	Previous fiscal period (as of August 31, 2020)	Current fiscal period (as of February 28, 2021)
1. Significant components of deferred tax assets and liabilities	(Deferred tax assets)	(Deferred tax assets)
	Accrued enterprise tax <u>18</u>	Accrued enterprise tax <u>10</u>
	Total deferred tax assets <u>18</u>	Total deferred tax assets <u>10</u>
	Net deferred tax assets 18	Net deferred tax assets 10
2. Reconciliation of difference between the statutory tax rate and the effective tax rate after application of tax effect accounting	Statutory tax rate 31.46%	Statutory tax rate 31.46%
	(Adjustments)	(Adjustments)
	Deductible distributions (31.42%)	Deductible distributions (31.39%)
	Other <u>0.07%</u>	Other <u>0.19%</u>
Effective tax rate after application of tax accounting 0.11%	Effective tax rate after application of tax accounting 0.26%	

[Related party transactions]

1. Parent company and major corporate unitholders, etc.

Previous fiscal period (March 1, 2020 – August 31, 2020)

Not applicable.

Current fiscal period (September 1, 2020 – February 28, 2021)

Not applicable.

2. Affiliated companies, etc.

Previous fiscal period (March 1, 2020 – August 31, 2020)

Not applicable.

Current fiscal period (September 1, 2020 – February 28, 2021)

Not applicable.

3. Sister companies, etc.

Previous fiscal period (March 1, 2020 – August 31, 2020)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc.	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc.	Business relationship				
Subsidiary of other related company	Mori Trust Co., Ltd.	Minato-ku, Tokyo	30,000,000	Real estate business	—	None	Leasing and management of real estate	Leasing of real estate	914,200	Advances received	33,272
										Tenant leasehold and security deposits	3,281,000
Subsidiary of other related company	MT&Hilton Hotel Co., Ltd.	Minato-ku, Tokyo	20,000	Hotel management	—	None	Leasing and management of real estate	Leasing of real estate	201,918	Advances received	28,960
Subsidiary of other related company	Mori Trust Asset Management Co., Ltd.	Minato-ku, Tokyo	400,000	Management of assets of investment corporation	—	One concurrently serving officer	Asset management company	Payment of asset management fee	91,733	Accounts payable	100,906

(Note 1) Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.

(Note 2) Transaction terms and policies for determining transaction terms: Transaction terms are determined taking into consideration current market prices.

Current fiscal period (September 1, 2020 – February 28, 2021)

Attribute	Name	Location	Capital stock (Thousands of yen)	Business or occupation	Ownership ratio of units, etc.	Nature of relationship		Nature of transaction	Amount of transaction (Thousands of yen)	Account	Balance at the end of the period (Thousands of yen)
						Concurrent officers, etc.	Business relationship				
Subsidiary of other related company	Mori Trust Co., Ltd.	Minato-ku, Tokyo	30,000,000	Real estate business	—	None	Leasing and management of real estate	Leasing of real estate	401,529	Advances received	122,415
										Tenant leasehold and security deposits	3,281,000
Subsidiary of other related company	MT&Hilton Hotel Co., Ltd.	Minato-ku, Tokyo	20,000	Hotel management	—	None	Leasing and management of real estate	Leasing of real estate	157,967	Advances received	28,907
Subsidiary of other related company	Mori Trust Asset Management Co., Ltd.	Minato-ku, Tokyo	400,000	Management of assets of investment corporation	—	One concurrently serving officer	Asset management company	Payment of asset management fee	86,429	Accounts payable	95,072

(Note 1) Consumption taxes are not included in transaction amounts but are included in the balance at the end of the period.

(Note 2) Transaction terms and policies for determining transaction terms: Transaction terms are determined taking into consideration current market prices.

4. Officers and major individual unitholders

Previous fiscal period (March 1, 2020 – August 31, 2020)

Not applicable.

Current fiscal period (September 1, 2020 – February 28, 2021)

Not applicable.

[Investment and rental properties]

MORI TRUST Hotel Reit, Inc. holds investment and rental properties for use as hotels in Tokyo and other regions. The balance sheet carrying amounts, changes during the fiscal period, and fair values of these investment and rental properties are as follows.

(Thousands of yen)

Use		Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
Hotel	Balance sheet carrying amount		
	Balance at beginning of period	106,878,798	106,527,801
	Changes during period	(350,997)	(330,009)
	Balance at end of period	106,527,801	106,197,792
	Fair value at end of period	124,750,000	124,900,000

(Note 1) The balance sheet carrying amount is the acquisition cost less accumulated depreciation.

(Note 2) The main reason for the increase during the previous period is the capital expenditure (11,852 thousand yen), and the main reason for the decrease during the previous period is depreciation (362,850 thousand yen). The main reason for the increase during the current period is the capital expenditure (33,796 thousand yen), and the main reason for the decrease during the current period is depreciation (363,805 thousand yen).

(Note 3) Fair value at end of period is the appraisal value provided by an independent real estate appraiser.

The profit or loss concerning investment and rental properties is indicated under “Notes to statements of income.”

[Segment information, etc.]

1. Segment information

Disclosure is omitted as MORI TRUST Hotel Reit, Inc. has only one segment, which is the real estate rental business.

2. Related information

Previous fiscal period (March 1, 2020 – August 31, 2020)

(1) Information about products and services

Disclosure is omitted as operating revenues from external customers of products and services within a single category exceeds 90% of operating revenue on the statement of income.

(2) Information about geographical area

i) Operating revenues

Disclosure is omitted since operating revenues from external customers in Japan exceeds 90% of operating revenues on the statement of income.

ii) Property and equipment

Disclosure is omitted since the amount of property and equipment located in Japan exceeds 90% of property and equipment on the balance sheet.

(3) Information about major customers

(Thousands of yen)

Name	Operating revenues	Related segment
Mori Trust Co., Ltd.	914,200	Real estate rental business
MT&Hilton Hotel Co., Ltd.	201,918	Real estate rental business
Sotetsu Hotel Management Co., Ltd.	652,336	Real estate rental business

Current fiscal period (September 1, 2020 – February 28, 2021)

(1) Information about products and services

Disclosure is omitted as operating revenues from external customers of products and services within a single category exceeds 90% of operating revenue on the statement of income.

(2) Information about geographical area

i) Operating revenues

Disclosure is omitted since operating revenues from external customers in Japan exceeds 90% of operating revenues on the statement of income.

ii) Property and equipment

Disclosure is omitted since the amount of property and equipment located in Japan exceeds 90% of property and equipment on the balance sheet.

(3) Information about major customers

(Thousands of yen)

Name	Operating revenues	Related segment
Mori Trust Co., Ltd.	401,529	Real estate rental business
MT&Hilton Hotel Co., Ltd.	157,967	Real estate rental business
Sotetsu Hotel Management Co., Ltd.	652,336	Real estate rental business

[Per unit information]

Previous fiscal period (March 1, 2020 – August 31, 2020)		Current fiscal period (September 1, 2020 – February 28, 2021)	
Net assets per unit	101,761yen	Net assets per unit	100,651yen
Net income per unit	1,761yen	Net income per unit	650yen
Net income per unit is calculated by dividing net income by the day-weighted average number of investment units for the period.		Net income per unit is calculated by dividing net income by the day-weighted average number of investment units for the period.	
Diluted net income per investment unit is not presented, as there is no potential investment unit.		Diluted net income per investment unit is not presented, as there is no potential investment unit.	

(Note) The basis for calculating net income per unit is as follows:

	Previous fiscal period (March 1, 2020 – August 31, 2020)	Current fiscal period (September 1, 2020 – February 28, 2021)
Net income (Thousands of yen)	880,694	325,395
Amount not attributable to common unitholders (Thousands of yen)	–	–
Net income attributable to common investment units (Thousands of yen)	880,694	325,395
Average number of investment units for the period (Units)	500,000	500,000

[Significant subsequent events]

Not applicable.

(7) Supplementary schedules

i) Summary table included in the schedule of real estate, etc.

(Thousands of yen)

Type of asset		Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Accumulated depreciation		Balance at end of period (less depreciation and amortization)	Remarks
						or accumulated amortization	Depreciation and amortization during the period		
Property and equipment	Machinery and equipment	7,645	1,158	—	8,803	943	541	7,860	
	Tools, furniture and fixtures	37,281	3,041	—	40,322	7,408	2,553	32,914	
	Buildings in trust	20,570,910	27,646	—	20,598,556	2,975,800	358,957	17,622,756	
	Structures in trust	8,590	—	—	8,590	4,959	283	3,630	
	Machinery and equipment in trust	5,034	—	—	5,034	744	258	4,290	
	Tools, furniture and fixtures in trust	15,851	1,949	—	17,801	4,391	1,185	13,410	
	Land in trust	88,512,726	—	—	88,512,726	—	—	88,512,726	
	Subtotal	109,158,039	33,796	—	109,191,835	2,994,247	363,780	106,197,587	
Intangible assets	Software	3,250	—	—	3,250	2,375	325	874	
	Subtotal	3,250	—	—	3,250	2,375	325	874	
Total		109,161,289	33,796	—	109,195,085	2,996,623	364,105	106,198,462	

ii) Schedule of borrowings

(Thousands of yen)

	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate (Note 1)	Repayment date	Repayment method	Use	Remarks
Short-term loans payable	MUFG Bank, Ltd.	975,000	—	—	975,000	0.26888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	500,000	—	—	500,000	0.26888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	500,000	—	—	500,000	0.26888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	500,000	—	—	500,000	0.26888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	1,500,000	—	—	1,500,000	0.25888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	1,500,000	—	—	1,500,000	0.25888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	500,000	—	—	500,000	0.25888%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Total	5,975,000	—	—	5,975,000					
Long-term loans payable (Note2)	Sumitomo Mitsui Trust Bank, Limited	3,000,000	—	—	3,000,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	MUFG Bank, Ltd.	3,000,000	—	—	3,000,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	Development Bank of Japan Inc.	1,500,000	—	—	1,500,000	0.49630%	Nov. 30, 2021	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	2,000,000	—	—	2,000,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	2,000,000	—	—	2,000,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	Development Bank of Japan Inc.	1,500,000	—	—	1,500,000	0.63750%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 3)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	1,000,000	—	1,000,000	—	0.38750%	Nov. 30, 2020	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	1,000,000	—	1,000,000	—	0.38750%	Nov. 30, 2020	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Resona Bank, Limited	1,000,000	—	1,000,000	—	0.37750%	Nov. 30, 2020	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	500,000	—	—	500,000	0.53250%	Nov. 30, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	MUFG Bank, Ltd.	500,000	—	—	500,000	0.53250%	Nov. 30, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Nippon Life Insurance Company	1,000,000	—	—	1,000,000	0.55565%	May 31, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	2,000,000	—	—	2,000,000	0.35158%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	1,000,000	—	—	1,000,000	0.35158%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	1,000,000	—	—	1,000,000	0.35158%	Aug. 31, 2021	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	2,000,000	—	—	2,000,000	0.42661%	Aug. 31, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed

	Lender	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period	Average interest rate (Note 1)	Repayment date	Repayment method	Use	Remarks
Long-term loans payable (Note2)	Mizuho Bank, Ltd.	1,000,000	—	—	1,000,000	0.42661%	Aug. 31, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	—	—	1,000,000	0.42661%	Aug. 31, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Shinkin Central Bank	1,000,000	—	—	1,000,000	0.42661%	Aug. 31, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	1,000,000	—	—	1,000,000	0.49909%	Aug. 31, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Trust Bank, Limited	1,000,000	—	—	1,000,000	0.49909%	Aug. 31, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	MUFG Bank, Ltd.	1,000,000	—	—	1,000,000	0.49909%	Aug. 31, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Shinkin Central Bank	1,000,000	—	—	1,000,000	0.29880%	Aug. 29, 2025	Lump-sum payment at maturity	(Note 5)	Unsecured /Non-guaranteed
	Development Bank of Japan Inc.	500,000	—	—	500,000	0.29880%	Aug. 29, 2025	Lump-sum payment at maturity	(Note 5)	Unsecured /Non-guaranteed
	Mizuho Trust & Banking Co., Ltd.	500,000	—	—	500,000	0.29880%	Aug. 29, 2025	Lump-sum payment at maturity	(Note 5)	Unsecured /Non-guaranteed
	Resona Bank, Limited	500,000	—	—	500,000	0.29880%	Aug. 29, 2025	Lump-sum payment at maturity	(Note 5)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	1,000,000	—	—	1,000,000	0.36000%	Aug. 31, 2026	Lump-sum payment at maturity	(Note 5)	Unsecured /Non-guaranteed
	Mizuho Trust & Banking Co., Ltd.	2,000,000	—	—	2,000,000	0.25750%	Aug. 31, 2022	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	5,500,000	—	—	5,500,000	0.28250%	Feb. 28, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	2,000,000	—	—	2,000,000	0.33250%	Feb. 29, 2024	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	5,000,000	—	—	5,000,000	0.35750%	Aug. 30, 2024	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Mizuho Bank, Ltd.	—	1,000,000	—	1,000,000	0.30000%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Sumitomo Mitsui Banking Corporation	—	1,000,000	—	1,000,000	0.30000%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
	Resona Bank, Limited	—	1,000,000	—	1,000,000	0.29000%	Nov. 30, 2023	Lump-sum payment at maturity	(Note 4)	Unsecured /Non-guaranteed
		Total	48,000,000	3,000,000	3,000,000	48,000,000				
	Grand Total	53,975,000	3,000,000	3,000,000	53,975,000					

(Note 1) The average rate for variable rates is the weighted average of the interest rate during the period.

(Note 2) Long-term loans payable include the current portion of long-term loans payable.

(Note 3) The funds are used to finance the acquisition of real estate beneficiary interests and related costs, and the repayment of loans.

(Note 4) The funds are used to finance the repayment of loans.

(Note 5) The funds are used to finance the acquisition of real estate beneficiary interests and movables attached to the hotel, and related costs.

(Note 6) The following table shows the repayment schedule of long-term loans each year during the five years from the balance sheet date.

(Thousands of yen)

	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years
Long-term loans	11,500,000	13,500,000	14,500,000	5,000,000	2,500,000