

13th Fiscal Period Semi-Annual Report

From: February 1, 2023
To: July 31, 2023

ESCON JAPAN REIT Investment Corporation

The Okura Prestige Tower 20F,
2-10-4 Toranomom, Minato-ku, Tokyo

To Our Unitholders

It is our sincere hope that this message finds all our unitholders well and prosperous.

ESCON JAPAN REIT Investment Corporation (hereinafter, “ESCON REIT”) was listed on the Tokyo Stock Exchange on February 13, 2019, as an REIT that primarily invests in lifestyle-focused commercial facilities and the leasehold land of those facilities. Thanks to the understanding and support of all our unitholders, ESCON REIT have been able to expand its’ asset scale.

As we have already notified our unitholders and all other concerned parties, ES-CON ASSET MANAGEMENT Ltd. (hereinafter, the “Asset Manager”), to which ESCON REIT entrusts the management of its assets, received Business Suspension Order and Business Improvement Order from the Financial Services Agency on July 15, 2022 for violation of laws and regulations.

The Asset Manager takes these administrative actions seriously, under the guidance of the supervisory authorities and the support of the Asset Manager’s parent company, ES-CON JAPAN Ltd. (hereinafter, “ES-CON JAPAN”), and its ultimate parent company, Chubu Electric Power Co., Inc. (hereinafter, the “Chubu Electric Power”), the Asset Manager has worked to review its business operation to establish a responsible legal compliance and internal control system, and to ensure fair and appropriate business operations are in place.

In addition, the Business Suspension Order was lifted on October 14, 2022, and the Business Improvement Order was lifted after the final report on the status of business improvement was submitted and accepted by the Financial Services Agency on July 31, 2023.

In response to the administrative disposition from the Financial Services Agency, ESCON REIT plans to propose at the general meeting of unitholders (hereinafter, "General Meeting of Unitholders") scheduled to be held on October 27, 2023, a change to appoint an external person who has no special interest in ESCON REIT and ES-CON JAPAN Group as an executive director for the purpose of strengthening the governance system of ESCON REIT. As a result, the board of directors of ESCON REIT will consist of one independent executive director and two independent supervisory directors who have no interest with the ES-CON JAPAN Group. ESCON REIT will also continue to further strengthen the Asset Manager’s legal compliance and internal control systems and endeavor to realize fair and appropriate business operations to regain the trust of our unitholders and other stakeholders.

In addition, while adhering to the policy of mainly investing in assets closely related to people's lifestyle, ESCON REIT plans to submit a proposal for partial amendment to the Articles of Incorporation to amend the investment policy at the General Meeting of Unitholders for the purpose of further growth through expansion of investment target assets. ESCON REIT will continue to implement measures that contribute to the growth of ESCON REIT.

ESCON REIT will steadily implement the above initiatives, which will contribute to the strengthening of the governance structure and the growth of ESCON REIT, to further increase unitholder value. Therefore, we would appreciate the continued support and encouragement of our unitholders and other stakeholders.

I Asset Management Report

Overview of Asset Management

1. Trends in ESCON REIT's Management Status

Fiscal period		9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023	13th fiscal period From February 1, 2023 to July 31, 2023
Operating revenues	Million yen	1,910	2,476	2,706	2,541	2,497
which consists of real estate lease revenues	Million yen	1,910	2,476	2,706	2,541	2,497
Operating expenses	Million yen	816	970	1,324	1,178	1,242
which consists of real estate lease expenses	Million yen	655	794	1,118	969	1,034
Operating income	Million yen	1,094	1,506	1,382	1,362	1,255
Ordinary income	Million yen	1,001	1,265	1,269	1,194	1,140
Net income	Million yen	1,001	1,264	1,268	1,859	1,139
Total assets	Million yen	56,061	75,840	76,014	76,300	75,595
Period-on- period changes	%	(0.1)	35.3	0.2	0.4	(0.9)
Net assets	Million yen	29,440	39,371	39,375	39,966	39,247
Period-on- period changes	%	(0.1)	33.7	0.0	1.5	(1.8)
Interest-bearing debt	Million yen	24,430	33,445	33,091	33,091	33,091
Total amount of investment	Million yen	28,439	38,107	38,107	38,107	38,107
Total number of investment units issued and outstanding	Units	282,982	351,967	351,967	351,967	351,967
Net assets per unit* ³	Yen	104,037	111,862	111,873	113,552	111,507
Net income per unit* ¹	Yen	3,537	3,601	3,604	5,283	3,239
Total distributions	Million yen	1,001	1,264	1,268	1,859	1,139
Distribution per unit	Yen	3,538	3,593	3,604	5,283	3,238
which consists of earnings distribution per unit	Yen	3,538	3,593	3,604	5,283	3,238
which consists of distribution in excess of earnings per unit	Yen	-	-	-	-	-
Ordinary income to total assets ratio* ³	%	1.8	1.9	1.7	1.6	1.5
Annualized	%	3.6	3.8	3.4	3.1	3.0
Return on equity* ³	%	3.4	3.7	3.2	4.7	2.9
Annualized	%	6.9	7.3	6.5	9.3	5.8
Equity ratio* ³	%	52.5	51.9	51.8	52.4	51.9
Period-on- period changes		0.0	(0.6)	(0.1)	0.6	(0.5)
Payout ratio* ³	%	100.0	100.0	100.0	100.0	100.0
[Other reference information]						
Days of operation	Days	181	184	181	184	181
Number of investment properties at end of period	Properties	28	38	38	38	38
Depreciation	Million yen	126	174	175	179	183
Capital expenditures	Million yen	44	27	127	104	101
Lease NOI (Net Operating Income) * ³	Million yen	1,381	1,856	1,763	1,751	1,646

FFO (Funds from Operations) * ³	Million yen	1,127	1,439	1,443	1,373	1,323
FFO per unit* ³	Yen	3,983	4,088	4,102	3,901	3,759
Loan to Value (LTV) at end of period* ³	%	43.6	44.1	43.5	43.4	43.8

*1 "Net income per unit" is the amount obtained by dividing net income by the weighted average number of investment units based on the number of days and rounding to the nearest whole number.

*2 Unless otherwise stated, all figures are truncated, and percentages are rounded to the nearest first decimal place.

*3 Calculations are based on the following formulas:

Net assets per unit	Net assets / Total number of investment units issued and outstanding
Ordinary income to total assets ratio	Ordinary income / {(Total assets at beginning of period + Total assets at end of period) / 2} × 100
Return on equity	Net income / {(Net assets at beginning of period + Net assets at end of period) / 2} × 100
Equity ratio	Net assets at end of period / Total assets at end of period × 100
Payout ratio	Distribution per unit (excluding distribution in excess of earnings) / Net income per unit × 100 The payout ratios for the 10th fiscal periods are calculated based on the following formula, as the number of investment units changed due to the capital increase during those periods. Total distributions (excluding distributions in excess of earnings) / Net income × 100
Lease NOI (Net Operating Income)	Real estate lease revenues - Real estate lease expenses + Depreciation
FFO (Funds from Operation)	Net income + Depreciation - Gain/loss on sales of real estate In the 12th fiscal period, ESCON REIT received compensation for damages from the Asset Manager due to the Asset Manager's breach of fiduciary duty of loyalty, and such compensation for damages received was recorded as extraordinary income, which is calculated by the following formula. Net income + Depreciation - gain or loss on sale of real estate - Compensation for damages received
FFO per unit	FFO / Total number of investment units issued and outstanding
Loan to Value (LTV) at end of period	Balance of interest-bearing debt at end of period / Total assets at end of period × 100

*4 Effective from the 13th fiscal period, the unit of the stated amount, which was in thousands of yen before the 12th fiscal period, has been changed to millions of yen. For the comparison, the 12th fiscal period and prior are stated in millions of yen.

2. Status in Asset Management during the Current Fiscal Period

(1) Brief background of the REIT

ESCON REIT was established on August 26, 2016, with the Asset Manager as the organizer, based on the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter the “Investment Trust Act”), and listed on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. (hereinafter the “Tokyo Stock Exchange”) on February 13, 2019 (securities code: 2971).

ESCON REIT will continue to pursue long-term stability and earnings growth by building a portfolio focused on investments in commercial facilities*¹ and leasehold land*² deeply rooted in local communities in the Four Major Metropolitan Areas*³ where the concentrated population is expected to last. ESCON REIT now owns 38 properties with a total acquisition price of 69,604 million yen as of the end of the current fiscal period.

ESCON REIT shares the same Vision Concept*⁴ as ES-CON JAPAN in becoming a Lifestyle Developer*⁵ that develops not only buildings but also the lives of those who live in the buildings while thinking of their happiness. By drawing on property development and management expertise that ES-CON JAPAN has cultivated as a general real estate developer*⁶, and we aim to maximize unitholder value through consistently expanding our assets under management.

As the parent company of the Asset Manager, ES-CON JAPAN is a consolidated subsidiary of Chubu Electric Power. ES-CON JAPAN and Chubu Electric Power are in a business and capital partnership to bolster the Group’s real estate business. ESCON REIT and the Asset Manager have signed a sponsor support agreement with ES-CON JAPAN and support agreements with Chubu Electric Power and Chuden Real Estate Co., Inc.

*1. A “Commercial Facility” refers to real estate occupied chiefly by commercial tenants, such as retailers, restaurants, cafes, service providers and amusement facility operators. A lifestyle-focused commercial facility, which is the type of property that ESCON REIT mainly invests in, refers to a commercial facility supplying goods and services needed for daily life that is directly connected to a railway station or located in a densely populated area or on an arterial road or in other areas of daily life. The same applies hereinafter.

*2. “Leasehold Land” refers to land leased by a third party on which a building is owned by the said third party. The same applies hereinafter.

*3. The “Four Major Metropolitan Areas” refers to the Tokyo Metropolitan Area, the Kinki Metropolitan Area, the Chukyo Metropolitan Area and the Fukuoka Metropolitan Area. The Tokyo Metropolitan Area refers to Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi and Gunma Prefectures, the Kinki Metropolitan Area refers to Osaka, Kyoto, Hyogo, Nara and Shiga Prefectures, the Chukyo Metropolitan Area refers to Aichi, Shizuoka, Mie and Gifu Prefectures, and the Fukuoka Metropolitan Area refers to Fukuoka Prefecture.

*4. ESCON REIT’s “Vision Concept” is creating the ideal community that residents love and enjoy with pride. ESCON REIT conducts asset management while sharing this Vision Concept with ES-CON JAPAN, sponsor of ESCON REIT and a lifestyle developer engaging in the development of people’s lives. The term “Vision Concept” has been coined by combining the words “Vision”, which refers to a state in which an entity hopes to be in the future, and “Concept”, which refers to an idea or notion. This term is used in this document to signify how ESCON REIT aims to be, and the basic concept.

*5. “Lifestyle Developer” refers to the corporate branding concept of ES-CON JAPAN, which is to be a developer of not only the buildings but also the lifestyles of those who live in them while thinking of their happiness, creating richness unprecedented in the real estate industry, and connecting people with communities in the future.

*6. As used in this document, a “general real estate developer” means a developer conducting a wide variety of real estate development projects such as condominiums, detached residential houses, commercial facilities, hotels and logistical facilities; i.e., a developer with a comprehensive approach to all aspects of development as a business.

(2) Operating environment and Management performance

During the current fiscal period, the Japanese economy has begun normalizing in terms of socioeconomic activities with the downgrading of COVID-19 to a Category 5 infectious disease, and the real GDP growth rate in April-June period of 2023 (second preliminary report) rising to 1.2% (4.8% annualized), marking the third consecutive quarter of positive growth. For individual consumption in particular, the increase in movement of people has led to increase in dining out, including large gatherings, which had been sluggish, while in lodging and travel, domestic travel demand remains steady, and, with such factors as the weak yen, Japanese prices are relatively low for international travelers, resulting in inbound consumption recovering to just below 90% of pre-COVID-19 levels, meaning that rebound demand has surfaced, primarily in service consumption. These factors have led to continued strong performance in many tenants, particularly supermarkets, drugstores, and restaurants in commercial facilities in general.

While monetary policy trends, such as the Bank of Japan’s flexible yield curve control policy, have been the focus of attention in the real estate investment market, investors’ desire to acquire real estate remains strong and has not yet reached a state where supply and demand have slackened.

It is under these circumstances that ESCON REIT, while not buying or selling new properties, has striven to secure stable earnings by implementing measures to manage assets properly and improve earnings by conducting leasing to attract major chains such as Muji at SUROY MALL Nagamine and MOS BURGER at tonarie Yamatotakada while focusing on dining establishments that are more convenient and familiar for locals at tonarie Seiwadai and tonarie Minami-senri, as well as proactively hosting events in line with current trends at each facility to incorporate this recovering individual consumption through our owned facilities.

As a result of the measures described above, the occupancy rate of the 38 assets under management at the end of the current fiscal period was 99.9%*¹. For the third floor of Yoshizuya Y Store Nishiharu, which remained vacant at end of the fiscal period, we will continue to focus in leasing out the space. The rent per tsubo for the floor area will increase as tenants occupy the space.

ESG initiatives have been recognized in increasing unitholders’ value, and ESCON REIT and the Asset Manager continue to promote efforts to reduce the impact on the environment and revitalize the local communities. ESCON REIT received DBJ Green Building Certification (evaluation rank: three stars) for two of its properties (tonarie Yamatotakada and tonarie Toga・Mikita) from the Development Bank of Japan Inc. for the second consecutive year during the fiscal period under review, in recognition of their program to promote “excellent environmental and social awareness”. In addition, ESCON REIT received DBJ Green Building

Certification (evaluation rank: three stars) for five of its properties (tonarie Yamatotakada, tonarie Toga・Mikita, tonarie Minami-senri, tonarie Seiwadai and Asumigaoka Brand-New Mall) as of the end of the fiscal period under review.

*1. The occupancy rate is calculated by the calculation formula below based on data as of the end of the fiscal period and rounded off to the nearest first decimal place.

Occupancy rate = Leased area / Leasable area *100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the occupancy rate is calculated including the "leased area" on the third floor, which was vacant as of the end of the fiscal period. Taking into account the fact that the floor is vacant, the occupancy rate after deducting the "leased area" would be 98.8%.

(3) Procurement of funds

The balance of interest-bearing debt as of the end of the current fiscal period become 33,091 million yen, and the ratio of interest-bearing debt to total assets (hereinafter, "LTV") was 43.8%.

ESCON REIT received an issuer rating of "A-" (Stable) from Rating and Investment Information, Inc.(R&I). ESCON REIT shall aim to improve further credibility while maintaining the flexibility of fund procurement and stable financial management.

(4) Performance and distributions

As a result of the management actions described above, ESCON REIT posted operating revenue of 2,497 million yen, operating income of 1,255 million yen, ordinary income of 1,140 million yen and net income of 1,139 million yen for the current fiscal period. In the previous fiscal period, ESCON REIT received 666 million yen from the Asset Manager as compensation for damages due to the Asset Manager's breach of fiduciary duty of loyalty, and such compensation for damages received was recorded as extraordinary income in the current previous period. Excluding the 666 million yen impact in compensation for damages received from the Asset Manager, net income for the previous period was 1,193 million yen.

ESCON REIT has decided to distribute an amount of 1,139 million yen as earnings distributions, which is almost equal to the full revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act by applying the special measure of taxation for investment corporations (Article 67-15, Paragraph 1 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended) in accordance with the distribution policy set forth in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit amounted to 3,238 yen.

(5) Lifting of Business Improvement Order against the Asset Manager

The Asset Manager received a business suspension order and a business improvement order on July 15, 2022, and submitted a report summarizing the status of our business improvement measures to the Commissioner of the Financial Services Agency on August 15, 2022, and has been working to clarify its management stance regarding compliance with laws and regulations, etc., to establish responsible compliance and internal control systems run by the management team, and to review its business operation methods to soundly achieve these objectives, under the guidance of the supervisory authorities and with support from its parent company ES-CON JAPAN and its ultimate parent company Chubu Electric Power in order to realize fair and appropriate business operations.

Specifically, the Asset Manager implemented the following initiatives, announcement of the "Compliance Declaration", establishment of "Management Philosophy", change in decision-making process for property acquisitions to strengthen governance structure, acceptance of dispatched director from Chubu Electric Power, change to the ordering work rules of real estate appraisal services, improving the various regulations and the manuals, strengthen monitoring of operations for the ordering of real estate appraisals by the Compliance Department, training and awareness-raising for ongoing improvement of the conflict-of-interest management system.

The final report on the status of business improvement (the "Business Improvement Final Report") has been submitted to and accepted by the Financial Services Agency. As of the end of the current fiscal period, the Business Improvement Order against the Asset Manager has been lifted.

3. Capital Increase

Changes for the past five years in the Unitholders' capital and the total number of issued and outstanding investment units for ESCON REIT through July 31, 2023 are as follows:

Date	Summary	Total number of investment units issued and outstanding (units)		Unitholders' capital (Million yen)		Remarks
		Increase (decrease)	Balance	Increase (decrease)	Balance	
February 12, 2019	Capital increase through public offering	188,351	237,000	18,319	22,941	*1
February 3, 2020	Capital increase through public offering	43,792	280,792	5,236	28,177	*2
February 26, 2020	Capital increase through third-party allotment	2,190	282,982	261	28,439	*3

August 2, 2021	Capital increase through public offering	65,700	348,682	9,207	37,646	*4
August 24, 2021	Capital increase through third-party allotment	3,285	351,967	460	38,107	*5

*1. ESCON REIT issued new investment units through a public offering with the offer price per unit of 101,000 yen per unit (issue price of 97,263 yen) for the purpose of raising funds to acquire specified assets.

*2. ESCON REIT issued new investment units through a public offering with offer price per unit 124,029 yen (issue price of 119,576 yen) for the purpose of raising funds to acquire specified assets.

*3. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 119,576 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

*4. ESCON REIT issued new investment units through a public offering with offer price per unit 145,282 yen (issue price of 140,141 yen) for the purpose of raising funds to acquire specified assets.

*5. ESCON REIT issued new investment units through a third-party allotment with issue price per unit 140,141 yen, for the purpose of raising funds for the future acquisition of specific assets or repayment of loans.

<Changes in exchange prices for investment securities>

The following table shows the highest and lowest prices (closing prices) by fiscal period on the Real Estate Investment Trust Securities Market of the Tokyo Stock Exchange, where ESCON REIT's investment securities are listed.

Fiscal period	9th fiscal period	10th fiscal period	11th fiscal period	12th fiscal period	13th fiscal period
End of period	July 2021	January 2022	July 2022	January 2023	July 2023
Highest (Yen)	156,500	150,500	137,500	121,800	122,400
Lowest (Yen)	120,000	134,200	112,800	107,600	103,100

4. Distributions

During the current fiscal period, ESCON REIT decided to distribute a substantial amount of unappropriated retained earnings of 1,139 million yen in accordance with the distribution policy stipulated in the Articles of Incorporation of ESCON REIT. As a result, distribution per investment unit amounted to 3,283 yen.

Fiscal period	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023	13th fiscal period From February 1, 2023 to July 31, 2023
Total amount of unappropriated retained earnings (Thousand yen)	1,001,208	1,264,747	1,268,499	1,859,465	1,139,874
Retained earnings brought forward (Thousand yen)	18	130	10	24	205
Total cash distributions (Thousand yen)	1,001,190	1,264,617	1,268,489	1,859,441	1,139,669
Distribution per unit (Yen)	3,538	3,593	3,604	5,283	3,283
Consisting of total earnings distributions (Thousand yen)	1,001,190	1,264,617	1,268,489	1,859,441	1,139,669
Earnings distribution per unit (Yen)	3,538	3,593	3,604	5,283	3,283
Consisting of total contribution refunds (Thousand yen)	-	-	-	-	-
Contribution refund per unit (Yen)	-	-	-	-	-
Total distributions from allowance for temporary difference adjustments out of total contribution refunds (Thousand yen)	-	-	-	-	-
Distribution from allowance for temporary difference adjustments per unit out of per-unit contribution refund (Yen)	-	-	-	-	-
Total distributions from capital reduction for tax purposes out of total contribution refunds (Thousand yen)	-	-	-	-	-
Distribution from capital reduction for tax purposes per unit out of per-unit contribution refund (Yen)	-	-	-	-	-

5. Future Management Policies and Issues to be Addressed

(1) Outlook for the overall management environment

Individual consumption will, for the time being, be driven by a rebound in demand for dining and other service sectors and is expected to continue even after demand has subsided through increase in personal income. The Japanese economy is expected to gradually recover as well; however, the impact of price hikes, interest rates, and exchange rate fluctuations will continuously need to be monitored.

Under these circumstances, ESCON REIT will acquire and properly manage assets closely related to people's lifestyles and ensure stable and sound financial operations are in place to secure strong revenues and steadily increase asset values over the medium to long term.

(2) Internal growth

To maintain and grow stable revenues over the medium to long term, ESCON REIT will take measures for maintaining and increasing lease revenue and streamlining management expenses.

a. Maintaining and increasing lease revenue

ESCON REIT will grasp trends and needs of tenants (factors for customer dissatisfaction and their potential needs in both hardware and software of facilities) through the periodic exchange of information with the property management company and will improve the satisfaction of tenants and build and strengthen relationships of trust with them by actively taking measures to build relations and implementing appropriate and prompt measures. In addition, we will aim to contribute to local revitalization and community formation by holding various events and social contribution activities with the participation of local residents and tenants at commercial facilities closely related to daily life. According to these measures, ESCON REIT will aim to secure stable revenue by maintaining and increasing lease revenue and preventing cancellations.

For new tenant leasing, ESCON REIT will make efforts to maximize the rent generation period and rent level through leasing activities based on controlling market trends, by making maximum use of the networks of the Asset Manager and the ES-CON group (ES-CON JAPAN and its subsidiaries and affiliated companies) and periodically exchanging information with the property management company in charge of new tenant leasing.

b. Streamlining management expenses

ESCON REIT will formulate the operation and management plan of individual properties to streamline management expenses and improve their efficiency while maintaining and increasing tenant satisfaction and the competitiveness of properties. For operating and managing properties, ESCON REIT will efficiently manage the assets by strengthening the relationship with the property management company.

(3) External growth

ESCON REIT will work to achieve steady external growth by actively using the solid sponsor pipeline based on the real estate development capabilities of ES-CON JAPAN as a sponsor and as a general developer and in collaboration with the Chubu Electric Power Group (Chubu Electric Power and its subsidiaries and affiliates, excluding ES-CON JAPAN group), who will act as a supporter. We will make maximum use of the sponsor's support, such as the granting of preferential negotiation rights for real estate properties owned by ES-CON JAPAN, redevelopment support for assets under management, and the support provided by the Chubu Electric Power Group, primarily for the provisioning of environmentally friendly technologies and know-how on energy cost reduction, while strictly monitoring conflicts of interest. In addition, the Asset Manager established the Investment Marketing Department as of June 14, 2023 for the purpose of enhancing the Asset Manager's own property acquisition channels. The Asset Manager will also actively acquire properties from third parties by continuously acquiring high-quality third-party property acquisition information, aiming to expand the asset scale of the ESCON REIT and improve the quality of the portfolio.

(4) Financial policy

ESCON REIT will raise funds to achieve stable and sound financial operations for the purpose of securing stable revenues and steadily improving the asset value over the medium to long term.

The issuance of new investment units will be determined based on the assessment of the current financial environment, taking into consideration the LTV, the dilution of rights of the existing unitholders and the potential decline in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

When making loans and issuing investment corporation bonds (including short-term investment corporation bonds), ESCON REIT will raise funds in consideration of the balance between the mobility of financing and financial stability as well as the characteristics of acquired real estates. Specifically, we will examine the financing methods (loans, investment corporate bonds), the ratio of long-term debt, ratio of loans with fixed interest rates, the diversification of repayment dates and the need to provide security, among others.

For the LTV, we will set 50% as the upper limit, in principle, based on our policy of maintaining a conservative threshold.

We will also efficiently and appropriately manage cash by accurately assessing the financing needs of our portfolio through constant monitoring.

(5) Compliance with laws and regulations

As described above in "2. Status in Asset Management during the Current Fiscal Period (5) Lifting of Business Improvement Order against the Asset Manager", the Business Improvement Order against the Asset Manager has been lifted. The Asset Manager will continue to take a position in maintaining and improving these systems and management has placed high priority in addressing this issue. Furthermore, the Asset Manager will steadily implement various measures set forth in the business improvement final report and endeavor to realize fair and appropriate business operations.

6. Significant subsequent events

Not applicable.

Overview of ESCON REIT

1. Investment Status

	9th fiscal period ended July 31, 2021	10th fiscal period ended January 31, 2022	11th fiscal period ended July 31, 2022	12th fiscal period ended January 31, 2023	13th fiscal period ended July 31, 2023
Total number of investment units authorized (units)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total number of investment units issued and outstanding (units)	282,982	351,967	351,967	351,967	351,967
Total amount of investment (Million yen)	28,439	38,107	38,107	38,107	38,107
Number of unitholders (people)	11,727	13,493	14,639	15,754	16,336

2. Matters Concerning Investment Units

The major unitholders as of July 31, 2023 are as follows:

Company name	Number of investment units held (units)	Ratio to total number of investment units issued and outstanding (%) *
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,006	10.8
Custody Bank of Japan, Ltd. (Trust Account)	30,128	8.6
Osaka Co-sei Shinkin Bank	20,940	5.9
ES-CON JAPAN Ltd.	16,894	4.8
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	12,421	3.5
Daido Shinkumi Bank	6,415	1.8
Kinkisangyo Shinkumi Bank	6,226	1.8
Osaka Shoko Shinkin Bank	5,487	1.6
THE SAIKYO BANK, LTD.	4,950	1.4
Other	3,000	0.9
Total	144,467	41.0

* The "ratio to total number of investment units issued and outstanding" is rounded to the nearest first decimal place.

3. Matters Concerning Officers

(1) The Executive Director, Supervisory Director and Accounting Auditor for the current fiscal period are as follows:

Title	Name	Major concurrent positions	Total remuneration for each officer during the current fiscal period (Thousand yen)*2 *3
Executive Director*1	Atsumu Sasaki	ES-CON ASSET MANAGEMENT Ltd. Senior Manager of REIT Asset Management Dept.	—
Supervisory Director*1	Satoshi Ugajin	JBA Holdings Co., Ltd. Japan Business Assurance Co., Ltd. JBA HR Solution Co., Ltd. Info Cubic Japan Co., Ltd. Scala, Inc.	2,700
	Rin Moriguchi	Momo-o, Matsuo & Namba Law Firm Partner Attorney	
Audit Firm	BDO Sanyu & Co.	—	9,800

*1 Neither the Executive Director nor the Supervisory Director owns investment units of ESCON REIT in their own name, or in the name of others. In addition, the Supervisory Directors may be directors of corporations other than those listed above, but none of them, including those listed above, have any interest in ESCON REIT.

*2 The executive directors did not receive any remuneration from ESCON REIT during the current fiscal period. For supervisory directors, the amounts paid

for the current fiscal period, and for the fees paid to the audit firm, the amounts to be paid for the financial statement audit during the current fiscal period (estimated amount) have been disclosed.

*3 Fees paid to the audit firm includes remuneration for auditing English financial statements.

(2) Policy on dismissal and non-reappointment of audit firm.

The dismissal of the audit firm shall be made in accordance with the provisions of the Investment Trust Act, and the non-reappointment of the audit firm shall be considered at a meeting of the Board of Directors of ESCON REIT, comprehensively taking into account the quality of the audit, audit fees, and other various circumstances.

4. Matters Concerning Liability insurance policies for directors and officers

Liability insurance policies for directors and officers that ESCON REIT has in place are as follows:

Scope of the Insured Persons	Summary of Contract
All executive and supervisory directors	<p><Summary of Accidents Covered by Insurance> ESCON REIT has entered into a liability insurance policy for directors and officers with an insurance company as stipulated in Article 116-3, Paragraph 1 of the Investment Trust Law, and the policy will cover certain damages to be borne by the insured person due to claims for damages arising from actions taken by the insured person based on his or her role as a director of ESCON REIT.</p> <p><Premium contribution ratio> The premiums for all insured persons are fully paid by ESCON REIT.</p> <p><Measures to ensure that the appropriate execution of duties is not compromised> Damages incurred by the insured person due to breach of trust, criminal or fraudulent acts, or acts committed with knowledge of violation of laws and regulations are not covered.</p>

5. Asset Management Company, Asset Custodian, and Administrative Agents

As of July 31, 2023, the Asset Management Company, Asset Custodian, and Administrative Agents for ESCON REIT are as follows:

Classification	Company name
Asset Management Company	ES-CON ASSET MANAGEMENT Ltd.
Asset Custodian	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Administrator of the Investors' Registry)	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Institutional Management)	Sumitomo Mitsui Trust Bank, Ltd.
Administrative Agent (Accounting Services)	Tokyo Kyodo Accounting Office Co., Ltd.

Status of Portfolio Assets

1. Composition of Assets

Asset type	Region	12 th fiscal period As of January 31, 2023		13 th fiscal period As of July 31, 2023	
		Total holdings (Million yen) *1	Ratio to total assets (%) *2	Total holdings (Million yen) *1	Ratio to total assets (%) *2
Real estate	Chukyo metropolitan area	6	0.0	6	0.0
Total real estate		6	0.0	6	0.0
Real estate in trust	Tokyo metropolitan area	7,757	10.2	7,744	10.2
	Kinki metropolitan area	34,319	45.0	34,308	45.4
	Chukyo metropolitan area	5,062	6.6	5,030	6.7
	Fukuoka metropolitan area	10,537	13.8	10,537	13.9
	Other area	11,984	15.7	11,957	15.8
Total real estate in trust		69,660	91.3	69,579	92.0
Deposits and other assets		6,633	8.7	6,010	8.0
Total assets		76,300	100.0	75,595	100.0

*1 "Total Holdings" is based on the balance sheet amount as of the end of each fiscal period, truncated to the nearest million yen.

*2 The "Ratio to total assets" is rounded to the nearest first decimal place.

2. Major Assets

The following is a summary of the major assets (top 10 properties by book value) held by ESCON REIT as of July 31, 2023:

Property number	Property name	Book value (Million yen) *1	Leasable area (m ²) *2	Leased area (m ²) *2	Occupancy rate (%) *3	Ratio to total real estate leasing revenue (%)	Primary use
16101	tonarie Minami-senri	7,277	7,594.00	7,471.45	98.4	13.4	Commercial facility
16104	tonarie Toga・Mikita	6,865	8,471.24	8,471.24	100.0	10.5	Commercial facility
18101	SUROY Mall Nagamine	4,602	12,622.98	12,622.98	100.0	6.6	Commercial facility
15101	Yoshizuya Y Store Nishiharu	4,553	26,432.58	26,267.85	99.4	4.6	Commercial facility
16103	tonarie Yamatotakada (50% ownership)	4,063	14,414.75	14,414.75	100.0	7.1	Commercial facility
19101	Fuji Grand Natalie	3,908	28,543.96	28,543.96	100.0	Not disclosed *4	Commercial facility
18201	MrMax Kasuga (Leasehold land)	3,428	38,113.27	38,113.27	100.0	3.4	Commercial facility
16102	tonarie Seiwadai	3,183	8,798.01	8,798.01	100.0	9.2	Commercial facility
13101	Asumigaoka Brand-New Mall	3,175	22,516.59	22,476.20	99.8	10.1	Commercial facility
	Asumigaoka Brand-New Mall (Leasehold land)		2,672.67	2,672.67	100.0		
16205	LIFE Daisen Store (Leasehold land)	2,758	9,264.48	9,264.48	100.0	2.9	Commercial facility
	Total	43,816	179,444.53	179,116.86	99.8	Not disclosed *4	

*1 The "Book Value" is truncated to the stated value. The same applies hereinafter.

*2 "Leasable area" is the total area considered available for lease in the acquired assets (if the acquired asset is leasehold lands, such lands) as of July 31, 2023 based on the various lease agreements, reports prepared by property management companies, or building plans. The Leasable area for Yoshizuya Y Store Nishiharu is based on the lease property layout document, "Leased area" represents total leasable area, which is disclosed in each lease agreement as of the closing date.

In addition, the Leased Area for assets for which a master lease agreement has been concluded is the total area that has been leased to end tenants with sublease agreements. For the "Fuji Grand Natalie" facility, Fuji Corporation has entered into a lease agreement for the whole building and is covered by the "leased area". The amounts are rounded off to the second decimal point. Although ESCON REIT owns a 50% quasi-co-ownership interest in the trust beneficiary rights for tonarie Yamatotakada, the above table shows the figures for the entire properties.

*3 The occupancy rate is calculated by the calculation formula below based on data as of the closing date and rounded off to the nearest first decimal place.

Occupancy rate = Leased area / Leasable area × 100

Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIKUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the leased area in the table above includes the 4,485.14m² leased area on the third floor, which was vacant as of the end of the fiscal period.

For the third floor, a fixed rent per tsubo will be added according to the contracted floor area as tenants move in, but taking into account the fact that the floor is vacant, the occupancy rate after deducting the leased area of the third floor is 82.4%. The overall occupancy rate after taking this into account would be 98.8%.

*4 The figure is not disclosed as consent has not been obtained from the lessee or other parties.

3. Real Estate Assets in the Portfolio

The following is a summary of assets held by ESCON REIT as of July 31, 2023:

Property number	Property name	Location	Type of ownership *1	Book value (Million yen)	Appraisal value at end of period (Million yen) *2
11201	YAMADA DENKI Tecc Land Sapporo Shiroishi (Leasehold land)	Sapporo City, Hokkaido Prefecture	Trust beneficiary interests	1,310	1,310
13101	Asumigaoka Brand-New Mall	Chiba City, Chiba Prefecture	Trust beneficiary interests	3,175	3,240
	Asumigaoka Brand-New Mall (Leasehold land) *3				(1)150 (2)149
13102	Nishi-shiroi Ekimae Plaza	Shiroi City, Chiba Prefecture	Trust beneficiary interests	455	470
13201	K's Denki Oyumino (Leasehold land)	Chiba City, Chiba Prefecture	Trust beneficiary interests	2,737	2,890
13202	Nitori Tsuchiura (Leasehold land)	Tsuchiura City, Ibaraki Prefecture	Trust beneficiary interests	1,007	1,100
13203	Nitori Imaichi (Leasehold land)	Nikko City, Tochigi Prefecture	Trust beneficiary interests	368	409
15101	Yoshizuya Y Store Nishiharu *4	Kitanagoya City, Aichi Prefecture	Trust beneficiary interests and auxiliary facilities	4,553	2,270
15201	MaxValu Kikyogaoka-higashi (Leasehold land)	Nabari City, Mie Prefecture	Trust beneficiary interests	483	542
16101	tonarie Minami-senri	Suita City, Osaka Prefecture	Trust beneficiary interests	7,277	8,080
16102	tonarie Seiwadai	Kawanishi City, Hyogo Prefecture	Trust beneficiary interests	3,183	3,350
16103	tonarie Yamatotakada (50% ownership) *5	Yamatotakada City, Nara Prefecture	Trust beneficiary interests	4,063	4,035
16104	tonarie Toga・Mikita	Sakai City, Osaka Prefecture	Trust beneficiary interests	6,865	6,970
16201	LAMU Kitatsumori (Leasehold land)	Osaka City, Osaka Prefecture	Trust beneficiary interests	1,284	1,480
16202	K's Denki Nishi-kobe (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	2,154	2,470
16203	Sanyo Marunaka Mitani (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	1,443	1,540
16204	TSUTAYA Sakai-minami (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interests	955	1,040
16205	LIFE Daisen (Leasehold land)	Sakai City, Osaka Prefecture	Trust beneficiary interests	2,758	3,060
16206	TRIAL Omihachiman (Leasehold land)	Omihachiman City, Shiga Prefecture	Trust beneficiary interests	1,019	1,100
16207	Kusuri no Aoki Ikaruga (Leasehold land) *6	Ikoma District, Nara Prefecture	Trust beneficiary interests	718	(1)702 (2)28
16208	DRUG Yutaka Mukokamiueno (Leasehold land)	Muko City, Kyoto Prefecture	Trust beneficiary interests	464	477
16209	WELCIA Amagasaki Mukomotomachi (Leasehold land)	Amagasaki City, Hyogo Prefecture	Trust beneficiary interests	571	577
16210	Cocokara Fine Neyagawakoen (Leasehold land)	Neyagawa City, Osaka Prefecture	Trust beneficiary interests	709	717
16211	ENEOS Ikawadani SS (Leasehold land)	Kobe City, Hyogo Prefecture	Trust beneficiary interests	535	531
16212	GEO Hikone Takamiya (Leasehold land)	Hikone City, Shiga Prefecture	Trust beneficiary interests	304	305
18101	SUROY MALL Nagamine	Kumamoto City, Kumamoto Prefecture	Trust beneficiary interests	4,602	4,560

Property number	Property name	Location	Type of ownership *1	Book value (Million yen)	Appraisal value at end of period (Million yen) *2
18201	MrMAX Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	3,428	3,930
18202	UNIQLO Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	601	670
18203	Avail.Shimamura Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	874	1,100
18204	au-SoftBank Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	145	160
18205	Kura Sushi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	264	302
18206	docomo Shop Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	163	181
18207	Konpira Maru Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	239	264
18208	One-Karubi Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	239	265
18209	Suke-san Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	405	419
18210	NAFCO Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	2,666	3,440
18211	K's Denki Kasuga (Leasehold land)	Kasuga City, Fukuoka Prefecture	Trust beneficiary interests	1,506	1,860
19101	Fuji Grand Natalie	Hatsukaichi City, Hiroshima Prefecture	Trust beneficiary interests	3,908	4,120
19201	K's Denki Kurashiki (Leasehold land)	Kurashiki City, Okayama Prefecture	Trust beneficiary interests	2,136	2,450
	Total			69,585	72,713

*1. Trust beneficiary interests represent trust beneficiary interests in mainly real estate.

*2. The appraisal value at the end of the period is an appraisal value by a real estate appraiser based on the Articles of Incorporation of ESCON REIT and rules set by the Investment Trusts Association, Japan, with the end of the fiscal period as the date of investigation.

*3. "Asumigaoka Brand-New Mall (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Akindo Sushiro Co., Ltd. and McDonald's Holdings Company (Japan), Ltd., and the "Appraisal value at end of the period" shows the portion pertaining to Akindo Sushiro Co., Ltd. as (1) and the portion pertaining to McDonald's Holdings Company (Japan), Ltd. as (2).

*4. The book value of Yoshizuya Y Store Nishiharu includes the book value of auxiliary facilities associated with the commercial facility.

*5. "Book Value" and "Appraisal value at the end of the period" for tonarie Yamatotakada are indicated in consideration of quasi co-ownership with a 50% real estate trust beneficial interests.

*6. "Kusuri no Aoki Ikaruga (Leasehold land)" has fixed-term business-use land lease agreements with two lessees, Kusuri no Aoki Co., Ltd. and Ikaritombo Co., Ltd. and the "Book value" is the sum of the amounts for the two lessees. In addition, "Appraisal value at the end of period" shows the portion pertaining to Kusuri no Aoki Co., Ltd. as (1) and the portion pertaining to Ikaritombo Co., Ltd. as (2).

The following is a summary of the leasing business of the real estate properties owned by ESCON REIT.

Property number	Property name	12th fiscal period From August 1, 2022 to January 31, 2023				13th fiscal period From February 1, 2023 to July 31, 2023			
		Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue	Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue
		(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *4	(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *4
11201	YAMADA DENKI Tecc Land Sapporo Shiroishi	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
13101	Asumigaoka Brand-New Mall	32	99.9	278	11.0	30	99.8	253	10.1
	Asumigaoka Brand-New Mall (Leasehold land)	2	100.0			2	100.0		
13102	Nishi-shiroi Ekimae Plaza	4	100.0	21	0.8	4	100.0	20	0.8
13201	K's Denki Oyumino (Leasehold land)	1	100.0	70	2.8	1	100.0	70	2.8
13202	Nitori Tsuchiura (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
13203	Nitori Imaichi (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
15101	Yoshizuya Y Store Nishiharu	56	99.9	115	4.5	54	99.4	114	4.6
15201	MaxValu Kikyogaoka-higashi (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16101	tonarie Minami-senri	47	100.0	354	13.9	45	98.4	334	13.4
16102	tonarie Seiwadai	33	100.0	198	7.8	32	100.0	228	9.2
16103	tonarie Yamatotakada (50% Ownership)	66	99.2	182	7.2	66	100.0	176	7.1
16104	tonarie Toga・Mikita	32	100.0	265	10.5	31	100.0	261	10.5
16201	LAMU Kitatsumori (Leasehold land)	1	100.0	41	1.6	1	100.0	38	1.5
16202	K's Denki Nishi-kobe (Leasehold land)	1	100.0	62	2.4	1	100.0	62	2.5
16203	Sanyo Marunaka Mitani (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16204	TSUTAYA Sakai-minami (Leasehold land)	1	100.0	21	0.8	1	100.0	21	0.9
16205	LIFE Daisen (Leasehold land)	1	100.0	72	2.8	1	100.0	72	2.9
16206	TRIAL Omihachiman (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16207	Kusuri no Aoki Ikaruga (Leasehold land) *4	2	100.0	Not disclosed *5	Not disclosed *5	2	100.0	Not disclosed *5	Not disclosed *5
16208	DRUG Yutaka Mukokamiueno (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16209	WELCIA Amagasaki Mukomotomachi (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16210	Cocokara Fine Neyagawakoen (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5

Property number	Property name	12th fiscal period From August 1, 2022 to January 31, 2023				13th fiscal period From February 1, 2023 to July 31, 2023			
		Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue	Total number of tenants	Occupancy rate	Real estate leasing business revenue	Percentage of total real estate leasing revenue
		(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *5	(As of the end of the fiscal period) *1	(As of the end of the fiscal period) (%) *2	(During the fiscal period) (Million yen) *3	(%) *5
16211	ENEOS Ikawadani SS (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
16212	GEO Hikone Takamiya (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
18101	SUROY MALL Nagamine	26	100.0	178	7.0	24	100.0	165	6.6
18201	MrMAX Kasuga (Leasehold land)	1	100.0	84	3.3	1	100.0	84	3.4
18202	UNIQLO Kasuga (Leasehold land)	1	100.0	13	0.5	1	100.0	13	0.6
18203	Avail.Shimamura Kasuga (Leasehold land)	1	100.0	23	0.9	1	100.0	23	0.9
18204	au-SoftBank Kasuga (Leasehold land)	1	100.0	3	0.2	1	100.0	3	0.2
18205	Kura Sushi Kasuga (Leasehold land)	1	100.0	7	0.3	1	100.0	7	0.3
18206	docomo Shop Kasuga (Leasehold land)	1	100.0	4	0.2	1	100.0	4	0.2
18207	Konpira Maru Kasuga (Leasehold land)	1	100.0	6	0.3	1	100.0	6	0.3
18208	One-Karubi Kasuga (Leasehold land)	1	100.0	6	0.3	1	100.0	6	0.3
18209	Suke-san Kasuga (Leasehold land)	1	100.0	10	0.4	1	100.0	10	0.4
18210	NAFCO Kasuga (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
18211	K's Denki Kasuga (Leasehold land)	1	100.0	37	1.5	1	100.0	37	1.5
19101	Fuji Grand Natalie	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
19201	K's Denki Kurashiki (Leasehold land)	1	100.0	Not disclosed *5	Not disclosed *5	1	100.0	Not disclosed *5	Not disclosed *5
	Total	329	100.0	2,541	100.0	319	99.9	2,497	100.0

*1. The total number of tenants is reported based on data as of the closing date. For properties under a pass-through type master lease contract, the total number of tenants is reported based on end tenants. For "Fuji Grand Natalie" facility, Fuji Corporation has entered into a lease agreement for the whole building.

*2. The occupancy rate is calculated by the calculation formula below based on data as of the closing date and rounded off to the nearest first decimal place.
Occupancy rate = Leased area / Leasable area × 100
Yoshizuya Y Store Nishiharu consists of a commercial building and a residential building. The commercial building is subleased to YOSHIZUYA COMPANY LIMITED by master lessee ES-CON JAPAN, and the leased area in the table above includes the 4,485.14 m² leased area on the third floor, which was vacant as of the end of the fiscal period.

For the third floor, a fixed rent per tsubo will be added according to the contracted floor area as tenants move in, but taking into account the fact that the floor is vacant, the occupancy rate after deducting the leased area of the third floor is 82.9% and 82.4% for 12th and 13th fiscal period respectively. The overall occupancy rate for the entire portfolio after taking this into account would be 98.8% for both 12th and 13th fiscal period.

*3. The real estate leasing business revenue is rounded off to the stated value.

*4. The Property has fixed-term business-use land lease agreements with two lessees, Kusuri no Aoki Co., Ltd., and Ikaritombo Co., Ltd. Each figure is the sum of the figures for the two lessees.

*5. The figure is not disclosed as consent has not been obtained from the lessee or other parties.

4. Description of Renewable Energy Power Generation Facilities

Not applicable.

5. Description of Operating Rights of Public Facilities

Not applicable.

6. Description of Portfolio in securities

Not applicable.

7. Summary of Outstanding Contracted Amount and Fair Value of Specified Transactions

Not applicable.

8. Status of Other Assets

The trust beneficiary interests in real estate held by ESCON REIT are collectively listed in “3. Real Estate Assets in the Portfolio”.

9. Asset Holdings by Country and Region

There are no applicable items for countries and regions other than Japan.

Capital Expenditures on Real Estate Holdings

1. Planned Capital Expenditures

There are no major constructions that fall under the category of capital expenditures scheduled for the assets held as of July 31, 2023.

2. Capital Expenditures During the Fiscal Period

There are no major constructions that fall under the category of capital expenditures conducted during the current fiscal period for the assets held as of July 31, 2023.

3. Money Set Aside for Long-Term Repair Projects

Based on the long-term repair plans for each property, ESCON REIT has set aside the following reserve for repairs, which is intended to be used for future medium to long-term repairs.

Business period	9th fiscal period From February 1, 2021 to July 31, 2021	10th fiscal period From August 1, 2021 to January 31, 2022	11th fiscal period From February 1, 2022 to July 31, 2022	12th fiscal period From August 1, 2022 to January 31, 2023	13th fiscal period From February 1, 2023 to July 31, 2023
Reserve balance at beginning of fiscal period (Million yen)	80	95	124	152	121
Amount accumulated during the fiscal period (Million yen)	15	28	27	11	15
Amount reversed during the fiscal period (Million yen)	-	-	-	41	-
Amount carried over to the next fiscal period (Million yen)	95	124	152	121	136

Expenses and Liabilities

1. Breakdown of Operational Expenses

(Unit: Thousand yen)

Item	12th fiscal period From August 1, 2022 to January 31, 2023	13th fiscal period From February 1, 2023 to July 31, 2023
Asset management fees	140,176	137,049
Asset custody fees	3,654	3,664
Administrative agent fees	11,372	11,698
Directors' remuneration	2,700	2,700
Taxes and public dues	11,495	9,214
Other expenses	40,291	42,962
Total	209,691	207,290

2. Status of Borrowings

The status of borrowings as of July 31, 2023 is as follows:

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings ¹	Mizuho Bank, Ltd.	February 4, 2020	1,210,000	1,210,000	0.425	January 31, 2024	Bullet repayment	*3	Unsecured/Unguaranteed
	The Bank of Fukuoka, Ltd.		500,000	500,000					
	The Hyakugo Bank, Ltd.		500,000	500,000					
	AEON Bank, Ltd.		400,000	400,000					
	Sumitomo Mitsui Trust Bank, Limited		300,000	300,000					
	Resona Bank, Limited		300,000	300,000					
	The Minato Bank, Ltd.		300,000	300,000					
	The Chukyo Bank, Limited		300,000	300,000					
	The Aichi Bank, Ltd.		300,000	300,000					
	Mizuho Trust & Banking Co., Limited		300,000	300,000					
	The Senshu Ikeda Bank, Ltd.		200,000	200,000					
	Mizuho Bank, Ltd.	August 3, 2021	687,000	687,000	0.425	July 31, 2025	Bullet repayment	*3	Unsecured/Unguaranteed
	The Bank of Yokohama, Ltd.		450,000	450,000					
	Sumitomo Mitsui Banking Corporation		400,000	400,000					
	Sumitomo Mitsui Trust Bank, Limited		400,000	400,000					
	The Aichi Bank, Ltd.		300,000	300,000					
	Resona Bank, Limited		250,000	250,000					
	The Minato Bank, Ltd.		200,000	200,000					
	Mizuho Trust & Banking Co., Ltd.		200,000	200,000					
	Sumitomo Mitsui Banking Corporation	August 3, 2021	500,000	500,000	0.525	July 31, 2026	Bullet repayment	*3	Unsecured/Unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		400,000	400,000					
	MUFG Bank, Ltd.		400,000	400,000					
	The Yamaguchi Bank, Ltd.		400,000	400,000					
	Resona Bank, Limited		350,000	350,000					
	Mizuho Bank, Ltd.		337,000	337,000					
	The Hyakugo Bank, Ltd.		300,000	300,000					
	The Minato Bank, Ltd.		200,000	200,000					

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings	Mizuho Bank, Ltd.	August 3, 2021	737,000	737,000	0.575	July 31, 2027	Bullet repayment	*3	Unsecured/ Unguaranteed
	The Chukyo Bank, Ltd.		500,000	500,000					
	AEON Bank, Ltd.		400,000	400,000					
	The Yamaguchi Bank, Ltd.		400,000	400,000					
	The Bank of Yokohama, Ltd.		350,000	350,000					
	The Minato Bank, Ltd.		300,000	300,000					
	MUFG Bank, Ltd.		200,000	200,000					
	The Bank of Fukuoka, Ltd.	January 31, 2022	990,000	990,000	0.375	January 31, 2025	Bullet repayment	*4	Unsecured/ Unguaranteed
	Resona Bank, Limited		750,000	750,000					
	Mizuho Bank, Ltd.		271,000	271,000					
	The Chiba Bank, Ltd.		250,000	250,000					
	The Minato Bank, Ltd.		125,000	125,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2022	882,500	882,500	0.425	January 31, 2026	Bullet repayment	*4	Unsecured/ Unguaranteed
	The Bank of Fukuoka, Ltd.		540,000	540,000					
	Sumitomo Mitsui Trust Bank, Limited		500,000	500,000					
	AEON Bank, Ltd.		500,000	500,000					
	MUFG Bank, Ltd.		500,000	500,000					
	Mizuho Bank, Ltd.		177,000	177,000					
	The Minato Bank, Ltd.		125,000	125,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2022	882,500	882,500	0.525	January 31, 2027	Bullet repayment	*4	Unsecured/ Unguaranteed
	Sumitomo Mitsui Trust Bank, Limited		500,000	500,000					
	AEON Bank, Ltd.		500,000	500,000					
	MUFG Bank, Ltd.		500,000	500,000					
	The Senshu Ikeda Bank, Ltd.		250,000	250,000					
	Mizuho Bank, Ltd.		217,000	217,000					
	Mizuho Bank, Ltd.	January 31, 2022	1,000,000	1,000,000	0.575	January 31, 2028	Bullet repayment	*4	Unsecured/ Unguaranteed
	The Yamaguchi Bank, Ltd.		500,000	500,000					

Classification	Lender	Date of borrowing	Balance at beginning of fiscal period (Thousand yen)	Balance at end of fiscal period (Thousand yen)	Average interest rate *2 (%)	Date of Repayment	Repayment Method	Use of funds	Summary
Long-term borrowings	AEON Bank, Ltd.	January 31, 2023	1,000,000	1,000,000	0.475	January 31, 2026	Bullet repayment	*5	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.		1,000,000	1,000,000					
	Resona Bank, Limited		750,000	750,000					
	The Bank of Fukuoka, Ltd.		715,000	715,000					
	Sumitomo Mitsui Banking Corporation		441,250	441,250					
	Mizuho Bank, Ltd.		416,250	416,250					
	Sumitomo Mitsui Trust Bank, Limited		250,000	250,000					
	The Bank of Fukuoka, Ltd.	January 31, 2023	715,000	715,000	0.525	January 31, 2027	Bullet repayment	*5	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation		441,250	441,250					
	Mizuho Bank, Ltd.		416,250	416,250					
	Sumitomo Mitsui Trust Bank, Limited		250,000	250,000					
	Sumitomo Mitsui Banking Corporation	January 31, 2023	882,500	882,500	0.625	January 31, 2028	Bullet repayment	*5	Unsecured/ Unguaranteed
	Mizuho Bank, Ltd.		832,500	832,500					
	The Minato Bank, Ltd.		750,000	750,000					
	Sumitomo Mitsui Trust Bank, Limited		500,000	500,000					
	The Yamaguchi Bank, Ltd.		250,000	250,000					
	The Senshu Ikeda Bank, Ltd.		250,000	250,000					
	Total of Long-term borrowings			33,091,000	33,091,000				
Total borrowings			33,091,000	33,091,000					

*1 "Long-term borrowings" includes debts which are scheduled for repayment within one year.

*2 The "average interest rate" is the weighted average for the fiscal period, rounded to the nearest third decimal place.

*3 The funds will be used to purchase trust beneficiary interests in real estate (including incidental expenses)

*4 The funds have been used to refinance long-term borrowings of 9,960,000 thousand yen with a repayment date of January 31, 2022.

*5 The funds have been used to refinance long-term borrowings of 9,860,000 thousand yen with a repayment date of January 31, 2023.

3. Status of Investment Corporation Bonds

Not applicable.

4. Status of Short-term Investment Corporation Bonds

Not applicable.

5. Status of New Investment Unit Acquisition Rights

Not applicable

Status of Acquisition and Sale during the Period

1. Status of Acquisition and Disposition of Properties and Asset-Backed Securities, Infrastructure Assets, and Infrastructure Related

Asset

Not applicable.

2. Transactions Other Assets

Not applicable.

3. Review on Value of Specified Assets Properties

(1) Real estate

Not applicable.

(2) Other

Not applicable.

4. Transactions with interested parties

(1) Sales transactions with interested parties

Not applicable.

(2) Fees and expenses

Classification	Total amount of fees (A) (Thousand yen)	Breakdown of transactions with interested parties		Percentage of total amount paid (B/A) (%)
		Payment recipient	Amount paid (B) (Thousand yen)	
Electricity charges	232,542	Chubu Electric Power Miraiz Co., Inc.	137,278	59.0
		CD Energy Direct Co., Ltd.	71,032	30.5
Administrative expenses	216,963	ES-CON PROPERTY Ltd. *2	160,199	73.8

*1 The term "Interested Parties" refers to parties that have entered into an asset management agreement with ESCON REIT as defined in Article 123 of the Enforcement Order for the Act on Investment Trusts and Investment Corporations and Article 26, Paragraph 1, Item 27 of the Regulations Concerning Management Reports for Investment Trusts and Investment Corporations of the Investment Trusts Association, Japan.

*2 In addition to the amount described above, 1,955 thousand yen of construction management fee and other related costs were recorded as assets.

5. Transactions with the Asset Management Company Concerning Businesses Operated Concurrently by the Asset Management Company

Although the Asset Manager has operations to perform transactions classified as Building Lots and Buildings Transaction Business as of July 31, 2023, the Company was not involved in any applicable transactions. In addition, the Asset Manager had no transactions classified as Type I Financial Instruments Business, Type II Financial Instruments Business and Specified Joint Real Estate Ventures.

Accounting Status

1. Status of Assets, Liabilities, Capital, and Profit/Loss

Please refer to “II Balance Sheets”, “III Statements of Income and Retained Earnings”, “IV Statements of Unitholders' Equity”, “V Statements of Cash Dividend Distributions”, “VI Statements of Cash Flows” and “VII Notes”.

Information being reported in the previous fiscal period on the Balance Sheets, Statements of Income and Retained Earnings, Statements of Unitholders' Equity, Notes to Financial Statements and Statements of Cash Distributions is for only information purposes, and is not subject to an audit by the Independent Auditor in the current fiscal period pursuant to the provisions of Article 130 of the Act on Investment Trusts and Investment Corporations.

In addition, information regarding the current fiscal period on Statements of Cash Flows is for only information purposes, and is not subject to an audit by the Independent Auditor pursuant to the provisions of Article 130 of the Act on Investment Trusts and Investment Corporations.

2. Changes in Method to Calculate Depreciation Expenses

Not applicable.

3. Changes in Method to Evaluate Properties and Infrastructure Assets Expenses

Not applicable.

4. Status of Beneficiary Certificates of Investment Trust Established by ESCON REIT

Not applicable.

Others

1. Notices

(1) General Meeting of Unitholders

Not applicable.

(2) Board of Directors of Investment Corporation

Not applicable.

(3) Other information deemed to be important

Not applicable.

2. Other

In this document, unless otherwise stated, figures are truncated to the nearest whole unit and percentages are rounded off.

3. Disclosures Regarding Overseas Real Estate Holding Companies

Not applicable.

4. Disclosures Regarding Real Estate Held by Overseas Real Estate Holding Companies

Not applicable.

II Balance Sheets

(Unit: thousand yen)

	Previous fiscal period (reference) As of January 31, 2023	Current fiscal period As of July 31, 2023
Assets		
Current assets		
Cash and deposits	2,852,651	2,318,451
Cash and deposits in trust	3,506,168	3,354,221
Operating accounts receivable	55,606	100,249
Prepaid expenses	64,974	82,599
Total current assets	6,479,401	5,855,522
Non-current assets		
Property, plant and equipment		
Buildings	7,063	7,063
Accumulated depreciation	(646)	(1,011)
Buildings, net	6,417	6,052
Buildings in trust	12,661,970	12,759,582
Accumulated depreciation	(1,058,360)	(1,233,647)
Buildings in trust, net	11,603,609	11,525,935
Structures in trust	146,110	146,945
Accumulated depreciation	(31,507)	(35,087)
Structures in trust, net	114,603	111,858
Tools, furniture and fixtures in trust	42,155	44,922
Accumulated depreciation	(13,430)	(17,485)
Tools, furniture and fixtures in trust, net	28,725	27,436
Land in trust	57,914,000	57,914,000
Total property, plant and equipment	69,667,355	69,585,282
Intangible assets		
Trademarks	556	502
Other	1,799	982
Total intangible assets	2,355	1,484
Investments and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	141,311	143,059
Deferred tax assets	28	2
Total investments and other assets	151,339	153,061
Total noncurrent assets	69,821,050	69,739,829
Total assets	76,300,452	75,595,352

(Unit: thousand yen)

	Previous fiscal period (reference) As of January 31, 2023	Current fiscal period As of July 31, 2023
Liabilities		
Current liabilities		
Operating accounts payable	139,448	199,417
Current portion of long-term borrowings	4,610,000	4,610,000
Accounts payable - other	73,461	15,698
Accrued expenses	166,257	163,112
Income taxes payable	1,203	655
Accrued consumption taxes	19,688	31,343
Advances received	332,029	334,062
Deposits received	267	2,592
Total current liabilities	5,342,357	5,356,882
Non-current liabilities		
Long-term borrowings	28,481,000	28,481,000
Tenant lease and guarantee deposits in the trusts	2,510,420	2,510,386
Total non-current liabilities	30,991,420	30,991,386
Total liabilities	36,333,778	36,348,269
Net assets		
Unitholders' equity		
Unitholders' capital	38,107,208	38,107,208
Surplus		
Unappropriated retained earnings (undisposed loss)	1,859,465	1,139,874
Total surplus	1,859,465	1,139,874
Total unitholders' equity	39,966,674	39,247,083
Total net assets	39,966,674	39,247,083
Total liabilities and net assets	76,300,452	75,595,352

*1

III Statements of Income and Retained Earnings

(Unit: thousand yen)

		Previous fiscal period (reference) From August 1, 2022 To January 31, 2023	Current fiscal period From February 1, 2023 To July 31, 2023
Operating revenue			
Leasing business revenue	*1	2,203,845	2,193,842
Other leasing business revenue	*1	337,333	303,889
Total operating revenue		2,541,179	2,497,731
Operating expenses			
Expenses related to leasing business	*1	969,223	1,034,941
Asset management fees		140,176	137,049
Asset custodian fees		3,654	3,664
Administrative service fees		11,372	11,698
Remuneration for director (and other officers)		2,700	2,700
Taxes and public dues		11,495	9,214
Other operating expenses		40,291	42,962
Total operating expenses		1,178,915	1,242,231
Operating income		1,362,264	1,255,499
Non-operating income			
Interest income		28	27
Gain on forfeiture of unclaimed dividends		1,171	719
Total non-operating income		1,199	746
Non-operating expenses			
Interest expenses		82,003	80,653
Financing fees		85,494	33,686
Other		1,323	1,370
Total non-operating expenses		168,820	115,709
Ordinary income		1,194,644	1,140,536
Extraordinary income			
Compensation for damages received		666,000	-
Total extraordinary income		666,000	-
Income before income taxes		1,860,644	1,140,536
Income taxes - current		1,207	659
Income taxes - deferred		(18)	26
Total income taxes		1,189	686
Net income		1,859,454	1,139,850
Retained earnings brought forward		10	24
Unappropriated retained earnings (undisposed loss)		1,859,465	1,139,874

IV Statements of Unitholders' Equity

Previous fiscal period (reference) (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,268,499	1,268,499	39,375,708	39,375,708
Changes of items during the period					
Dividends from surplus	-	(1,268,489)	(1,268,489)	(1,268,489)	(1,268,489)
Net income	-	1,859,454	1,859,454	1,859,454	1,859,454
Total changes of items during the period	-	590,965	590,965	590,965	590,965
Balance at the end of the period	*1 38,107,208	1,859,465	1,859,465	39,966,674	39,966,674

Current fiscal period (From February 1, 2023 to July 31, 2023)

(Unit: thousand yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (or undisposed loss)	Total surplus		
Balance at the beginning of the period	38,107,208	1,859,465	1,859,465	39,966,674	39,966,674
Changes of items during the period					
Dividends from surplus	-	(1,859,441)	(1,859,441)	(1,859,441)	(1,859,441)
Net income	-	1,139,850	1,139,850	1,139,850	1,139,850
Total changes of items during the period	-	(719,591)	(719,591)	(719,591)	(719,591)
Balance at the end of the period	*1 38,107,208	1,139,874	1,139,874	39,247,083	39,247,083

V Statements of Cash Dividend Distributions

(Unit: yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
I . Unappropriated retained earnings	1,859,465,760	1,139,874,269
II . Distributions (Distributions per unit)	1,859,441,661 (5,283)	1,139,669,146 (3,238)
III . Retained earnings carried forward	24,099	205,123
How distributions were calculated	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,859,441,661 yen. It is roughly the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>Furthermore, ESCON REIT will not distribute cash in excess of earnings as provided in Article 36, Paragraph 2 of the Articles of Incorporation.</p>	<p>The cash distribution policy set out in Article 36, Paragraph 1 of the Articles of Incorporation of ESON REIT stipulates that the amount of distributions shall not exceed the amount of profit and shall exceed the amount of equivalent to 90% of profit available for distribution as provided for in Article 67-15 of the Act on Special Measures Concerning Taxation.</p> <p>Based on this policy, ESCON REIT has decided to distribute 1,139,669,146 yen. It is roughly the full amount of revenue stipulated in Article 136, Paragraph 1 of the Investment Trust Act.</p> <p>Furthermore, ESCON REIT will not distribute cash in excess of earnings as provided in Article 36, Paragraph 2 of the Articles of Incorporation.</p>

VI Statements of Cash Flows

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Cash Flows from Operating Activities		
Income before income taxes	1,860,644	1,140,536
Depreciation	180,710	184,156
Interest income	(28)	(27)
Interest expenses	82,003	80,653
Compensation for damages received	(666,000)	-
Decrease (increase) in operating accounts receivable	8,907	(44,642)
Decrease (increase) in prepaid expenses	(10,847)	(17,625)
Decrease (increase) in long-term prepaid expenses	(54,209)	(1,748)
Increase (decrease) in operating accounts payable	(302,384)	59,969
Increase (decrease) in accounts payable - other	61,392	(58,970)
Increase (decrease) in accrued expenses	2,568	(3,141)
Increase (decrease) in accrued consumption taxes	(69,259)	11,654
Increase (decrease) in advances received	(671)	2,032
Others, net	(505)	2,324
Subtotal	1,092,321	1,355,171
Interest received	28	27
Interest paid	(82,760)	(80,656)
Compensation for damages received	666,000	-
Income taxes paid	(820)	(1,207)
Net cash provided by operating activities	1,674,768	1,273,334
Cash Flows from Investing Activities		
Purchase of property, plant and equipment in trust	(104,647)	(101,213)
Proceeds from tenant lease and guarantee deposits in the trusts	15,894	29,744
Refund of tenant lease and guarantee deposits in the trusts	(10,824)	(29,778)
Net cash used in investing activities	(99,577)	(101,247)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	9,860,000	-
Repayments of long-term borrowings	(9,860,000)	-
Distributions paid	(1,269,195)	(1,858,233)
Net cash provided by (used in) financing activities	(1,269,195)	(1,858,233)
Net increase (decrease) in cash and cash equivalents	305,995	(686,147)
Cash and cash equivalents at the beginning of period	6,052,825	6,358,820
Cash and cash equivalents at the end of period	*1 6,358,820	5,672,672

VII Notes

[Basis of presenting financial statements]

The accompanying financial statements have been prepared in accordance with the provisions set forth in the Investment Trusts Act, the Financial Instruments and Exchange Act of Japan and other related accounting regulations, and in conformity with accounting principles generally accepted in Japan (hereinafter, “Japanese GAAP”), which are different in certain aspects as to the application and disclosure requirements from International Financial Reporting Standards or accounting principles generally accepted in the United States of America.

The accompanying financial statements are the translation of the financial statements presented in the securities report of ESCON REIT submitted to the Kanto local Finance Bureau, which have been prepared in compliance with Japanese GAAP, translated into English. Amounts less than one thousand yen have been omitted. As a result, the totals presented in the accompanying financial statements in yen do not necessarily agree with the sums of the individual amounts. ESCON REIT does not have subsidiaries and thus does not prepare consolidated financial statements.

The accounting periods of ESCON REIT are six-month periods ending at the end of January and the end of July of each year.

[Notes on going concern assumption]

Not applicable.

[Notes on matters concerning significant accounting policies]

1. Method of depreciation and amortization of non-current assets	<p>(1) Property, plant and equipment (including assets in trust) The straight-line method is used. The useful lives of property, plant and equipment are as follows.</p> <table border="0"> <tr> <td>• Buildings</td><td>3 to 64 years</td></tr> <tr> <td>• Structures</td><td>12 to 63 years</td></tr> <tr> <td>• Tools, furniture and fixtures</td><td>2 to 10 years</td></tr> </table> <p>(2) Intangible assets The straight-line method is used.</p> <p>(3) Long-term prepaid expenses The straight-line method is used.</p>	• Buildings	3 to 64 years	• Structures	12 to 63 years	• Tools, furniture and fixtures	2 to 10 years
• Buildings	3 to 64 years						
• Structures	12 to 63 years						
• Tools, furniture and fixtures	2 to 10 years						
2. Accounting standards for revenues and expenses	<p>(1) Standards for revenue recognition The following is a description of the ESCON REIT’s main performance obligations with respect to revenues arising from contracts with customers and the normal time at which such performance obligations are satisfied (i.e., the normal time at which revenue is recognized).</p> <p>i. Sales of real estate Sales of real estate revenue are recognized when the customer (i.e., the buyer) obtains control of the real estate as a result of our fulfillment of the delivery obligations stipulated in the sales contract for the real estate.</p> <p>ii. Utilities charges received Utilities charges received are recorded as revenues according to the supply of electricity, water to the lessee as a customer, based on the lease contract of the real estate and other related agreements.</p> <p>(2) Accounting for property taxes For property taxes, city planning taxes, depreciable asset taxes on real estate holdings, the amounts corresponding to the current fiscal period are treated as expenses related to the leasing business.</p> <p>Consistent with the acquisition of real estate or trust beneficiary interests in real estate, the amount equivalent to property taxes for the first year paid to the transferor as a settlement payment is not recorded as an expense and is included in the acquisition cost for the purchased real estate property. No amount equivalent to property taxes, etc. is included in the acquisition costs for real estate, etc. in the previous fiscal period and the current fiscal period.</p>						
3. Scope of funds in the statements of cash flows	Funds (cash and cash equivalents) in the statements of cash flows consist of cash on hand, cash in trust, deposits and deposits in trust that can be withdrawn at any time, and short-term investments that are readily convertible into cash, with low risk of price fluctuations and with a maturity of less than three months.						
4. Other Items Forming the Basis for the	(1) Accounting for trust beneficial interests in real estate as trust asset						

Preparation of Financial Statements	<p>For trust beneficial interests in real estate held as trust assets, all assets and liabilities as well as all revenue and expense items associated with trust assets are accounted for under the respective account items of the balance sheets and Statement of Income and Retained Earnings.</p> <p>Included in the trust assets accounted for under the respective account items, the following items of significance are separately classified on the balance sheets.</p> <ul style="list-style-type: none"> i. Cash in trust and deposits in trust ii. Buildings in trust and structures in trust <ul style="list-style-type: none"> Tools, furniture and fixtures in trust and land in trust iii. Leasehold and guarantee deposits received in trust <p>(2) Accounting for non-deductible consumption taxes</p> <p>Non-deductible consumption taxes on non-current assets are included in the acquisition cost of individual assets.</p>
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[Notes Concerning Significant Accounting Estimates]

Impairment of non-current assets

1. Amount recorded in financial statements

(Unit: thousand yen)

	Previous fiscal period As of and for the six months ended January 31, 2023	Current fiscal period As of and for the six months ended July 31, 2023
Property, plant and equipment	69,667,355	69,585,282
Intangible assets	2,355	1,484
Impairment losses	-	-

2. Information concerning significant accounting estimates related to identified items

In accordance with accounting standards for impairment of non-current assets, ESCON REIT applies an accounting method to reduce the book value of non-current assets to the recoverable amount when recovery of the amount invested is not expected due to a decline in profitability. In applying the accounting treatment, each property owned by ESCON REIT is considered as one asset group, and when there is an indication of impairment due to continuous operating losses, significant decline in market price, or significant deterioration of the business environment, it is determined whether to have to recognize an impairment loss.

Estimated future cash flows are used to determine whether an impairment loss should be recognized. When recognition of an impairment loss is deemed necessary, the book value of the asset is reduced to its recoverable amount based on an external real estate appraisal, etc., and the amount of the reduction is recognized as an impairment loss.

Future cash flows are determined through an overall consideration of market trends, examples of transactions involving similar properties, and other factors regarding rents, occupancy rates, leasing business expenses, as well as other factors that are taken into account when estimating future cash flows.

The rents, occupancy rates, leasing business expenses, etc. for each property may be affected by trends in the real estate leasing market, etc. Therefore, any changes in the assumptions used for estimates, including these, may affect ESCON REIT's asset and profit and loss status in the following fiscal period.

[Note to Balance Sheets]

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
*1. Minimum amount of net assets provided for in Article 67, Paragraph 4 of the Act on Investment Trusts and Investment Corporations	50,000	50,000

[Notes to Statements of Income and Retained Earnings]

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
*1. Description of income from real estate leasing operations		
A. Real estate leasing business revenue		
Leasing business revenue		
Lease revenue	1,069,940	1,061,916
Land lease revenue received	824,893	824,893
Common service fees	122,088	120,312
Other lease revenues	186,923	186,719
Total	2,203,845	2,193,842
Other leasing business revenues		
Utilities charges received	281,775	249,379
Insurance revenue	351	42,366
Other revenues	55,207	12,143
Total	337,333	303,889
Total real estate leasing business revenue	2,541,179	2,497,731
B. Real estate leasing business expenses		
Expenses related to leasing business		
Administrative expenses	209,954	216,963
Trust fees	9,212	9,177
Utilities charges	303,222	263,666
Non-life insurance premiums	4,557	10,457
Repair expenses	35,425	54,238
Taxes and public dues	212,314	217,391
Depreciation	179,839	183,285
Compensation for damages	2,091	70,229
Other leasing business expenses	12,605	9,531
Total expenses related to leasing business	969,223	1,034,941
C. Income from real estate leasing business (A - B)	1,571,956	1,462,790
(Changes in presentation methods)		
“Insurance revenue” and “Compensation for damages”, which were included in “Other revenues” and “Other leasing business expenses” respectively in the previous fiscal period, are presented separately in the current fiscal period due to the increase in impact on the financial statements.		
“Insurance revenue” of 351 thousand yen and “Compensation for damages” of 2,091 thousand yen, which were included in “Other revenues” and “Other leasing business expenses” respectively in the previous fiscal period, have been reclassified as “Insurance revenue” and “Compensation for damages”.		

[Notes to Statements of Unitholders' Equity]

*1. Total number of investment units authorized and total number of investment units issued and outstanding

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Total number of investment units authorized	10,000,000 units	10,000,000 units
Total number of investment units issued and outstanding	351,967 units	351,967 units

[Notes to Statements of Cash Flows]

*1. Relationship between the ending balance of cash and cash equivalents and the amounts of items posted in the balance sheets

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Cash and deposits	2,852,651	2,318,451
Cash and deposits in trust	3,506,168	3,354,221
Cash and cash equivalents	6,358,820	5,672,672

[Notes to Lease Transactions]

Operating lease transactions (Lessor)

Future minimum lease revenues under existing non-cancelable lease agreements

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
Within a year	2,305,767	2,309,580
Over a year	9,791,909	8,997,589
Total	12,097,676	11,307,170

[Notes to Financial Instruments]

1. Matters concerning the status of financial instruments

(1) Policies on financial instruments

ESCON REIT takes a balanced approach to raising funds through borrowings from financial institutions and the issuance of investment corporate bonds and investment units to contribute to the steady growth of assets under management as well as implementing an efficient and stable management style.

When taking out borrowings from financial institutions and issuing investment corporate bonds, ESCON REIT will take into account the balance between the flexibility of financing, the financial stability and the nature of the acquired real estate assets. Specifically, ESCON REIT will examine the financing methods, the ratio of long-term loans, the ratio of fixed interest rates, the diversification of repayment dates and the need to provide security, among other factors. When borrowing funds, lenders will be limited to the qualified institutional investors specified in the Financial Instruments and Exchange Act (however, limited to the institutional investors specified in Article 67-15 of the Act on Special Measures Concerning Taxation).

The issuance of new investment units will be determined based on the assessment of the current financial environment and taking into consideration the LTV, the dilution of rights of the existing unitholders and potential decline in the transaction price of investment units, with the aim of expanding the scale of assets under management and improving their profitability.

ESCON REIT may engage in derivative transactions to hedge the interest volatility and other risks arising from its liabilities. In the current fiscal period, ESCON REIT did not enter into any derivative transactions.

(2) Description of financial instruments and associated risks, and the risk management system

Borrowings are taken out mainly for the purpose of raising funds to acquire assets and repay the borrowings. While the Company is exposed to risk of increasing interest rates on the borrowings upon refinancing and may not be able to refinance the borrowings, ESCON REIT works to mitigate the risks by diversifying the lenders, due dates and taking a balanced financing approach including the issuance of investment units. ESCON REIT also manages risks to its operation from rising interest rates through the close monitoring of fluctuations in interest rates and the appropriate control of LTV.

(3) Supplementary explanation on matters concerning the fair value of financial instruments

Certain assumptions and other factors were used in calculating the fair value of financial instruments, and the results may differ due to different assumptions and other factors used in valuing the financial instruments.

2. Matters concerning the fair value, etc. of financial instruments

Balance sheet amounts, fair value and their differences as of January 31, 2023 are as follows: Notes to “Cash and deposits” and “Cash and deposits in trust” are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for “tenant lease and guarantee deposits in the trusts” have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value *1	Difference
(1) Current portion of long-term borrowings	4,610,000	4,610,000	-
(2) Long-term borrowings	28,481,000	28,481,000	-
Total liabilities	33,091,000	33,091,000	-

Balance sheet amounts, fair value and their differences as of July 31, 2023 are as follows: Notes to “Cash and deposits” and “Cash and deposits in trust” are not disclosed since the fair value of these instruments approximates book value due to short term nature of these instruments. Fair value for “tenant lease and guarantee deposits in the trusts” have been omitted since the balances are not material to the financial statements.

(Unit: thousand yen)

	Carrying value	Fair value *1	Difference
(1) Current portion of long-term borrowings	4,610,000	4,610,000	-
(2) Long-term borrowings	28,481,000	28,481,000	-
Total liabilities	33,091,000	33,091,000	-

*1. The method used in calculating the fair value of the financial instruments

(1) Current portion of long-term borrowings, (2) Long-term borrowings

The borrowings have variable interest rates and interest is adjusted to the current market rates and accordingly, the fair value of the borrowings should approximate the carrying value of the borrowings.

*2. Scheduled redemption of loans after the closing date (January 31, 2023)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-
Total	4,610,000	2,386,000	10,684,000	7,559,000	7,852,000	-

Scheduled redemption of loans after the closing date (July 31, 2023)

(Unit: thousand yen)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Long-term borrowings	4,610,000	5,273,000	10,684,000	7,559,000	4,965,000	-
Total	4,610,000	5,273,000	10,684,000	7,559,000	4,965,000	-

[Notes to Securities]

Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Not applicable.	Not applicable.

[Notes to Derivative transactions]

Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Not applicable.	Not applicable.

[Notes to Retirement benefits]

Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Not applicable.	Not applicable.

[Notes to Deferred Income Taxes]

1. Significant components of the deferred tax assets and deferred tax liabilities are as follows:

(Unit: thousand yen)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
(Deferred tax assets)		
Unpaid business tax not included in deductible expenses	28	2
Total deferred tax assets	28	2
(Net deferred tax assets)	28	2

2. Reconciliation of significant differences between the statutory tax rate and the effective tax rate after applying deferred income tax accounting

(Unit: %)

	Previous fiscal period As of January 31, 2023	Current fiscal period As of July 31, 2023
Effective statutory tax rate	31.46	31.46
(Adjustments)		
Distribution payments included in tax deductible expenses	(31.44)	(31.44)
Others	0.04	0.04
Effective tax rate	0.06	0.06

[Notes to Equity Gains (Losses) of Affiliated Companies]

Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Not applicable.	Not applicable.

[Notes to Transactions with Related Parties]

1. Parent company and major institutional investors

Previous fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

Current fiscal period (From February 1, 2023 to July 31, 2023)

Not applicable.

2. Affiliated companies

Previous fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

Current fiscal period (From February 1, 2023 to July 31, 2023)

Not applicable.

3. Sibling companies

Previous fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

Current fiscal period (From February 1, 2023 to July 31, 2023)

Not applicable.

4. Directors and major individual unitholders

Previous fiscal period (From August 1, 2022 to January 31, 2023)

Not applicable.

Current fiscal period (From February 1, 2023 to July 31, 2023)

Not applicable.

[Notes to Asset Retirement Obligations]

Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Not applicable.	Not applicable.

[Notes to Real Estate for Lease]

ESCON REIT owns commercial facilities and real estate for lease, the principal use of which is leasehold land. The carrying value, changes during the period and fair value at the end of the period of these properties are as follows.

(Unit: thousand yen)

		Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Carrying value*1	Balance at the beginning of the period	69,742,547	69,667,355
	Changes during the period*2	(75,191)	(82,072)
	Balance at the end of the period	69,667,355	69,585,282
Fair value at the end of the period*3		73,026,700	72,713,900

*1. The carrying value includes the acquisition cost and incidental costs associated with the acquisition.

*2. Of the changes during the period, most of the increase of the previous fiscal period was mainly due to capital expenditures for 6 properties, including Yoshizuya Y Store Nishiharu etc. (104,647 thousand yen in total), while the decrease is mainly due to depreciation (179,839 thousand yen). The increase in the current fiscal period is mainly due to capital expenditures for 8 properties, including tonarie Minami-senri etc. (101,213 thousand yen in total), while the decrease is mainly due to depreciation (183,285 thousand yen).

*3. The fair value at the end of the period was determined by an outside real estate appraisers.

Profit and loss of real estate for lease are as described in “Notes to Statements of Income and Retained Earnings.”

[Notes to Revenue Recognition]

1. Breakdown of revenue from contracts with customers

Previous fiscal period (From August 1, 2022 to January 31, 2023)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate, etc.	-	-
Utilities charges received*2	281,775	281,775
Other	-	2,259,404
Total	281,775	2,541,179

*1. Leasing business income subject to Accounting Standards Board of Japan (ASBJ) Statement No. 13 “Accounting Standard for Lease Transactions” is not included in “Revenue from contracts with customers”, since the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2. Utilities charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

Current fiscal period (From February 1, 2023 to July 31, 2023)

(Unit: thousand yen)

	Revenue from contracts with customers*1	Sales to external customers
Income from sales of real estate, etc.	-	-
Utilities charges received*2	249,379	249,379
Other	-	2,248,351
Total	249,379	2,497,731

*1. Leasing business income subject to ASBJ Statement No. 13 "Accounting Standard for Lease Transactions" is not included in "Revenue from contracts with customers", because the accounting standard for revenue recognition does not apply to such income. Revenues from contracts with customers mainly include revenues from sales of real estate and utility charges.

*2. Utilities charges received are recorded as revenues based on the use of electricity, water and other utilities by the lessee and is in accordance with agreements with the lessee.

2. Underlying information to understand the revenue from contracts with customers

Previous fiscal period (From August 1, 2022 to January 31, 2023)

As described in the Notes on matters concerning significant accounting policies.

Current fiscal period (From February 1, 2023 to July 31, 2023)

As described in the Notes on matters concerning significant accounting policies.

3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in subsequent periods from the contracts with customers that exist at the end of the current fiscal period

(1) Balance of contract assets and contract liabilities

(Unit: thousand yen)

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Receivables from contracts with a customer (at the beginning of the period)	45,923	41,492
Receivables from contracts with a customer (at the end of the period)	41,492	44,602
Contract assets (balance at the beginning of period)	-	-
Contract assets (balance at the end of period)	-	-
Contract liabilities (balance at the beginning of period)	-	-
Contract liabilities (balance at the end of period)	-	-

(2) Transaction prices allocated to remaining performance obligations

Not applicable.

For utility charges income, the Company recognizes revenues for the amount in accordance with paragraph 19 of the Guidance on Accounting Standard for Revenue Recognition since the Company is entitled to receive an amount from customers (lessees) which directly corresponds to the portion completed by the end of the period. Accordingly, the provisions of paragraph 80-22(2) of the Accounting Standard for Revenue Recognition have been applied and the transaction price allocated to the remaining performance obligations has not been included in the notes to transaction prices.

[Note to Segment Information]

(Segment information)

This information is omitted since ESCON REIT operates in a single segment of the real estate leasing business.

(Relevant information)

Previous fiscal period (From August 1, 2022 to January 31, 2023)

1. Information by product and service

This information is omitted since the same information is disclosed in the segment information.

2. Information by Region

(1) Net sales

Not applicable since there are no sales to external customers outside Japan.

(2) Property, plant, and equipment

Not applicable since there is no property, plant and equipment located outside Japan.

3. Information by major customer

(Unit: thousand yen)

Customer Name	Operating revenue	Related Segment Name
ES-CON JAPAN Ltd.*	1,628,708	Real estate leasing business

* ESCON REIT leases Asumigaoka Brand-New Mall, Nishi-Shiroi Ekimae Plaza, tonarie Minami-senri, tonarie Seiwadai, tonarie Yamatotakada (50% ownership), tonarie Toga・Mikita, Yoshizuya Y Store Nishiharu and SUROY MALL Nagamine to ES-CON Japan under pass-through master lease agreement, and ES-CON JAPAN subleases these to sublessees.

Current fiscal period (From February 1, 2023 to July 31, 2023)

1. Information by product and service

This information is omitted since the same information is disclosed in the segment information.

2. Information by Region

(1) Net sales

Not applicable since there are no sales to external customers outside Japan.

(2) Property, plant, and equipment

Not applicable since there is no property, plant and equipment located outside Japan.

3. Information by major customer

(Unit: Thousand yen)

Customer Name	Operating revenue	Related Segment Name
ES-CON JAPAN Ltd.*	1,508,309	Real estate leasing business

* ESCON REIT leases Asumigaoka Brand-New Mall, Nishi-Shiroi Ekimae Plaza, tonarie Minami-senri, tonarie Seiwadai, tonarie Yamatotakada (50% ownership), tonarie Toga・Mikita, Yoshizuya Y Store Nishiharu and SUROY MALL Nagamine to ES-CON Japan under pass-through master lease agreement, and ES-CON JAPAN subleases these to sublessees.

[Notes to Per Unit Information]

	Previous fiscal period From August 1, 2022 to January 31, 2023	Current fiscal period From February 1, 2023 to July 31, 2023
Net assets per unit	113,552 yen	111,507 yen
Net income per unit	5,283 yen	3,239 yen

Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period and rounded to the nearest whole number.

Diluted net income per unit is not stated because there are no dilutive investment units.

* The basis for calculating net income per unit is as follows:

	Previous fiscal period From August 1, 2022	Current fiscal period From February 1, 2023
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		to January 31, 2023	to July 31, 2023
Net income	(thousand yen)	1,859,454	1,139,850
Amount not attributable to common unitholders	(thousand yen)	-	-
Net income for common investment units	(thousand yen)	1,859,454	1,139,850
Average number of investment units during the period	(Units)	351,967	351,967

[Notes to Significant Subsequent Events]

Not applicable.

Independent Auditor's Report

To the Board of Directors
ESCON JAPAN REIT Investment Corporation

Opinion

We have audited the accompanying financial statements of ESCON JAPAN REIT Investment Corporation (the Company), which comprise the balance sheet as of July 31, 2023, and the statements of income and retained earnings, unitholders' equity, cash dividend distributions, and cash flows for the six-month period then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2023, and its financial performance and its cash flows for the six-month period 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 the Company 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.

Other Information

The other information comprises information included in the Semiannual Report and excludes the financial statements and our auditor's report thereon. Management is responsible for the preparation and presentation of the other information. The Supervisory Directors are responsible for overseeing the Executive Director's performance of their duties with regard to the design, implementation and monitoring of the reporting process in preparing the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge based on our audit, or otherwise appears to be materially misstated.

If, based on our procedures, we conclude that there is a material misstatement in the other information, we are required to report any findings.

We have no findings to report on the other information.

Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for 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 the Company's ability to continue as a going concern and disclosing matters related to going concern, as required by accounting principles generally accepted in Japan.

The Supervisory Directors are responsible for overseeing the Executive Director's performance regarding the design, implementation and maintenance of the Company'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. 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.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company'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 the Company'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 the Company to cease to continue as a going concern.
- Evaluate 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 in accordance with accounting principles generally accepted in Japan.

We communicate with the Executive Director regarding, among other matters, the planned scope and timing of the audit and 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 the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them 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

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

BDO Sanyu & Co.
Osaka, Japan

October 27, 2023

米崎 直人

Naoto Komezaki
Designated Engagement Partner
Certified Public Accountant

古嶋 雅弘

Masahiro Furushima
Designated Engagement Partner
Certified Public Accountant