

**11<sup>th</sup>**

## Fiscal Period Business Report

(Statement of Financial Performance)

May 1, 2019 – October 31, 2019

# Hopeful future for Japan

日本ヘルスケア投資法人

Nippon Healthcare Investment Corporation

Stock  
Code

**3308**

# I. Overview of Nippon Healthcare Investment Corporation

## To Our Investors

### Message from Executive Director

We would like to express our deep gratitude to all our unitholders for your support of Nippon Healthcare Investment Corporation ("NHI").

NHI posted financial performance of 707 million yen in operating revenue, 283 million yen in operating income and 253 million yen in net income for the fiscal period ended October 2019 (11th Fiscal Period). Concerning distributions, NHI declared a distribution amount per unit of 3,399 yen and a distribution amount in excess of earnings per unit of 880 yen, bringing the total distribution amount per unit to 4,279 yen. [See page 3 for Financial and Management Highlights](#)

As of the end of the 11th Fiscal Period, NHI manages a portfolio with asset size of 19,712 million yen and the number of operators of facilities owned by NHI of 11. NHI has realized maintenance and improvement of portfolio stability by pressing forward diversification of operators and concluding long-term fixed rent lease agreements.

[See page 9 for details of Stable Management Strategy](#)

On the financial front, NHI will continue to work to further strengthen its financial standing while reducing refinancing risks in the future. [See page 11 for Financial Conditions](#)

On November 19, 2019, NHI entered into a merger agreement with Japan Rental Housing Investments Inc. (The merger agreement provides for the merger to come into effect on April 1, 2020, subject to approval of the related proposals at the general meeting of unitholders of both REITs, each of which are to be held in February 2020, and other conditions precedent.)

Utmost efforts will be made to realize maximization of unitholder value by combining both REITs' respective characteristics and strengths through the merger.

We wish our unitholders continued success and ask for your continued support of NHI.



**Shunichi Suzuki** Nippon Healthcare Investment Corporation Executive Director

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Please refer to the pages starting from the back cover for information on operators.

# Financial and Management Highlights

Steady growth in asset size and maintenance of stable distribution level

## Actual Financial Results for Fiscal Period Ended October 2019 (11th Fiscal Period) and Financial Results Forecasts for Fiscal Period Ending March 2020 (Final Fiscal Period)

	10th Fiscal Period (April 2019) (result)	11th Fiscal Period (October 2019) (result)	Difference	Final Fiscal Period (March 2020) (forecast) (Note 1)	Difference from 11th Fiscal Period
No. of properties owned at the end of the fiscal period	23	23	-	23	-
Operating revenues (million yen)	705	707	+2	589	-118
Operating expenses (million yen)	424	424	+0	230	-194
Operating income (million yen)	281	283	+1	265	-18
Non-operating expenses (million yen)	28	28	+0	21	-7
Ordinary income (million yen)	257	254	-2	264	+10
Net income (million yen)	256	253	-2	263	+10

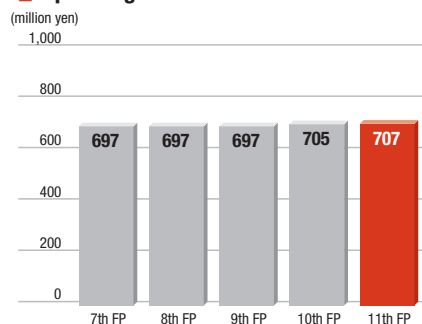
## Distribution Results for 11th Fiscal Period and Distribution Forecasts for Final Fiscal Period

	10th Fiscal Period (April 2019) (result)	11th Fiscal Period (October 2019) (result)	Difference	Final Fiscal Period (March 2020) (forecast) (Note 1)
Number of investment units issued and outstanding at the end of the fiscal period (units)	74,632	74,632	-	Reference
Distribution per unit (including distribution in excess of earnings) (yen)	4,307	4,279	-28	Number of investment units issued and outstanding at the end of the fiscal period (units)
Distribution per unit (excluding distribution in excess of earnings) (yen)	3,437	3,399	-38	74,632
Distribution in excess of earnings per unit (yen)	870	880	+10	Cash delivered upon the merger per unit (yen) (Note 2)
Depreciation per unit (yen)	2,714	2,727		3,525
Ratio of distribution in excess of earnings to depreciation per unit (%)	32.0	32.3		

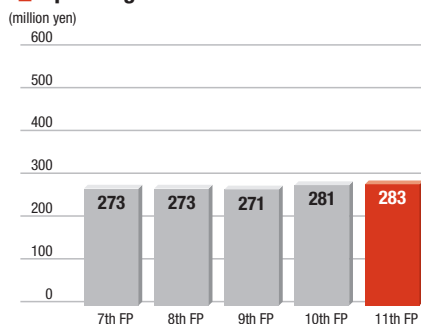
(Note 1) The period for the forecasts of financial results and cash delivered upon the merger for the Final Fiscal Period is the five-month period from November 1, 2019 to March 31, 2020.

(Note 2) The forecast figures above are based on the merger coming into effect and other assumptions. The actual operating revenues, operating income, ordinary income, net income and cash delivered upon the merger per unit may vary due to real estate market and other developments, changes in the management environment and other circumstances surrounding NHI, and other factors. In addition, the forecasts are not a guarantee of the amount of cash delivered upon the merger.

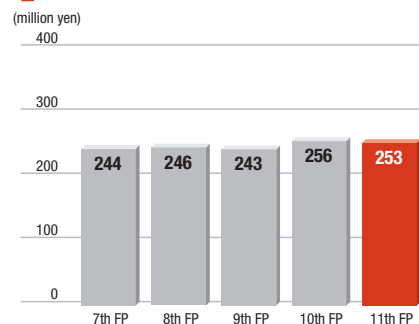
### Operating Revenues



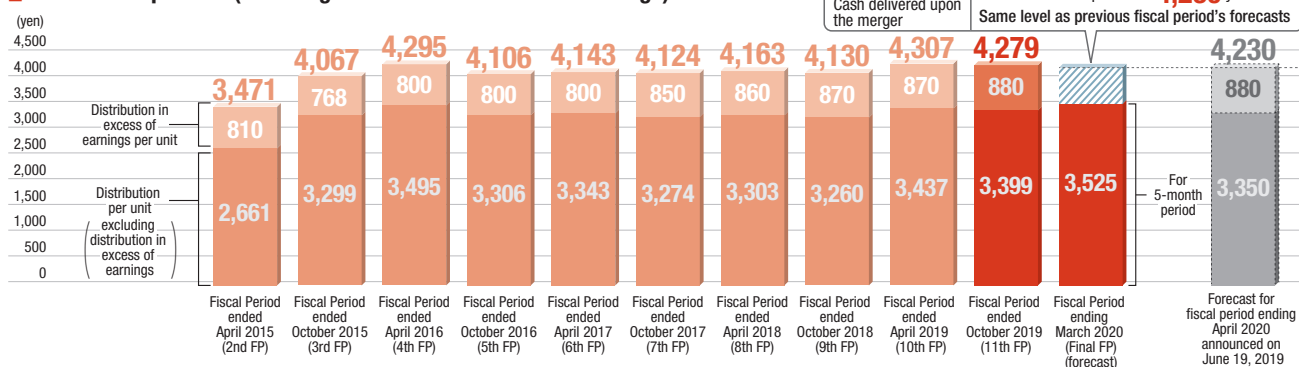
### Operating Income



### Net Income



### Distribution per Unit (including distribution in excess of earnings)



# Portfolio List (as of October 31, 2019)

Consists of 23 properties and 11 operators

No (Note 1)	Acquisition period	Property name (Note 1)	Facility type (Note 1)	Operator	Location	Acquisition price (million yen) (Note 2)	Share of portfolio (%)	Appraisal value (million yen) (Note 3)	Number of rooms (rooms) (Note 4)	Occupancy rate in the 10th FP(%) (Note 5)	Occupancy rate in the 11th FP(%) (Note 6)	Difference
1	1st Fiscal Period	Charm Suite Ryokuchi Koen	Fee-based homes for the elderly with nursing care	Charm Care Corporation	Toyonaka City, Osaka	1,950	9.9	3,030	128	98.4	95.3	-3.1
2	2nd Fiscal Period	Super Court JR Nara-Ekimae	Residential-type fee-based homes for the elderly	Super Court Co., Ltd.	Nara City, Nara	1,569	8.0	1,700	155	92.9	92.9	0.0
3	1st Fiscal Period	Sompo Care LAVIER Hiroshima Hikarigaoka	Fee-based homes for the elderly with nursing care	Sompo Care Inc.	Hiroshima City, Hiroshima	960	4.9	1,210	80	93.7	98.7	5.0
4	1st Fiscal Period	Sompo Care LAVIER Sagamihara Chuo	Fee-based homes for the elderly with nursing care		Sagamihara City, Kanagawa	1,170	5.9	1,780	80	96.2	97.5	1.3
5	2nd Fiscal Period	Sompo Care LAVIER Kinugasayama Koen	Fee-based homes for the elderly with nursing care		Yokosuka City, Kanagawa	1,839	9.3	2,000	104	86.5	89.4	2.9
6	5th Fiscal Period	Sompo no ie Nishitanabeekimae	Fee-based homes for the elderly with nursing care		Osaka City, Osaka	710	3.6	736	42	100.0	100.0	0.0
7	1st Fiscal Period	Sawayaka Kaikyokan	Fee-based homes for the elderly with nursing care		Kitakyushu City, Fukuoka	630	3.2	898	65	100.0	93.8	-6.2
8	1st Fiscal Period	Sawayaka Meisuikan	Fee-based homes for the elderly with nursing care	Sawayaka Club Co., Ltd.	Kitakyushu City, Fukuoka	590	3.0	812	87	96.5	94.2	-2.3
9	1st Fiscal Period	Sawayaka Heart Life Nishikyogoku	Residential-type fee-based homes for the elderly		Kyoto City, Kyoto	750	3.8	1,130	84	98.8	91.6	-7.2
10	2nd Fiscal Period	Sawayaka Hinodekan	Fee-based homes for the elderly with nursing care		Niigata City, Niigata	773	3.9	896	50	96.0	100.0	4.0
11	2nd Fiscal Period	Sawayaka Riverside Kurinoki	Residential-type fee-based homes for the elderly		Niigata City, Niigata	266	1.3	306	33	92.3	89.7	-2.6
12	2nd Fiscal Period	Sawayaka Obatake Sanbankan	Residential-type fee-based homes for the elderly		Kitakyushu City, Fukuoka	289	1.5	349	50	94.0	100.0	6.0
13	1st Fiscal Period	Nichii Care Center Fukushima Omori	Fee-based homes for the elderly with nursing care	Nichiigakkan Co., Ltd.	Fukushima City, Fukushima	265	1.3	336	52	100.0	100.0	0.0
14	2nd Fiscal Period	La'nassica Arakogawa	Fee-based homes for the elderly with nursing care	Cedar Co., Ltd.	Nagoya City, Aichi	1,279	6.5	1,400	100	96.0	97.0	1.0
15	1st Fiscal Period	Verger Hirakata	Residential-type fee-based homes for the elderly	Nihon Kaigo Iryo Center Co., Ltd.	Hirakata City, Osaka	950	4.8	1,560	104	78.5	83.1	4.6
16	3rd Fiscal Period	Minna-no-ie Omiya Tsutsujigaoka Park	Fee-based homes for the elderly with nursing care	Wisnet Co., Ltd.	Saitama City, Saitama	740	3.8	774	33	84.8	84.8	0.0
17	3rd Fiscal Period	Minna-no-ie Chuo-ku En'nami	Fee-based homes for the elderly with nursing care		Saitama City, Saitama	838	4.3	859	51	94.1	94.1	0.0
18	3rd Fiscal Period	Silver Heights Hitsujioka No. 3	Fee-based homes for the elderly with nursing care	Silver Heights Sapporo Co., Ltd.	Sapporo City, Hokkaido	1,200	6.1	1,330	109	91.8	96.3	4.5
19	4th Fiscal Period	Alpha Living Okayama Nishigawa Ryokudokoen	Residential-type fee-based homes for the elderly	Anabuki Medical Care Inc.	Okayama City, Okayama	730	3.7	789	53	78.1	81.8	3.7
20	4th Fiscal Period	Alpha Living Okayama Korakuen	Residential-type fee-based homes for the elderly		Okayama City, Okayama	610	3.1	661	45	93.7	91.6	-2.1
21	4th Fiscal Period	Alpha Living Takamatsu Ekimae	Residential-type fee-based homes for the elderly		Takamatsu City, Kagawa	605	3.1	642	43	86.3	95.4	9.1
22	4th Fiscal Period	Alpha Living Takamatsu Hyakkenmachi	Elderly housing with supportive services		Takamatsu City, Kagawa	605	3.1	628	50	85.1	98.1	13.0
23	10th Fiscal Period	Irise Komae Bettei	Fee-based homes for the elderly with nursing care	HITOWA Care Services Co., Ltd.	Komae City, Tokyo	394	2.0	399	59	98.3	93.2	-5.1
11 operators 23 properties Total						19,712	100.0	24,225	1,657	-	-	-

(Note 1) Red numbers refer to Three Major Metropolitan Areas and blue numbers to Core City Areas. The background colors for "Property name" and "Facility type" columns indicate types of facilities; orange for fee-based homes for the elderly with nursing care, blue for residential-type fee-based homes for the elderly and yellow-green for elderly housing with supportive services.

(Note 2) "Acquisition price" is excluding consumption tax, local consumption tax and the various expenses required for the acquisition. "Share of portfolio" is the respective acquisition price expressed as a percentage of the total of the acquisition prices, rounded to the first decimal place. Therefore, the total of "Share of portfolio" may be different from the figure indicated in "Total."

(Note 3) "Appraisal value" is as of October 31, 2019. "Appraisal value" for Irise Komae Bettei is calculated for the 30% quasi-co-ownership interest.

(Note 4) "Number of rooms" is the figure indicated in the written explanation of important matters pertaining to the fee-based home for the elderly provided by the operator. "Number of rooms" for Irise Komae Bettei indicates the number of rooms in the entire facility.

(Note 5) "Occupancy rate" is obtained by dividing the number of residents indicated in the written explanation of important matter received in May 2019 from operators by the resident capacity, rounded down to the first decimal place.

(Note 6) "Occupancy rate" is obtained by dividing the number of residents indicated in the written explanation of important matters received in November 2019 from operators by the resident capacity, rounded down to the first decimal place.



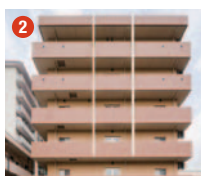
# Portfolio Map (as of October 31, 2019)

Making diversified investment in healthcare facilities in Japan

## Three Major Metropolitan Areas



**1 Charm Suite Ryokuchi Koen**  
Toyonaka City, Osaka



**2 Super Court JR Nara-Ekimae**  
Nara City, Nara



**4 Somo Care LAVIER Sagamiara Chuo**  
Sagamiara City, Kanagawa



**5 Somo Care LAVIER Kinugasayama Koen**  
Yokosuka City, Kanagawa



**6 Somo no ie Nishitanabeekimae**  
Osaka City, Osaka



**9 Sawayaka Heart Life Nishikyogoku**  
Kyoto City, Kyoto



**14 La'nassica Arakogawa**  
Nagoya City, Aichi



**15 Verger Hirakata**  
Hirakata City, Osaka



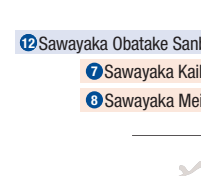
**16 Minna-no-ie Omiya Tsutsujigaoka Park**  
Saitama City, Saitama



**17 Minna-no-ie Chuo-ku En'nami**  
Saitama City, Saitama



**23 Irise Komae Bettei**  
Komae City, Tokyo



**19 Alpha Living Okayama Korakuen**

**18 Alpha Living Okayama Nishigawa Ryokudokoen**

**3 Somo Care LAVIERE Hiroshima Hikarigaoka**

**12 Sawayaka Obatake Sanbankan**

**7 Sawayaka Kaikyokan**

**8 Sawayaka Meisuikan**

**20 Alpha Living Takamatsu Hyakkenmachi**

**21 Alpha Living Takamatsu Ekimae**

**13 Nichii Care Center Fukushima Omori**

**16 Minna-no-ie Omiya Tsutsujigaoka Park**

**17 Minna-no-ie Chuo-ku En'nami**

**23 Irise Komae Bettei**

**5 Somo Care LAVIER Kinugasayama Koen**

**4 Somo Care LAVIER Sagamiara Chuo**

**10 Sawayaka Hinodekan**

**11 Sawayaka Riverside Kurinoki**

**14 La'nassica Arakogawa**

**2 Super Court JR Nara-Ekimae**

**15 Verger Hirakata**

**6 Somo no ie Nishitanabeekimae**

**22 Alpha Living Takamatsu Hyakkenmachi**

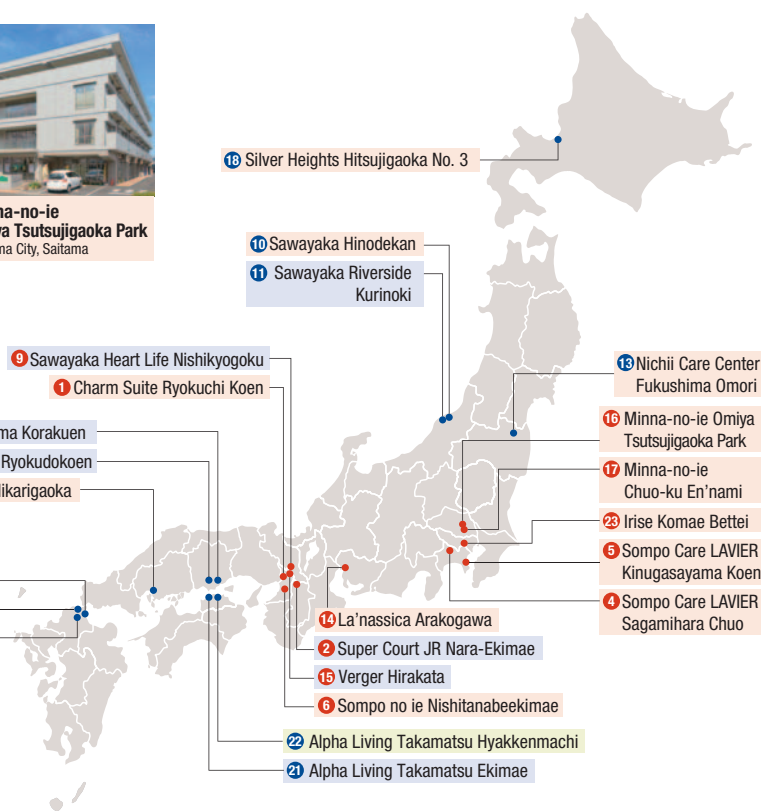
**21 Alpha Living Takamatsu Ekimae**

**13 Nichii Care Center Fukushima Omori**

**16 Minna-no-ie Omiya Tsutsujigaoka Park**

**17 Minna-no-ie Chuo-ku En'nami**

**23 Irise Komae Bettei**



## Core City Areas



**3 Somo Care LAVIER Hiroshima Hikarigaoka**  
Hiroshima City, Hiroshima



**7 Sawayaka Kaikyokan**  
Kitakyushu City, Fukuoka



**8 Sawayaka Meisuikan**  
Kitakyushu City, Fukuoka



**10 Sawayaka Hinodekan**  
Niigata City, Niigata



**11 Sawayaka Riverside Kurinoki**  
Niigata City, Niigata



**12 Sawayaka Obatake Sanbankan**  
Kitakyushu City, Fukuoka



**13 Nichii Care Center Fukushima Omori**  
Fukushima City, Fukushima



**18 Silver Heights Hitsujigaoka No. 3**  
Sapporo City, Hokkaido



**19 Alpha Living Okayama Nishigawa Ryokudokoen**  
Okayama City, Okayama



**20 Alpha Living Okayama Korakuen**  
Okayama City, Okayama



**21 Alpha Living Takamatsu Ekimae**  
Takamatsu City, Kagawa



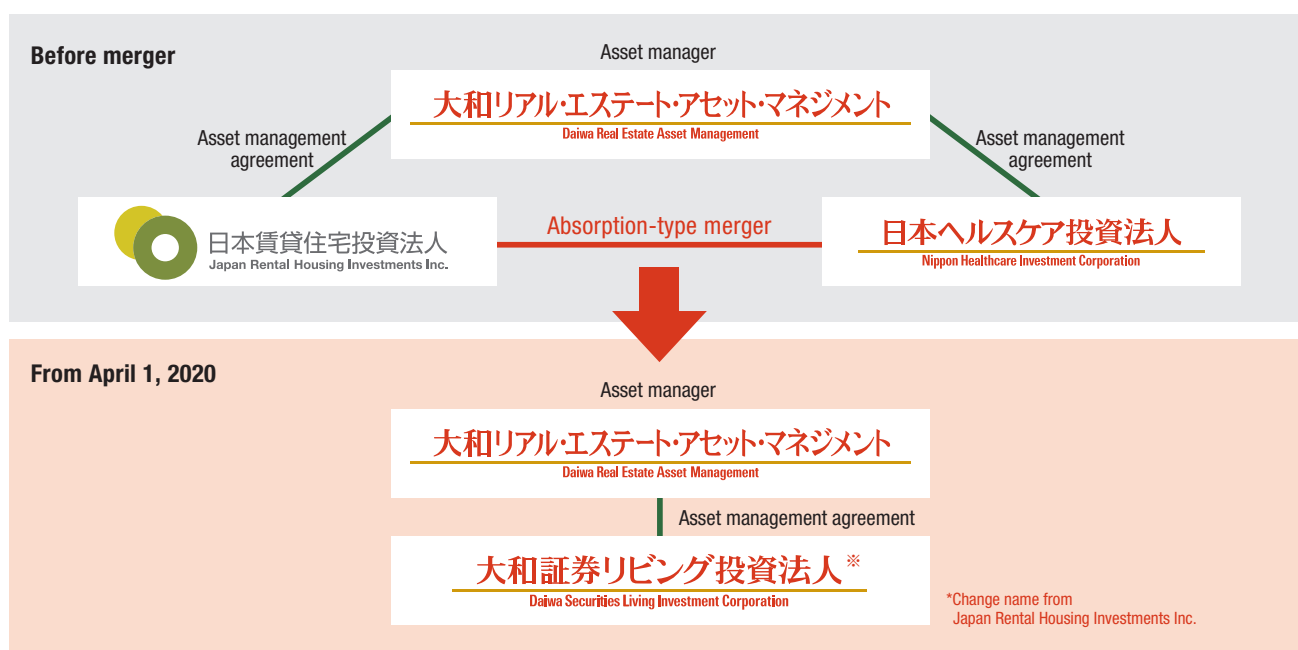
**22 Alpha Living Takamatsu Hyakkenmachi**  
Takamatsu City, Kagawa

(Note) Red numbers refer to Three Major Metropolitan Areas and blue numbers to Core City Areas. The background colors for property names indicate types of facilities; orange for fee-based homes for the elderly with nursing care, blue for residential-type fee-based homes for the elderly and yellow-green for elderly housing with supportive services.

# Merger with Japan Rental Housing Investments Inc.

On November 19, 2019, NHI entered into a merger agreement with Japan Rental Housing Investments Inc. (“JRH”). Upon approval of the related proposals at each REIT’s general meeting of unitholders, NHI and JRH are scheduled to merge and change the name to “Daiwa Securities Living Investment Corporation” on April 1, 2020. For details, please refer to “Presentation Material for Merger and Series of Concurrent Transactions” dated November 19, 2019 and other materials available on NHI’s website.

## 1. Overall Structure of the Merger



## 2. Merger Ratio

**1:2.05**

Allotment of 2.05 investment units of JRH for each investment unit of NHI to the unitholders of NHI

## 3. Significance of the Merger, Etc.

1. Achieve expansion of asset size through the merger
2. Achieve new medium-term target (property replacement strategy) at an early stage and activate opportunities for growth at an early stage through disposition of 27 properties (13.4 billion yen), mainly old properties, and acquisition of 28 healthcare facilities (62.6 billion yen)
3. Enhance unitholder value through capital increase by way of third-party allotment

## 4. Schedule of the Merger

November 19, 2019	Conclusion of merger agreement, etc. (merger, capital increase by way of third-party allotment, and disposition and acquisition of properties)
December 13, 2019	Record date for general meeting of unitholders
February 4, 2020	NHI's general meeting of unitholders
February 13, 2020	JRH's general meeting of unitholders
March 30, 2020	NHI's delisting
April 1, 2020	Effective date of the merger (disposition of properties, capital increase by way of third-party allotment and additional borrowing of funds to be executed concurrently, and then acquisition of new properties on next day (April 2, 2020))

## List of Assets to be Acquired (scheduled to be acquired on April 2, 2020)

The assets to be acquired are appropriate healthcare facilities pursuant to the basic policy for asset management set forth in the Articles of Incorporation of NHI and the management policy of NHI. Appreciating their rarity, stable profitability, etc., the decision was made to acquire and lease them.

Property number	Property name	Scheduled acquisition price (million yen)	Appraisal value (million yen)	Appraisal NOI yield (%)	Building age (years)	Location
①	AIP Kachidoki-Ekimaie	8,150	8,340	4.0	2.5	Chuo-ku, Tokyo
②	PLAISANT GRAND MINAMI YUKIGAYA	3,380	3,400	4.1	0.8	Ota-ku, Tokyo
③	Aira no mori Higashi-Ofuna	2,271	2,510	5.0	0.8	Yokohama-shi, Kanagawa
④	Aira no mori Shakujiko-en	2,070	2,190	4.5	0.1	Nerima-ku, Tokyo
⑤	Aira no mori Edogawa-Shinozaki	1,499	1,560	4.6	0.3	Edogawa-ku, Tokyo
⑥	Senior Forest Yokohama-Tsuzuki	1,202	1,270	4.7	0.2	Yokohama-shi, Kanagawa
⑦	Sompo no ie Toyonaka-Minamisone	825	835	5.0	18.8	Toyonaka-shi, Osaka
⑧	Irise Komae Bettei (70% quasi-coownership interest)	920	931	4.6	2.8	Komae-shi, Tokyo
⑨	Alpha Living Takamatsu Konyamachi	1,225	1,250	5.1	3.1	Takamatsu-shi, Kagawa
⑩	Good Time Living Center-Minami, Platesia Center-Minami	11,150	11,700	4.6	4.4	Yokohama-shi, Kanagawa
⑪	Good Time Living Chibaminato-Kaigandori-Platesia Chibaminato	4,516	4,700	5.1	12.6	Chiba-shi, Chiba
⑫	Good Time Living Yokohama-Tsuzuki	4,064	4,170	4.6	11.2	Yokohama-shi, Kanagawa
⑬	Good Time Living Senri-Hinatagaoka	2,800	2,840	4.7	5.1	Suita-shi, Osaka
⑭	Good Time Living Nakamozu	2,180	2,190	4.8	4.6	Sakai-shi, Osaka
⑮	Good Time Living Kourigaoka	2,120	2,160	4.8	11.6	Hirakata-shi, Osaka
⑯	Good Time Living Kameido	1,860	2,310	5.8	11.0	Koto-ku, Tokyo
⑰	Good Time Living Mikage	1,820	2,260	5.7	9.8	Kobe-shi, Hyogo
⑱	Good Time Living Amagasaki-Shintoshin	1,585	1,660	4.8	10.5	Amagasaki-shi, Hyogo
⑲	Good Time Living Minami Senri	1,430	1,520	5.2	26.7	Suita-shi, Osaka
⑳	Good Time Living Kobe-Tarumi	1,370	1,380	5.5	13.3	Kobe-shi, Hyogo
㉑	Good Time Living Chibaminato-Ekimaedori	1,320	1,550	6.0	12.4	Chiba-shi, Chiba
㉒	Good Time Living Senboku-Izumigaoka	980	1,030	5.7	11.6	Sakai-shi, Osaka
㉓	Good Time Living Ikeda-Midorigaoka	920	929	5.1	12.5	Ikeda-shi, Osaka
㉔	Good Time Living Nagatsuta-Minamidai	850	855	4.6	6.4	Yokohama-shi, Kanagawa
㉕	Good Time Living Saitama-Hasuda	659	667	5.4	12.6	Hasuda-shi, Saitama
㉖	Good Time Living Nagareyama-Ichibankan	610	612	5.1	12.0	Nagareyama-shi, Chiba
㉗	Good Time Living Nagareyama-Nibankan	563	677	6.9	3.6	Nagareyama-shi, Chiba
㉘	Good Time Living Amagasaki-Ekimaie	320	392	6.1	11.1	Amagasaki-shi, Hyogo

### Total scheduled acquisition price

**62,660** million yen

### Total appraisal value

**65,888** million yen

### Average building age

**6.8** years



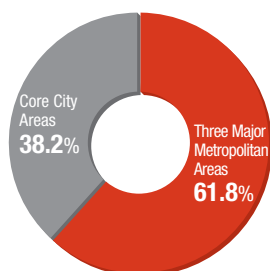
(Note) "Appraisal value" is as of November 1, 2019. "Appraisal NOI yield" is obtained by dividing appraisal NOI by the scheduled acquisition price, rounded to the first decimal place. "Building age" is as of November 19, 2019 ("Average building age" is the weighted average based on the scheduled acquisition price).

# Portfolio Status (as of October 31, 2019)

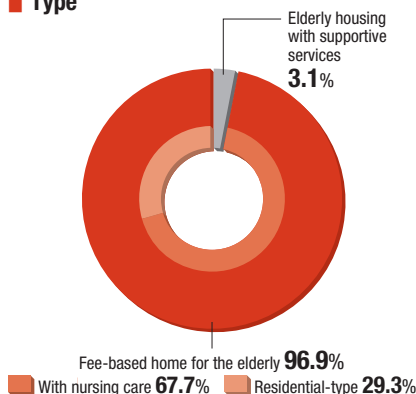
Focusing investment on private nursing homes and other facilities for the elderly for which large demand is expected

## Diversification Status

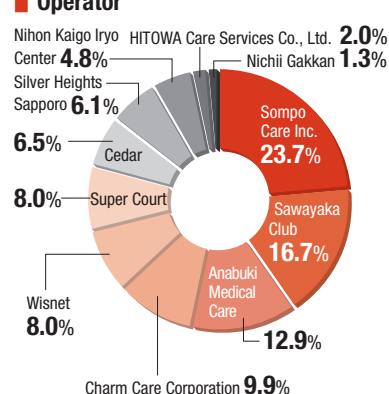
### Region



### Type



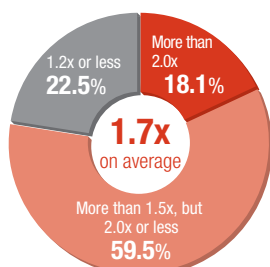
### Operator



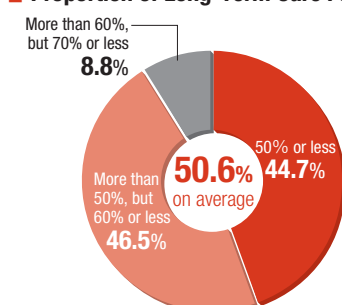
(Note) The ratios in the above three pie charts are calculated based on total acquisition prices, and rounded to the first decimal place.

## Portfolio Status

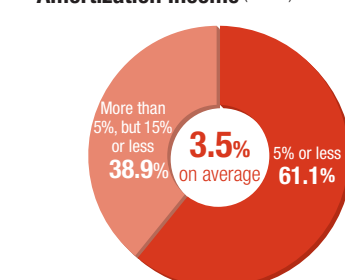
### Rent-Paying Capacity (Note 1)



### Proportion of Long-Term Care Fee (Note 2)



### Proportion of One-Time Entrance Fee Amortization Income (Note 3)



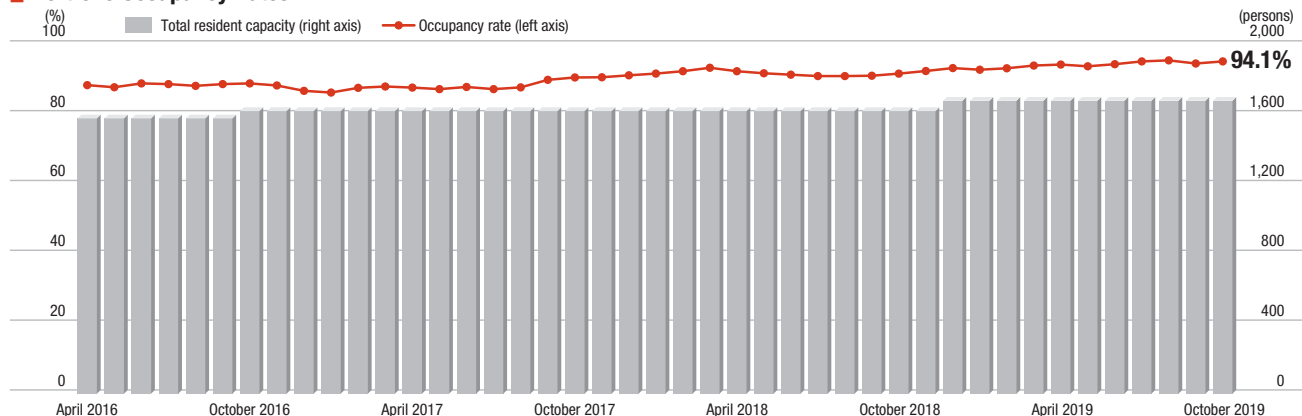
(Note 1) "Rent-paying capacity" refers to the multiple obtained by dividing the respective acquired asset's most recent EBITDAR by rent. EBITDAR = Operating Income + Depreciation + Rent

(Note 2) "Proportion of long-term care fee" refers to the proportion of the acquired asset's net sales that is accounted for by long-term care fee (including residents' co-payment portion).

(Note 3) "Proportion of one-time entrance fee amortization income" refers to the proportion of the acquired asset's net sales that is accounted for by one-time entrance fee amortization income

(\*) Data are based on information on business income and expenditures from October 2018 to September 2019 disclosed by the respective operators. Exceptions are Silver Heights Hitsujigaoka No. 3 for which these are based on information on business income and expenditures from September 2018 to August 2019.

### Portfolio Occupancy Rates



#### Stable occupancy rates

- The overall occupancy rate rose by 0.9 percentage points from 93.2% at the end of April 2019 to 94.1% at the end of October 2019.
- The period average rose by 1.5 percentage points from 92.2% for the 10th Fiscal Period to 93.7% for the 11th Fiscal Period.
- With each property's occupancy rates improving and no properties having significant drops, the occupancy rates remained at the highest level since listing for both period-end and period-average.

(Note) Occupancy rates are obtained by dividing the number of residents based on interviews with all facilities at the end of each month, by resident capacity.



# Stable Management Strategy

Concluding long-term fixed rent lease agreements

## Stable Management Strategy

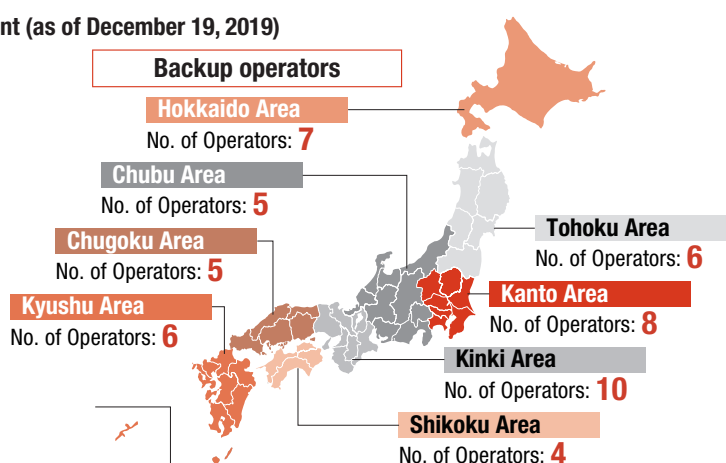
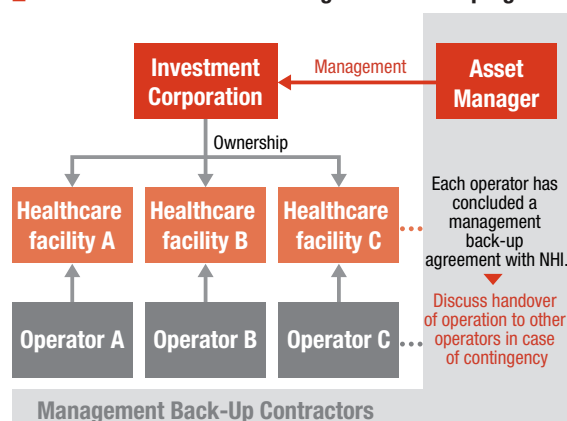
### Lease Agreements with Highly Reliable Operators

Operator	Number of facilities operated (cases) (Note 1 and 2)	Number of rooms operated (rooms) (Note 1)	Established	Attributes
Sompo Care Inc.	436	25,740	May 1997	Subsidiary of Sompo Holdings, Inc., a company listed on the first section of the Tokyo Stock Exchange
Nichiigakkan Co., Ltd.	428	13,923	August 1973	Listed on the first section of the Tokyo Stock Exchange
Wisnet Co., Ltd.	123	3,465	January 1998	Subsidiary of Sohgo Security Services Co., Ltd. a company listed on the first section of the Tokyo Stock Exchange
HITOWA Care Services Co., Ltd.	117	7,042	November 2006	-
Sawayaka Club Co., Ltd.	85	4,943	December 2004	Subsidiary of Uchiyama Holdings Co., Ltd., a company listed on the first section of the Tokyo Stock Exchange
Charm Care Corporation	53	3,692	August 1984	Listed on the first section of the Tokyo Stock Exchange
Super Court Co., Ltd.	48	3,209	May 1995	-
Cedar Co., Ltd.	42	2,254	April 1981	Listed on JASDAQ Standard on the Tokyo Stock Exchange
Anabuki Medical Care Inc.	31	1,390	June 2009	Subsidiary of Anabuki Kosan Inc., a company listed on the first section of the Tokyo Stock Exchange
Nihon Kaigo Iryo Center Co., Ltd.	21	905	October 1997	-
Silver Heights Sapporo Co., Ltd.	3	321	December 1961	-

(Note 1) "Number of facilities operated" and "Number of rooms operated" indicate the number of facilities and the number of rooms for fee-based homes for the elderly, group homes and elderly housing with supportive services based on operators' websites and interviews with them (as of October 31, 2019).

(Note 2) Operators are indicated in order of the number of facilities they operate.

### Overview and Status of Management Back-Up Agreement (as of December 19, 2019)



## Properties Renovated in the 11th Fiscal Period

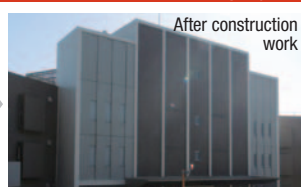
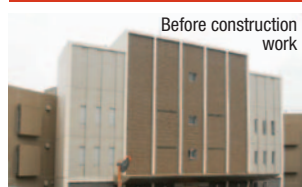
- With "Sompo Care LAVIERE Hiroshima Hikarigaoka" constructed approximately 14 years ago and "Alpha Living Takamatsu Hyakkenmachi" constructed approximately 10 years ago, repair work for maintaining the esthetic appearances has been implemented in order to stay competitive with rival properties in the surrounding area.
- Proactive implementation of necessary repair work has led to higher satisfaction of not only the residents and their families but also of facility employees, and has also resulted in a stronger relationship with the operator.

### Sompo Care LAVIERE Hiroshima Hikarigaoka (Acquisition price: 960 million yen)



**Site Features:** Located approximately 1.1km from Hiroshima Station on the JR Sanyo Main Line  
**Property Features:** The Property provides rooms of 18m<sup>2</sup> or more, which is the standard size for rooms designed for people requiring long-term care, and the rooms are equipped with sink, toilet and bed.

#### Renovation of exterior walls (Construction cost: 14 million yen)

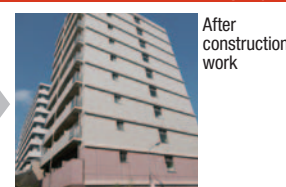


### Alpha Living Takamatsu Hyakkenmachi (Acquisition price: 605 million yen)



**Site Features:** Located approximately 1.1km from Takamatsu Station on the JR Yosan Line  
**Property Features:** The Property provides private rooms of approximately 27m<sup>2</sup>, which is larger than the standard size for facilities designed for independent elderly people, and the rooms are equipped with mini-kitchen, bathroom, sink and toilet.

#### Renovation of exterior walls (Construction cost: 4 million yen)



# Initiatives for ESG

- The Asset Management Company positions initiatives for ESG (Environment, Social, Governance) as important management issues.
- NHI contributes to “Health and welfare for all” within “Achievement of Good Health and Longevity,” which is a priority of Japan in the SDGs Implementation Guiding Principles set by the SDGs Promotion Headquarters.

## ESG Policies (established March 2019)

In managing assets, NHI has determined that emphasizing environment, social, and governance (ESG) contributes to improving corporate value in the medium to long term, and we focus our efforts on the following items.

### 1. Initiatives for Environmental Conservation (Environment)

Through measures that contribute to environmental conservation and installation of facilities and equipment, etc., we will proactively promote initiatives that lead to environmental conservation such as resource and energy conservation.

### 2. Connection with Society (Social)

Through IR activities, etc., we proactively disclose information and are accountable to all of our stakeholders. By providing high-quality, comfortable spaces, we fulfill our corporate social responsibility.

### 3. Corporate governance (Governance)

Adhering to laws and regulations and rules, we are aware of the importance of corporate ethics and compliance, and our decision-making is highly transparent and rational.

## Environment

### ■ Energy-Saving Initiatives

Installation of solar panels Minna-no-ie Omiya Tsutsujigaoka Park



Annual reduction rate of electricity generation (Note) **11.2%**

(Note) Actual figures from November 2018 to October 2019

Replacement of air-conditioners Sompo Care LAVIERE Hiroshima Hikarigaoka



Reduction ratio of electricity consumption (Note) **48.4%**

(Note) Forecast of manufacturer with air conditioning replacement

## Social

### ■ Participation in Facility Events

The Asset Management Company participated in seasonal events, summer festivals and other facility events. There was interaction with care managers, local residents, facility staff and residents.



Minna-no-ie Omiya Tsutsujigaoka Park



Alpha Living Takamatsu Ekimae

### ■ Gatherings on Facility Operation Hosted by Operators

The Asset Management Company participated in gatherings on facility operation hosted by operators for residents and their families. The Asset Management Company explained who they are as well as the relationship with the operators and initiatives taken for the facilities.



Irise Komae Bettei



Silver Heights Hitsujigaoka No. 3

## Governance

### ■ Corporate Governance

The Asset Management Company of NHI has established a governance system that gives top priority to compliance, and strives to prevent conflicts of interest, manage risks and comply with laws and regulations.

### ■ Compliance System

The Asset Management Company not only adheres strictly to all laws and regulations, rules, internal regulations and market rules related to its business but also focuses on conducting sincere and fair corporate activities while fully understanding social norms.

# Financial Conditions

Stable financial management by converting interest rates into fixed rates and diversifying repayment dates

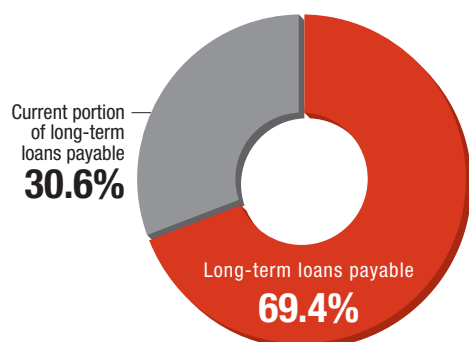
## Status of Interest-Bearing Liabilities (as of October 31, 2019)

Term	Lender	Balance (million yen)	Type of interest	Interest rate (%) (Note 1)	Drawdown date	Repayment deadline
Current portion of long-term loans payable	Mizuho Bank (Note 2)	500	Fixed	0.524	June 1, 2015	May 29, 2020
	Mizuho Trust & Banking (Note 2)	500		0.524		
	The Musashino Bank (Note 2)	500		0.524		
	Resona Bank (Note 2)	500		0.474	October 15, 2015	October 30, 2020
	Sumitomo Mitsui Trust Bank (Note 2)	500		0.138	April 28, 2016	April 30, 2020
	Shinkin Central Bank (Note 2)	500		0.265	October 31, 2017	October 30, 2020
Long-term	Mizuho Bank (Note 2)	800	Fixed	0.402	October 31, 2017	October 31, 2022
	The Musashino Bank (Note 2)	500		0.365		April 28, 2022
	Shinsei Bank (Note 2)	500		0.467		September 29, 2023
	Sumitomo Mitsui Trust Bank (Note 2)	1,200		0.390	October 31, 2018	October 31, 2022
	Shinkin Central Bank (Note 2)	400		0.390		September 29, 2023
	Shinsei Bank (Note 2)	300		0.467		October 31, 2023
	The Dai-ichi Life Insurance	200	Floating	0.480	October 31, 2019	October 31, 2024
	Resona Bank	1,200		0.352		
	Mizuho Bank	1,000		0.352		
	Mizuho Trust & Banking	700		0.352		
Total of 8 banks		9,800	-	-	-	-

(Note 1) Interest rates are rounded to the third decimal place.

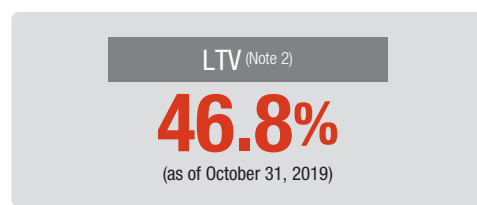
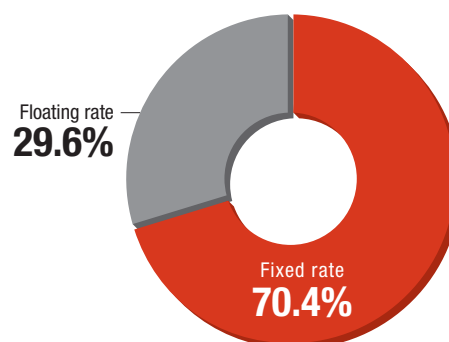
(Note 2) For loans of which floating interest rates have been converted to, in effect, fixed rates through a swap agreement, interest rate indicates the rate after such conversion.

### Ratio of Long-Term Loans and Short-Term Loans Payable



(Note 1) Average remaining period is rounded to the first decimal place.

### Ratio of Fixed Rates and Floating Rates



(Note 2) LTV is calculated based on total assets.

## Indices that Include NHI

Month/year	Name of index
September 2015	Thomson Reuters GPR / APREA Composite Index

## II. Asset Management Report

### 1. Management Status and Other Performance Highlights Data

Fiscal Period		11th Period (From May. 1, 2019 To Oct. 31, 2019)	10th Period (From Nov. 1, 2018 To Apr. 30, 2019)	9th Period (From May. 1, 2018 To Oct. 31, 2018)	8th Period (From Nov. 1, 2017 To Apr. 30, 2018)	7th Period (From May. 1, 2017 To Oct. 31, 2017)
(1) Operating Performance (Millions of yen, except per unit data or where otherwise indicated)						
Operating revenues		708	705	698	698	698
Rental revenues		708	705	698	698	698
Operating expenses		425	424	426	425	425
Property-related expenses		297	299	290	299	297
Operating income		283	281	272	273	273
Ordinary income		255	257	244	247	245
Net income		254	257	243	247	244
(2) Properties, etc. (as of end of period)						
Total assets		20,962	21,019	21,068	21,146	21,218
[period-on-period percentage changes]		[-0.3%]	[-0.2%]	[-0.4%]	[-0.3%]	[-0.2%]
Interest-bearing liabilities		9,800	9,800	9,800	9,800	9,800
Net assets		10,226	10,293	10,345	10,412	10,474
[period-on-period percentage changes]		[-0.7%]	[-0.5%]	[-0.6%]	[-0.6%]	[-0.6%]
Unitholders' capital, net	Note 2	9,972	10,037	10,102	10,166	10,229
(3) Distributions						
Total distribution amount		319	321	308	311	308
Total distribution of retained earnings		253	256	243	247	245
Total distribution in excess of retained earnings		66	65	65	64	63
Dividend payout		100%	100%	100%	100%	100%
(4) Per Unit Information						
Total number of units issued (units)		74,632	74,632	74,632	74,632	74,632
Net assets per unit (yen)		137,012	137,920	138,613	139,516	140,337
Distribution per unit (yen)		4,279	4,307	4,130	4,163	4,124
Distribution amount from earnings per unit (yen)		3,399	3,437	3,260	3,303	3,274
Distribution amount in excess of earnings per unit (yen)		880	870	870	860	850
(5) Financial Indicators						
ROA	Notes 3 and 4	1.2%	1.2%	1.2%	1.2%	1.2%
[annual rate]		[2.4%]	[2.5%]	[2.3%]	[2.4%]	[2.3%]
ROE	Notes 4 and 5	2.5%	2.5%	2.3%	2.4%	2.3%
[annual rate]		[4.9%]	[5.0%]	[4.6%]	[4.8%]	[4.6%]
Capital ratio		48.8%	49.0%	49.1%	49.2%	49.4%
[period-on-period percentage changes]		[-0.2%]	[-0.1%]	[-0.1%]	[-0.1%]	[-0.1%]
LTV (loan to value)		46.8%	46.6%	46.5%	46.3%	46.2%
Property leasing cash flows (NOI)	Note 6	614	609	607	597	596
(6) Other Referential Information						
Number of investment properties		23	23	22	22	22
Number of tenants	Note 7	23	23	22	22	22
Total rentable area (m <sup>2</sup> )		67,903.84	67,903.84	67,298.83	67,298.83	67,298.83
Occupancy rate	Note 8	100.0%	100.0%	100.0%	100.0%	100.0%
Depreciation		204	203	200	198	196
Capital expenditures		13	19	32	26	60

(Note 1) Operating revenues, etc. do not include consumption taxes, etc.

(Note 2) The indicated amounts are unitholders' equity less deduction amount of unitholders' equity.

(Note 3) ROA: Ordinary income ÷ [(Total assets at beginning of period + Total assets at end of period) ÷ 2] × 100

(Note 4) Annualized figures are calculated by using the asset management period of the respective fiscal period; 184 days for the 7th Fiscal Period; 181 days for the 8th Fiscal Period; 184 days for the 9th Fiscal Period; 181 days for the 10th Fiscal Period and 184 days for the 11th Fiscal Period.

(Note 5) ROE: Net income ÷ [(Net assets at beginning of period + Net assets at end of period) ÷ 2] × 100

(Note 6) Property leasing cash flows (NOI): Rental revenues – Property-related expenses + Depreciation

(Note 7) Number of tenants is the total number of end tenants.

(Note 8) Occupancy rate: Total leased area ÷ Total rentable area × 100



## 2. Developments in Asset Management in the Fiscal Period under Review

### (1) Brief History of the Investment Corporation

Nippon Healthcare Investment Corporation (hereinafter referred to as “NHI”) was established on January 7, 2014 in accordance with the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951; including amendments thereto) (hereinafter referred to as the “Investment Trusts Act”) with Daiwa Real Estate Asset Management Co. Ltd. (hereinafter referred to as the “Asset Management Company”) as the founder. After its establishment, NHI conducted an additional issuance of investment units through private placement (18,800 units) on April 3, 2014. NHI commenced actual management with the acquisition of eight properties on March 28, 2014 by using the proceeds from the concerned capital increase through private placement and loans.

After accumulating a track record for roughly seven months after the start of asset management, in the previous fiscal period, NHI conducted a public offering through the issuance of an additional 39,000 investment units on November 4, 2014. On the following day, NHI made additional acquisitions of six properties concurrently with the listing on the REIT Securities Section of the Tokyo Stock Exchange (Stock code: 3308). In the 3rd Fiscal Period, NHI made additional acquisitions of three properties with borrowing and cash on hand, and in the 4th Fiscal Period, NHI implemented an additional issuance of investment units through public offering (12,130 units) on November 17, 2015 and additionally acquired four properties. Furthermore, in the 5th Fiscal Period, NHI made an additional acquisition of one property on October 6, 2016 with borrowing and cash on hand and in the 10th Fiscal Period, NHI made an additional acquisition of one property on December 20, 2018 with cash on hand. Through these additional acquisitions of a property, the total acquisition price of NHI properties is 19,712 million yen as of October 31, 2019.

As the REIT specializing in healthcare facilities in that it invests solely in properties of which the principal use is healthcare facilities, NHI effectively utilizes investor capital to initiate expansion of supply of high-quality healthcare facilities that provide users with high-standard services, while at the same time produce ample and dependable returns to investors for further capital circulation. In this way, NHI aims at creating a new value cycle for healthcare facilities and the services provided, together with investors. Through these efforts, NHI would like to contribute to the realization of Japan’s major policy to improve the residential environment for the elderly by effectively utilizing private sector funds.

### (2) Investment Environment and Management Performance

#### (A) Investment Environment (from May 1, 2019 to October 31, 2019)

NHI was established to address Japan’s structural problem of age demographics where the younger population is decreasing and the ratio of elderly people is increasing, and the associated social demand for the enhancement of private nursing homes and other facilities for the elderly, which are thought to be lacking.

Japan has the population of the elderly aged 65 years or over (hereinafter referred to as the elderly population) accounting for approximately less than 30% of the total population as of November 1, 2019 (according to the Ministry of Internal Affairs and Communications’ “Population Estimates” announced on November 20, 2019), and the population of the elderly is forecast to continue to account for an increasingly greater proportion and the population of the elderly living alone is forecast to continue to grow. There is thus recognized to be sufficient potential for greater development of housing for the elderly with nursing care services, etc. that are designed for the elderly to reside (referring to “silver housing” (public housing for the elderly), “good rental housing for the elderly,” “elderly housing with supportive services,” “fee-based homes for the elderly” and “low-cost homes for the elderly;” the same shall apply hereinafter).

The Ministry of Land, Infrastructure, Transport and Tourism has set as a policy target that the ratio of housing for the elderly to the elderly population shall be 4% in 2025.

In this manner, as social demand is mounting for healthcare facilities – particularly, private nursing homes and other facilities for the elderly – and the enhancement of private nursing homes and other facilities for the elderly is one of the priority tasks even as a national policy, NHI will focus investment for the time being on private nursing homes and other facilities for the elderly among healthcare facilities and thereby seize opportunities to earn cash flows arising from the mounting social demand.

#### (B) Management Performance

In the 11th Fiscal Period (fiscal period ended October 31, 2019), NHI acquired no investment properties.

Concerning the properties held as of the end of the 11th Fiscal Period (October 31, 2019), the leasable floor area was 67,903.84m<sup>2</sup> and the occupancy rate was 100.0%.

### (3) Overview of Capital Procurement

#### (A) Procurement of Funds for Repayment of Borrowings

In the 11th Fiscal Period (fiscal period ended October 31, 2019), NHI conducted the following borrowing of funds for repayment of borrowings.

- (a) In order to procure funds for repayment of a total of 2,900 million yen of borrowings from Resona Bank Ltd., Mizuho Bank, Ltd. and Mizuho Trust & Banking Co., Ltd., which were due for repayment on October 31, 2019, NHI conducted borrowings of the same amount from each of the respective banks on the same day.

#### (B) Status of Interest-Bearing Liabilities

As a result of the above, the balance of interest-bearing liabilities outstanding as of the end of the 11th Fiscal Period (October 31, 2019) stood at 9,800 million yen (all long-term debt). The balance of the current portion of long-term debt stood at 3,000 million yen. In addition, the average remaining period of interest-bearing liabilities as of the end of the 11th Fiscal Period stands at 3.0 years.

The unitholders' capital (net) was 9,972 million yen, and the total number of units issued was 74,632 investment units as of the end of the 11th Fiscal Period.

### (4) Capital Expenditures During the 11th Fiscal Period

The following summarizes the main construction work that constitutes capital expenditures conducted during the 11th Fiscal Period. Capital expenditures for the 11th Fiscal Period amounted to 13 million yen and, when combined with the 26 million yen in repair expenses charged to 11th Fiscal Period expenses, totaled 39 million yen in construction work implemented.

Name of Property (Location)	Purpose	Period	Expenditure (Millions of yen)
Sompo Care LAVIERE Hiroshima Hikarigaoka (Hiroshima City, Hiroshima)	Renewal of air conditioning equipment in dwelling units	From: May 2019 To: May 2019	4
Other		From: May 2019 To: October 2019	9
Total			13

### (5) Overview of Financial Performance and Distributions

As a result of the management described above, NHI posted financial performance for the 11th Fiscal Period of 708 million yen in operating revenue, 283 million yen in operating income, 255 million yen in ordinary income and 254 million yen in net income.

Concerning distributions, to ensure that the amount equivalent to distributions from earnings would be included in the amount of tax-deductible expenses based on application of special provisions for taxation on investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; including amendments thereto) (hereinafter referred to as the "Special Taxation Measures Act")), NHI decided to distribute the entire amount of unappropriated retained earnings, excluding fractions of the distribution amount per unit that are less than 1 yen. Accordingly, NHI declared a distribution amount per unit of 3,399 yen.

In addition, in principle, NHI adopts a policy of implementing cash distributions in excess of earnings uninterruptedly every fiscal period in accordance with the distribution policy set out in the articles of incorporation (Note). Based on this policy, NHI decided to distribute 65,676,160 yen, which is the amount roughly equivalent to 32% of the 204 million yen in depreciation for the 11th Fiscal Period, as reimbursement of investments in capital. Accordingly, NHI declared a distribution amount in excess of earnings per unit of 880 yen.

(Note) NHI adopts a policy of implementing uninterrupted distributions in excess of earnings (reimbursement of investments in capital) in an amount not to exceed 40% of depreciation in every accounting period within the scope that would not have adverse impact on the financial position of NHI after setting aside the cash and deposits that NHI deems appropriate, taking into account the status of establishment of lines of credit, etc., in order to not affect long-term repair plans in light of the capital expenditures for each accounting period assumed based on the long-term repair plans and to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).  
The six-month average amount of the sum total amount of emergency repair expenses, short-term repair expenses and long-term repair expenses stated in the engineering report by Tokio Marine & Nichido Risk Consulting Co., Ltd., Assets Research and Development Inc. and ERI Solution Co., Ltd. for all assets held as of the end of the 11th Fiscal Period (23 properties) is 37 million yen.

### 3. Future Management Policy and Tasks

#### (1) Investment Environment

Japan has the population of the elderly accounting for approximately less than 30% of the total population, and the population of the elderly is expected to continue to account for an increasingly greater proportion and the population of the elderly living alone is expected to continue to grow. With the development of medical technology, among other factors, the average life expectancy at birth for Japanese people is at 81.25 years for males and 87.32 years for females according to the Ministry of Health, Labour and Welfare's "Abridged Life Tables for Japan 2018," while record-highs were set in terms of the population aged 65 years or over at 36 million people and the proportion of the elderly population is at 28.3% of the total population of 126 million as of November 1, 2019 according to the Ministry of Internal Affairs and Communications' "Population Estimates" (announced on November 20, 2019).

According to the National Institute of Population and Social Security Research's "Population Projections for Japan (2017)," the total population will increase to 123 million people, the elderly population to 37 million people and the proportion of the elderly population to 30.0% in 2025 and then, while the total population will decrease by approximately 38 million people from that at present to 88 million people, the elderly population will reach 34 million people and the proportion of the elderly population to 38.4% in 2065.

To provide for future growth in demand for housing for the elderly, the Ministry of Land, Infrastructure, Transport and Tourism has set as a policy target that the ratio of housing for the elderly to the elderly population shall be 4% by 2025.

In such an environment, there is recognized to be sufficient potential for greater development of housing for the elderly with nursing care services, etc. that are designed for the elderly to reside through effective utilization of private sector funds.

#### (2) Management Policy and Tasks

##### (A) Strategy for Managing Existing Properties

NHI implements the following measures to earn stable revenue and serve to maintain and enhance unitholder value.

##### (a) Stabilization of earnings

In principle, NHI shall invest in properties with the actual remaining lease contract period at the time of acquisition of 10 years or more, taking into account also the possibility of contract renewal. In view of lease agreements concluded between NHI or trustees and operators realizing conversion of expenses borne by operators into fixed rates and stabilization of earnings of NHI, the policy shall be to make the lease agreements of content that, in principle, operators pay a fixed amount of rent. The lease agreements with operators for the assets that NHI has acquired are all fixed-rent agreements.

##### (b) Criteria and methods for selecting operators

In the event of acquisition of healthcare facilities, not only the quality of the facilities as real estate, but also the creditworthiness, operational capabilities, etc. of the operators operating the facilities are regarded as important factors by NHI in realizing stable occupancy. This is because the operators being capable of providing services of a quality and type that matches the entrance fee, monthly service fee, etc. in order to be the residents' choice and the operators being capable of operating the facilities continuously are regarded as important factors in terms of also the profitability and asset value of healthcare facilities.

##### (c) Employment of "Backup Operator Membership"

NHI has concluded an agreement on backup of operational management with the operators. The main purpose of said agreement is that, in the event that a lease agreement for a healthcare facility held by NHI has ended or is expected to end due to contract termination, contract cancellation or other reason, where NHI requests the operator to operate the healthcare facility by conclusion of a new lease agreement with NHI, the operator shall sincerely discuss the request. In addition, NHI shall consider concluding a similar agreement with also the operators of healthcare facilities to be acquired in the future. Such relationship by agreement with operators is referred to as "Backup Operator Membership."

(B) Investment Strategy for New Properties

NHI aims to realize stable external growth through not only leveraging the track record and network of the Asset Management Company, but also sourcing property information, etc. by working in collaboration with the sponsor group and adviser.

(a) Track record and network of the Asset Management Company

The Asset Management Company is striving for property acquisitions that utilize the wide range of property sourcing channels based on strong relationship building with various related parties (business companies, financial institutions, major real estate brokerage companies and real estate brokerage parties, etc.) accumulated through asset management of Daiwa Office Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 461 billion yen), Japan Rental Housing Investments Inc. (balance of assets for which management is entrusted as of the end of November 2019: approximately 227.8 billion yen), Daiwa Residential Private Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 121.8 billion yen) and Daiwa Hotel Private Investment Corporation (balance of assets for which management is entrusted as of the end of November 2019: approximately 40.7 billion yen). In addition, in order to expand and boost opportunities to acquire healthcare facilities in which NHI invests, the Asset Management Company has installed an investment team specializing in healthcare facilities and is promoting also the building of relationships with new suppliers and sources of property information (healthcare facility operators, developers, etc.) other than existing property sourcing channels to collect property information.

(b) Sourcing of property information, etc. by working in collaboration with the sponsor group

The Asset Management Company believes that leveraging the network of branches and clients possessed by the sponsor group, the Daiwa Securities Group, as needed will enable a search across Japan for operators that meet the selection criteria set forth by the Asset Management Company and consideration of the feasibility of collaboration in property acquisition and development, commissioning of facility operation, etc., and thinks that expansion of property acquisition opportunities can thus be expected. In addition, in order to expand property acquisition opportunities, NHI and the Asset Management Company have concluded a pipeline support agreement with Daiwa ACA Healthcare Inc., which invests in nursing care facilities and hospitals in Japan and of which a stake of 66% is held by the Daiwa Securities Group Inc.

(c) Sourcing of property information, etc. by working in collaboration with the adviser

The Asset Management Company has concluded an advisory agreement with AIP Healthcare Japan GK, which implements an investment strategy that has been focused on the healthcare sector (hospitals and nursing care facilities) since 2001 and has been engaged in investment specializing in private nursing homes and other facilities for the elderly since 2008. Based on this agreement, the Asset Management Company receives advice on information provision, management and operation of healthcare facilities that are the investment assets of NHI, collaboration with operators, etc. The Asset Management Company believes that this would contribute to realization of stable performance in the medium to long term of NHI.

(C) Financial Strategy

NHI will procure and manage funds in accordance with the following policy in pursuit of realization of stable revenue and steady growth and efficient management of assets under management.

(a) Additional issuance of investment units

Additional issuance of investment units shall be implemented with agility, while comprehensively taking into account the timing of acquisition of real estate that are to be newly acquired, ratio of interest-bearing liabilities to total assets (hereinafter referred to as “LTV”), economic and market conditions, etc. and also taking into consideration the dilution of investment units.

(b) Borrowing of funds and issuance of investment corporation bonds

LTV shall be set at a level that takes heed of securing of financing capacity and, in principle, no higher than 60%. However, LTV may temporarily exceed 60% for such purposes as acquisition of new investment assets and reduction of refinancing risk.

In order to build a stable financial base and underpin future growth strategies, NHI shall not only establish a so-called main-bank system of having leading financial institutions as its main banks of account, but also make proactive efforts to diversify fund procurement sources through such means as borrowing from multiple lenders and issuing investment corporation bonds.



Funds shall be procured appropriately by negotiating with several financial institutions over borrowing costs, borrowing period, whether or not collateral is provided and other terms and conditions upon the borrowing of funds, and comprehensively considering the terms and conditions while taking into consideration the balance of interest rate trends, market level, financial agility and security, lender composition and other factors.

In order to reduce the risk of interest rate fluctuations and refinancing risk, NHI shall consider extending financing periods, converting interest rates to fixed rates, staggering repayment dates, introducing highly-flexible financial covenants, etc. as needed.

NHI shall consider securing committed, revolving or other lines of credit as needed for agile procurement of various required funds.

(c) Fund management

NHI shall retain at all times the cash and deposits that NHI deems appropriate, taking into account also the status of establishment of lines of credit, etc., in order to meet needs for funds (new acquisition of investment assets, repairs and capital expenditures required to maintain and enhance portfolio assets, NHI's working capital, repayment of obligations, payout of distributions, etc.).

NHI shall pursue efficient fund management whereby, of the amount equivalent to depreciation, the amount remaining after setting aside cash and deposits shall be allocated to implementing cash distributions in excess of earnings to unitholders uninterruptedly every fiscal period in an amount not to exceed 40% of depreciation in every accounting period, comprehensively taking into account NHI's surrounding economic environment and real estate market trends, the status of portfolio assets and financial status of NHI and other factors.

There may be cases where surplus funds will be invested into securities and monetary claims that are highly secure and liquid.

Derivative transactions (Article 2, Paragraph 6 of the Investment Trusts Act) shall be limited to those managed for the purpose of hedging the risk of fluctuations in interest rates on the liabilities of NHI.

(D) Merger of NHI and JRH

NHI and Japan Rental Housing Investments Inc. (hereinafter referred to as "JRH"; and together with NHI, hereinafter collectively referred to as "both REITs") resolved at their respective board of directors' meetings held on November 19, 2019, to implement an absorption-type merger (hereinafter referred to as the "Merger") with NHI as the absorbed corporation and JRH as the surviving corporation with the effective date being April 1, 2020; and entered into a merger agreement (hereinafter referred to as the "Merger Agreement") dated November 19, 2019, based on the judgement that the Merger will enable both REITs to further grow in the future and thereby maximize unitholders' value by securing earnings and stabilizing and improving distribution.

(E) Schedule of Capital Expenditures

The following summarizes the main capital expenditures in line with currently planned construction works for renovation, etc. Furthermore, the scheduled construction amounts include portions that will be charged as expenses in terms of accounting.

Name of Property (Location)	Purpose	Estimated Period	Estimated Cost (Millions of yen)		
			Total	Payment for the current period	Cumulative amount paid
Sompo Care LAVIERE Hiroshima Hikarigaoka (Hiroshima City, Hiroshima)	Renewal of elevator equipment	From: March 2020 To: March 2020	7	—	—
Silver Heights Hitsujigaoka No. 3 (Sapporo City, Hokkaido)	Renewal of elevator equipment	From: March 2020 To: March 2020	5	—	—
Sawayaka Heart Life Nishikyogoku (Kyoto City, Kyoto)	Renewal of elevator equipment	From: March 2020 To: March 2020	5	—	—
Minna-no-ie Omiya Tsutsujigaoka Koen (Saitama City, Saitama)	Renewal of elevator equipment	From: March 2020 To: March 2020	4	—	—
Super Court JR Nara-Ekimae (Nara City, Nara)	Renewal of elevator equipment	From: March 2020 To: March 2020	4	—	—
Sompo Care LAVIERE Kinugasayama Koen (Yokosuka City, Kanagawa)	Renewal of elevator equipment	From: March 2020 To: March 2020	3	—	—
Nichii Care Center Fukushima Omori (Fukushima City, Fukushima)	Renewal of elevator equipment	From: March 2020 To: March 2020	2	—	—

### III. Balance Sheets

As of October 31, 2019 and April 30, 2019

(Thousands of yen)

	As of October 31, 2019	As of April 30, 2019
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents [Notes 3, 4 and 5]	1,703,571	1,584,104
Prepaid expenses	21,377	15,237
Other current assets	2,233	1,893
Total Current Assets	1,727,181	1,601,234
Investment Properties, at cost: [Notes 4, 6 and 7]		
Land in trust accounts	8,233,176	8,233,176
Buildings and structures in trust accounts	12,796,504	12,791,539
Machinery and equipment in trust accounts	19,170	19,170
Tools, furniture and fixtures in trust accounts	61,451	53,794
Construction in progress in trust accounts	–	1,080
Less: accumulated depreciation	(1,952,799)	(1,749,236)
Leasehold rights in trust accounts	40,886	40,886
Total Investment Properties, net	19,198,388	19,390,409
Other Assets:		
Right of trademark	101	112
Software	15	382
Lease and guarantee deposits	10,000	10,000
Long-term prepaid expenses	26,467	17,117
Deferred tax assets [Note 12]	14	14
Total Other Assets	36,597	27,625
<b>Total Assets</b>	<b>20,962,166</b>	<b>21,019,268</b>

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

(Thousands of yen)

	As of October 31, 2019	As of April 30, 2019
<b>Liabilities</b>		
Current Liabilities:		
Operating accounts payable	22,562	21,395
Long-term debt due within one year [Notes 4, 5 and 10]	3,000,000	3,400,000
Accounts payable – other	71,376	60,926
Income taxes payable	884	895
Accrued consumption taxes	1,149	847
Rent received in advance	86,877	86,817
Deposits received	562	528
Other current liabilities	2,873	4,215
Total Current Liabilities	3,186,283	3,575,623
Long-Term Liabilities:		
Long-term debt [Notes 4, 5 and 10]	6,800,000	6,400,000
Tenant security deposits [Note 5]	750,376	750,376
Total Long-Term Liabilities	7,550,376	7,150,376
<b>Total Liabilities</b>	<b>10,736,659</b>	<b>10,725,999</b>
<b>Net Assets [Notes 9 and 13]</b>		
Unitholders' Equity:		
Unitholders' capital	10,504,334	10,504,334
Deduction from unitholders' capital	(532,540)	(467,610)
Unitholders' capital, net	9,971,794	10,036,724
Units authorized: 10,000,000 units		
Units issued and outstanding: 74,632 units		
Retained earnings	253,713	256,545
Total Unitholders' Equity	10,225,507	10,293,269
<b>Total Net Assets</b>	<b>10,225,507</b>	<b>10,293,269</b>
<b>Total Liabilities and Net Assets</b>	<b>20,962,166</b>	<b>21,019,268</b>

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

## IV. Statements of Income

For the fiscal periods ended October 31, 2019 and April 30, 2019

(Thousands of yen)

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
<b>Operating Revenues and Expenses</b>		
Operating Revenues:		
Rental revenues [Note 8]	707,645	705,128
Total Operating Revenues	707,645	705,128
<b>Operating Expenses:</b>		
Property-related expenses [Note 8]	296,755	298,978
Asset management fees	58,472	57,654
Asset custody fees	731	732
Administrative service fees	10,383	10,434
Trust fees	6,601	6,608
Directors' compensation	4,800	4,800
Audit fees	6,000	6,000
Other operating expenses	40,855	38,870
Total Operating Expenses	424,597	424,076
<b>Operating Income</b>	283,048	281,052
<b>Non-Operating Revenues and Expenses</b>		
Non-Operating Revenues:		
Interest income	2	2
Reversal of distribution payable	394	143
Insurance income	—	4,504
Other non-operating revenues	49	176
Total Non-Operating Revenues	445	4,825
<b>Non-Operating Expenses:</b>		
Interest expense	22,003	21,645
Borrowing expenses	6,927	6,805
Total Non-Operating Expenses	28,930	28,450
<b>Ordinary Income</b>	254,563	257,427
<b>Income Before Income Taxes</b>	254,563	257,427
Income taxes – current	884	894
Income taxes – deferred	1	(1)
Total Income Taxes [Note 12]	885	893
<b>Net Income</b>	253,678	256,534
<b>Retained Earnings Brought Forward</b>	35	11
<b>Retained Earnings at End of Period</b>	253,713	256,545

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



## V. Statements of Changes in Net Assets

For the fiscal period ended April 30, 2019

(Thousands of yen)

	Number of Units	Unitholders' Capital	Deduction from Unitholders' Capital	Unitholders' Capital, Net	Retained Earnings	Total
<b>Balance as of October 31, 2018</b>	74,632	10,504,334	(402,680)	10,101,654	243,311	10,344,965
Distributions in excess of retained earnings	—	—	(64,930)	(64,930)	—	(64,930)
Distributions of earnings	—	—	—	—	(243,300)	(243,300)
Net income	—	—	—	—	256,534	256,534
<b>Balance as of April 30, 2019</b>	74,632	10,504,334	(467,610)	10,036,724	256,545	10,293,269

For the fiscal period ended October 31, 2019

(Thousands of yen)

	Number of Units	Unitholders' Capital	Deduction from Unitholders' Capital	Unitholders' Capital, Net	Retained Earnings	Total
<b>Balance as of April 30, 2019</b>	74,632	10,504,334	(467,610)	10,036,724	256,545	10,293,269
Distributions in excess of retained earnings	—	—	(64,930)	(64,930)	—	(64,930)
Distributions of earnings	—	—	—	—	(256,510)	(256,510)
Net income	—	—	—	—	253,678	253,678
<b>Balance as of October 31, 2019</b>	74,632	10,504,334	(532,540)	9,971,794	253,713	10,225,507

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

## VI. Statements of Cash Flows

For the fiscal periods ended October 31, 2019 and April 30, 2019

(Thousands of yen)

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	254,563	257,427
Depreciation and amortization	203,942	202,985
Interest expense	22,003	21,644
Decrease (Increase) in prepaid expenses	(6,140)	6,195
Increase (Decrease) in accounts payable	13,932	(17,890)
Increase (Decrease) in rent received in advance	60	1,678
Decrease (Increase) in long-term prepaid expenses	(9,350)	5,371
Cash payments of interest expense	(22,482)	(21,166)
Other, net	(901)	(271)
<b>Net Cash Provided by Operating Activities</b>	<b>455,627</b>	<b>455,973</b>
<b>Cash Flows from Investing Activities:</b>		
Payments for purchases of investment properties in trust accounts	(13,856)	(435,516)
Proceeds from tenant security deposits	—	20,160
<b>Net Cash Used in Investing Activities</b>	<b>(13,856)</b>	<b>(415,356)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	2,900,000	—
Repayments of long-term debt	(2,900,000)	—
Payments of distributions of earnings	(257,180)	(243,342)
Payments of distributions in excess of retained earnings	(65,124)	(64,924)
<b>Net Cash Used in Financing Activities</b>	<b>(322,304)</b>	<b>(308,266)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>119,467</b>	<b>(267,649)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,584,104</b>	<b>1,851,753</b>
<b>Cash and Cash Equivalents at End of Period (Note 3)</b>	<b>1,703,571</b>	<b>1,584,104</b>

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

## VII. Notes to Financial Statements

For the fiscal periods ended October 31, 2019 and April 30, 2019

### Note 1 – Organization and Basis of Presentation

#### *Organization*

Nippon Healthcare Investment Corporation (hereinafter referred to as “NHI”) was established on January 7, 2014 as an investment corporation in accordance with the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent revisions, hereinafter referred to as the “Investment Trust Act”) by the founder (Daiwa Real Estate Asset Management Co. Ltd (hereinafter referred to as the “Asset Management Company”).

NHI is an externally managed real estate fund, established as an investment corporation. The Asset Management Company is engaged in acquiring, managing, leasing, and renovating healthcare facilities of NHI. Daiwa Securities Group Inc. currently owns 100% of the shares of the Asset Management Company.

On November 4, 2014, NHI had raised 5,616,000 thousand yen through an initial public offering of units. Those units were listed on the J-REIT section of the Tokyo Stock Exchange.

As of October 31, 2019, NHI had trust beneficiary interests in 23 healthcare facilities with approximately 67,904 square meters of healthcare facilities space and had leased space to 23 tenants. The occupancy rate for the healthcare facilities was 100%.

#### *Basis of Presentation*

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

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

NHI maintains its accounting records in Japanese yen.

NHI’s fiscal period is a six-month period ending at the end of April and October of each year.

### Note 2 – Summary of Significant Accounting Policies

#### *Cash and Cash Equivalents*

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

#### *Investment Properties*

Investment properties are stated at cost, which includes the allocated purchase price, related costs and expenses for acquisition of the properties. Investment properties balances are depreciated using the straight-line method over the estimated useful lives. The estimated useful lives of the principal tangible fixed assets (including assets held in trust) are as follows:

	As of October 31, 2019	As of April 30, 2019
Buildings and structures	3-58 years	3-58 years
Machinery and equipment	10-17 years	10-17 years
Tools, furniture and fixtures	2-15 years	2-15 years

Costs related to the renovation, construction and improvement of properties are capitalized. Expenditures for repairs and maintenance which do not add value to a property or prolong its useful life are expensed when incurred.

### *Income Taxes*

Income taxes are accounted for on the basis of income for financial statement purposes. The tax effect of temporary differences between the amounts of assets and liabilities for financial statements and for income tax purposes is recognized as deferred taxes.

### *Real Estate Taxes*

Real estate taxes are imposed on properties on a calendar year basis and expensed when incurred. In terms of newly purchased properties, NHI capitalizes a portion of the real estate taxes that relate to a period from the purchase date of each property until the end of the calendar year as part of the acquisition cost of the relevant property.

There were no capitalized real estate taxes for the fiscal period ended October 31, 2019. Capitalized real estate taxes amounted to 52 thousand yen for the fiscal period ended April 30, 2019.

### *Consumption Taxes*

Consumption taxes are excluded from transaction amount.

Non-deductible consumption taxes on acquisition of assets are included in the acquisition costs of the relevant asset.

### *Hedge Accounting*

NHI conducts derivative transactions in order to hedge against risks defined in its Articles of Incorporation based on its risk management policy. NHI utilizes derivative financial instruments such as interest-rate swap agreements only for the purpose of hedging its exposure to changes in interest rates. NHI deferred recognition of gains or losses resulting from changes in fair value of interest-rate swap agreements because its interest-rate agreements met the criteria for deferral hedging accounting.

However, NHI applies special treatment to the interest-rate swap agreements that meet the criteria for such special treatment. Under the special treatment, interest-rate swaps are not remeasured at fair value: instead, the net amount paid or received under the interest-rate swap agreements is recognized and included in interest expense. The hedge effectiveness for interest-rate swap agreements is assessed each fiscal period except for those that meet the criteria of special treatment.

### *Revenue Recognition*

Operating revenues consist of fixed rental revenues, which are recognized on an accrual basis over the life of each lease.

### *Accounting Treatment of Beneficiary Interests in Trust Assets Including Real Estate*

For trust beneficiary interests in real estate, all accounts of assets and liabilities within assets in trust, as well as all income generated and expenses incurred from assets in trust, are recorded in the relevant balance sheet and income statement accounts.

## **Note 3 – Cash and Cash Equivalents**

Cash and cash equivalents stated on the accompanying balance sheets and statements of cash flows as of October 31, 2019 and April 30, 2019 consisted of the following:

	(Thousands of yen)	
	As of October 31, 2019	As of April 30, 2019
Cash and deposits	1,232,364	1,130,312
Cash and deposits in trust accounts	471,207	453,792
Cash and cash equivalents	1,703,571	1,584,104

## Note 4 – Pledged Assets and Secured Liabilities

The carrying amount of assets pledged as collateral and the secured liabilities as of October 31, 2019 and April 30, 2019 were as follows:

(Thousands of yen)

	As of October 31, 2019	As of April 30, 2019
Assets pledged:		
Cash and deposits in trust accounts	471,207	453,792
Land in trust accounts	8,233,176	8,233,176
Buildings and structures in trust accounts	10,866,913	11,059,666
Machinery and equipment in trust accounts	16,718	17,309
Tools, furniture and fixtures in trust accounts	40,695	38,292
Construction in progress in trust accounts	–	1,080
Leasehold rights in trust accounts	40,886	40,886
Total	19,669,595	19,844,201
Secured liabilities:		
Long-term debt due within one year	3,000,000	3,400,000
Long-term debt	6,800,000	6,400,000
Total	9,800,000	9,800,000

## Note 5 – Financial Instruments

(For the fiscal periods ended October 31, 2019 and April 30, 2019)

### (1) Status of Financial Instruments

#### (A) Policy for financial instruments

NHI procures funds through various financing methods (such as borrowings, issuance of investment units) for acquisition and renovation of investment properties, payments of dividends and reimbursement of bank borrowings.

In financing through interest-bearing debt, to secure stable financing capacity and reduce future risk of rising interests, NHI secures long-term fixed-rate borrowings with well-diversified maturities.

NHI manages surplus funds with safe and highly liquid money claims and securities (in principle, deposits).

Derivative transactions are conducted only for the purpose of reducing risk of future interest rate fluctuations.

#### (B) Types and risks of financial instruments and related risk management system

Proceeds from debt financing are used mainly for acquisition of investment properties. While these debts are exposed to liquidity risk upon repayment, NHI manages the risk by maintaining the LTV ratio at low levels, diversifying maturities, keeping the ratio of long-term debt to total debt at high levels, and diversifying lenders with particular focus on domestic financial institutions. Bank borrowings with floating interest rates are exposed to the risk of future interest rate fluctuations and NHI manages that by using derivative transactions such as interest-rate swap agreements.

NHI evaluates the effectiveness of hedges by comparing the accumulated cash-flow changes of hedged items and that of hedging items, and then verifies the ratio of both amounts of changes. Furthermore, NHI omits assessment of hedge effectiveness for the interest-rate swap agreements which meet the criteria of special treatment.

Execution and management of derivative transactions have been carried out based on the regulations defined in the basic policy of risk management.

Tenant security deposits represent funds deposited by tenants, and NHI is exposed to the risk of refunding deposits in the event that a tenant terminates the contract. However, such risk is limited by reserving some parts of the funds.

Deposits are used for investing NHI's surplus funds. These deposits are exposed to credit risks such as bankruptcy of the depository financial institutions. NHI manages credit risk by restricting the tenor of the deposit relatively short and setting a minimum credit rating requirement for the depository financial institutions.

(C) Supplementary explanation for fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if applicable. When there is no quoted market price available, fair value is reasonably estimated. As certain assumptions are used for the estimation of fair value, the result of such estimation may differ if different assumptions are used. Also, the contractual amounts of derivative transactions do not represent the market risk involved in these derivative transactions.

(2) Estimated Fair Value of Financial Instruments

The book value, fair value and difference between the two as of October 31, 2019 and April 30, 2019 were as follows. The financial instruments whose fair value is extremely difficult to estimate are excluded from the following table.

(As of October 31, 2019)

(Thousands of yen)

	Book Value	Fair Value	Difference
Cash and cash equivalents	1,703,571	1,703,571	—
Total	1,703,571	1,703,571	—
Long-term debt due within one year	3,000,000	3,001,986	1,986
Long-term debt	6,800,000	6,832,901	32,901
Total	9,800,000	9,834,887	34,887
Derivative transactions	—	—	—

(As of April 30, 2019)

(Thousands of yen)

	Book Value	Fair Value	Difference
Cash and cash equivalents	1,584,104	1,584,104	—
Total	1,584,104	1,584,104	—
Long-term debt due within one year	3,400,000	3,401,341	1,341
Long-term debt	6,400,000	6,412,701	12,701
Total	9,800,000	9,814,042	14,042
Derivative transactions	—	—	—

Notes:

1. Methods to estimate fair value of financial instruments and derivative transactions

**Assets**

(1) Cash and cash equivalents

As these instruments are settled in short period of time, their fair value and book value are nearly identical. Therefore, for these items, the book value is assumed as the fair value.

**Liabilities**

(1) Long-term debt due within one year and long-term debt

For long-term debt due within one year and long-term debt with floating interest rates, their fair value and book value are nearly identical and there are no significant changes in NHI's credit risk after borrowing. Therefore, for these items, their book value is assumed as their fair value. For long-term debt due within one year and long-term debt with fixed interest rates, their fair value is based on the present value of principle and interest cash flows discounted at the current interest rate estimated to be applied if similar new debt is entered into. However, the fair value of certain floating-rate long-term debt due within one year and long-term debt that qualifies for the special treatment of interest-rate swaps is determined by discounting the sum of its principal and interest payments net of any cash flows from the interest-rate swaps.



## Derivative Transactions

(1) Derivatives to which hedge accounting is applied

(As of October 31, 2019)

(Thousands of yen)

Method of Hedge Accounting	Type of Derivative Transactions	Hedged Items	Contract Amount (due after one year)	Fair Value(*)
Special treatment for interest rate swap transactions	Interest rate swap transactions Receive floating and pay fixed	Long-term debt due within one year and long-term debt	6,700,000 (3,700,000)	-(**)
Total			6,700,000 (3,700,000)	-

(As of April 30, 2019)

(Thousands of yen)

Method of Hedge Accounting	Type of Derivative Transactions	Hedged Items	Contract Amount (due after one year)	Fair Value(*)
Special treatment for interest rate swap transactions	Interest rate swap transactions Receive floating and pay fixed	Long-term debt due within one year and long-term debt	9,600,000 (6,200,000)	-(**)
Total			9,600,000 (6,200,000)	-

\*The fair value is provided by the financial institution.

\*\*The values of derivatives qualifying for special treatment of interest rate swap transactions are included in that of related long-term debt. This is because such swaps are handled together with hedged long-term debt.

## 2. Financial instruments whose fair value is extremely difficult to estimate

Tenant security deposits (with the book value of 750,376 thousand yen as of October 31, 2019 and that of 750,376 thousand yen as of April 30, 2019) that have been deposited from tenants are not marketable and the actual deposit period cannot be reliably determined, thus making it impossible to reasonably estimate their future cash flows, and therefore, it is considered to be extremely difficult to estimate their fair value.

## 3. Redemption schedule for money claims

(As of October 31, 2019)

(Thousands of yen)

	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Cash and cash equivalents	1,703,571	-	-	-	-	-
<b>Total</b>	1,703,571	-	-	-	-	-

(As of April 30, 2019)

(Thousands of yen)

	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Cash and cash equivalents	1,584,104	-	-	-	-	-
<b>Total</b>	1,584,104	-	-	-	-	-

#### 4. Redemption schedule for long-term debt

(As of October 31, 2019)

(Thousands of yen)

	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Long-term debt due within one year	3,000,000	–	–	–	–	–
Long-term debt	–	–	2,900,000	1,000,000	2,900,000	–
<b>Total</b>	<b>3,000,000</b>	<b>–</b>	<b>2,900,000</b>	<b>1,000,000</b>	<b>2,900,000</b>	<b>–</b>

(As of April 30, 2019)

(Thousands of yen)

	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Long-term debt due within one year	3,400,000	–	–	–	–	–
Long-term debt	–	2,500,000	500,000	2,400,000	1,000,000	–
<b>Total</b>	<b>3,400,000</b>	<b>2,500,000</b>	<b>500,000</b>	<b>2,400,000</b>	<b>1,000,000</b>	<b>–</b>

### Note 6 – Schedule of Tangible Fixed Assets of Investment Properties

Investment properties as of October 31, 2019 and April 30, 2019 consisted of the following:

(Thousands of yen)

	As of October 31, 2019			As of April 30, 2019		
	Acquisition costs	Accumulated depreciation	Book value	Acquisition costs	Accumulated depreciation	Book value
Land in trust accounts	8,233,176	–	8,233,176	8,233,176	–	8,233,176
Buildings and structures in trust accounts	12,796,504	(1,929,591)	10,866,913	12,791,539	(1,731,873)	11,059,666
Machinery and equipment in trust accounts	19,170	(2,452)	16,718	19,170	(1,861)	17,309
Tools, furniture and fixtures in trust accounts	61,451	(20,756)	40,695	53,794	(15,502)	38,292
Construction in progress in trust accounts	–	–	–	1,080	–	1,080
<b>Total</b>	<b>21,110,301</b>	<b>(1,952,799)</b>	<b>19,157,502</b>	<b>21,098,759</b>	<b>(1,749,236)</b>	<b>19,349,523</b>

### Note 7 – Investment and Rental Properties

NHI owns fee-based homes for the elderly, etc. (including land) in the three major metropolitan areas and core cities. The book value, net change in the book value and the fair value of the investment and rental properties are as follows:

(For the fiscal period ended October 31, 2019)

(Thousands of yen)

Book Value			Fair value as of October 31, 2019
As of April 30, 2019	Change during the period <sup>(*)</sup>	As of October 31, 2019	
19,389,329	(190,941)	19,198,388	24,225,000

(For the fiscal period ended April 30, 2019)

(Thousands of yen)

Book Value			Fair value as of April 30, 2019
As of October 31, 2018	Change during the period <sup>(*)</sup>	As of April 30, 2019	
19,158,095	231,234	19,389,329	24,508,000

(Note 1) The book value represents the acquisition costs less accumulated depreciation.

(Note 2) Significant changes

<sup>(\*)</sup> For the fiscal period ended October 31, 2019, the major reason of decrease is depreciation (203,564 thousand yen).

<sup>(\*)</sup> For the fiscal period ended April 30, 2019, the major reason of increase is acquisition of one property (394,500 thousand yen). The major reason of decrease is depreciation (202,607 thousand yen).

(Note 3) The fair values as of October 31, 2019 and April 30, 2019 represent the sum of appraisal values estimated by external real estate appraisers.

Income and loss from investment and rental properties for the fiscal periods ended October 31, 2019 and April 30, 2019 are disclosed in Note 8.

## Note 8 – Rental Revenues and Expenses

Rental revenues and expenses for the periods ended October 31, 2019 and April 30, 2019 were as follows:

(Thousands of yen)

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
A. Revenues from property leasing		
Rental revenues	707,645	705,128
Total revenues from property leasing	707,645	705,128
B. Property-related expenses		
Consignment expenses	14,123	13,282
Taxes and dues	50,567	49,915
Non-life insurance expenses	1,375	1,406
Repair expenses	25,926	30,496
Depreciation	203,564	202,607
Leasehold fees	1,200	1,200
Other property-related expenses	–	72
Total property-related expenses	296,755	298,978
C. Operating income from property leasing [A – B]	410,890	406,150

## Note 9 – Net Assets

NHI issues only non-par value units in accordance with the Investment Trust Act and all of the issue prices of new units are designated as stated capital. NHI maintains at least 50,000 thousand yen as the minimum amount of net assets, as required by the Investment Trust Act.

## Note 10 – Long-term debt due within one year and long-term debt

Long-term debt due within one year and long-term debt as of October 31, 2019 and April 30, 2019 consisted of the following:

(Thousands of yen)

	As of October 31, 2019	As of April 30, 2019
Secured loans due 2019 to 2024, principally from banks and insurance companies with interest rates mainly ranging from 0.1% to 0.6%	9,800,000	9,800,000
Total	9,800,000	9,800,000

[Note] The interest rates presented are daily weighted average interest rates. As for long-term debts due within one year and long-term debts which were hedged by interest-rate swaps for the purpose of avoiding interest rate fluctuation risk, the swapped interest rates are used.

The annual maturities of long-term debt due within one year and long-term debt as of October 31, 2019 were as follows:

(Thousands of yen)

Due within one year	3,000,000
Due after one to two years	–
Due after two to three years	2,900,000
Due after three to four years	1,000,000
Due after four to five years	2,900,000
Due after five years	–

## Note 11 – Leases

As Lessor

The future minimum rental revenues under existing non-cancelable operating leases as of October 31, 2019 and April 30, 2019 were as follows:

(Thousands of yen)

	As of October 31, 2019	As of April 30, 2019
Due within one year	1,413,378	1,413,378
Due after one year	8,583,414	9,238,431
Total	9,996,792	10,651,809

## Note 12 – Income Taxes

NHI is subject to income taxes in Japan. The effective tax rate on NHI's income based on applicable Japanese tax law was estimated as 0.35% for the fiscal period ended October 31, 2019 and as 0.35% for the fiscal period ended April 30, 2019. The following table summarizes the significant differences between the statutory tax rates and NHI's effective tax rates for financial statement purposes.

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
Statutory tax rate	31.51%	31.51%
Deductible dividends	(31.40)	(31.40)
Others	0.24	0.24
Effective tax rate	0.35%	0.35%

NHI was established as an investment corporation under the Investment Trust Act, and as long as an investment corporation distributes to its unitholders at least 90% of earnings available for dividends for a period and other requirements prescribed in the Special Taxation Measures Law of Japan are met, the investment corporation is allowed to deduct the total amount of dividends, excluding distribution in excess of earnings, in calculating its taxable income under Japanese tax regulations.

The significant components of deferred tax assets and liabilities as of October 31, 2019 and April 30, 2019 were as follows:

	As of October 31, 2019	As of April 30, 2019
Deferred tax assets:		
Accrued enterprise tax	14	14
Total deferred tax assets	14	14
Net deferred tax assets	14	14

## Note 13 – Per Unit Information

Information about net assets per unit and net income per unit as of October 31, 2019 and April 30, 2019 and for the periods then ended were as follows. The computation of net income per unit is based on the daily weighted average number of units outstanding during the period. The computation of net assets per unit is based on the number of units outstanding at each period end.

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
Net assets at period end per unit	137,012yen	137,920 yen
Net income per unit	3,399yen	3,437 yen

Net income per unit is calculated by dividing the net income by the daily weighted average number of investment units issued and outstanding. The diluted net income per unit is not stated as there are no diluted investment units.

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

	For the fiscal period ended October 31, 2019	For the fiscal period ended April 30, 2019
Net income (thousands of yen)	253,678	256,534
Amount not available to ordinary unitholders (thousands of yen)	–	–
Net income available to ordinary unitholders (thousands of yen)	253,678	256,534
Average number of units during the period (units)	74,632	74,632

## Note 14 – Distribution

In accordance with the cash distribution policy described in Article 33-1-1 of the Articles of Incorporation of NHI, NHI determines that the amount of distribution shall exceed the amount equivalent to 90% of its distributable profit as stipulated in Article 67-15 of the Special Taxation Measures Law, and shall be up to its earnings as the maximum amount. Following this policy, NHI has decided that it shall distribute 253,674,168 yen for the fiscal period ended October 31, 2019, which is the maximum integral multiple to 74,632 units issued and outstanding as the distribution of earnings, and 256,510,184 yen for the fiscal period ended April 30, 2019, which is the maximum integral multiple to 74,632 units. In addition, NHI will continue to make distributions in excess of earnings (refund of capital contribution to unitholders) every period in accordance with the cash distribution policy described in Article 33-1-2 of the Articles of Incorporation of NHI. Based on the policy, NHI has decided that it shall distribute 65,676,160 yen, which is calculated as the approximate equivalent of 32% of 203,564,063 yen of the depreciation amount posted for the fiscal period ended October 31, 2019, as distributions in excess of earnings (refund of capital contribution to unitholders) and 64,929,840 yen for the fiscal period ended April 30, 2019, which is calculated as the approximate equivalent of 32% of 202,606,601 yen of the depreciation amount posted for the fiscal period ended April 30, 2019.

(Yen)

	For the fiscal period ended October 31, 2019		For the fiscal period ended April 30, 2019	
	Total	Per unit	Total	Per unit
Unappropriated retained earnings	253,712,805		256,544,639	
Distributions in excess of retained earnings				
Deduction from unit holders' capital	65,676,160		64,929,840	
Distributions				
Distributions of retained earnings	253,674,168	3,399	256,510,184	3,437
Distributions in excess of retained earnings	65,676,160	880	64,929,840	870
Total distributions	319,350,328	4,279	321,440,024	4,307
Retained earnings brought forward	38,637		34,455	

## Note 15 – Transactions with Related Parties

(For the fiscal period ended October 31, 2019)

<b>Classification</b>	Subsidiary of major unitholder
<b>Name of company, etc.</b>	GK DA Healthcare 2
<b>Location</b>	Minato-ku, Tokyo
<b>Capital stock</b> (thousands of yen)	300
<b>Business description</b>	Real estate business
<b>Percentage of voting rights, etc. held by related party</b> (held in NHI)	–
<b>Relation to the related party</b>	Acquisition of trust beneficial interests in real estate
<b>Nature of transaction</b>	Acquisition of trust beneficial interests in real estate (Note 1, 2, 3 and 4)
<b>Amount of transaction</b> (thousands of yen)	394,500
<b>Account</b>	–
<b>Balance at end of period</b> (thousands of yen)	–

Consumption taxes are not included in transaction amounts.

(Note 1) Acquisition of trust beneficiary interests in real estate mentioned above is for Irise Komae Bettei, and the amount of transaction indicates the amount (purchasing amount for real estate, etc. indicated in the sales contract for trust beneficiary interests) that does not include expenses (taxes and dues, etc.) required for the acquisitions of the real estate, etc.

(Note 2) Terms of transaction with interested party are decided based on rules against conflict of interest, which are internal rules of the Asset Management Company.

(Note 3) Terms of transaction are determined based on market prices.

(Note 4) NHI holds the quasi-co-ownership (30%) of the trust beneficial interests in the real estate of Irise Komae Bettei.



## Note 16 – Segment Information

For the fiscal periods ended October 31, 2019 and April 30, 2019

### Segment Information

Segment information has been omitted as NHI has only one segment, which is the property leasing business.

### Related Information

#### Information about Products and Services

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

#### Information about Geographic Areas

##### (1) Operating revenues

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

##### (2) Investment properties

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

#### Information about Major Tenants

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

## Note 17 – Significant Subsequent Events

### (1) Conclusion of Merger Agreement between NHI and JRH

Both REITs resolved at their respective board of directors' meetings held on November 19, 2019, to implement the Merger with the effective date being April 1, 2020, and entered into the Merger Agreement dated November 19, 2019.

#### (A) Purpose of the Merger

To date, both REITs have taken the following measures to ensure stable income over the medium to long term and steady expansion of their assets, taking advantage of their respective characteristics. At the same time, both REITs are also aware of the challenges they face.

JRH has achieved sustained dividend growth by taking advantage of steady demand for rental housing with a focus on the three major metropolitan areas including the 23 wards of Tokyo, as well as other regions, and by establishing a stable portfolio of 227.8 billion yen based on the total acquisition price. However, JRH is affected by changes in the supply-demand conditions in the rental housing investment market, as is the case with other residential J-REITs. For instance, the competition for acquisition of superior properties has intensified under the continued low interest rate environment. In such a situation, JRH has adopted a property replacement strategy with a view to improve the quality of its portfolio as the top priority under the new medium-term targets announced by JRH in May 2019, and has been replacing its owned properties steadily thereafter, but expects that it will take some period of time (approximately three to five years) to complete the strategy.

NHI has developed its expertise on healthcare assets, a growing market, has established good relationships with operators by engaging in numerous transactions with operators, and has accumulated a track record of asset management under the backdrop of social demand for the enhancement of private nursing homes and other facilities for the elderly under the macro environment of age demographics where the youth population is decreasing and the ratio of elderly people is increasing. On the other hand, there are constraints on opportunities for external growth due to factors such as stagnation in its investment unit price due to the small scale of its portfolio assets.

Under such circumstances, given that both REITs are managed by the same asset manager and sponsored by the same company and that both REITs manage assets that can be considered as having a certain degree of affinity in the framework of "places where people live and reside" for a wide range of age groups from single-person households, DINKS (double-income households with no kids), and families to senior households, expansion of their current respective investment targets from rental housing/healthcare facilities to those with a certain degree of affinity in the above framework through the Merger would enable JRH to secure investment opportunities in other asset classes when property

acquisition opportunities decrease due to changes in the supply-demand conditions in the rental housing investment market, as well as to secure opportunities to acquire healthcare facilities warehoused by the same sponsor after the Merger. This would enable NHI to secure large-scale external growth opportunities and improve stability in its portfolio income and risk diversification by increasing the likelihood of equity financing through future issuance of new investment units as a result of expansion of asset size and market capitalization. Therefore, both REITs believe that the Merger would contribute to resolving the challenges faced as stated above. In addition, both REITs share the view that as a result of industry reorganization and new entries led by major companies in the healthcare industry, the credit risk of healthcare operators, which had been an issue of concern, has declined and thereby the cap rates of rental housing and healthcare facilities are now considered to be almost converging. Accordingly, both REITs reached the conclusion that the Merger would combine the characteristics and strengths of the two and recharacterize them as a REIT that “comprehensively provides comfortable living spaces suited to each life stage” and it would therefore contribute to ensuring further growth in the future and thereby maximize unitholders’ value by securing earnings and stabilizing and improving distributions. Accordingly, both REITs entered into the Merger Agreement as of today.

(B) Method of Merger

JRH will be the surviving corporation under the absorption-type merger and NHI will be dissolved upon the Merger.

(C) Merger Ratio

	JRH (Surviving corporation in the absorption-type merger)	NHI (Absorbed corporation in the absorption-type merger)
Allocation of units upon the Merger	1	2.05

(Note 1) The number of new JRH investment units to be issued upon the Merger: 152,995 investment units (scheduled)

(Note 2) Fractions of less than one unit will arise with respect to the number of investment units to be allotted to the unitholders of NHI through the allotment of 2.05 units of JRH per unit of NHI. These fractional units will be sold through a market transaction in accordance with statutory provisions, and the proceeds from the sale will be delivered to the unitholders who are allocated fractions in proportion to the size of their fractional units to be allocated.

(D) Payment on Merger

After the Merger, in lieu of cash distributions to the unitholders of NHI for NHI’s final accounting period from November 1, 2019, to March 31, 2020, JRH, the surviving corporation, will, within a reasonable period after the effective date of the Merger, make a payment on the Merger based on the distributable amount of NHI to the unitholders of NHI (the unitholders listed or recorded on the final unitholders register of NHI as of the day immediately prior to the effective date of the Merger (excluding the unitholders of NHI who have demanded the purchase of their investment units pursuant to the provisions of Article 149-3 of the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the “Allotted Unitholders”))) or the registered pledgees of investment units held by Allotted Unitholders, in an amount equivalent to the cash distributions for the abovementioned period (the payment will be the amount of distributable profit of NHI as of the day immediately prior to the effective date of the Merger divided by the number of investment units that is obtained by deducting (a) the number of investment units held by the unitholders other than the Allotted Unitholders of NHI from (b) the total number of investment units issued and outstanding of NHI as of the day immediately prior to the effective date of the Merger (rounded down to the nearest yen). The same applies hereinafter.)

(E) Overview of the fiscal period immediately preceding the Merger (fiscal period ended September 2019) of the surviving corporation (JRH)

Business activities: Managing assets of investment corporations by investing mainly in real estate, etc. among other specified assets, based on the Investment Trusts Act

Operating revenue: 8,460 million yen

Net income: 3,364 million yen

Assets: 227,187 million yen

Liabilities: 118,740 million yen

Net assets: 108,447 million yen

(F) Date of the Merger

The Merger is scheduled to take effect on April 1, 2020.

(2) Decision on Acquisition of Assets

NHI concluded sales and purchase agreements concerning acquisition of the following assets on November 19, 2019, and decided on the acquisitions contingent upon the effectuation of the Merger, etc. The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from the Investment Corporation to JRH on April 1, 2020, which is the effective date of the Merger.

Property name	Type of asset	Location	Scheduled acquisition price (thousands of yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
AIP Kachidoki-Ekimaie	Trust beneficiary interests	Chuo-ku, Tokyo	8,150,000	November 19, 2019	April 2, 2020	(Note 6)
PLAISANT GRAND MINAMI YUKIGAYA	Trust beneficiary interests	Ota-ku, Tokyo	3,380,000			(Note 8)
Aira no mori Higashi-Ofuna	Trust beneficiary interests	Yokohama-shi, Kanagawa	2,271,195			(Note 9)
Aira no mori Shakujiko	Trust beneficiary interests	Nerima-ku, Tokyo	2,070,000			(Note 7)
Aira no mori Edogawa-Shinozaki	Trust beneficiary interests	Edogawa-ku, Tokyo	1,499,307			(Note 7)
Senior Forest Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	1,202,000			(Note 10)
Sompo no ie Toyonaka-Minamisone	Trust beneficiary interests	Toyonaka-shi, Osaka	825,000			(Note 5)
Irise Komae Bettei (additional acquisition)	Trust beneficiary interests	Komae-shi, Tokyo	920,500			(Note 5)
Alpha Living Takamatsu Konyamachi	Trust beneficiary interests	Takamatsu-shi, Kagawa	1,225,000			(Note 5)
Good Time Living Center-Minami, Platesia Center-Minami	Trust beneficiary interests	Yokohama-shi, Kanagawa	11,150,000			(Note 11)
Good Time Living Chibaminato-Kaigandori Platesia Chibaminato	Trust beneficiary interests	Chiba-shi, Chiba	4,516,000			(Note 11)
Good Time Living Yokohama-Tsuzuki	Trust beneficiary interests	Yokohama-shi, Kanagawa	4,064,000			(Note 11)
Good Time Living Senri-Hinatagaoka	Trust beneficiary interests	Suita-shi, Osaka	2,800,000			(Note 11)
Good Time Living Nakamozu	Trust beneficiary interests	Sakai-shi, Osaka	2,180,000			(Note 11)
Good Time Living Kourigaoka	Trust beneficiary interests	Hirakata-shi, Osaka	2,120,000			(Note 11)
Good Time Living Kameido	Trust beneficiary interests	Koto-ku, Tokyo	1,860,000			(Note 11)
Good Time Living Mikage	Trust beneficiary interests	Kobe-shi, Hyogo	1,820,000			(Note 11)

Property name	Type of asset	Location	Scheduled acquisition price (thousands of yen) (Note 1)	Date of conclusion of sale and purchase agreement	Scheduled acquisition date	Seller
Good Time Living Amagasaki-Shintoshin	Trust beneficiary interests	Amagasaki-shi, Hyogo	1,585,000	November 19, 2019	April 2, 2020	(Note 11)
Good Time Living Minami Senri	Trust beneficiary interests	Suita-shi, Osaka	1,430,000			(Note 11)
Good Time Living Kobe-Tarumi	Trust beneficiary interests	Kobe-shi, Hyogo	1,370,000			(Note 11)
Good Time Living Chibaminato-Ekimaedori	Trust beneficiary interest	Chiba-shi, Chiba	1,320,000			(Note 11)
Good Time Living Senboku-Izumigaoka	Trust beneficiary interests	Sakai-shi, Osaka	980,000			(Note 11)
Good Time Living Ikeda-Midorigaoka	Trust beneficiary interests	Ikeda-shi, Osaka	920,000			(Note 11)
Good Time Living Nagatsuta-Minamidai	Trust beneficiary interests	Yokohama-shi, Kanagawa	850,000			(Note 11)
Good Time Living Saitama-Hasuda	Trust beneficiary interests	Hasuda-shi, Saitama	659,000			(Note 11)
Good Time Living Nagareyama-Ichibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	610,000			(Note 11)
Good Time Living Nagareyama-Nibankan	Trust beneficiary interests	Nagareyama-shi, Chiba	563,000			(Note 11)
Good Time Living Amagasaki-Ekimaie	Trust beneficiary interests	Amagasaki-shi, Hyogo	320,000			(Note 11)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>62,660,002</b>	<b>–</b>	<b>–</b>	<b>–</b>

(Note 1) Scheduled acquisition price indicates an amount excluding expenses required for the acquisition of the real estate (intermediary fees, taxes and public dues, etc.) stated in the purchase and sale agreement of the real estate.

(Note 2) Funds procured in the issuance of new investment units through third-party allotment, proceeds from sale in the sale of assets, cash on hand and borrowings scheduled to be announced in the future are scheduled to be allocated to funds for the acquisition.

(Note 3) There is no intermediary in the acquisition of the respective Assets to be Acquired.

(Note 4) The position as well as the rights and obligations of the buyer in the sales and purchase agreement for the Assets to be Acquired are scheduled to be succeeded from NHI to JRH based on the Merger on April 1, 2020, which is the effective date of the Merger, and acquired by JRH, the surviving corporation of the Merger.

(Note 5) The seller is GK DA Healthcare 2.

(Note 6) The seller is GK DA Healthcare 3.

(Note 7) The seller is GK DA Healthcare 4.

(Note 8) The seller is GK DA Healthcare 5.

(Note 9) The seller is GK DA Healthcare 6.

(Note 10) The seller is GK DA Healthcare 7.

(Note 11) The seller is GK GTL Healthcare.

# VIII. Independent Auditor's Report

## Independent Auditor's Report

To the Board of Directors of  
Nippon Healthcare Investment Corporation

We have audited the accompanying financial statements of Nippon Healthcare Investment Corporation (a Japanese Real Estate Investment Trust), which comprise the balance sheets as at October 31, 2019 and April 30, 2019, and the statements of income, statements of changes in net assets and statements of cash flows for each of the six months periods then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for 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.

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nippon Healthcare Investment Corporation as at April 30, 2019 and October 31, 2018, and their financial performance and cash flows for each of the six months periods then ended in accordance with accounting principles generally accepted in Japan.

### **Emphasis of Matter**

We draw attention to Note 17 to the financial statements, which states conclusion of merger agreement between Nippon Healthcare Investment Corporation and Japan Rental Housing Investments, Inc. and decision on acquisition of assets. Our opinion is not modified in respect of this matter.

KPMG AZSA LLC

January 21, 2020

Tokyo, Japan





# IX. Description of Asset Manager

## Organization of Asset Manager (as of December 19, 2019)

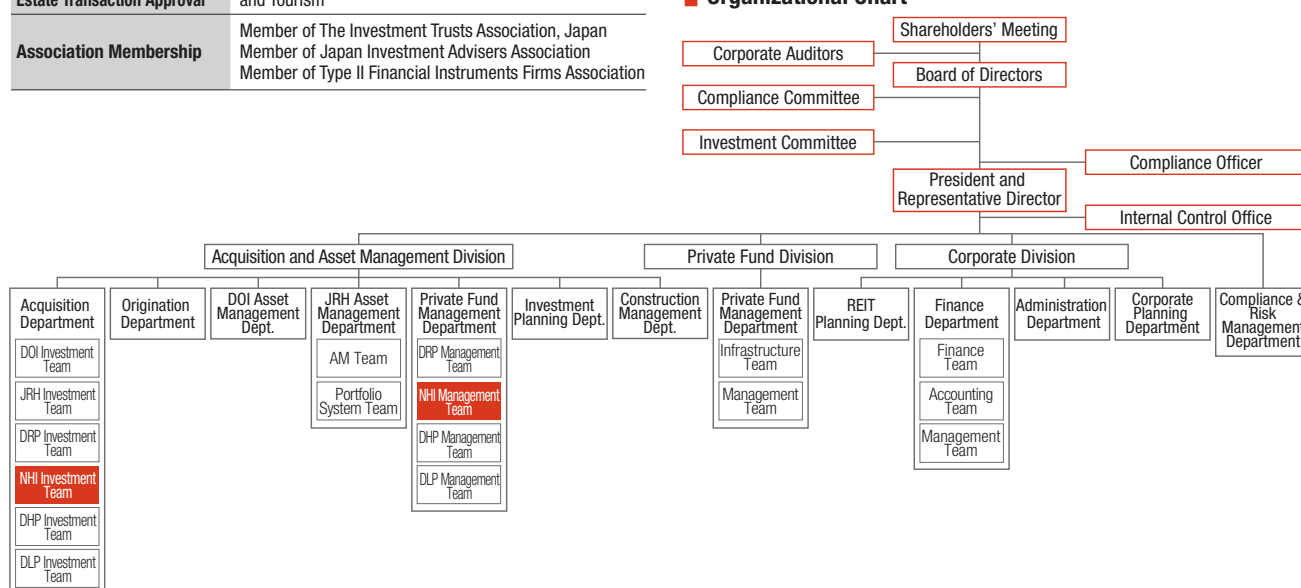
### Corporate Profile

<b>Company Name</b>	Daiwa Real Estate Asset Management Co., Ltd.
<b>Address</b>	6-2-1 Ginza, Chuo-ku, Tokyo
<b>Established</b>	October 21, 2004
<b>Paid-in Capital</b>	200 million yen
<b>President</b>	Toshio Fukushima
<b>Board of Directors</b>	9 Executive directors: 5 Executive auditors: 1 Non-executive directors: 1; Non-executive auditors: 2
<b>Employees</b>	114 (excluding dispatched employees)
<b>Registration of Financial Instruments Business Operator</b>	Registration No. 355 (Financial Instruments), Director General, Kanto Local Finance Bureau (Kinsho)
<b>Building Lots and Buildings Transaction Business License</b>	License No. (4)-83920, Governor of Tokyo
<b>Discretionary Agent for Real Estate Transaction Approval</b>	License No. 34, Minister of Land, Infrastructure, Transport and Tourism
<b>Association Membership</b>	Member of The Investment Trusts Association, Japan Member of Japan Investment Advisers Association Member of Type II Financial Instruments Firms Association

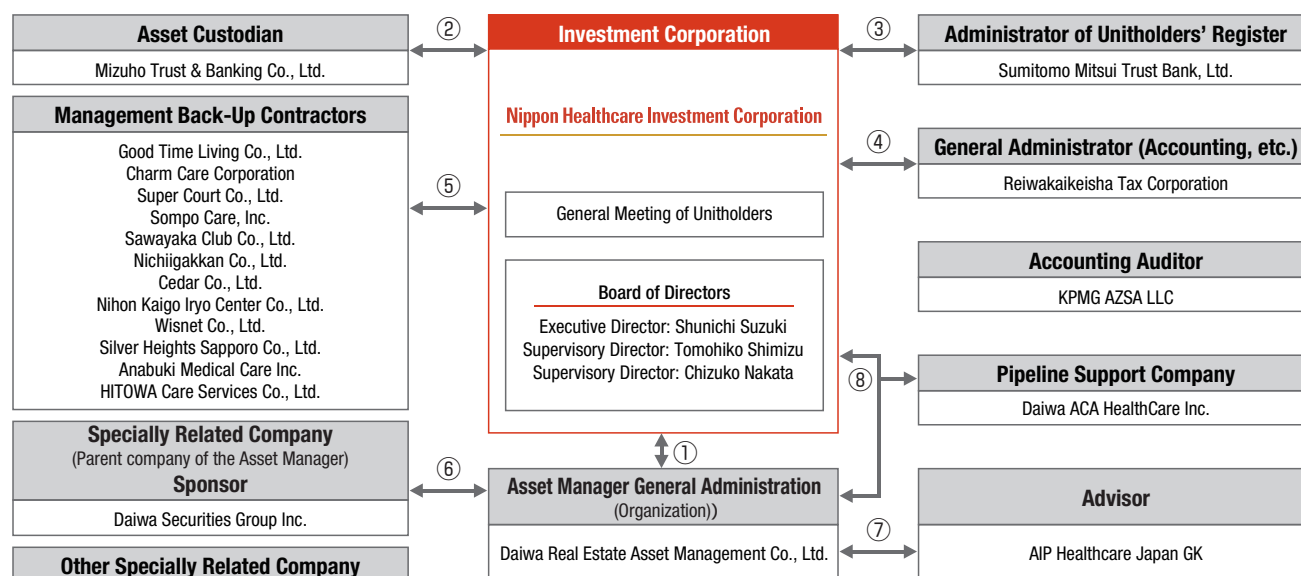
### Directors and Auditors

<b>Chairman of the Board</b>	Akira Yamanouchi
<b>President and Representative Director</b>	Toshio Fukushima
<b>Vice President and Representative Director</b>	Yoshiki Nishigaki
<b>Director</b>	Hajime Imbe
<b>Director</b>	Yuji Shinotsuka
<b>Director (non-executive)</b>	Keiichi Ishikawa
<b>Auditor</b>	Tamaki Shibayama
<b>Auditor (non-executive)</b>	Sachiko Hanaoka
<b>Auditor (non-executive)</b>	Shinji Kiso

### Organizational Chart



## Structure (as of December 19, 2019)



- ① Asset management agreement/General administration affairs agreement related to operation  
② Asset custodian agreement  
③ General administrator of unitholders' registry agreement

- ④ General administrator of accounting agreement  
⑤ Management back-up agreement  
⑥ Sponsor support agreement

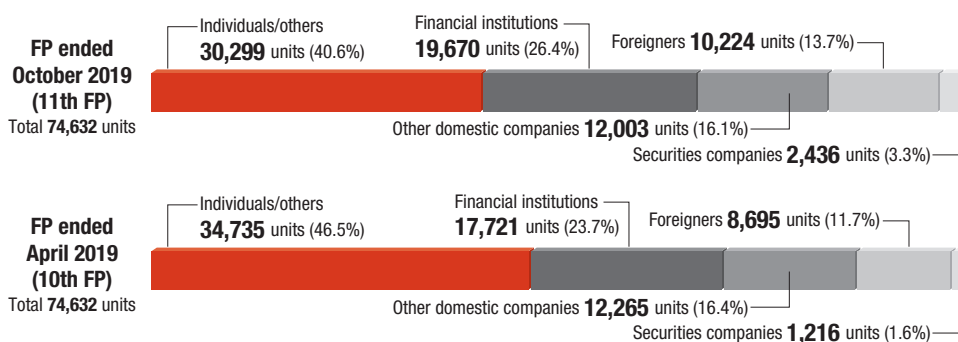
- ⑦ Advisory agreement  
⑧ Pipeline support agreement

## History of Investment Unit Prices



## Overview of Investment Units and Unitholders (as of October 31, 2019)

### No. of Investment Units by Investor Type



### No. of Unitholders by Investor Type

Individuals/others	8,302 (97.2%)
Financial institutions	22 (0.3%)
Other domestic companies	114 (1.3%)
Foreigners	77 (0.9%)
Securities companies	24 (0.3%)
<b>Total</b>	<b>8,539</b>

(Note) Rounded to the first decimal place

## Top Ten Unitholders (as of October 31, 2019)

	Name of Investor	Number of Units Owned (units)	Percentage Share (%)
1.	Daiwa Securities Group Inc.	7,600	10.2
2.	The Master Trust Bank of Japan, Ltd. (Trust Account)	6,036	8.1
3.	Japan Trustee Services Bank Ltd. (Trust Account)	4,396	5.9
4.	SCB SG S/A SCB THAILAND AC FOR CIMBPRINCIPAL PROPERTY JP000294300545	3,001	4.0
5.	NOTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	2,800	3.8
6.	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	2,677	3.6
7.	Trust & Custody Services Bank Ltd. (Securities Investment Trust Account)	1,845	2.5
8.	Daiwa Real Estate Asset Management Co., Ltd.	1,000	1.3
9.	Fukui Medical Credit Association	945	1.3
10.	UENOYA BUILDING Co. Ltd.	940	1.3
	<b>Total</b>	<b>31,240</b>	<b>42.0</b>

(Note) Rounded to the first decimal place

## Merger Related Schedule

2019	
November 19	Conclusion of merger agreement, etc.
December 13	Record date for general meeting of unitholders
2020	
February 4	Holding of general meeting of unitholders
March 30	Delisting
March 31	End of final fiscal period (from November 1, 2019 to March 31, 2020)
April 1	Effective date of the merger
Mid-June	Payment of cash delivered upon the merger
End of September	End of first fiscal period after the merger (fiscal period ending September 2020)

## Investor Memo

<b>End of fiscal period</b>	April 30 and October 31 of each year
<b>General Meeting of Unitholders</b>	Held at least once every two years
<b>Date for finalizing Unitholders with voting rights for the General Meeting of Unitholders</b>	Date specified in Article 16 of the Articles of Incorporation
<b>Reference date for finalizing payment of distributions</b>	April 30 and October 31 of each year (distributions are paid within three months of the reference date)
<b>Listed financial instruments exchange</b>	Tokyo Stock Exchange (securities code: 3308)
<b>Newspaper in which notice is posted</b>	The Nikkei
<b>Manager of Unitholder Registry, etc.</b>	Sumitomo Mitsui Trust Bank, Limited, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233
<b>Office handling administrative affairs</b>	Transfer Agency Department of Sumitomo Mitsui Trust Bank, Limited, 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063 Phone 0120-782-031 (toll-free in Japan)
<b>Service counter</b>	Head Office and all branches of the Sumitomo Mitsui Trust Bank nationwide

(Note) From February 14, 2020, the Manager of Unitholder Registry, etc. is scheduled to be changed to Mitsubishi UFJ Trust and Banking Corporation (Address: 1-4-5 Marunouchi, Chiyoda-ku, Tokyo). The office handling administrative affairs will be as follows:

Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation ● Address: 1-1 Nikko-cho, Fuchu-shi, Tokyo ● Mailing address: P.O. Box No. 29, Shin-Tokyo Post Office 137-8081  
● TEL: 0120-232-711 (toll-free in Japan)

## Procedures for Changing Address, Etc.

Please notify the securities company you are dealing with for changes in address, name, etc. For procedures concerning investment units recorded in special account, please contact Stock Transfer Agency Department at Sumitomo Mitsui Trust Bank, Limited (TEL: 0120-782-031 (toll-free in Japan)), but from February 14, 2020, Corporate Agency Division at Mitsubishi UFJ Trust and Banking Corporation (TEL: 0120-232-711 (toll-free in Japan)).

## Distributions

Distributions will be payable upon presenting the “Receipt for Distributions” at a post office nearby. If the due date has passed, please designate the method of receiving on the back of the receipt and send it to Stock Transfer Agency Department at Sumitomo Mitsui Trust Bank, Limited, but from February 14, 2020, Corporate Agency Division at Mitsubishi UFJ Trust and Banking Corporation, or bring it to the head office or branch offices of the bank to receive it. Please note that distributions will not be payable after three years of the payment start date as specified by the Articles of Incorporation of NHI.

If you wish to receive distributions via bank transfer, etc. in the future, please contact the securities company you are dealing with.

## Notice

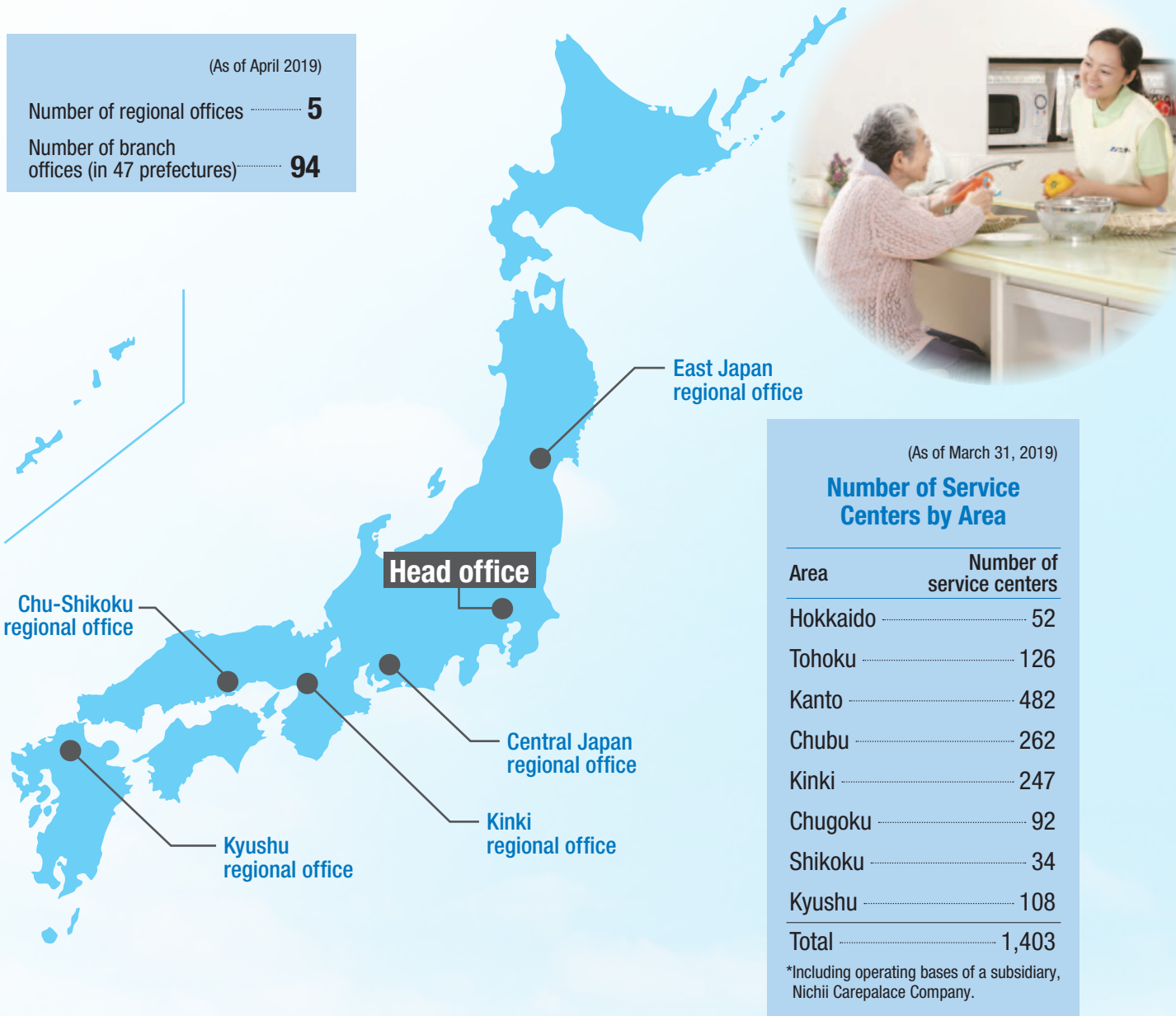
### [Concerning Statement of Distributions]

The “Statement of Distributions” sent upon payment of distributions serves as a “Notice of Payment” required pursuant to the Act on Special Measures Concerning Taxation. The document may be used to confirm the amount of distributions after receiving, or can serve as an attachment document upon filing a tax return. Thus please make sure to keep it if you are planning to file a tax return. However, if you have selected the method of allocation of dividends in proportion to the number of shares, the amount of withholding tax will be calculated by the securities company, etc. Please confirm with the securities company you are dealing with for any attachment document required for filing a tax return.

# Nichii's Network

We perform community-rooted “total long-term care services” for in-home and facility care at around 1,400 bases in 47 prefectures across Japan.

Currently, we provide long-term care services to about 130,000 people around the country.



## Company Profile

Making kindness our strength.



**Name**  
NICHII GAKKAN CO., LTD.

**Founded**  
December 1968

**Established**  
August 1973

**Capital**  
11,933 million yen (as of March 31, 2019)

**Net sales (consolidated)**  
287,882 million yen (as of March 31, 2019)

**Number of employees (consolidated)**  
Employees: 35,745 (as of March 31, 2019)  
Sub-contract employee: 60,247 (average for the period ended March 2019)

**Banks**  
MUFG Bank, Ltd., Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, Kiraboshi Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation, and Sumitomo Mitsui Trust Bank, Ltd.

**Major business partners**  
Government agencies, municipalities, medical institutions, schools, companies, etc.



# Making Kindness Our Strength



Since its establishment in 1968, Nichii Group has worked to pioneer new value and services in anticipation of market needs and changes in the social environment, establishing its position as a leading company in its three main businesses: education, medical support, and long-term care. In recent years, given progress in childcare support and globalization, we have expanded into childcare and language education. As a provider of total life services, we have developed a wide range of daily living assistance services and have endeavored to create prosperous lives.

Japan has become a super-aging society. Almost every day, the media reports on issues associated with the declining birth rate and aging population. In 2025, baby boomers will become 75 or older. In this environment, Nichii Group will strive to contribute as much as possible in the fields of medical support, long-term care, and childcare to the creation of communities where women and the elderly can work and live without undue concern by making the most of our long-term experience as a leading company in the industry.

As the labor force is expected to decline over the long term due to the effects of the declining birthrate and the aging population, it is necessary to shift the paradigm of business development in the service industry where “workers” are indispensable.

In view of these circumstances, in order to realize long-term stable growth of the company, we have responded to diversifying societal needs and, simultaneously, we have been working on building new pillars of business growth.

The Cabinet Office is promoting the success of women; as such, we

have developed housekeeping support services operated by Filipinos in the National Strategic Special Zones. We have opened a pet grooming salon based on the health of dogs. We are also developing nursing care services in China. Using the service expertise we have cultivated, we are striving to improve corporate value through the development of new businesses that create synergy.

Responding to rapid changes in social conditions, we introduced diverse work patterns and established nursery schools for employees, and we have devoted considerable effort to creating a pleasant working environment. To develop a company, the support of good employees is a must.

This is why we believe that a corporate culture that nurtures and maintains forward growth while supporting each and every employee is becoming increasingly important.

We aim to continue being an excellent company full of vitality by making full use of the Nichii Group's unique core competencies such as excellent employees, business scale, and service expertise.

The determination to cultivate the inherent kindness of consideration for other people from the heart into the sincere strength that supports society is reflected in Nichii Group's slogan of “Making kindness our strength.”

Bearing this determination in mind, we aspire to continue to be a company that will develop operations, both in Japan and overseas, that support society with kindness to people and that will contribute to people and society.

**Nobusuke Mori**

President and COO

## Affiliation

Japan Home Care Association  
Keidanren (Japan Business Federation)  
Japan Staffing Services Association (JASSA)  
Japan Municipal Hospital Association  
National Medical Promotion Association  
Japan Health Enterprise Foundation  
Japan Hospital Association  
Japan Assistive Products Association (JASPA)  
Elderly Service Providers Association

Japan Association of Personnel Ability Development  
Japan Medical Insurance Administration Association  
Japan Visiting Nursing Foundation  
Japan Child Upbringing Conference  
Australian Labradoodle Association Japan (ALAJ)  
The Association for the Promotion of International Trade, Japan  
DPC Management Association  
Compliance Promotion Council  
Financial Accounting Standards Foundation

Kanagawa Welfare Service Association  
Kansai Silver Service Association  
Care Work Foundation  
The Kobe Chamber of Commerce and Industry  
Japan Investor Relations Association  
The 21st Century Public Policy Institute  
Japan Audit Bureau of Circulations  
Japanese Council of Daily Life Long-Term Care Service Facilities

(As of March 31, 2019)

# Nichii’s “Total Long-Term Care Services”

“Total long-term care services” available throughout the country provide you with the care that you need when you need it. We deliver trusted services as a leading company in the long-term care industry.



We all want to live fully in our own way for as long as possible. To help realize such a wish, Nichii provides total long-term care services across the nation. A broad range of services accommodating physical and living conditions of the elderly are provided in cooperation with doctors, nurses and family members, such as preventive care for unassisted living, home visit care in which helpers come to your home and fee-based nursing homes with reliable around-the-clock support. Nichii offers long-term care and welfare services rooted in communities with an aim to create a gentle society where all people can live with peace of mind.



Fee-based  
homes for  
the elderly

## Residential facility service



Group homes



Elderly housing with  
supportive services

Housekeeping service

Healthcare products

# NICHIIGAKKAN CO., LTD.



Making kindness our strength.

