

Semi-Annual Report
9th Fiscal Period

Hoshino Resorts REIT, Inc.

3-6-18 Kyobashi, Chuo-ku, Tokyo

(from May 1, 2017 to October 31, 2017)

I. Asset Management Report

1. Overview of asset management

(1) Trend in key indicators

Fiscal period		5th fiscal period (From May 1, 2015 to October 31, 2015)	6th fiscal period (From November 1, 2015 to April 30, 2016)	7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Operating revenue	(millions of yen)	1,926	3,559	3,981	4,462	4,644
Of the above, operating revenue from real estate leasing	(millions of yen)	1,926	3,559	3,981	4,462	4,644
Operating expenses	(millions of yen)	892	1,645	1,884	2,195	2,268
Of the above, operating expenses from real estate leasing	(millions of yen)	628	1,303	1,428	1,682	1,753
Operating profit	(millions of yen)	1,034	1,914	2,097	2,266	2,376
Ordinary profit	(millions of yen)	909	1,601	1,816	1,901	2,065
Profit	(millions of yen)	908	1,600	1,815	1,900	2,064
Total assets	(millions of yen)	48,412	101,941	105,709	123,204	126,998
(Change from previous period)	(%)	29.4	110.6	3.7	16.5	3.1
Net assets	(millions of yen)	37,022	69,507	74,407	74,491	79,596
(Change from previous period)	(%)	33.5	87.7	7.0	0.1	6.9
Interest-bearing liabilities	(millions of yen)	9,001	28,385	27,160	43,034	42,909
Unitholders' capital	(millions of yen)	36,113	67,906	72,591	72,591	77,532
Total number of investment units issued and outstanding	(units)	49,689	78,008	81,757	163,514	172,670
Net assets per unit (net asset value)	(Note 3) (yen)	745,077	445,516	455,052	455,568	460,974
Total distributions	(millions of yen)	908	1,600	1,815	1,900	2,064
Distributions per unit	(yen)	18,289	20,520	22,209	11,621	11,956
Of the above, distributions of earnings per unit	(yen)	18,289	20,520	22,209	11,621	11,956
Of the above, distributions in excess of earnings per unit	(yen)	–	–	–	–	–
Ratio of ordinary profit to total assets	(Note 4) (%)	2.1	2.1	1.7	1.7	1.7
(Annualized)	(Note 5) (%)	4.2	4.3	3.5	3.3	3.3
Return on equity	(Note 4) (%)	2.8	3.0	2.5	2.6	2.7
(Annualized)	(Note 5) (%)	5.6	6.0	5.0	5.1	5.3

Fiscal period	5th fiscal period (From May 1, 2015 to October 31, 2015)	6th fiscal period (From November 1, 2015 to April 30, 2016)	7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Unitholders' equity to total assets (Note 4) (%)	76.5	68.2	70.4	60.5	62.7
(Change from previous period) (%)	2.3	(8.3)	2.2	(9.9)	2.2
Payout ratio (Note 4) (%)	100.0	100.0	100.0	100.0	100.0
[Other Information]					
Number of operating days (days)	184	182	184	181	184
Number of properties at end of period (properties)	39	46	47	48	49
Depreciation during period (millions of yen)	410	735	831	956	1,013
Capital expenditures during period (millions of yen)	170	635	1,037	2,230	762
Rental NOI (Net Operating Income) (Note 4) (millions of yen)	1,708	2,992	3,384	3,736	3,904
FFO (Funds from Operation) (Note 4) (millions of yen)	1,319	2,337	2,647	2,857	3,078
FFO per unit (Note 4) (yen)	26,564	29,958	32,384	17,472	17,830
Total distributions / FFO ratio (Note 4) (%)	68.8	68.5	68.6	66.5	67.1
Ratio of interest-bearing liabilities to total assets at end of period (LTV) (%)	18.6	27.8	25.7	34.9	33.8

(Note 1) The amounts of operating revenue, etc. do not include consumption taxes.

(Note 2) Unless otherwise stated, monetary amounts are rounded down to the nearest indicated unit and percentage figures are rounded to one decimal place in this report.

(Note 3) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016. Net assets per unit is calculated based on the assumption that the split of investment units was implemented at the beginning of the 6th fiscal period.

(Note 4) The following formulas are used for the calculation:

Ratio of ordinary profit to total assets	$\text{Ordinary profit} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$
Return on equity	$\text{Profit} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
Unitholders' equity to total assets	$\text{Net assets at end of period} / \text{Total assets at end of period} \times 100$
Payout ratio	$\text{Distributions per unit (excluding distributions in excess of earnings)} / \text{Basic earnings per unit} \times 100$ Payout ratio for the 5th fiscal period, 6th fiscal period, 7th fiscal period, and 9th fiscal period is calculated by the following formula due to the issuance of new investment units: $\text{Total distributions (excluding distributions in excess of earnings)} / \text{Profit} \times 100$
Rental NOI (Net Operating Income)	$\text{Operating revenue from real estate leasing} - \text{Operating expenses from real estate leasing} + \text{Depreciation} + \text{Loss on retirement of non-current assets}$
FFO (Funds from Operation)	$\text{Profit} + \text{Depreciation} + \text{Loss on retirement of non-current assets} + \text{Loss on disposal of property and equipment} - \text{Gains (losses) from sales of properties}$
FFO per unit	$\text{FFO} / \text{Total number of investment units issued and outstanding}$
Total distributions / FFO ratio	$\text{Total distributions (including distribution in excess of earnings)} / \text{FFO} \times 100$

(Note 5) Annualized portion of the calculation assumes 184 days for the 5th fiscal period, 182 days for the 6th fiscal period, 184 days for the 7th fiscal period, 181 days for the 8th fiscal period, and 184 days for the 9th fiscal period.

(2) Performance review of HRR for the fiscal period under review

i) Brief history of HRR

Hoshino Resorts REIT, Inc. (“HRR”) invests in hotels, ryokans (Japanese-style inns) and ancillary facilities that serve at the core of the tourism industry and for which stable use is expected for the medium to long term.

HRR was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereinafter, the “Investment Trusts Act”) with Hoshino Resort Asset Management Co., Ltd. (hereinafter, the “Asset Management Company”) as the organizer and with investments in capital of 150 million yen (300 investment units) on March 6, 2013. An issuance of new investment units through public offering (19,000 units) was implemented on July 11, 2013 as the payment due date, and the investment securities were listed on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. (hereinafter, “Tokyo Stock Exchange”) (securities code: 3287) on July 12, 2013. HRR has steadily expanded its asset size since that time, having additionally acquired one hotel operated by the Hoshino Resorts Group (Hoshino Resorts Inc. (hereinafter, “Hoshino Resorts”) and its parent company and subsidiaries (hereinafter, the “Hoshino Resorts Group”)) in May 2017 and having additionally acquired a ryokan annex operated by the Hoshino Resorts Group as an asset under management of HRR in July 2017, in the fiscal period under review. As a result, the assets held by HRR at the end of the fiscal period under review were 49 properties (sum total of acquisition price: 113,435 million yen).

ii) Investment environment and business performance

The Japanese economy continued along a gradual recovery trend in the fiscal period under review, reflecting continued improvement in the employment and income environments as well as improved corporate earnings in response to the yen’s depreciation and a global recovery in the manufacturing industry. In the tourism market, the Japanese government has positioned tourism as a pillar of its growth strategies and is aiming to achieve 40 million inbound tourists with inbound tourists’ spending amount of 8 trillion yen by 2020. The number of tourists continues to increase. In the environment described above, the hotels/ryokans held by HRR were managed with a goal of securing stable earnings in the fiscal period under review, resulting in stable operational results in the fiscal period ended October 31, 2017.

iii) Overview of fund procurement

In the fiscal period under review, 4,705 million yen was procured from the issuance of new investment units through primary offering on May 1, 2017; 235 million yen was procured from the issuance of new investment units through third-party allotment on May 23, 2017; and, a part of the funds procured from the primary offering were allocated to the funds for acquisition of HOSHINOYA Fuji. Remaining funds, along with the funds procured through the third-party allotment, were retained as cash on hand, of which 354 million yen has been allocated to the funds for acquisition of HOSHINOYA Kyoto Annex and to the contract price of construction contract agreement thereof.

In addition, in order to procure funds for repayment of the principal of an existing loan due for repayment, 700 million yen was procured from debt financing on May 2, 2017; and 1,500 million yen was procured from debt financing on October 31, 2017.

Furthermore, scheduled payment was made, resulting in balance of loans outstanding of 42,909 million yen and ratio of interest-bearing liabilities to total assets (LTV) of 33.8% as of October 31, 2017.

In addition, as of the end of the fiscal period under review, HRR has been assigned a long-term issuer rating of “A- (rating outlook: stable)” from Japan Credit Rating Agency, Ltd. (JCR).

iv) Overview of business performance and distributions

As a result of the management described above, business performance in the fiscal period under review resulted in operating revenue of 4,644 million yen, operating profit of 2,376 million yen, ordinary profit of 2,065 million yen and profit of 2,064 million yen. Concerning distributions, to ensure 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, as amended; hereinafter, the “Act on Special Measures Concerning Taxation”)), the decision was made to distribute almost the entire amount of unappropriated retained earnings and distribution per investment unit was 11,956 yen.

(3) Status of capital increase, etc.

The following are the changes in unitholders' capital and total number of investment units issued and outstanding since the establishment of HRR through October 31, 2017.

Date	Event	Unitholders' capital (thousands of yen)		Total number of investment units issued and outstanding (units)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
March 6, 2013	Establishment through private placement	150,000	150,000	300	300	(Note 1)
July 11, 2013	Capital increase through public offering	9,302,400	9,452,400	19,000	19,300	(Note 2)
August 12, 2013	Capital increase through third-party allotment	465,120	9,917,520	950	20,250	(Note 3)
May 1, 2014	Capital increase through public offering	16,547,762	26,465,282	22,000	42,250	(Note 4)
May 27, 2014	Capital increase through third-party allotment	540,810	27,006,092	719	42,969	(Note 5)
May 1, 2015	Capital increase through public offering	8,673,580	35,679,673	6,400	49,369	(Note 6)
May 26, 2015	Capital increase through third-party allotment	433,679	36,113,352	320	49,689	(Note 7)
November 2, 2015	Capital increase through public offering	30,279,030	66,392,382	26,970	76,659	(Note 8)
November 25, 2015	Capital increase through third-party allotment	1,514,512	67,906,895	1,349	78,008	(Note 9)
May 2, 2016	Capital increase through public offering	4,461,050	72,367,946	3,570	81,578	(Note 10)
May 24, 2016	Capital increase through third-party allotment	223,677	72,591,623	179	81,757	(Note 11)
November 1, 2016	Split of investment units	–	72,591,623	81,757	163,514	(Note 12)
May 1, 2017	Capital increase through public offering	4,705,163	77,296,787	8,720	172,234	(Note 13)
May 23, 2017	Capital increase through third-party allotment	235,258	77,532,045	436	172,670	(Note 14)

- (Note 1) Upon establishment of HRR, new investment units were issued at an offer price of 500,000 yen per unit.
- (Note 2) For the purpose of allocating funds for acquisition of specified assets and repayment of loans, new investment units were issued through public offering at an offer price of 510,000 yen (paid-in amount of 489,600 yen) per unit.
- (Note 3) For the purpose of allocating funds for acquisition of specified assets and repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 489,600 yen per unit.
- (Note 4) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 780,178 yen (paid-in amount of 752,171 yen) per unit.
- (Note 5) For the purpose of allocating funds for repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 752,171 yen per unit.
- (Note 6) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,404,215 yen (paid-in amount of 1,355,247 yen) per unit.
- (Note 7) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,355,247 yen per unit.
- (Note 8) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,162,024 yen (paid-in amount of 1,122,693 yen) per unit.
- (Note 9) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,122,693 yen per unit.
- (Note 10) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,294,745 yen (paid-in amount of 1,249,594 yen) per unit.
- (Note 11) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,249,594 yen per unit.
- (Note 12) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016.

(Note 13) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 559,080 yen (paid-in amount of 539,583 yen) per unit.

(Note 14) For the purpose of allocating funds for part of the funds for acquisition of specified assets or part of the funds for repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 539,583 yen per unit.

[Changes in market price of investment unit]

The highest and lowest unit prices (closing price) of the investment units of HRR listed on J-REIT section of the Tokyo Stock Exchange for each period are as follows:

Fiscal period	5th fiscal period (From May 1, 2015 to October 31, 2015)	6th fiscal period (From November 1, 2015 to April 30, 2016)	7th fiscal period (Note) (Before ex rights) (From May 1, 2016 to October 31, 2016)	7th fiscal period (Note) (After ex rights) (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Highest (Yen)	1,448,000	1,399,000	1,330,000	626,000	623,000	598,000
Lowest (Yen)	1,035,000	1,104,000	1,203,000	615,000	562,000	547,000

(Note) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016. Accordingly, transactions have been made at ex rights price on and after October 27, 2016.

(4) Distributions, etc.

With the aim of having the maximum amount of distributable profit deducted as expense pursuant to Article 67-15 of the Act on Special Measures Concerning Taxation, HRR resolved to distribute the entire amount of unappropriated retained earnings for the period, excluding fractions of distributions per unit that were less than 1 yen. Consequently, distributions per unit came to 11,956 yen.

Fiscal period	5th fiscal period (From May 1, 2015 to October 31, 2015)	6th fiscal period (From November 1, 2015 to April 30, 2016)	7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Total profit (thousands of yen)	908,751	1,600,731	1,815,763	1,900,191	2,064,450
Total unappropriated retained earnings (undisposed loss) (thousands of yen)	908,788	1,600,757	1,815,796	1,900,247	2,064,501
Retained earnings brought forward (thousands of yen)	26	33	55	50	59
Total cash distributions (thousands of yen)	908,762	1,600,724	1,815,741	1,900,196	2,064,442
(Distributions per unit) (yen)	18,289	20,520	22,209	11,621	11,956
Of the above, total distributions (thousands of yen)	908,762	1,600,724	1,815,741	1,900,196	2,064,442
(Distributions of earnings per unit) (yen)	18,289	20,520	22,209	11,621	11,956
Of the above, total refund of investments (thousands of yen)	—	—	—	—	—
(Refund of investments per unit) (yen)	—	—	—	—	—
Of total refund of investments, total distributions from reserve for temporary difference adjustments (Of refund of investments per unit, distributions from reserve for temporary difference adjustments per unit) (yen)	—	—	—	—	—
Of total refund of investments, total distributions from the unitholders' capital for tax purposes (Of refund of investments per unit, distributions from the unitholders' capital for tax purposes per unit) (yen)	—	—	—	—	—

(5) Future management policy

i) Future trends outlook

In the Japanese economy going forward, the domestic economy is expected to continue its gradual recovery, propelled by the recovery trend in the Japanese economy, the continuation of monetary easing policies by the Bank of Japan, and other factors. On the other hand, concerns remain over the downside risk to the economy mainly due to the impact of uncertainties in overseas economies and fluctuations in the financial and capital markets. As its policy on tourism the Japanese government has established new targets for promoting Japan as a tourism-oriented country, and it is expected to take steps to respond to demand of the so-called “vacation rentals,” whereby visitors stay in private residences, and strategic relaxation of visa requirements. In this manner, with large economic ripple effects, the tourism industry is becoming increasingly important as one of the drivers of Japan’s economic growth.

ii) Future management policy and challenges to be addressed

Under such circumstances, HRR’s basic policy is to form a portfolio with a stable revenue base centering on hotels, ryokans and ancillary facilities that can meet the travel needs of tourists.

In the hotel/ryokan industry which has trended toward being commoditized in general, HRR believes facilities that are differentiated from others due to an outstanding business model, operating skills, location and such are the ones that will be able to generate stable earnings and secure steady cash flow over a long-term period.

From this perspective, HRR selects investment properties from the stance of “superior know-how and experience” (whether the business model, brand power, etc. can be differentiated from competitors, and whether it is operated by an operator with extensive expertise) and “superior location and facilities” (whether the facility itself is superior as to its location, rarity of the building, etc.).

HRR seeks to flexibly form an optimum portfolio to secure long-term and stable cash flow. After proactively obtaining information on for-sale properties operated by both the Hoshino Resorts Group and outside operators as well as overseas for-sale properties related to the Hoshino Resorts Group, HRR will examine individual properties upon their selection for investment.

a. Properties operated by the Hoshino Resorts Group

HRR believes the securement of stable earnings will be achieved by investing mainly in the main brand properties. HRR intends to obtain information on facilities under the main brand properties by actively utilizing the sponsor support agreement with Hoshino Resorts. As a result, if HRR decides that facilities are able to generate long-term and stable cash flow, proactive investments will be made. In addition, HRR may invest in other properties operated by the Hoshino Resorts Group (hereinafter, “other properties of the Hoshino Resorts Group”) in cases a long-term and stable cash flow is expected through using such properties steadily.

b. Properties operated by outside operators

Similar to the case of investing in properties operated by the Hoshino Resorts Group, HRR believes it will be able to secure long-term and stable cash flow when investing in properties operated by outside operators by making appropriate investments while taking “superior know-how and experience” and “superior location and facilities” into consideration, based on sufficient information collected by the Asset Management Company.

Taking this view, HRR actively uses the sponsor support agreement with Hoshino Resorts and proprietary networks of the Asset Management Company and are willing to acquire information on hotels, ryokans and ancillary facilities (urban tourism properties) that act as bases for urban tourism identified as having tourism needs with respect to urban tourism operated by operators other than the Hoshino Resorts Group. As a result, when it is judged that long-term and stable cash flow can be secured from the viewpoint of “superior know-how and experience” or “superior location and facilities.” HRR will actively invest in such properties against a backdrop of urban tourism demand in cities where the properties are located. In addition, HRR are willing to acquire information on hotels, ryokans and ancillary facilities (other properties operated by outside operators) other than those that are urban tourism properties for which tourism needs have been identified above and beyond urban tourism. As a result, HRR will actively invest in such properties when it is judged that long-term and stable cash flow can be secured from the viewpoint of “superior know-how and experience” or “superior location and facilities.”

c. Overseas properties related to the Hoshino Resorts Group

With regard to HRR's investment policy on the overseas properties related to the Hoshino Resorts Group, HRR makes it a policy to carry out prudent investment after (1) obtaining accurate information on the countries and regions in which the investment properties with potential are located; (2) performing a comprehensive analysis of the market to which the potential investment properties belong, including real-estate market trends, systems, and regulations in each country, which considers macro factors such as political trends, population trends, and economic growth; and (3) performing a comprehensive risk analysis of each country's legal, accounting, and tax systems, as well as foreign exchange risks, etc., related to investment and revenue returns. In addition to the above policy, HRR also follows a policy of investment based on prudent selection of only overseas properties related to the Hoshino Resorts Group that can be expected to be used on a stable basis and to have the potential to secure long-term and stable cash flows.

Furthermore, HRR tries to reduce the risk of a significant drop in its cash flow resulting from changes in tourist needs or trends, natural disasters, domestic and overseas economic trends, etc. by diversifying its portfolio while aiming simultaneously to strengthen stability in earnings through the expansion of asset size.

The Hoshino Resorts Group operates each facility after categorizing investment target hotels, ryokans and ancillary facilities into brands from various perspectives. HRR works to obtain portfolio diversification effect and to stabilize earnings through investments not only in the single brand of the Hoshino Resorts Group but also in properties of major brands and other properties of the Hoshino Resorts Group whose size, price settings and target customer base vary, in addition to urban tourism properties which are properties operated by outside operators, other properties operated by outside operators and overseas properties related to the Hoshino Resorts Group. As of the date of this document, the portfolio is consisted of the following: main brand properties, other properties of the Hoshino Resorts Group, urban tourism properties constituting properties operated by outside operators, and other properties operated by outside operators. HRR believes that such facilities would promote to portfolio diversification effects and stabilization of revenues. In addition, these facilities are diversified not only in terms of by investment category but also by geographic location of facility and thereby reducing the risk of a significant drop in HRR's cash flow.

(6) Significant subsequent events

i) Issuance of new investment units

HRR resolved at meetings of the Board of Directors held on October 11, 2017 and October 24, 2017 on the following issuance of new investment units, and payment was completed on November 1, 2017 for the new investment units through primary offering and on November 28, 2017 for the new investment units through third-party allotment.

Issuance of new investment units through primary offering

Number of investment units issued:	38,160 units
Issue price:	531,508 yen per unit
Total issue price:	20,282,345,280 yen
Paid-in amount:	514,063 yen per unit
Total paid-in amount:	19,616,644,080 yen
Payment due date:	November 1, 2017

Issuance of new investment units through third-party allotment

Number of investment units issued:	1,908 units
Paid-in amount:	514,063 yen per unit
Total paid-in amount:	980,832,204 yen
Payment due date:	November 28, 2017
Allottee:	Nomura Securities Co., Ltd.

Use of funds

The funds procured from the primary offering were allocated to part of the funds for acquisition of the real estate stated in subsection “ii) Acquisition of assets” below. The funds procured through the third-party allotment are retained as cash on hand by depositing with financial institutions until expenditure, and are scheduled to be allocated to part of the funds for acquisition of specified assets (as defined in Article 2, Paragraph 1 of the Investment Trusts Act) or part of the funds for repayment of loans in the future.

ii) Acquisition of assets

HRR acquired the real estate described below on November 1, 2017 (the acquisition price: 29,039 million yen).

Name of property	Location	Seller	Acquisition price (millions of yen) (Note)	Acquisition date
HOSHINOYA Taketomi Island	Taketomi-cho, Yaeyama-gun, Okinawa	Hoshino Resort Management Co., Ltd.	4,900	November 1, 2017
the b akasaka	Minato-ku, Tokyo	Hoshino Resorts Inc.	4,860	November 1, 2017
the b sangenjaya	Setagaya-ku, Tokyo	Hoshino Resorts Inc.	4,420	November 1, 2017
the b nagoya	Nagoya-shi, Aichi	Hoshino Resorts Inc.	4,500	November 1, 2017
the b kobe	Kobe-shi, Hyogo	Hoshino Resorts Inc.	7,020	November 1, 2017
Quintessa Hotel Osaka Shinsaibashi	Osaka-shi, Osaka	Sanei Architecture Planning Co., Ltd.	3,339	November 1, 2017
Total			29,039	–

(Note) “Acquisition price” indicates the sum of (a) sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions) and (b) 1,391 million yen of key money concerning establishment of land subleasehold for Hoshino Resort Management Co., Ltd., which is the seller-cum-land subleasehold establisher for “HOSHINOYA Taketomi Island;” the acquisition price of “the b akasaka” includes the sales/purchase price (12 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b sangenjaya” includes the sales/purchase price (6 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b nagoya” includes the sales/purchase price (24 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b kobe” includes

the sales/purchase price (16 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; and the acquisitions price of “Quintessa Hotel Osaka Shinsaibashi” includes the sales/purchase price (19 million yen) of equipment, etc. acquired from Core Global Management Inc., the lessee of the property.

iii) Additional borrowings

HRR obtained the following bank loans on November 1, 2017 to allocate part of the funds to purchase price and expenses related to the acquisition of the real estate stated in “ii) Acquisition of assets” above.

Floating /Fixed	Lender	Loan amount	Interest rate (Note 1)	Drawdown date	Repayment due date (Note 6)	Repayment method
Floating	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd. The Senshu Ikeda Bank, Ltd.	2.5 billion yen	Base rate 1-month Japanese Yen TIBOR +0.225% (Note 2)	November 1, 2017	April 30, 2020	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd.	2.0 billion yen	Base rate 1-month Japanese Yen TIBOR +0.325% (Note 3)	November 1, 2017	April 28, 2022	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. Mizuho Bank, Ltd.	2.5 billion yen	Base rate 1-month Japanese Yen TIBOR +0.475% (Note 4)	November 1, 2017	October 31, 2023	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited	3.0 billion yen	Base rate 1-month Japanese Yen TIBOR +0.625% (Note 5)	November 1, 2017	April 30, 2025	Lump-sum repayment at maturity

(Note 1) The base rate applicable to the interest calculation period for the interest payable on an interest payment due date shall be, of the Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration at the prescribed point in time two business days prior to the interest payment due date immediately preceding that interest payment due date (the drawdown date for the first due date), the interest rate for the number of months corresponding to the interest calculation period. However, if there is no rate corresponding to the concerned period, then it shall be the base rate calculated based on the method provided in the contract.

(Note 2) The interest rate is substantially fixed at 0.2950% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 3) The interest rate is substantially fixed at 0.4295% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 4) The interest rate is substantially fixed at 0.6250% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 5) The interest rate is substantially fixed at 0.8300% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 6) If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.

2. Profile of HRR

(1) Status of unitholders' capital

	5th fiscal period (As of October 31, 2015)	6th fiscal period (As of April 30, 2016)	7th fiscal period (As of October 31, 2016)	8th fiscal period (As of April 30, 2017)	9th fiscal period (As of October 31, 2017)
Total number of investment units authorized (units)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total number of investment units issued and outstanding (units)	49,689	78,008	81,757	163,514	172,670
Unitholders' capital (millions of yen)	36,113	67,906	72,591	72,591	77,532
Number of unitholders (persons)	8,639	10,001	10,278	12,489	14,505

(2) Matters concerning investment units

The top 10 unitholders based on the ratio of units owned to total number of units issued and outstanding as of October 31, 2017 are as follows:

Name	Address	Number of units owned (units)	Ratio to total number of units issued and outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	26,095	15.11
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	25,346	14.67
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	13,450	7.78
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	7,023	4.06
Hoshino Resorts Inc.	2148 Oaza Nagakura, Karuizawa-machi, Kitasaku-gun, Nagano	6,140	3.55
JP MORGAN CHASE BANK 385632 (Standing proxy: Mizuho Bank, Ltd.)	Shinagawa Intercity Tower A 2-15-1 Konan, Minato-ku, Tokyo	5,953	3.44
STATE STREET BANK AND TRUST COMPANY 505012 (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch)	3-11-1 Nihonbashi, Chuo-ku, Tokyo	2,789	1.61
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	2-7-1 Marunouchi, Chiyoda-ku, Tokyo	2,359	1.36
The Hokkoku Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	1,885	1.09
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2-5-2 Marunouchi, Chiyoda-ku, Tokyo	1,651	0.95
Total		92,691	53.68

(Note) The ratio to total number of units issued and outstanding is rounded down to two decimal places.

(3) Matters relating to officers

The Executive Director, Supervisory Directors and Independent Auditor for the fiscal period under review are as follows:

Title	Name	Major concurrent post, etc.	Total amount of compensation for each position during the fiscal period under review (thousands of yen)
Executive Director (Note 1)	Kenji Akimoto	President & CEO of Hoshino Resort Asset Management Co., Ltd.	– (Note 2)
Supervisory Director (Note 1)	Hiroshi Shinagawa	Attorney at law, Kinkadori Law Office	1,500
	Yukiko Fujikawa	Certified Public Accountant, Yukiko Fujikawa CPA Office	1,500
Independent Auditor (Note 3)	Grant Thornton Taiyo LLC	–	8,233

(Note 1) The Executive Director and Supervisory Directors do not hold investment units of HRR under their own or another person's name.

Although the Supervisory Directors may be officers in corporations other than the ones indicated above, there is no conflict of interest between HRR and such corporations, including those indicated above. In preparation for a situation where the Executive Director is absent or the number of officers is below the number of officers required by laws and regulations, a resolution was passed at the 3rd General Meeting of Unitholders to appoint Tetsuro Takashi as the Substitute Executive Director. As of the release of this report, Tetsuro Takashi is serving concurrently as Director & CFO, General Manager of Finance & Administrative Department of the Asset Management Company.

(Note 2) The Executive Director does not receive compensations from HRR.

(Note 3) Dismissal or non-reappointment of the Independent Auditor is subject to consideration at the HRR's Board of Directors, pursuant to the provisions of the Investment Trusts Act in the case of dismissal, or in light of a comprehensive consideration of various circumstances in the case of non-reappointment.

(4) Asset Management Company, Asset Custodian and General Administrators

The Asset Management Company, Asset Custodian, and General Administrators as of October 31, 2017 are as follows:

Category of entrusted operation	Name
Asset Management Company	Hoshino Resort Asset Management Co., Ltd.
Asset Custodian	Mitsubishi UFJ Trust and Banking Corporation
General Administrator (General Administrator of unit register)	Mitsubishi UFJ Trust and Banking Corporation
General Administrator (General Administrator for accounting and administrative function)	Mitsubishi UFJ Trust and Banking Corporation

3. Status on Investment Properties

(1) Investment status

Asset type	Use of asset	8th fiscal period As of April 30, 2017		9th fiscal period As of October 31, 2017	
		Total amount held (millions of yen) (Note 1)	Ratio to total assets (%) (Note 2)	Total amount held (millions of yen) (Note 1)	Ratio to total assets (%) (Note 2)
Real estate	Hotel	90,986	73.8	94,754	74.6
	Ryokan	21,574	17.5	21,866	17.2
Subtotal		112,560	91.4	116,621	91.8
Deposits and other assets		10,643	8.6	10,376	8.2
Total assets (Note 3)		123,204	100.0	126,998	100.0
Total liabilities (Note 3)		48,712	39.5	47,401	37.3
Total net assets (Note 3)		74,491	60.5	79,596	62.7

(Note 1) “Total amount held” is the carrying amount (in the case of real estate, the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) “Ratio to total assets” is rounded to one decimal place.

(Note 3) “Total assets,” “Total liabilities” and “Total net assets” are stated at the book value.

(2) Major properties owned

The major components of assets (the 10 largest properties by book value) as of October 31, 2017 are as follows:

Name of property	Book value (millions of yen) (Note 1)	Leasable area (m ²) (Note 2)	Leased area (m ²) (Note 3)	Occupancy rate (%)	Ratio to total operating revenue from real estate leasing (%) (Note 4)	Primary use
ANA Crowne Plaza Hiroshima	17,903	32,332.00	32,332.00	100.0	13.0	Hotel
Hyatt Regency Osaka	16,504	80,197.60	80,197.60	100.0	7.8	Hotel
ANA Crowne Plaza Fukuoka	7,683	27,372.74	27,372.74	100.0	6.3	Hotel
HOSHINOYA Karuizawa	7,489	11,723.61	11,723.61	100.0	8.8	Ryokan
ANA Crowne Plaza Kanazawa	6,734	23,835.00	23,835.00	100.0	8.4	Hotel
RISONARE Yatsugatake	5,837	33,853.45	33,853.45	100.0	6.2	Hotel
Asahikawa Grand Hotel	4,740	25,715.20	25,715.20	100.0	3.9	Hotel
RISONARE Atami	4,203	23,385.18	23,385.18	100.0	3.4	Hotel
HOSHINOYA Fuji	4,164	2,103.55	2,103.55	100.0	3.1	Hotel
ANA Crowne Plaza Toyama	3,978	21,600.11	21,600.11	100.0	4.0	Hotel
Total	79,240	282,118.44	282,118.44	100.0	64.9	—

(Note 1) “Book value” is the carrying amount (in the case of real estate, etc., the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) “Leasable area” is the leasable area to tenants.

(Note 3) In principle, “Leased area” is the leased area under the lease agreement with tenants.

(Note 4) “Ratio to total operating revenue from real estate leasing” represents the ratio to total real estate operating revenue, rounded to one decimal place.

(3) Summary of portfolio properties

An overview of assets held by HRR as of October 31, 2017 is as follows:

Name of property	Location	Type of ownership	Leasable area (m ²)	Book value at end of period (millions of yen) (Note 1)	Estimated value at end of period (millions of yen) (Note 2)
HOSHINOYA Karuizawa	Karuizawa-machi, Kitasaku-gun, Nagano	Ownership of real estate, etc.	11,723.61	7,489	11,600
HOSHINOYA Kyoto	Kyoto-shi, Kyoto	Ownership of real estate, etc.	3,097.69	3,319	4,260
HOSHINOYA Fuji	Fujikawaguchiko-machi, Minamitsuru-gun, Yamanashi	Ownership of real estate, etc.	2,103.55	4,164	4,320
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Ownership of real estate, etc.	33,853.45	5,837	6,690
RISONARE Atami	Atami-shi, Shizuoka	Ownership of real estate, etc.	23,385.18	4,203	4,230
KAI Matsumoto	Matsumoto-shi, Nagano	Ownership of real estate, etc.	4,056.12	623	799
KAI Izumo	Matsue-shi, Shimane	Ownership of real estate, etc.	3,909.02	725	862
KAI Ito	Ito-shi, Shizuoka	Ownership of real estate, etc.	7,473.91	704	971
KAI Hakone	Hakone-machi, Ashigarashimo-gun, Kanagawa	Ownership of real estate, etc.	4,649.67	1,166	1,270
KAI Aso	Kokonoe-machi, Kusu-gun, Oita	Ownership of real estate, etc.	1,543.53	620	689
KAI Kawaji	Nikko-shi, Tochigi	Ownership of real estate, etc.	8,190.38	987	1,160
KAI Kinugawa	Nikko-shi, Tochigi	Ownership of real estate, etc.	4,066.60	3,066	3,280
KAI Kaga	Kaga-shi, Ishikawa	Ownership of real estate, etc.	5,159.46	3,163	3,380
Asahikawa Grand Hotel	Asahikawa-shi, Hokkaido	Ownership of real estate, etc.	25,715.20	4,740	4,780
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Ownership of real estate, etc.	32,332.00	17,903	20,000
ANA Crowne Plaza Fukuoka	Fukuoka-shi, Fukuoka	Ownership of real estate, etc.	27,372.74	7,683	8,780
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Ownership of real estate, etc.	23,835.00	6,734	7,180
ANA Crowne Plaza Toyama	Toyama-shi, Toyama	Ownership of real estate, etc.	21,600.11	3,978	4,450
Hyatt Regency Osaka	Osaka-shi, Osaka	Ownership of real estate, etc.	80,197.60	16,504	16,700
Chisun Inn Shiojiri Kita IC	Shiojiri-shi, Nagano	Ownership of real estate, etc.	2,100.47	680	815
Chisun Inn Sano Fujioka IC	Sano-shi, Tochigi	Ownership of real estate, etc.	1,968.91	744	911
Chisun Inn Suwa IC	Suwa-shi, Nagano	Ownership of real estate, etc.	1,944.94	665	828
Chisun Inn Toyokawa IC	Toyokawa-shi, Aichi	Ownership of real estate, etc.	2,040.09	607	730
Chisun Inn Tosu	Tosu-shi, Saga	Ownership of real estate, etc.	1,968.02	503	648
Chisun Inn Chiba Hamano R16	Chiba-shi, Chiba	Ownership of real estate, etc.	2,023.29	795	1,020

Name of property	Location	Type of ownership	Leasable area (m ²)	Book value at end of period (millions of yen) (Note 1)	Estimated value at end of period (millions of yen) (Note 2)
Chisun Inn Kumamoto Miyukifueda	Kumamoto-shi, Kumamoto	Ownership of real estate, etc.	2,094.77	607	738
Chisun Inn Utsunomiya Kanuma	Utsunomiya-shi, Tochigi	Ownership of real estate, etc.	2,094.16	715	847
Chisun Inn Fukui	Fukui-shi, Fukui	Ownership of real estate, etc.	2,094.01	643	769
Chisun Inn Fukushima Nishi IC	Fukushima-shi, Fukushima	Ownership of real estate, etc.	2,094.01	658	786
Chisun Inn Niigata Chuo IC	Niigata-shi, Niigata	Ownership of real estate, etc.	2,094.16	617	775
Chisun Inn Nagasaki Airport	Omura-shi, Nagasaki	Ownership of real estate, etc.	1,968.02	612	755
Chisun Inn Hitachinaka	Hitachinaka-shi, Ibaraki	Ownership of real estate, etc.	1,968.30	713	920
Chisun Inn Tsuchiura Ami	Ami-machi, Inashiki-gun, Ibaraki	Ownership of real estate, etc.	1,968.03	756	921
Chisun Inn Kofu Isawa	Fuefuki-shi, Yamanashi	Ownership of real estate, etc.	1,968.47	639	788
Chisun Inn Marugame Zentsuji	Marugame-shi, Kagawa	Ownership of real estate, etc.	2,094.16	575	730
Chisun Inn Munakata	Munakata-shi, Fukuoka	Ownership of real estate, etc.	2,094.16	491	621
Chisun Inn Iwate Ichinoseki IC	Ichinoseki-shi, Iwate	Ownership of real estate, etc.	1,968.02	686	776
Chisun Inn Karuizawa	Karuizawa-machi, Kitasaku-gun, Nagano	Ownership of real estate, etc.	1,917.10	787	1,090
Chisun Inn Himeji Yumesakibashi	Himeji-shi, Hyogo	Ownership of real estate, etc.	2,406.95	605	734
Chisun Inn Kurashiki Mizushima	Kurashiki-shi, Okayama	Ownership of real estate, etc.	2,094.16	708	866
Candeo Hotels Handa	Handa-shi, Aichi	Ownership of real estate, etc.	2,814.05	612	693
Candeo Hotels Chino	Chino-shi, Nagano	Ownership of real estate, etc.	2,868.18	782	914
Candeo Hotels Fukuyama	Fukuyama-shi, Hiroshima	Ownership of real estate, etc.	3,985.73	1,052	1,240
Candeo Hotels Sano	Sano-shi, Tochigi	Ownership of real estate, etc.	2,828.71	1,239	1,460
Candeo Hotels Kameyama	Kameyama-shi, Mie	Ownership of real estate, etc.	3,912.03	477	533
Comfort Hotel Hakodate	Hakodate-shi, Hokkaido	Ownership of real estate, etc.	2,927.44	938	1,050
Comfort Hotel Tomakomai	Tomakomai-shi, Hokkaido	Ownership of real estate, etc.	2,721.08	963	1,080
Comfort Hotel Kure	Kure-shi, Hiroshima	Ownership of real estate, etc.	3,121.02	1,121	1,230
Chisun Inn Kagoshima Taniyama	Kagoshima-shi, Kagoshima	Ownership of real estate, etc.	8,066.36	2,001	2,320
Total	—	—	400,473.62	116,621	132,989

(Note 1) “Book value at end of period” is the carrying amount (in the case of real estate, etc., the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) Appraisal of the property is entrusted to Japan Valuers Co., Ltd., Morii Appraisal & Investment Consulting Inc. or Rich Appraisal Institute Co., Ltd. “Estimated value at end of period” is the appraisal value stated in the real estate appraisal report or investigation report with October 31, 2017 as the effective date of the valuation.

Lease status of real estate, etc. held by HRR is as follows:

Name of property	8th fiscal period (From November 1, 2016 to April 30, 2017)				9th fiscal period (From May 1, 2017 to October 31, 2017)			
	Number of tenants at end of period (subleasing)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)	Number of tenants at end of period (subleasing)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)
HOSHINOYA Karuizawa	1 (14)	100.0	397	8.9	1 (14)	100.0	410	8.8
HOSHINOYA Kyoto	1 (0)	100.0	107	2.4	1 (0)	100.0	146	3.1
HOSHINOYA Fuji	–	–	–	–	1 (0)	100.0	142	3.1
RISONARE Yatsugatake	1 (18)	100.0	321	7.2	1 (18)	100.0	286	6.2
RISONARE Atami	1 (0)	100.0	156	3.5	1 (0)	100.0	156	3.4
KAI Matsumoto	1 (0)	100.0	42	1.0	1 (0)	100.0	44	1.0
KAI Izumo	1 (0)	100.0	52	1.2	1 (0)	100.0	54	1.2
KAI Ito	1 (0)	100.0	57	1.3	1 (0)	100.0	57	1.2
KAI Hakone	1 (0)	100.0	57	1.3	1 (0)	100.0	50	1.1
KAI Aso	1 (0)	100.0	22	0.5	1 (0)	100.0	21	0.5
KAI Kawaji	1 (0)	100.0	55	1.2	1 (0)	100.0	59	1.3
KAI Kinugawa	1 (0)	100.0	102	2.3	1 (0)	100.0	102	2.2
KAI Kaga	1 (0)	100.0	103	2.3	1 (0)	100.0	103	2.2
Asahikawa Grand Hotel	1 (5)	100.0	182	4.1	1 (5)	100.0	182	3.9
ANA Crowne Plaza Hiroshima	1 (6)	100.0	581	13.0	1 (7)	100.0	604	13.0
ANA Crowne Plaza Fukuoka	1 (5)	100.0	276	6.2	1 (5)	100.0	293	6.3
ANA Crowne Plaza Kanazawa	1 (5)	100.0	389	8.7	1 (5)	100.0	391	8.4
ANA Crowne Plaza Toyama	1 (7)	100.0	188	4.2	1 (7)	100.0	186	4.0
Hyatt Regency Osaka	1 (8)	100.0	387	8.7	1 (7)	100.0	360	7.8
Chisun Inn Shiojiri Kita IC	1 (1)	100.0	28	0.6	1 (1)	100.0	28	0.6
Chisun Inn Sano Fujioka IC	1 (0)	100.0	30	0.7	1 (0)	100.0	31	0.7
Chisun Inn Suwa IC	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.7
Chisun Inn Toyokawa IC	1 (0)	100.0	27	0.6	1 (0)	100.0	26	0.6
Chisun Inn Tosu	1 (0)	100.0	25	0.6	1 (0)	100.0	24	0.5
Chisun Inn Chiba Hamano R16	1 (0)	100.0	33	0.8	1 (0)	100.0	33	0.7
Chisun Inn Kumamoto Miyukifueda	1 (0)	100.0	33	0.8	1 (0)	100.0	40	0.9
Chisun Inn Utsunomiya Kanuma	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.7
Chisun Inn Fukui	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.7
Chisun Inn Fukushima Nishi IC	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.7
Chisun Inn Niigata Chuo IC	1 (0)	100.0	29	0.7	1 (0)	100.0	29	0.6
Chisun Inn Nagasaki Airport	1 (0)	100.0	29	0.7	1 (0)	100.0	28	0.6
Chisun Inn Hitachinaka	1 (0)	100.0	30	0.7	1 (0)	100.0	30	0.7
Chisun Inn Tsuchiura Ami	1 (0)	100.0	30	0.7	1 (0)	100.0	30	0.6
Chisun Inn Kofu Isawa	1 (0)	100.0	29	0.7	1 (0)	100.0	29	0.6
Chisun Inn Marugame Zentsuji	1 (0)	100.0	28	0.6	1 (0)	100.0	29	0.6
Chisun Inn Munakata	1 (0)	100.0	24	0.5	1 (0)	100.0	24	0.5
Chisun Inn Iwate Ichinoseki IC	1 (1)	100.0	28	0.6	1 (1)	100.0	26	0.6

Name of property	8th fiscal period (From November 1, 2016 to April 30, 2017)				9th fiscal period (From May 1, 2017 to October 31, 2017)			
	Number of tenants at end of period (subleasing)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)	Number of tenants at end of period (subleasing)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)
Chisun Inn Karuizawa	1 (0)	100.0	42	0.9	1 (0)	100.0	42	0.9
Chisun Inn Himeji Yumesakibashi	1 (0)	100.0	29	0.7	1 (0)	100.0	28	0.6
Chisun Inn Kurashiki Mizushima	1 (0)	100.0	31	0.7	1 (0)	100.0	32	0.7
Candeo Hotels Handa	1 (0)	100.0	26	0.6	1 (0)	100.0	26	0.6
Candeo Hotels Chino	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.7
Candeo Hotels Fukuyama	1 (0)	100.0	39	0.9	1 (0)	100.0	39	0.8
Candeo Hotels Sano	1 (0)	100.0	45	1.0	1 (0)	100.0	45	1.0
Candeo Hotels Kameyama	1 (0)	100.0	20	0.5	1 (0)	100.0	20	0.5
Comfort Hotel Hakodate	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.7
Comfort Hotel Tomakomai	1 (0)	100.0	33	0.7	1 (0)	100.0	33	0.7
Comfort Hotel Kure	1 (0)	100.0	37	0.8	1 (0)	100.0	37	0.8
Chisun Inn Kagoshima Taniyama	1 (1)	100.0	73	1.7	1 (1)	100.0	77	1.7
Total	48 (71) (Note)	100.0	4,462	100.0	49 (71)	100.0	4,644	100.0

(Note) “Number of tenants (subleasing)” refers to total of the number of tenants, with the number of parties subleasing from the parties leasing the property from HRR shown in parentheses.

(4) Status of specified transaction contract amount and fair value

Category	Type of derivative transaction	Contract amount (thousands of yen) (Note 1)		Fair value (Note 2)
			Of which, due after one year	
OTC (over-the-counter)	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	15,700,000	15,700,000	–
Total		15,700,000	15,700,000	–

(Note 1) The contract amount for the interest rate swap transaction is based on the notional principal amount.

(Note 2) The fair value is omitted as the transaction satisfies the requirements for special accounting treatment based on the Accounting Standard for Financial Instruments.

(5) Status of other assets

There are no assets incorporated into the portfolio other than those listed in the aforementioned “(3) Summary of portfolio properties,” as of October 31, 2017.

(6) Status of asset holding by country and region

There is no portfolio overseas real estate outside Japan, as of October 31, 2017.

4. Capital expenditures for properties held

(1) Future plan for capital expenditures

The following table summarizes the estimated amount of major capital expenditures for renovation scheduled in the fiscal period ending April 30, 2018 for properties held as of October 31, 2017. The estimated construction costs below include the amounts to be expensed for accounting purpose.

Name of property	Location	Purpose	Scheduled period	Estimated construction costs (millions of yen)		
				Total amount	Amount paid during the period	Total amount paid
Asahikawa Grand Hotel	Asahikawa-shi, Hokkaido	Renovation of guest rooms and common-use areas	From September 2017 to March 2018	400	18	19
RISONARE Atami	Atami-shi, Shizuoka	Renovation of restaurant and guest rooms	From January 2018 to April 2018	260	5	5
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Renovation of guest rooms	From February 2018 to March 2018	36	–	–
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Renovation of guest rooms	From January 2018 to February 2018	34	–	–
KAI Kawaji	Nikko-shi, Tochigi	Replacement of dual-temperature water thermal storage system for central air conditioning	From January 2018 to February 2018	30	–	–

(2) Capital expenditures for the period

Of construction works falling under the category of capital expenditures conducted in the fiscal period under review for properties held as of October 31, 2017, the following are the major works conducted. The fiscal period under review's capital expenditures amounted to 762 million yen and repair expenses separately charged to expenses amounted to 54 million yen for a combined total of 817 million yen of construction work implemented.

Name of property	Location	Purpose	Period	Construction costs (millions of yen)
HOSHINOYA Kyoto	Kyoto-shi, Kyoto	Construction of new annex building	From July 2017 to July 2017	299
ANA Crowne Plaza Toyama	Toyama-shi, Toyama	Replacement of boiler	From April 2017 to May 2017	68

(3) Funds reserved for long-term repair plans

Not applicable.

5. Expenses and liabilities

(1) Details of expenses relating to asset management, etc.

(thousands of yen)

Item	Previous fiscal period (From November 1, 2016 to April 30, 2017)	Current fiscal period (From May 1, 2017 to October 31, 2017)
Asset management fee	372,006	396,537
Asset custody fee	3,823	4,349
Administrative service fees	18,317	17,927
Directors' compensation	2,640	3,000
Audit fee	8,200	8,233
Other expenses	108,298	84,663
Total	513,286	514,711

(2) Status of borrowings

The status of borrowings of HRR as of October 31, 2017 is as follows:

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Short-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation	November 1, 2016	1,500	-	0.43095%	October 31, 2017	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation	October 31, 2017	-	1,500	0.44364%	October 31, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal		1,500	1,500					
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	2,353	2,320	1.92875%	July 16, 2018	(Note 4)	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	1,248	1,228	2.45886%	July 16, 2020	(Note 5)	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Ashikaga Bank, Ltd. The Shizuoka Bank, Ltd.	May 2, 2014	700	-	1.12207%	May 2, 2017	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	May 2, 2014	300	300	1.52063%	May 2, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	May 2, 2014	914	899	1.99816%	April 30, 2021	(Note 6)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation The Ashikaga Bank, Ltd. The Shizuoka Bank, Ltd. The Bank of Fukuoka, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. The Hokuriku Bank, Ltd.	November 2, 2015	2,515	2,515	0.35727%	April 27, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	November 2, 2015	885	885	0.40000%	April 27, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation The Ashikaga Bank, Ltd. The Shizuoka Bank, Ltd. The Bank of Fukuoka, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. The Hokuriku Bank, Ltd.	November 2, 2015	2,550	2,550	0.45727%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	November 2, 2015	850	850	0.50000%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	1,500	1,500	0.82080%	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	3,500	3,500	1.12193%	October 29, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	3,000	3,000	1.22788%	April 28, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	1,435	1,414	1.33575%	October 31, 2022	(Note 7)	(Note 3)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation	March 31, 2016	969	954	1.51809%	March 31, 2025	(Note 8)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc. The Hokuriku Bank, Ltd. The Bank of Fukuoka, Ltd. The Bank of Kyoto, Ltd.	May 2, 2016	900	900	0.50313%	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	May 2, 2016	485	478	1.09313%	April 28, 2023	(Note 9)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc.	May 2, 2016	485	478	1.47689%	April 30, 2025	(Note 10)	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	May 2, 2016	582	574	1.66686%	April 30, 2026	(Note 11)	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Sumitomo Mitsui Banking Corporation The Hokuriku Bank, Ltd. The Bank of Fukuoka, Ltd.	July 19, 2016	860	860	0.49695%	April 30, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	July 19, 2016	1,000	1,000	0.82289%	April 28, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Senshu Ikeda Bank, Ltd.	November 1, 2016	2,500	2,500	0.27850% (Note 2)	April 30, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Senshu Ikeda Bank, Ltd.	November 1, 2016	2,500	2,500	0.35600% (Note 2)	October 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd.	November 1, 2016	2,000	2,000	0.54888%	April 30, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.76832%	October 31, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Long-term loans payable	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.85244%	April 28, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.93702%	October 31, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd.	May 2, 2017	–	700	0.51900% (Note 2)	May 2, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal		41,534	41,409					
	Total		43,034	42,909					

(Note 1) Average interest rates on floating rate borrowings are the weighted average rate during the period.

(Note 2) HRR concludes interest rate swap agreements to hedge against the risk of interest rate increase. The interest rates presented for loans subject to interest rate swap transactions take into account the effect of the interest rate swap.

(Note 3) All borrowings were used as funds for acquiring real estate, paying its related costs, and repayment of loans.

(Note 4) Repayment of 32,500 thousand yen shall be due firstly on October 31, 2013 (total payment on first payment was 19,234 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 2,288,266 thousand yen shall be due in lump sum on the final repayment due date.

(Note 5) Repayment of 20,001 thousand yen shall be due firstly on October 31, 2013 (total payment on first payment was 11,838 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 1,128,149 thousand yen shall be due in lump sum on the final repayment due date.

(Note 6) Repayment of 14,287 thousand yen shall be due firstly on October 31, 2014 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 814,269 thousand yen shall be due in lump sum on the final repayment due date.

(Note 7) Repayment of 21,430 thousand yen shall be due firstly on April 28, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 1,221,410 thousand yen shall be due in lump sum on the final repayment due date.

(Note 8) Repayment of 14,286 thousand yen shall be due firstly on April 28, 2016 (total payment on first payment was 2,427 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 754,711 thousand yen shall be due in lump sum on the final repayment due date.

(Note 9) Repayment of 7,143 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 407,141 thousand yen shall be due in lump sum on the final repayment due date.

(Note 10) Repayment of 7,143 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 378,569 thousand yen shall be due in lump sum on the final repayment due date.

(Note 11) Repayment of 8,572 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 437,132 thousand yen shall be due in lump sum on the final repayment due date.

(3) Investment corporation bonds

Not applicable.

(4) Short-term investment corporation bonds

Not applicable.

(5) Subscription rights to new investment units

Not applicable.

6. Acquisitions and sales

(1) Status of acquisitions and sales of real estate, asset-backed securities, infrastructure assets and infrastructure-related assets

Name of property	Acquisition		Sale			
	Acquisition date	Acquisition price (millions of yen) (Note)	Sale date	Sale price (millions of yen)	Book value (millions of yen)	Gain (loss) on sale (millions of yen)
HOSHINOYA Fuji	May 1, 2017	4,160	–	–	–	–
HOSHINOYA Kyoto Annex	July 14, 2017	93	–	–	–	–
Total	–	4,253	–	–	–	–

(Note) “Acquisition price” indicates the sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as real estate sales commissions), rounded down to the nearest million yen. The acquisition price of HOSHINOYA Fuji includes the concession money paid to the seller-cum-land subleaseholder to establish land subleasehold of the property (726 million yen).

(2) Status of acquisitions and sales of other assets

Not applicable. Main other assets except the abovementioned properties mostly consist of bank deposits.

(3) Appraisal values of specified assets

i) Real estate

Acquisition / Sale	Name of property	Transaction date	Type of assets	Acquisition price / Sale price (millions of yen)	Appraisal value (millions of yen)	Appraiser (Note 1)	Appraisal date
Acquisition	HOSHINOYA Fuji	May 1, 2017	Real estate, etc.	4,160	4,310	JV	February 1, 2017
Acquisition	HOSHINOYA Kyoto Annex	July 14, 2017	Real estate, etc.	93	103	JV	June 1, 2017
Total		–	–	4,253	4,413	–	–

(Note 1) “Appraiser” is described as the initials in the table above. The initial used for the appraiser is as follows:

JV: Japan Valuers Co., Ltd.

(Note 2) With regard to transactions that require the appraisal value for real estate related to specified assets as prescribed by Article 201, Paragraph 1 of the Investment Trusts Act, Japan Valuers Co., Ltd. conducts the appraisal pursuant to the “Real Estate Appraisal Standard, Chapter 3, Appraisal on Value of Real Estate Subject to Securitization”; and HRR received the report on the appraisal.

(Note 3) Real Estate Appraisal Report presents judgment and opinion of the appraiser at a certain time of period and does not guarantee the validity and accuracy of the contents or possibility of transactions and such with the appraisal value. In addition, there is no special vested interest between Japan Valuers Co., Ltd. and HRR or the Asset Management Company.

(Note 4) Acquisition price and sale price do not include other acquisition and sale related costs such as direct expenses for acquisition and sale, property-related taxes and consumption taxes.

(Note 5) The acquisition price of HOSHINOYA Fuji includes the concession money paid to the seller-cum-land subleaseholder to establish land subleasehold of the property (726 million yen).

ii) Other

For the transactions performed by HRR that require a price survey, etc. pursuant to Article 201 of the Investment Trusts Act, other than transactions stated in “i) Real estate” above, the surveys have been contracted out to Grant Thornton Taiyo LLC.

HRR has received survey reports from Grant Thornton Taiyo LLC for four interest rate swap transactions that were subject to surveys during the subject period from May 1, 2017 to October 31, 2017.

Furthermore, with regard to the surveys for the interest rate swap transactions, HRR has contracted surveys of the counterparty's names, agreed figures, transaction periods, and other details of the interest rate swap transactions.

(4) Transactions with interested parties

i) Purchase and sale transactions with interested parties

Category	Purchase or sale price (millions of yen)	
	Purchase price	Sale price
Total	4,253	–
Breakdown of transactions with interested parties		
K.K. Horizon Hotels	4,160 (97.8%)	–
K.K. Arashiyama Onsen Rankyokan	93 (2.2%)	–
Total	4,253 (100.0%)	–

(Note) The term “interested parties” refers to interested parties as prescribed under Article 26, Paragraph 1, Item 27 of the Regulations for Asset Investment Reports of Investment Trusts and Investment Corporations issued by the Investment Trusts Association, Japan. The same shall apply hereinafter.

ii) Leasing to interested parties

Name of lessee	Name of property	Annual rent (millions of yen) (Note)
Hoshino Resorts Inc.	HOSHINOYA Karuizawa	630
	HOSHINOYA Fuji	284
	KAI Kinugawa	204
K.K. Horizon Hotels	RISONARE Yatsugatake	525
	RISONARE Atami	313
	ANA Crowne Plaza Hiroshima	606
	ANA Crowne Plaza Fukuoka	288
	ANA Crowne Plaza Kanazawa	546
	ANA Crowne Plaza Toyama	240
K.K. Arashiyama Onsen Rankyokan	HOSHINOYA Kyoto	203
	KAI Kaga	206
Hoshino Resort Management Co., Ltd.	KAI Matsumoto	75
	KAI Izumo	75
	KAI Ito	80
	KAI Hakone	95
	KAI Aso	42
	KAI Kawaji	99
Asahikawa Grand Hotel Co., Ltd.	Asahikawa Grand Hotel	364
HRO Inc.	Hyatt Regency Osaka	720

(Note) In the lease agreements with each lessee above for the properties above, in principle the rent comprises fixed rent and floating rent (however, for Hyatt Regency Osaka it comprises only floating rent). Except for Hyatt Regency Osaka, the entry under “Annual rent” is the amount obtained when the fixed rent (monthly amount) provided in the lease agreement on the building is annualized by multiplying by 12. However, with the agreement reached for each of RISONARE Atami and KAI Kinugawa to have a premium for a limited period from November 2, 2015 to October 31, 2018, KAI Kaga to have a premium for a limited period from May 2, 2016 to April 30, 2019, Asahikawa Grand Hotel to have a premium for a limited period from March 31, 2016 to October 31, 2019 and HOSHINOYA Fuji to have a premium for a limited period from May 1, 2017 to April 30, 2020, the annualized fixed rent is calculated based on the rent with the premium mentioned above, as of October 31, 2017. Fixed rent after the lapse of the premium period shall be less than the amount stated in the table above. Furthermore, in the event that sales or profit of hotels, ryokans and ancillary facilities is below a certain amount, floating rent shall not apply. In addition, the lease agreement with each lessee above provides that the initial date of reckoning floating rent for RISONARE Atami and KAI Kinugawa is November 1, 2018 (12th fiscal period), KAI Kaga is May 1, 2019 (13th fiscal period), Asahikawa Grand Hotel is November 1, 2019 (14th fiscal period) and HOSHINOYA Fuji is May 1, 2020 (15th fiscal period). Accordingly,

floating rent shall not apply to the period before the concerned date, regardless of the amount of sales or profit of hotels, ryokans and ancillary facilities. For Hyatt Regency Osaka, the annual rent presented is the amount of floating rent calculated for October 2017 in accordance with the lease agreement annualized by multiplying by 12. Accordingly, the above calculated amounts may not be equivalent to the actual annual rent for each property. The same shall apply hereinafter.

iii) Leasing from interested parties

Name of lessor	Name of property	Monthly rent (yen)
Hoshino Resorts Inc.	HOSHINOYA Karuizawa (Note)	1,060,089
K.K. Horizon Hotels	HOSHINOYA Fuji (Note)	1,151,916

(Note) HRR borrows the above-mentioned property from the above-mentioned lessors.

iv) Amount of other fees paid

Not applicable.

(5) Transactions with Asset Management Company pertaining to its business other than asset management

Not applicable.

7. Financial information

(1) Status of i)assets, ii)liabilities, iii)principal, and iv)profit and loss

Please refer to the “Balance Sheets,” “Statements of Income,” “Statements of Changes in Net Assets,” “Notes to Financial Statements” and “Statements of Cash Distributions” presented later in this report.

(2) Change in the calculation method of depreciation

Not applicable.

(3) Change in the valuation method of real estate and infrastructure assets

Not applicable.

8. Beneficiary certificates of investment trusts established by HRR

Not applicable.

9. Disclosure regarding investments in real estate holding companies in foreign countries

Not applicable.

10. Disclosure regarding properties held by above mentioned real estate holding companies in foreign countries

Not applicable.

11. Other

(1) Notice

During the fiscal period under review, the Board of Directors of HRR approved the following matters which fall under the provisions of items in Article 109, Paragraph 2, Item 2, 3, 5, 6 and 8 of the Investment Trusts Act.

Board of Directors approval date	Items	Outline
October 11, 2017	Conclusion of a memorandum on asset management fee	The Board of Directors approved the conclusion of a memorandum on the commission rate of asset management fee under the scope stipulated in the asset management consignment agreement.
October 11, 2017	Conclusion of new investment unit underwriting agreements, etc.	The Board of Directors approved the conclusion of the following agreements, etc. relating to the underwriting of new investment units. (i) New investment underwriting agreement to make the domestic offering of new investment units that was concluded between HRR, Hoshino Resort Asset Management Co., Ltd., Nomura Securities Co., Ltd., and SMBC Nikko Securities Inc. (ii) Memorandum on the new issuance of investment units through third-party allotment related to the domestic primary offering that was concluded between HRR and Nomura Securities Co., Ltd.

(2) Treatment of fractions in amounts and ratios

Unless otherwise stated, monetary amounts have been rounded down and ratios have been rounded to the nearest specified unit in this report.

II. Balance Sheets

(Unit: thousands of yen)

	8th fiscal period (Reference) (As of April 30, 2017)	9th fiscal period (As of October 31, 2017)
Assets		
Current assets		
Cash and deposits	8,458,921	8,569,474
Operating accounts receivable	37,562	39,831
Prepaid expenses	208,782	216,258
Consumption taxes receivable	494,795	39,257
Deferred tax assets	13	13
Other	174,641	173,148
Total current assets	9,374,717	9,037,984
Non-current assets		
Property, plant and equipment		
Buildings	64,875,892	68,864,102
Accumulated depreciation	(3,586,688)	(4,497,514)
Buildings, net	61,289,204	64,366,588
Structures	1,699,933	1,882,833
Accumulated depreciation	(105,829)	(133,207)
Structures, net	1,594,104	1,749,625
Machinery and equipment	83,801	83,801
Accumulated depreciation	(27,733)	(31,351)
Machinery and equipment, net	56,067	52,450
Tools, furniture and fixtures	565,367	622,898
Accumulated depreciation	(176,673)	(245,343)
Tools, furniture and fixtures, net	388,694	377,555
Land	48,290,817	48,390,183
Construction in progress	9,968	119,217
Total property, plant and equipment	111,628,856	115,055,619
Intangible assets		
Leasehold right	1,330,286	2,062,399
Software	19,669	18,024
Total intangible assets	1,349,956	2,080,423
Investments and other assets		
Long-term prepaid expenses	513,944	449,227
Guarantee deposits	10,000	10,000
Other	326,890	364,906
Total investments and other assets	850,834	824,133
Total non-current assets	113,829,647	117,960,177
Total assets	123,204,364	126,998,161

Balance Sheets

(Unit: thousands of yen)

	8th fiscal period (Reference) (As of April 30, 2017)	9th fiscal period (As of October 31, 2017)
Liabilities		
Current liabilities		
Operating accounts payable	1,504,584	136,989
Short-term loans payable	1,500,000	1,500,000
Current portion of long-term loans payable	4,350,724	5,906,490
Accounts payable - other	611,309	656,812
Income taxes payable	876	884
Accrued expenses	2,170	–
Advances received	769,404	807,713
Total current liabilities	8,739,069	9,008,890
Non-current liabilities		
Long-term loans payable	37,183,970	35,502,842
Tenant leasehold and security deposits	2,789,454	2,889,882
Total non-current liabilities	39,973,424	38,392,724
Total liabilities	48,712,494	47,401,614
Net assets		
Unitholders' equity		
Unitholders' capital	72,591,623	77,532,045
Surplus		
Unappropriated retained earnings (undisposed loss)	1,900,247	2,064,501
Total surplus	1,900,247	2,064,501
Total unitholders' equity	74,491,870	79,596,547
Total net assets	*1 74,491,870	*1 79,596,547
Total liabilities and net assets	123,204,364	126,998,161

III. Statements of Income

(Unit: thousands of yen)

	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)		9th fiscal period (From May 1, 2017 to October 31, 2017)	
Operating revenue				
Lease business revenue	*1	4,462,551	*1	4,644,855
Total operating revenue		4,462,551		4,644,855
Operating expenses				
Expenses related to rent business	*1	1,682,281	*1	1,753,378
Asset management fee		372,006		396,537
Asset custody fee		3,823		4,349
Administrative service fees		18,317		17,927
Directors' compensations		2,640		3,000
Audit fee		8,200		8,233
Other operating expenses		108,298		84,663
Total operating expenses		2,195,567		2,268,090
Operating profit		2,266,983		2,376,765
Non-operating income				
Interest income		43		39
Insurance income		–		3,032
Interest on refund		47		138
Miscellaneous income		426		358
Total non-operating income		517		3,569
Non-operating expenses				
Interest expenses		196,467		196,492
Borrowing related expenses		169,958		84,750
Investment unit issuance expenses		–		33,724
Other		–		26
Total non-operating expenses		366,426		314,993
Ordinary profit		1,901,075		2,065,340
Profit before income taxes		1,901,075		2,065,340
Income taxes - current		882		890
Income taxes - deferred		0		(0)
Total income taxes		883		889
Profit		1,900,191		2,064,450
Retained earnings brought forward		55		50
Unappropriated retained earnings (undisposed loss)		1,900,247		2,064,501

IV. Statements of Changes in Net Assets

8th fiscal period (from November 1, 2016 to April 30, 2017) (Reference)

(Unit: thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of period	72,591,623	1,815,796	1,815,796	74,407,420	74,407,420
Changes of items during period					
Dividends of surplus	–	(1,815,741)	(1,815,741)	(1,815,741)	(1,815,741)
Profit	–	1,900,191	1,900,191	1,900,191	1,900,191
Total changes of items during period	–	84,450	84,450	84,450	84,450
Balance at end of period	*1 72,591,623	1,900,247	1,900,247	74,491,870	74,491,870

9th fiscal period (from May 1, 2017 to October 31, 2017)

(Unit: thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of period	72,591,623	1,900,247	1,900,247	74,491,870	74,491,870
Changes of items during period					
Issuance of new investment units	4,940,421	–	–	4,940,421	4,940,421
Dividends of surplus	–	(1,900,196)	(1,900,196)	(1,900,196)	(1,900,196)
Profit	–	2,064,450	2,064,450	2,064,450	2,064,450
Total changes of items during period	4,940,421	164,254	164,254	5,104,676	5,104,676
Balance at end of period	*1 77,532,045	2,064,501	2,064,501	79,596,547	79,596,547

V. Notes to Financial Statements
Summary of significant accounting policies

Item	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)																				
1. Method of depreciation and amortization of non-current assets	<p>i) Property, plant and equipment</p> <p>Depreciation is calculated using the straight-line method.</p> <p>The useful lives of principal property, plant and equipment are as follows:</p> <table data-bbox="448 510 911 638"> <tr> <td>Buildings</td> <td>3–57 years</td> </tr> <tr> <td>Structures</td> <td>3–60 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>6–15 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td>2–20 years</td> </tr> </table> <p>ii) Intangible assets</p> <p>Amortization is calculated using the straight-line method.</p> <p>The useful lives are as follows:</p> <table data-bbox="448 808 911 842"> <tr> <td>Intangible assets</td> <td>2–5 years</td> </tr> </table> <p>iii) Long-term prepaid expenses</p> <p>Amortization is calculated using the straight-line method.</p>	Buildings	3–57 years	Structures	3–60 years	Machinery and equipment	6–15 years	Tools, furniture and fixtures	2–20 years	Intangible assets	2–5 years	<p>i) Property, plant and equipment</p> <p>Depreciation is calculated using the straight-line method.</p> <p>The useful lives of principal property, plant and equipment are as follows:</p> <table data-bbox="979 510 1442 638"> <tr> <td>Buildings</td> <td>3–57 years</td> </tr> <tr> <td>Structures</td> <td>3–60 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>6–15 years</td> </tr> <tr> <td>Tools, furniture and fixtures</td> <td>2–20 years</td> </tr> </table> <p>ii) Intangible assets</p> <p>Amortization is calculated using the straight-line method.</p> <p>The useful lives are as follows:</p> <table data-bbox="979 808 1442 842"> <tr> <td>Intangible assets</td> <td>2–5 years</td> </tr> </table> <p>iii) Long-term prepaid expenses</p> <p>Amortization is calculated using the straight-line method.</p>	Buildings	3–57 years	Structures	3–60 years	Machinery and equipment	6–15 years	Tools, furniture and fixtures	2–20 years	Intangible assets	2–5 years
Buildings	3–57 years																					
Structures	3–60 years																					
Machinery and equipment	6–15 years																					
Tools, furniture and fixtures	2–20 years																					
Intangible assets	2–5 years																					
Buildings	3–57 years																					
Structures	3–60 years																					
Machinery and equipment	6–15 years																					
Tools, furniture and fixtures	2–20 years																					
Intangible assets	2–5 years																					
2. Standards for revenue and expense recognition	<p>Accounting for property-related taxes</p> <p>With respect to property tax, city planning tax, depreciable asset tax, etc. on real estate etc. held, of the tax amount assessed and determined, the amount corresponding to the relevant accounting period is accounted as expenses related to rent business.</p> <p>Furthermore, the amount equivalent to property-related taxes in the fiscal year in which the acquisition date falls that is paid to the seller as reimbursement upon acquisition of real estate is not recognized as expenses but included in the cost of acquisition of the concerned real estate.</p>	<p>Accounting for property-related taxes</p> <p>With respect to property tax, city planning tax, depreciable asset tax, etc. on real estate etc. held, of the tax amount assessed and determined, the amount corresponding to the relevant accounting period is accounted as expenses related to rent business.</p> <p>Furthermore, the amount equivalent to property-related taxes in the fiscal year in which the acquisition date falls that is paid to the seller as reimbursement upon acquisition of real estate is not recognized as expenses but included in the cost of acquisition of the concerned real estate.</p>																				
3. Hedge accounting method	<p>i) Hedge accounting method</p> <p>The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items</p> <table data-bbox="448 1570 852 1675"> <tr> <td>Hedging instrument</td> <td>Interest rate swap transaction</td> </tr> <tr> <td>Hedged item</td> <td>Interest on loans</td> </tr> </table> <p>iii) Hedging policies</p> <p>HRR conducts interest rate swap transactions to hedge risks stipulated in the Articles of Incorporation of HRR pursuant to the financing policy.</p> <p>iv) Evaluation method for hedge effectiveness</p> <p>Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>	Hedging instrument	Interest rate swap transaction	Hedged item	Interest on loans	<p>i) Hedge accounting method</p> <p>The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items</p> <table data-bbox="979 1570 1383 1675"> <tr> <td>Hedging instrument</td> <td>Interest rate swap transaction</td> </tr> <tr> <td>Hedged item</td> <td>Interest on loans</td> </tr> </table> <p>iii) Hedging policies</p> <p>HRR conducts interest rate swap transactions to hedge risks stipulated in the Articles of Incorporation of HRR pursuant to the financing policy.</p> <p>iv) Evaluation method for hedge effectiveness</p> <p>Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>	Hedging instrument	Interest rate swap transaction	Hedged item	Interest on loans												
Hedging instrument	Interest rate swap transaction																					
Hedged item	Interest on loans																					
Hedging instrument	Interest rate swap transaction																					
Hedged item	Interest on loans																					

Item	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
4. Other significant matters serving as the basis for preparation of financial statements	Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.	Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.

Notes to Balance Sheets

(Unit: thousands of yen)

8th fiscal period (Reference) (As of April 30, 2017)	9th fiscal period (As of October 31, 2017)
*1. Minimum net assets as provided in Article 67, Paragraph 4 of the Investment Trusts Act 50,000	*1. Minimum net assets as provided in Article 67, Paragraph 4 of the Investment Trusts Act 50,000

Notes to Statements of Income

8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
*1. Components of operating profit (loss) from real estate leasing (Unit: thousands of yen)	*1. Components of operating profit (loss) from real estate leasing (Unit: thousands of yen)
A. Operating revenue from real estate leasing	A. Operating revenue from real estate leasing
Lease business revenue	Lease business revenue
Lease business revenue 4,462,551	Lease business revenue 4,644,855
Total operating revenue from real estate leasing 4,462,551	Total operating revenue from real estate leasing 4,644,855
B. Operating expenses from real estate leasing	B. Operating expenses from real estate leasing
Expenses related to rent business	Expenses related to rent business
Insurance expenses 18,384	Insurance expenses 18,446
Repair expenses 83,968	Repair expenses 54,331
Land rent 46,022	Land rent 52,932
Depreciation 956,115	Depreciation 1,013,285
Loss on retirement of non-current assets –	Loss on retirement of non-current assets 173
Taxes and dues 363,459	Taxes and dues 407,097
Other expenses 214,330	Other expenses 207,111
Total operating expenses from real estate leasing 1,682,281	Total operating expenses from real estate leasing 1,753,378
C. Operating profit (loss) from real estate leasing [A – B] 2,780,269	C. Operating profit (loss) from real estate leasing [A – B] 2,891,476

Notes to Statements of Changes in Net Assets

8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
*1. Total number of investment units authorized and total number of investment units issued and outstanding	*1. Total number of investment units authorized and total number of investment units issued and outstanding
Total number of investment units authorized 2,000,000 units	Total number of investment units authorized 2,000,000 units
Total number of investment units issued and outstanding 163,514 units	Total number of investment units issued and outstanding 172,670 units

Income taxes

8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
1. Breakdown of deferred tax assets and deferred tax liabilities by major causes (Unit: thousands of yen)	1. Breakdown of deferred tax assets and deferred tax liabilities by major causes (Unit: thousands of yen)
Deferred tax assets	Deferred tax assets
Enterprise tax payable excluded from deductible expenses 13	Enterprise tax payable excluded from deductible expenses 13
Total deferred tax assets 13	Total deferred tax assets 13
Net deferred tax assets 13	Net deferred tax assets 13
2. Breakdown by major items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax-effect accounting (Unit: %)	2. Breakdown by major items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax-effect accounting (Unit: %)
Statutory tax rate 31.74	Statutory tax rate 31.74
[Adjustments]	[Adjustments]
Distributions deductible for tax purposes (31.73)	Distributions deductible for tax purposes (31.73)
Other 0.03	Other 0.03
Effective income tax rate after application of tax-effect accounting 0.05	Effective income tax rate after application of tax-effect accounting 0.04

Financial instruments

8th fiscal period (from November 1, 2016 to April 30, 2017) (Reference)

(1) Status of financial instruments

i) Policy for financial instruments

HRR procures funds for acquisition of new assets mainly through issuance of new investment units, loans from financial institutions and issuance of investment corporation bonds.

HRR enters into derivative transactions solely for the purpose of hedging the risk of fluctuations in interest rates on loans and other risks.

ii) Description of financial instruments and associated risks and of risk management system

The funds procured through loans are mainly used for acquisition of assets and repayment of loans. Concerning the liquidity risk and the risk of fluctuations in interest rates associated with such fund procurement, HRR manages and limits the concerned risks by diversifying fund procurement sources, and also by considering and implementing diversified fund procurement, including effective use of surplus funds and procurement of funds from the capital market through issuance of investment units.

In addition, loans with floating interest rates are exposed to the risk of rising interest rates, but HRR mitigates such risk by maintaining the LTV (ratio of interest-bearing liabilities to total assets) at a low level and

maintaining the ratio of long-term and fixed-rate loans at a high level. Moreover, derivative transactions (interest rate swap transactions, etc.) are executed as hedging instruments in order to mitigate the risk of rising interest rates and stabilize its financial costs.

Deposits, which are used for investment of HRR's surplus funds, are exposed to credit risk, such as bankruptcy of the depository financial institution; but HRR exercises prudence by limiting the deposit period to short term, taking into consideration security and liquidity and fully taking into account the market environment and status of cash flows.

iii) Supplementary explanation concerning fair values of financial instruments

The fair value of financial instruments is based on the quoted market price, if available. When there is no available quoted market price, the fair value is reasonably estimated. Certain assumptions are used for the estimation of fair value. Accordingly, the result of such estimation may change if different assumptions are adopted.

(2) Fair values of financial instruments

Carrying amounts, fair values and the difference between the values as of April 30, 2017 are as follows:

(Unit: thousands of yen)

	Carrying amount (Note 1)	Fair value (Note 1) (Note 2)	Difference
(1) Cash and deposits	8,458,921	8,458,921	–
(2) Operating accounts payable	(1,504,584)	(1,504,584)	–
(3) Short-term loans payable	(1,500,000)	(1,500,000)	–
(4) Current portion of long-term loans payable	(4,350,724)	(4,351,352)	628
(5) Long-term loans payable	(37,183,970)	(37,373,649)	189,679
(6) Derivative transactions	–	–	–

(Note 1) Liabilities are shown in parentheses.

(Note 2) Method of calculation of the fair value of financial instruments and matters related to derivative transactions

(1) Cash and deposits; (2) Operating accounts payable; (3) Short-term loans payable

Because these are settled in a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(4) Current portion of long-term loans payable; (5) Long-term loans payable

With respect to long-term loans payable, because those with floating interest rates reflect market interest rates in a short period of time, the fair value is deemed to resemble the book value and is thus stated at that book value. In the case of those with fixed interest rates, the fair value is measured by discounting the total principal and interest amount at the current rates that are reasonably estimated to be applicable if HRR enters into new similar loans. The fair value of the interest rate swap to which special accounting treatment has been applied is included in the fair value of long-term loans payable, which is the hedged item.

(6) Derivative transactions

(i) Derivative transactions to which hedge accounting has not been applied

Not applicable.

(ii) Derivative transactions to which hedge accounting has been applied

Contract amount or nominal principal amount defined in the contract as of the closing date for each hedge accounting method is as follows:

(Unit: thousands of yen)

Hedge accounting method	Type of derivative transaction	Major hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, due after one year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	Long-term loans payable	5,000,000	5,000,000	(Note)	–

(Note) Interest rate swaps to which special accounting treatment is applied are accounted for as an integral part of long-term loans payable, which is the hedged item. Therefore, their fair value is included in the fair value of "(5) Long-term loans payable."

(Note 3) Financial instruments for which the fair value is difficult to estimate

Tenant leasehold and security deposits are not subject to valuation at fair value, because a reasonable estimation of cash flows is recognized to be extremely difficult due to there being no market price and the difficulty of calculating the actual deposit period from when lessees move in to when they move out. The carrying amount of tenant leasehold and security deposits is as follows:

(Unit: thousands of yen)

	Carrying amount
Tenant leasehold and security deposits	2,789,454

(Note 4) Redemption schedule for monetary claims after the closing date (April 30, 2017)

(Unit: thousands of yen)

	Due within one year
Cash and deposits	8,458,921

(Note 5) Redemption schedule for loans payable after the closing date (April 30, 2017)

(Unit: thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans payable	1,500,000	–	–	–	–	–
Long-term loans payable	4,350,724	4,973,990	6,285,724	7,433,853	6,617,148	11,873,255

9th fiscal period (from May 1, 2017 to October 31, 2017)

(1) Status of financial instruments

i) Policy for financial instruments

HRR procures funds for acquisition of new assets mainly through issuance of new investment units, loans from financial institutions and issuance of investment corporation bonds.

HRR enters into derivative transactions solely for the purpose of hedging the risk of fluctuations in interest rates on loans and other risks.

ii) Description of financial instruments and associated risks and of risk management system

The funds procured through loans are mainly used for acquisition of assets and repayment of loans. Concerning the liquidity risk and the risk of fluctuations in interest rates associated with such fund procurement, HRR manages and limits the concerned risks by diversifying fund procurement sources, and also by considering and implementing diversified fund procurement, including effective use of surplus funds and procurement of funds from the capital market through issuance of investment units.

In addition, loans with floating interest rates are exposed to the risk of rising interest rates, but HRR mitigates such risk by maintaining the LTV (ratio of interest-bearing liabilities to total assets) at a low level and maintaining the ratio of long-term and fixed-rate loans at a high level. Moreover, derivative transactions (interest rate swap transactions, etc.) are executed as hedging instruments in order to mitigate the risk of rising interest rates and stabilize its financial costs.

Deposits, which are used for investment of HRR's surplus funds, are exposed to credit risk, such as bankruptcy of the depository financial institution, but HRR exercises prudence by limiting the deposit period to short term, taking into consideration security and liquidity and fully taking into account the market environment and status of cash flows.

iii) Supplementary explanation concerning fair values of financial instruments

The fair value of financial instruments is based on the quoted market price, if available. When there is no available quoted market price, the fair value is reasonably estimated. Certain assumptions are used for the estimation of fair value. Accordingly, the result of such estimation may change if different assumptions are adopted.

(2) Fair values of financial instruments

Carrying amounts, fair values and the difference between the values as of October 31, 2017 are as follows:

(Unit: thousands of yen)

	Carrying amount (Note 1)	Fair value (Note 1) (Note 2)	Difference
(1) Cash and deposits	8,569,474	8,569,474	–
(2) Short-term loans payable	(1,500,000)	(1,500,000)	–
(3) Current portion of long-term loans payable	(5,906,490)	(5,914,401)	7,911
(4) Long-term loans payable	(35,502,842)	(35,499,349)	(3,492)
(5) Derivative transactions	–	–	–

(Note 1) Liabilities are shown in parentheses.

(Note 2) Method of calculation of the fair value of financial instruments and matters related to derivative transactions

(1) Cash and deposits; (2) Short-term loans payable

Because these are settled in a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(3) Current portion of long-term loans payable; (4) Long-term loans payable

With respect to long-term loans payable, because those with floating interest rates reflect market interest rates in a short period of time, the fair value is deemed to resemble the book value and is thus stated at that book value. In the case of those with fixed interest rates, the fair value is measured by discounting the total principal and interest amount at the current rates that are reasonably estimated to be applicable if HRR enters into new similar loans. The fair value of the interest rate swap to which special accounting treatment has been applied is included in the fair value of long-term loans payable, which is the hedged item.

(5) Derivative transactions

(i) Derivative transactions to which hedge accounting has not been applied

Not applicable.

(ii) Derivative transactions to which hedge accounting has been applied

Contract amount or nominal principal amount defined in the contract as of the closing date for each hedge accounting method is as follows:

(Unit: thousands of yen)

Hedge accounting method	Type of derivative transaction	Major hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, due after one year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	Long-term loans payable	15,700,000	15,700,000	(Note)	–

(Note) Interest rate swaps to which special accounting treatment is applied are accounted for as an integral part of long-term loans payable, which is the hedged item. Therefore, their fair value is included in the fair value of “(4) Long-term loans payable.”

(Note 3) Financial instruments for which the fair value is difficult to estimate

Tenant leasehold and security deposits are not subject to valuation at fair value, because a reasonable estimation of cash flows is recognized to be extremely difficult due to there being no market price and the difficulty of calculating the actual deposit period from when lessees move in to when they move out. The carrying amount of tenant leasehold and security deposits is as follows:

(Unit: thousands of yen)

	Carrying amount
Tenant leasehold and security deposits	2,889,882

(Note 4) Redemption schedule for monetary claims after the closing date (October 31, 2017)

(Unit: thousands of yen)

	Due within one year
Cash and deposits	8,569,474

(Note 5) Redemption schedule for loans payable after the closing date (October 31, 2017)

(Unit: thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans payable	1,500,000	–	–	–	–	–
Long-term loans payable	5,906,490	6,385,724	6,193,872	7,291,417	7,517,128	8,114,701

Investment and rental properties

8th fiscal period (from November 1, 2016 to April 30, 2017) (Reference)

HRR owns rental properties for hotels and ryokans in Nagano Prefecture and other areas. The following table summarized the carrying amount, including the change during the period, and the fair value of these rental properties.

(Unit: thousands of yen)

Carrying amount			Fair value at end of period
Balance at beginning of period	Change during period	Balance at end of period	
94,799,513	17,760,966	112,560,480	126,965,000

(Note 1) “Carrying amount” is the book value at acquisition cost less accumulated depreciation.

(Note 2) The change during the period primarily consisted of the increase due to acquisition of Hyatt Regency Osaka (16,658,182 thousand yen) and the decrease due to depreciation (886,220 thousand yen in total).

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

The operating profit and expenses from investment and rental properties for the fiscal period ended April 30, 2017 are presented in “Notes to Statements of Income.”

9th fiscal period (from May 1, 2017 to October 31, 2017)

HRR owns rental properties for hotels and ryokans in Nagano Prefecture and other areas. The following table summarized the carrying amount, including the change during the period, and the fair value of these rental properties.

(Unit: thousands of yen)

Carrying amount			Fair value at end of period
Balance at beginning of period	Change during period	Balance at end of period	
112,560,480	4,060,766	116,621,246	132,989,000

(Note 1) “Carrying amount” is the book value at acquisition cost less accumulated depreciation.

(Note 2) The change during the period primarily consisted of the increase due to acquisition of two properties including HOSHINOYA Fuji (4,597,608 thousand yen) and the decrease due to depreciation (941,821 thousand yen in total).

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

The operating profit and expenses from investment and rental properties for the fiscal period ended October 31, 2017 are presented in “Notes to Statements of Income.”

Transactions with related parties

8th fiscal period (From November 1, 2016 to April 30, 2017) (Reference)

Type	Name	Description of business or occupation	Voting rights holding ratio (%)	Relationship		Description of transaction	Amount of transaction (Thousands of yen) (Note 2)	Account item	Balance at end of period (Thousands of yen) (Note 2)
				Inter-locking officers etc.	Business relationship				
Parent etc. of Asset Management Company	Hoshino Resorts Inc.	Hotels and ryokans business	3.8	-	Real estate leasing	Real estate leasing	499,840	Operating accounts receivable	14,911
								Advances received	75,060
								Tenant leasehold and security deposits	379,800
Parent etc. of Asset Management Company	K.K. Horizon Hotels	Hotels and ryokans business	-	-	Real estate leasing	Real estate leasing	1,913,728	Operating accounts receivable	10,531
								Advances received	341,112
								Tenant leasehold and security deposits	1,074,100

(Note 1) The terms and conditions of these transactions are determined based on the same terms and conditions as those applied to general business transactions in view of the prevailing market price.

(Note 2) Consumption taxes are not included in the transaction amounts but included in the related balances at the end of the period.

9th fiscal period (from May 1, 2017 to October 31, 2017)

Type	Name	Description of business or occupation	Voting rights holding ratio (%)	Relationship		Description of transaction	Amount of transaction (Thousands of yen) (Note 2)	Account item	Balance at end of period (Thousands of yen) (Note 2)
				Inter-locking officers etc.	Business relationship				
Parent etc. of Asset Management Company	Hoshino Resorts Inc.	Hotels and ryokans business	3.6	-	Real estate leasing	Real estate leasing	654,367	Operating accounts receivable	17,103
								Advances received	100,683
								Tenant leasehold and security deposits	472,230
Parent etc. of Asset Management Company	K.K. Horizon Hotels	Hotels and ryokans business	-	-	Real estate leasing	Purchase of real estate	4,160,000	-	-
						Real estate leasing	1,919,106	Operating accounts receivable	4,326
								Advances received	347,040
								Tenant leasehold and security deposits	1,074,100

(Note 1) The terms and conditions of these transactions are determined based on the same terms and conditions as those applied to general business transactions in view of the prevailing market price.

(Note 2) Consumption taxes are not included in the transaction amounts but included in the related balances at the end of the period.

Per unit information

(Unit: yen)

	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Net assets per unit	455,568	460,974
Basic earnings per unit	11,620	11,959

(Note 1) Basic earnings per unit are calculated by dividing profit by the daily weighted average number of investment units.

In addition, diluted earnings per unit are not stated because there are no dilutive investment units.

(Note 2) The following is the basis for calculation of basic earnings per unit.

(Unit: thousands of yen)

	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Profit	1,900,191	2,064,450
Amount not attributable to common unitholders	—	—
Profit attributable to common investment units	1,900,191	2,064,450
Average number of investment units during period(units)	163,514	172,617

Significant subsequent events

8th fiscal period (From November 1, 2016 to April 30, 2017) (Reference)

(1) Issuance of new investment units

HRR resolved at meetings of the Board of Directors held on April 7, 2017 and April 18, 2017 on the following issuance of new investment units, and payment was completed on May 1, 2017 for the new investment units through primary offering and on May 23, 2017 for the new investment units through third-party allotment.

Issuance of new investment units through primary offering

Number of investment units issued:	8,720 units
Issue price:	559,080 yen per unit
Total issue price:	4,875,177,600 yen
Paid-in amount:	539,583 yen per unit
Total paid-in amount:	4,705,163,760 yen
Payment due date:	May 1, 2017

Issuance of new investment units through third-party allotment

Number of investment units issued:	436 units
Paid-in amount:	539,583 yen per unit
Total paid-in amount:	235,258,188 yen
Payment due date:	May 23, 2017
Allottee:	Nomura Securities Co., Ltd.

Use of funds

The funds procured from the primary offering were allocated to the funds for acquisition of the real estate stated in subsection “a” under “(2) Acquisition of assets” below. Moreover, the remaining funds were kept as cash on hand along with the funds procured from the third-party allotment, and 354 million yen of which have been allocated to the funds for acquisition and contract amount stated in construction contract of the real estate stated in subsection “b” under “(2) Acquisition of assets” below.

(2) Acquisition of assets

a HRR acquired the real estate described below on May 1, 2017 (the acquisition price: 4,160 million yen).

Name of property	Location	Seller	Acquisition price (millions of yen) (Note)	Acquisition date
HOSHINOYA Fuji	Fujikawaguchiko-machi, Minamitsuru-gun, Yamanashi	K.K. Horizon Hotels	4,160	May 1, 2017

(Note) “Acquisition price” indicates the sum of (a) the sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as real estate sales commissions) and (b) 726 million yen of concession money paid to the seller-cum-land subleaseholder to establish land subleasehold, rounded down to the nearest million yen.

b HRR acquired the real estate described below on July 14, 2017 (the acquisition price: 354 million yen) (Note 1).

Name of property	Location	Seller (Note 2)	Acquisition price (millions of yen) (Note 1)	Acquisition date
HOSHINOYA Kyoto Annex	Kyoto-shi, Kyoto	K.K. Arashiyama Onsen Rankyokan	354	July 14, 2017

(Note 1) “Acquisition price” indicates the sum of (a) 93 million yen of the sales/purchase price of the land stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as real estate sales commissions) and (b) 261 million yen of contract amount (excluding consumption taxes, local consumption taxes and other expenses) stated in construction contract of the new building (HOSHINOYA Kyoto Annex) as orderer of which was taken over by HRR.

(Note 2) “Seller” indicates the counterparty with respect to the aforementioned acquisition and the succession of status.

(3) Additional borrowings

HRR obtained the following bank loan on May 2, 2017 to procure funds for repayment of the principal of existing borrowings that became due for repayment.

Floating/ Fixed	Lender	Loan amount	Interest rate	Drawdown date	Repayment due date (Note 3)	Repayment method
Floating	The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd.	0.7 billion yen	Base rate 1-month Japanese Yen TIBOR (Note 1) +0.425% (Note 2)	May 2, 2017	May 2, 2022	Lump-sum payment at maturity

(Note 1) The base rate applicable to the interest calculation period for the interest payable on an interest payment due date shall be, of the Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration at the prescribed point in time two business days prior to the interest payment due date immediately preceding that interest payment due date (the drawdown date for the first due date), the interest rate for the number of months corresponding to the interest calculation period. However, if there is no rate corresponding to the concerned period, then it shall be the base rate calculated based on the method provided in the contract.

(Note 2) The interest rate is substantially fixed at 0.519% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 3) If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.

9th fiscal period (from May 1, 2017 to October 31, 2017)

(1) Issuance of new investment units

HRR resolved at meetings of the Board of Directors held on October 11, 2017 and October 24, 2017 on the following issuance of new investment units, and payment was completed on November 1, 2017 for the new investment units through primary offering and on November 28, 2017 for the new investment units through third-party allotment.

Issuance of new investment units through primary offering

Number of investment units issued:	38,160 units
Issue price:	531,508 yen per unit
Total issue price:	20,282,345,280 yen
Paid-in amount:	514,063 yen per unit
Total paid-in amount:	19,616,644,080 yen
Payment due date:	November 1, 2017

Issuance of new investment units through third-party allotment

Number of investment units issued:	1,908 units
Paid-in amount:	514,063 yen per unit
Total paid-in amount:	980,832,204 yen
Payment due date:	November 28, 2017
Allottee:	Nomura Securities Co., Ltd.

Use of funds

The funds procured from the primary offering were allocated to part of the funds for acquisition of the real estate stated in “(2) Acquisition of assets” below. The funds procured through the third-party allotment are retained as cash on hand by depositing with financial institutions until expenditure, and are scheduled to be allocated to part of the funds for acquisition of specified assets (as defined in Article 2, Paragraph 1 of the Investment Trusts Act) or part of the funds for repayment of loans in the future.

(2) Acquisition of assets

HRR acquired the real estate described below on November 1, 2017 (the acquisition price: 29,039 million yen).

Name of property	Location	Seller	Acquisition price (millions of yen) (Note)	Acquisition date
HOSHINOYA Taketomi Island	Taketomi-cho, Yaeyama-gun, Okinawa	Hoshino Resort Management Co., Ltd.	4,900	November 1, 2017
the b akasaka	Minato-ku, Tokyo	Hoshino Resorts Inc.	4,860	November 1, 2017
the b sangenjaya	Setagaya-ku, Tokyo	Hoshino Resorts Inc.	4,420	November 1, 2017
the b nagoya	Nagoya-shi, Aichi	Hoshino Resorts Inc.	4,500	November 1, 2017
the b kobe	Kobe-shi, Hyogo	Hoshino Resorts Inc.	7,020	November 1, 2017
Quintessa Hotel Osaka Shinsaibashi	Osaka-shi, Osaka	Sanei Architecture Planning Co., Ltd.	3,339	November 1, 2017
Total			29,039	–

(Note) “Acquisition price” indicates the sum of (a) sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions) and (b) 1,391 million yen of key money concerning establishment of land subleasehold for Hoshino Resort Management Co., Ltd., which is the seller-cum-land subleasehold establisher for “HOSHINOYA Taketomi Island.” The acquisition price of “the b akasaka” includes the sales/purchase price (12 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b sangenjaya” includes the sales/purchase price (6 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b nagoya” includes the sales/purchase price (24 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; the acquisition price of “the b kobe” includes the sales/purchase price (16 million yen) of equipment, etc. acquired from Hoshino Resorts Inc., the seller of the property; and the acquisitions price of “Quintessa Hotel Osaka Shinsaibashi” includes the sales/purchase price (19 million yen) of equipment, etc. acquired from Core Global Management Inc., the lessee of the property.

(3) Additional borrowings

HRR obtained the following bank loan on November 1, 2017 to be allocated to part of the funds for and expenses related to the acquisition of the real estate stated in “(2) Acquisition of assets” above.

Floating /Fixed	Lender	Loan amount	Interest rate (Note 1)	Drawdown date	Repayment due date (Note 6)	Repayment method
Floating	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd. The Senshu Ikeda Bank, Ltd.	2.5 billion yen	Base rate 1-month Japanese Yen TIBOR +0.225% (Note 2)	November 1, 2017	April 30, 2020	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd.	2.0 billion yen	Base rate 1-month Japanese Yen TIBOR +0.325% (Note 3)	November 1, 2017	April 28, 2022	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. Mizuho Bank, Ltd.	2.5 billion yen	Base rate 1-month Japanese Yen TIBOR +0.475% (Note 4)	November 1, 2017	October 31, 2023	Lump-sum repayment at maturity
	The Bank of Tokyo-Mitsubishi UFJ, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited	3.0 billion yen	Base rate 1-month Japanese Yen TIBOR +0.625% (Note 5)	November 1, 2017	April 30, 2025	Lump-sum repayment at maturity

(Note 1) The base rate applicable to the interest calculation period for the interest payable on an interest payment due date shall be, of the Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration at the prescribed point in time two business days prior to the interest payment due date immediately preceding that interest payment due date (the drawdown date for the first due date), the interest rate for the number of months corresponding to the interest calculation period. However, if there is no rate corresponding to the concerned period, then it shall be the base rate calculated based on the method provided in the contract.

(Note 2) The interest rate is substantially fixed at 0.2950% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 3) The interest rate is substantially fixed at 0.4295% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 4) The interest rate is substantially fixed at 0.6250% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 5) The interest rate is substantially fixed at 0.8300% with the effect of the interest rate swap agreements to hedge the risk of rising interest rates.

(Note 6) If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.

VI. Statements of Cash Distributions

(Unit: yen)

	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
I. Unappropriated retained earnings	1,900,247,149	2,064,501,692
II. Amount of distributions [Amount of distribution per investment unit]	1,900,196,194 [11,621]	2,064,442,520 [11,956]
III. Retained earnings brought forward	50,955	59,172
Method of calculating distribution amount	In accordance with the policy described in Article 37, Paragraph 1 of the Articles of Incorporation of Hoshino Resorts REIT, Inc. (HRR) that “distributions shall be in excess of the amount equivalent to 90% of the amount of earnings available for distribution of HRR provided in Article 67-15 of the Act on Special Measures Concerning Taxation,” the decision was made to distribute 1,900,196,194 yen, which is almost the entire amount of unappropriated retained earnings, as distributions of earnings. Furthermore, the distribution of cash in excess of earnings provided in Article 37, Paragraph 2 of the Articles of Incorporation will not be conducted.	In accordance with the policy described in Article 37, Paragraph 1 of the Articles of Incorporation of Hoshino Resorts REIT, Inc. (HRR) that “distributions shall be in excess of the amount equivalent to 90% of the amount of earnings available for distribution of HRR provided in Article 67-15 of the Act on Special Measures Concerning Taxation,” the decision was made to distribute 2,064,442,520 yen, which is almost the entire amount of unappropriated retained earnings, as distributions of earnings. Furthermore, the distribution of cash in excess of earnings provided in Article 37, Paragraph 2 of the Articles of Incorporation will not be conducted.

VII. Statements of Cash Flows (Reference Information)

	(Unit: thousands of yen)	
	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Cash flows from operating activities		
Profit before income taxes	1,901,075	2,065,340
Depreciation	956,848	1,014,153
Loss on retirement of non-current assets	-	173
Interest income	(43)	(39)
Interest expenses	196,467	196,492
Borrowing related expenses	169,958	84,750
Investment unit issuance expenses	-	33,724
(Increase) decrease in operating accounts receivable	2,269	(2,268)
(Increase) decrease in prepaid expenses	(26,139)	(7,475)
(Increase) decrease in consumption taxes refund receivable	(426,842)	455,537
Increase (decrease) in operating accounts payable	26,797	(14,551)
Increase (decrease) in accounts payable - other	61,982	39,190
Increase (decrease) in advances received	73,731	38,309
(Increase) decrease in long-term prepaid expenses	(101,293)	64,717
Other, net	(344,600)	(83,258)
Subtotal	2,490,212	3,884,796
Interest income received	43	39
Interest expenses paid	(194,296)	(198,663)
Income taxes paid	(895)	(882)
Net cash provided by operating activities	2,295,063	3,685,290
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,077,804)	(5,782,274)
Purchase of intangible assets	(308,158)	(737,027)
Proceeds from tenant leasehold and security deposits	-	100,428
Payments for lease and guarantee deposits	(24,000)	(38,016)
Net cash used in investing activities	(17,409,962)	(6,456,891)
Cash flows from financing activities		
Proceeds from short-term loans payable	1,500,000	1,500,000
Repayments of short-term loans payable	-	(1,500,000)
Proceeds from long-term loans payable	14,500,000	700,000
Repayments of long-term loans payable	(125,362)	(825,362)
Proceeds from issuance of investment units	-	4,940,421
Payments for investment unit issuance expenses	-	(33,724)
Dividends paid	(1,815,097)	(1,899,182)
Net cash provided by financing activities	14,059,540	2,882,152
Net increase (decrease) in cash and cash equivalents	(1,055,358)	110,552
Cash and cash equivalents at beginning of period	9,514,280	8,458,921
Cash and cash equivalents at end of period	*1 8,458,921	*1 8,569,474

Summary of significant accounting policies (Reference information)

Item	8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)
Scope of funds in the statements of cash flows	The funds (cash and cash equivalents) in the statements of cash flows comprise cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.	The funds (cash and cash equivalents) in the statements of cash flows comprise cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Notes to Statements of Cash Flows (Reference information)

8th fiscal period (Reference) (From November 1, 2016 to April 30, 2017)		9th fiscal period (From May 1, 2017 to October 31, 2017)	
*1. Reconciliation of cash and cash equivalents at end of the period to the corresponding Balance sheet item (As of April 30, 2017) (Unit: thousands of yen)		*1. Reconciliation of cash and cash equivalents at end of the period to the corresponding Balance sheet item (As of October 31, 2017) (Unit: thousands of yen)	
Cash and deposits	8,458,921	Cash and deposits	8,569,474
Cash and cash equivalents	8,458,921	Cash and cash equivalents	8,569,474

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
Hoshino Resorts REIT, Inc.**

We have audited the accompanying financial statements of Hoshino Resorts REIT, Inc., which comprise the balance sheet as at October 31, 2017, and the statement of income, the statement of changes in net assets and notes to financial statements, all expressed in Japanese yen.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Ordinance on Accountings of Investment Corporations and 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 audit. We conducted our audit 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 the auditor's 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 referred to above present fairly, in all material respects, the financial position of Hoshino Resorts REIT, Inc. as at October 31, 2017, and its financial performance for the six months then ended in accordance with the Ordinance on Accountings of Investment Corporations and accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to "Significant subsequent events" that describes that Hoshino Resorts REIT, Inc. issued new investment units, acquired assets and obtained additional borrowings.

Grant Thornton Taiyo LLC

January 29, 2018
Tokyo, Japan