

Semi-Annual Report
10th Fiscal Period

Hoshino Resorts REIT, Inc.

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

(from November 1, 2017 to April 30, 2018)

I. Asset Management Report

1. Overview of asset management

(1) Trend in key indicators

Fiscal period		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)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Operating revenue	(millions of yen)	3,559	3,981	4,462	4,644	5,540
Of the above, operating revenue from real estate leasing	(millions of yen)	3,559	3,981	4,462	4,644	5,540
Operating expenses	(millions of yen)	1,645	1,884	2,195	2,268	2,465
Of the above, operating expenses from real estate leasing	(millions of yen)	1,303	1,428	1,682	1,753	1,924
Operating profit	(millions of yen)	1,914	2,097	2,266	2,376	3,074
Ordinary profit	(millions of yen)	1,601	1,816	1,901	2,065	2,625
Profit	(millions of yen)	1,600	1,815	1,900	2,064	2,624
Total assets	(millions of yen)	101,941	105,709	123,204	126,998	163,194
(Change from previous period)	(%)	110.6	3.7	16.5	3.1	28.5
Net assets	(millions of yen)	69,507	74,407	74,491	79,596	100,754
(Change from previous period)	(%)	87.7	7.0	0.1	6.9	26.6
Interest-bearing liabilities	(millions of yen)	28,385	27,160	43,034	42,909	57,183
Unitholders' capital	(millions of yen)	67,906	72,591	72,591	77,532	98,129
Total number of investment units issued and outstanding	(units)	78,008	81,757	163,514	172,670	212,738
Net assets per unit (net asset value)	(Note 3) (yen)	445,516	455,052	455,568	460,974	473,607
Total distributions	(millions of yen)	1,600	1,815	1,900	2,064	2,624
Distributions per unit	(yen)	20,520	22,209	11,621	11,956	12,338
Of the above, distributions of earnings per unit	(yen)	20,520	22,209	11,621	11,956	12,338
Of the above, distributions in excess of earnings per unit	(yen)	–	–	–	–	–
Ratio of ordinary profit to total assets	(Note 4) (%)	2.1	1.7	1.7	1.7	1.8
(Annualized)	(Note 5) (%)	4.3	3.5	3.3	3.3	3.6
Return on equity	(Note 4) (%)	3.0	2.5	2.6	2.7	2.9
(Annualized)	(Note 5) (%)	6.0	5.0	5.1	5.3	5.9

Fiscal period	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)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Unitholders' equity to total assets (Note 4) (%)	68.2	70.4	60.5	62.7	61.7
(Change from previous period) (%)	(8.3)	2.2	(9.9)	2.2	(0.9)
Payout ratio (Note 4) (%)	100.0	100.0	100.0	100.0	100.0
[Other Information]					
Number of operating days (days)	182	184	181	184	181
Number of properties at end of period (properties)	46	47	48	49	56
Depreciation during period (millions of yen)	735	831	956	1,013	1,141
Capital expenditures during period (millions of yen)	635	1,037	2,230	762	1,421
Rental NOI (Net Operating Income) (Note 4) (millions of yen)	2,992	3,384	3,736	3,904	4,757
FFO (Funds from Operation) (Note 4) (millions of yen)	2,337	2,647	2,857	3,078	3,767
FFO per unit (Note 4) (yen)	29,958	32,384	17,472	17,830	17,710
Total distributions / FFO ratio (Note 4) (%)	68.5	68.6	66.5	67.1	69.7
Ratio of interest-bearing liabilities to total assets at end of period (LTV) (%)	27.8	25.7	34.9	33.8	35.0

(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 6th fiscal period, 7th fiscal period, 9th fiscal period, and 10th 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 182 days for the 6th fiscal period, 184 days for the 7th fiscal period, 181 days for the 8th fiscal period, 184 days for the 9th fiscal period, and 181 days for the 10th 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”)) and five hotels operated by operators other than the Hoshino Resorts Group in November 2017. Moreover, in April 2018 HRR additionally acquired one hotel operated by an outside operator, and furthermore under HRR’s attractiveness-enhancing capital expenditure (Note) initiative additionally acquired an annex of a hotel that is already operated by the Hoshino Resorts Group as an asset under management of HRR. As a result, the assets held by HRR at the end of the fiscal period under review were 56 properties (sum total of acquisition price: 146,767 million yen).

(Note) “Attractiveness-enhancing capital expenditure” refers to initiatives to improve the business results of a facility by increasing its attractiveness and improving its customer-drawing power by maintaining and improving asset values and competitiveness of managed assets from a medium- to long-term perspective through such measures as capital expenditure, formulation and execution of renovation plans, and additional acquisition of ancillary or related facilities (including extension to a building).

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. As such, the number of inbound tourists continues to increase, having reached 28,690 thousand in fiscal 2017, up from 24,040 thousand in fiscal 2016. 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 April 30, 2018.

iii) Overview of fund procurement

In the fiscal period under review, 19,616 million yen was procured from the issuance of new investment units through primary offering on November 1, 2017, 980 million yen was procured from the issuance of new investment units through third-party allotment on November 28, 2017, 10,000 million yen was procured from debt financing on November 1, 2017, and these were allocated to part of the funds for and expenses related to the acquisition of HOSHINOYA Taketomi Island and other new properties. The funds procured through the third-party allotment were retained as cash on hand, and allocated to the funds for acquisition of Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares, acquired on March 30, 2018, part of the funds for acquisition of hotel androoms Osaka Hommachi, acquired on April 2, 2018, and the funds for acquisition of HOSHINOYA Taketomi Island Villa Taketomi Annex, acquired on April 9, 2018.

Moreover, in order to allocate funds for repayment of existing loans, HRR has issued the First Series Unsecured Investment Corporation Bond (with special pari passu conditions among specified investment corporate bonds) amounting to 1,500 million yen as of February 28, 2018. On March 7, 2018, HRR made early repayment of 1,500 million yen in short-term loans payable from the proceeds generated by issuing the aforementioned investment corporation bonds. In addition, in order to procure funds for repayment of the principal of an existing loan due for repayment, 3,400 million yen was procured from debt financing on April 27, 2018.

Furthermore, scheduled payment was made, resulting in balance of interest-bearing liabilities of 57,183 million yen and ratio of interest-bearing liabilities to total assets (LTV) of 35.0% as of April 30, 2018.

(Status of credit rating)

The credit rating HRR has obtained as of the end of the fiscal period under review is as follows:

Credit rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd. (JCR)	Long-term issuer rating: A-	Stable
	Bond credit rating (Note): A-	—

(Note) The bond rating applies to the First Series Unsecured Investment Corporation Bond (with special pari passu conditions among specified investment corporate bonds).

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 5,540 million yen, operating profit of 3,074 million yen, ordinary profit of 2,625 million yen and profit of 2,624 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 12,338 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 April 30, 2018.

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)
November 1, 2017	Capital increase through public offering	19,616,644	97,148,689	38,160	210,830	(Note 15)
November 28, 2017	Capital increase through third-party allotment	980,832	98,129,521	1,908	212,738	(Note 16)

- (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.
- (Note 15) 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 531,508 yen (paid-in amount of 514,063 yen) per unit.
- (Note 16) 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 514,063 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	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)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Highest (Yen)	1,399,000	1,330,000	626,000	623,000	598,000	585,000
Lowest (Yen)	1,104,000	1,203,000	615,000	562,000	547,000	538,000

- (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 12,338 yen.

Fiscal period	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)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Total profit (thousands of yen)	1,600,731	1,815,763	1,900,191	2,064,450	2,624,739
Total unappropriated retained earnings (undisposed loss) (thousands of yen)	1,600,757	1,815,796	1,900,247	2,064,501	2,624,798
Retained earnings brought forward (thousands of yen)	33	55	50	59	37
Total cash distributions (thousands of yen)	1,600,724	1,815,741	1,900,196	2,064,442	2,624,761
(Distributions per unit) (yen)	20,520	22,209	11,621	11,956	12,338
Of the above, total distributions (thousands of yen)	1,600,724	1,815,741	1,900,196	2,064,442	2,624,761
(Distributions of earnings per unit) (yen)	20,520	22,209	11,621	11,956	12,338
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

The Japanese economy going forward is, amid continued improvement in the employment and income situation, expected to continue to trend toward moderate economic recovery due in part to Bank of Japan's monetary easing policies continuing, but is in a state in which there continue to be concerns of uncertainty in overseas economies, the effects of fluctuations in the financial and capital markets, etc. posing as downside risks to the economy. In addition, the Japanese government has set new goals with respect to promoting Japan as a tourism nation under its tourism policy which consists of the basic policies of achieving growth in tourism toward turning it into a core industry of Japan, thereby acting as a driver of the Japanese economy and helping bring vitality to communities. In the course of promoting the tourism policy, steps are expected to be taken that include creating tour packages which draw on the distinctive appeal of local areas, addressing needs with respect to *minpaku* services (the provision of lodging services for a fee utilizing private homes, in whole or in part), and strategically relaxing 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 in order to secure long-term and stable cash flow. After proactively obtaining information on hotels, ryokans and ancillary facilities operated by the Hoshino Resorts Group (hereinafter the "properties operated by the Hoshino Resorts Group") and outside operators (hereinafter the "properties operated by outside operators"), including overseas properties in which the Hoshino Resorts Group is engaged (Note), HRR will examine individual investment properties upon their selection.

(Note) "Overseas properties in which the Hoshino Resorts Group is engaged" are those that meet either criteria below. The same shall apply hereinafter.

- Properties which the Hoshino Resorts Group or entities, etc. in which the Hoshino Resorts Group invests (including those for which the Group takes a stake upon HRR's investment), own and engage in the development or operation.
- Properties that HRR judges to meet the above condition after a certain period of time following acquisition by HRR.

a. Properties operated by the Hoshino Resorts Group

Taking above into consideration, HRR believes that it should preferably undertake investment in HOSHINOYA, Hoshino Resorts KAI and Hoshino Resorts RISONARE, which are operated by the Hoshino Resorts Group.

HOSHINOYA, the flagship brand of the Hoshino Resorts Group, aims to provide overwhelmingly extraordinary services that meet global standards, and accordingly HRR believes it is the brand which has caused the concept of small luxury (Note) to take hold in Japan's domestic resort market.

Hoshino Resorts KAI, high-end hot spring ryokans, are located in renowned hot spring destinations. Small yet premium quality, they aim to provide special and comfortable overnight stays that enable guests to experience the appeal of local surroundings. HRR believes that facilities under this brand, operating under a hot spring ryokan resort business format unique to Japan, are likely to generate increased use among tourists from overseas visiting Japan as is the case with the HOSHINOYA brand. In addition, the Hoshino Resorts Group maintains a business model for this brand that entails taking over management and operations from existing ryokan facilities that have found it difficult to stay in business, particularly due to financial difficulties and a lack of successors. As such, HRR anticipates further expansion of its pipeline going forward.

Operating under the concept of a resort hotel that offers enjoyment for both adults and children, Hoshino Resorts RISONARE strives to act as a brand that is preferred by families by offering a wealth of activities suitable for each season, along with the appeal of gaining a sense of healing that is distinctive to the resort experience.

HRR believes the securement of stable earnings will be possible by investing mainly in the three brands (hereinafter the “main brands”) of HOSHINOYA, Hoshino Resorts KAI and Hoshino Resorts RISONARE (hereinafter may be referred to as “HOSHINOYA,” “KAI” and “RISONARE,” respectively), which HRR deems competitive. HRR intends to obtain information on the main brand properties (properties under main brands), 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.

(Note) The “small luxury” concept with respect to facilities refers to those facilities that feature appealing options particularly in terms of cuisine, culture, scenery, natural surroundings, activities available during stays and hot springs. Such facilities focus on providing a high degree of service with a personal touch, along with a small but upscale product mix.

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 will make proactive investments in hotels, ryokans and ancillary facilities operated by outside operators if it decides long-term and stable cash flow can be secured after obtaining the necessary information taking advantage of the sponsor support agreement with Hoshino Resorts and the Asset Management Company’s unique networks.

Specifically among the properties operated by outside operators, HRR discusses acquisition of hotels, ryokans and ancillary facilities that serve as urban tourism bases in which tourism needs that complement urban tourism (Note) are believed to exist (“urban tourism 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” against the backdrop of urban tourism demand in cities where properties are located. In addition, HRR will actively invest in hotels, ryokans and ancillary facilities other than urban tourism properties (hereinafter, “other properties operated by outside operators”) for which tourism needs are believed to exist above and beyond urban tourism 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.”

(Note) “Urban tourism” refers to tourism mainly seeking to enjoy historical townscapes and urban culture (concerts, museums, modern architecture, etc.), night views, industrial/culture heritage, urban lifestyle (dining, shopping) and such. The same shall apply hereinafter.

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 and other measures.

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, HRR will continue the consideration of active investment in properties operated by the Hoshino Resorts Group which includes the main brand properties, urban tourism properties constituting properties operated by outside operators and other properties operated by outside operators going forward. Furthermore, HRR's policy of ensuring diversification applies not only to diversification of investment categories, lessees and operators, but also to geographic area of facility location.

(6) Significant subsequent events

i) Issuance of new investment units

HRR resolved at meetings of the Board of Directors held on April 6, 2018 and April 17, 2018 on the following issuance of new investment units, and payment was completed on May 1, 2018 for the new investment units through primary offering and on May 22, 2018 for the new investment units through third-party allotment.

Issuance of new investment units through primary offering

Number of investment units issued:	8,690 units
Issue price:	523,342 yen per unit
Total issue price:	4,547,841,980 yen
Paid-in amount:	505,092 yen per unit
Total paid-in amount:	4,389,249,480 yen
Payment due date:	May 1, 2018

Issuance of new investment units through third-party allotment

Number of investment units issued:	434 units
Paid-in amount:	505,092 yen per unit
Total paid-in amount:	219,209,928 yen
Payment due date:	May 22, 2018
Allottee:	Nomura Securities Co., Ltd.

Use of funds

The funds procured from the primary offering were allocated to part of the repayment of loans stated in subsection "ii) Repayment of loans" 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) Repayment of loans

HRR implemented early repayment of the following loan on May 10, 2018.

Floating / Fixed	Lender	Loan amount	Interest rate	Borrowing date	Maturity date (Note 3)	Repayment method
Floating	MUFG Bank, Ltd. (Note 1) Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. Mizuho Bank, Ltd.	4.4 billion yen	Base rate 1-month Japanese Yen TIBOR +0.300% (Note 2)	April 2, 2018	March 29, 2019	Lump-sum repayment at maturity

(Note 1) Effective on April 1, 2018, the name of "The Bank of Tokyo-Mitsubishi UFJ, Ltd." has been changed to "MUFG Bank, Ltd." The same shall apply hereinafter.

(Note 2) 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 3) If the maturity 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 maturity date.

iii) Additional borrowings

HRR obtained the following bank loan on July 17, 2018 to procure funds for repayment of the principal of an existing loan due for repayment.

Floating / Fixed	Lender	Loan amount	Interest rate (Note 1) (Note 2)	Borrowing date	Maturity date (Note 3)	Repayment method
Floating	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	2.2 billion yen	Base rate 1-month Japanese Yen TIBOR +0.754%	July 17, 2018	April 30, 2027	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 1.0390% with the effect of the interest rate swap agreement to hedge the risk of rising interest rates.

(Note 3) If the maturity 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 maturity date.

2. Profile of HRR

(1) Status of unitholders' capital

	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)	10th fiscal period (As of April 30, 2018)
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)	78,008	81,757	163,514	172,670	212,738
Unitholders' capital (millions of yen)	67,906	72,591	72,591	77,532	98,129
Number of unitholders (persons)	10,001	10,278	12,489	14,505	17,491

(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 April 30, 2018 are as follows:

Name	Address	Number of units owned (units)	Ratio to total number of units issued and outstanding (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	35,130	16.51
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	24,916	11.71
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	14,432	6.78
JP MORGAN CHASE BANK 385632 (Standing proxy: Mizuho Bank, Ltd.)	Shinagawa Intercity Tower A 2-15-1 Konan, Minato-ku, Tokyo	10,883	5.11
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	9,807	4.60
Hoshino Resorts Inc.	2148 Oaza Nagakura, Karuizawa-machi, Kitasaku-gun, Nagano	6,140	2.88
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	3,973	1.86
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Mizuho Bank, Ltd.)	Shinagawa Intercity Tower A 2-15-1 Konan, Minato-ku, Tokyo	2,097	0.98
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	2,055	0.96
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	1,862	0.87
Total		111,295	52.31

(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	–	8,400

(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 April 30, 2018 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
General Administrator (administration of investment corporation bonds)	Sumitomo Mitsui Banking Corporation

3. Status on Investment Properties

(1) Investment status

Asset type	Use of asset	9th fiscal period As of October 31, 2017		10th fiscal period As of April 30, 2018	
		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	94,754	74.6	128,887	79.0
	Ryokan	21,866	17.2	21,769	13.3
Subtotal		116,621	91.8	150,656	92.3
Investment securities		–	–	168	0.1
Deposits and other assets		10,376	8.2	12,369	7.6
Total assets (Note 3)		126,998	100.0	163,194	100.0
Total liabilities (Note 3)		47,401	37.3	62,440	38.3
Total net assets (Note 3)		79,596	62.7	100,754	61.7

(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 April 30, 2018 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	17,881	32,332.00	32,332.00	100.0	10.8	Hotel
Hyatt Regency Osaka	16,495	80,197.60	80,197.60	100.0	6.8	Hotel
ANA Crowne Plaza Fukuoka	7,656	27,372.74	27,372.74	100.0	5.5	Hotel
HOSHINOYA Karuizawa	7,416	11,723.61	11,723.61	100.0	7.6	Ryokan
the b kobe	7,064	9,647.11	9,647.11	100.0	3.4	Hotel
ANA Crowne Plaza Kanazawa	6,787	23,835.00	23,835.00	100.0	7.4	Hotel
RISONARE Yatsugatake	5,836	33,853.45	33,853.45	100.0	5.4	Hotel
OMO7 Asahikawa (Note 5)	5,074	25,715.20	25,715.20	100.0	3.3	Hotel
HOSHINOYA Taketomi Island	4,960	4,249.87	4,249.87	100.0	3.0	Hotel
the b akasaka	4,895	4,027.00	4,027.00	100.0	1.9	Hotel
Total	84,069	252,953.58	252,953.58	100.0	55.2	–

(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.

(Note 5) Effective April 28, 2018, the name of this property has been changed to “Hoshino Resorts OMO7 Asahikawa,” (hereinafter “OMO7 Asahikawa”) from “Asahikawa Grand Hotel” previously.

(3) Summary of portfolio properties

An overview of assets held by HRR as of April 30, 2018 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	7,416	11,600
HOSHINOYA Kyoto	Kyoto-shi, Kyoto	Ownership of real estate, etc.	3,097.69	3,304	4,260
HOSHINOYA Fuji	Fujikawaguchiko-machi, Minamitsuru-gun, Yamanashi	Ownership of real estate, etc.	2,103.55	4,148	4,320
HOSHINOYA Taketomi Island	Taketomi-cho, Yaeyama-gun, Okinawa	Ownership of real estate, etc.	4,249.87	4,960	5,250
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Ownership of real estate, etc.	33,853.45	5,836	6,770
RISONARE Atami	Atami-shi, Shizuoka	Ownership of real estate, etc.	23,385.18	4,438	4,240
KAI Matsumoto	Matsumoto-shi, Nagano	Ownership of real estate, etc.	4,056.12	631	799
KAI Izumo	Matsue-shi, Shimane	Ownership of real estate, etc.	3,909.02	724	862
KAI Ito	Ito-shi, Shizuoka	Ownership of real estate, etc.	7,473.91	702	971
KAI Hakone	Hakone-machi, Ashigarashimo-gun, Kanagawa	Ownership of real estate, etc.	4,649.67	1,155	1,270
KAI Aso	Kokonoe-machi, Kusu-gun, Oita	Ownership of real estate, etc.	1,543.53	617	691
KAI Kawaji	Nikko-shi, Tochigi	Ownership of real estate, etc.	8,190.38	1,028	1,160
KAI Kinugawa	Nikko-shi, Tochigi	Ownership of real estate, etc.	4,066.60	3,049	3,280
KAI Kaga	Kaga-shi, Ishikawa	Ownership of real estate, etc.	5,159.46	3,137	3,380
OMO7 Asahikawa	Asahikawa-shi, Hokkaido	Ownership of real estate, etc.	25,715.20	5,074	4,780
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Ownership of real estate, etc.	32,332.00	17,881	20,000
ANA Crowne Plaza Fukuoka	Fukuoka-shi, Fukuoka	Ownership of real estate, etc.	27,372.74	7,656	8,790
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Ownership of real estate, etc.	23,835.00	6,787	7,180
ANA Crowne Plaza Toyama	Toyama-shi, Toyama	Ownership of real estate, etc.	21,600.11	3,977	4,450
Hyatt Regency Osaka	Osaka-shi, Osaka	Ownership of real estate, etc.	80,197.60	16,495	16,700
the b akasaka	Minato-ku, Tokyo	Ownership of real estate, etc.	4,027.00	4,895	5,130
the b sangenjaya	Setagaya-ku, Tokyo	Ownership of real estate, etc.	2,672.20	4,445	4,670
the b nagoya	Nagoya-shi, Aichi	Ownership of real estate, etc.	8,058.64	4,537	4,680
the b kobe	Kobe-shi, Hyogo	Ownership of real estate, etc.	9,647.11	7,064	7,320
Quintessa Hotel Osaka Shinsaibashi	Osaka-shi, Osaka	Ownership of real estate, etc.	2,997.46	3,417	3,670

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)
hotel androoms Osaka Hommachi	Osaka-shi, Osaka	Ownership of real estate, etc.	3,191.32	4,378	4,450
Chisun Inn Shiojiri Kita IC	Shiojiri-shi, Nagano	Ownership of real estate, etc.	2,100.47	675	821
Chisun Inn Sano Fujioka IC	Sano-shi, Tochigi	Ownership of real estate, etc.	1,968.91	737	911
Chisun Inn Suwa IC	Suwa-shi, Nagano	Ownership of real estate, etc.	1,944.94	658	829
Chisun Inn Toyokawa IC	Toyokawa-shi, Aichi	Ownership of real estate, etc.	2,040.09	602	733
Chisun Inn Tosu	Tosu-shi, Saga	Ownership of real estate, etc.	1,968.02	501	649
Chisun Inn Chiba Hamano R16	Chiba-shi, Chiba	Ownership of real estate, etc.	2,023.29	788	1,020
Chisun Inn Kumamoto Miyukifueda	Kumamoto-shi, Kumamoto	Ownership of real estate, etc.	2,094.77	604	740
Chisun Inn Utsunomiya Kanuma	Utsunomiya-shi, Tochigi	Ownership of real estate, etc.	2,094.16	710	847
Chisun Inn Fukui	Fukui-shi, Fukui	Ownership of real estate, etc.	2,094.01	641	771
Chisun Inn Fukushima Nishi IC	Fukushima-shi, Fukushima	Ownership of real estate, etc.	2,094.01	664	786
Chisun Inn Niigata Chuo IC	Niigata-shi, Niigata	Ownership of real estate, etc.	2,094.16	617	776
Chisun Inn Nagasaki Airport	Omura-shi, Nagasaki	Ownership of real estate, etc.	1,968.02	619	757
Chisun Inn Hitachinaka	Hitachinaka-shi, Ibaraki	Ownership of real estate, etc.	1,968.30	719	920
Chisun Inn Tsuchiura Ami	Ami-machi, Inashiki-gun, Ibaraki	Ownership of real estate, etc.	1,968.03	748	921
Chisun Inn Kofu Isawa	Fuefuki-shi, Yamanashi	Ownership of real estate, etc.	1,968.47	646	788
Chisun Inn Marugame Zentsuji	Marugame-shi, Kagawa	Ownership of real estate, etc.	2,094.16	583	730
Chisun Inn Munakata	Munakata-shi, Fukuoka	Ownership of real estate, etc.	2,094.16	486	627
Chisun Inn Iwate Ichinoseki IC	Ichinoseki-shi, Iwate	Ownership of real estate, etc.	1,968.02	681	777
Chisun Inn Karuizawa	Karuizawa-machi, Kitasaku-gun, Nagano	Ownership of real estate, etc.	1,917.10	780	1,090
Chisun Inn Himeji Yumesakibashi	Himeji-shi, Hyogo	Ownership of real estate, etc.	2,406.95	600	735
Chisun Inn Kurashiki Mizushima	Kurashiki-shi, Okayama	Ownership of real estate, etc.	2,094.16	702	866
Candeo Hotels Handa	Handa-shi, Aichi	Ownership of real estate, etc.	2,814.05	611	693
Candeo Hotels Chino	Chino-shi, Nagano	Ownership of real estate, etc.	2,868.18	774	914
Candeo Hotels Fukuyama	Fukuyama-shi, Hiroshima	Ownership of real estate, etc.	3,985.73	1,041	1,240
Candeo Hotels Sano	Sano-shi, Tochigi	Ownership of real estate, etc.	2,828.71	1,232	1,460
Candeo Hotels Kameyama	Kameyama-shi, Mie	Ownership of real estate, etc.	3,912.03	474	533

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)
Comfort Hotel Hakodate	Hakodate-shi, Hokkaido	Ownership of real estate, etc.	2,927.44	929	1,050
Comfort Hotel Tomakomai	Tomakomai-shi, Hokkaido	Ownership of real estate, etc.	2,721.08	955	1,080
Comfort Hotel Kure	Kure-shi, Hiroshima	Ownership of real estate, etc.	3,121.02	1,115	1,230
Chisun Inn Kagoshima Taniyama	Kagoshima-shi, Kagoshima	Ownership of real estate, etc.	8,066.36	1,983	2,330
Total	–	–	435,317.22	150,656	168,297

(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., JLL Morii Valuation & Advisory K.K. 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 April 30, 2018 as the effective date of the valuation.

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

Name of property	9th fiscal period (From May 1, 2017 to October 31, 2017)				10th fiscal period (From November 1, 2017 to April 30, 2018)			
	Number of tenants at end of period (subleasing) (Note)	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) (Note)	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	410	8.8	1 (14)	100.0	421	7.6
HOSHINOYA Kyoto	1 (0)	100.0	146	3.1	1 (0)	100.0	149	2.7
HOSHINOYA Fuji	1 (0)	100.0	142	3.1	1 (0)	100.0	142	2.6
HOSHINOYA Taketomi Island	–	–	–	–	1 (0)	100.0	168	3.0
RISONARE Yatsugatake	1 (18)	100.0	286	6.2	1 (18)	100.0	300	5.4
RISONARE Atami	1 (0)	100.0	156	3.4	1 (0)	100.0	156	2.8
KAI Matsumoto	1 (0)	100.0	44	1.0	1 (0)	100.0	45	0.8
KAI Izumo	1 (0)	100.0	54	1.2	1 (0)	100.0	54	1.0
KAI Ito	1 (0)	100.0	57	1.2	1 (0)	100.0	58	1.0
KAI Hakone	1 (0)	100.0	50	1.1	1 (0)	100.0	56	1.0
KAI Aso	1 (0)	100.0	21	0.5	1 (0)	100.0	24	0.4
KAI Kawaji	1 (0)	100.0	59	1.3	1 (0)	100.0	61	1.1
KAI Kinugawa	1 (0)	100.0	102	2.2	1 (0)	100.0	102	1.8
KAI Kaga	1 (0)	100.0	103	2.2	1 (0)	100.0	103	1.9
OMO7 Asahikawa	1 (5)	100.0	182	3.9	1 (6)	100.0	182	3.3
ANA Crowne Plaza Hiroshima	1 (7)	100.0	604	13.0	1 (7)	100.0	600	10.8
ANA Crowne Plaza Fukuoka	1 (5)	100.0	293	6.3	1 (5)	100.0	302	5.5
ANA Crowne Plaza Kanazawa	1 (5)	100.0	391	8.4	1 (5)	100.0	409	7.4
ANA Crowne Plaza Toyama	1 (7)	100.0	186	4.0	1 (7)	100.0	197	3.6
Hyatt Regency Osaka	1 (7)	100.0	360	7.8	1 (8)	100.0	377	6.8
the b akasaka	–	–	–	–	1 (1)	100.0	105	1.9

Name of property	9th fiscal period (From May 1, 2017 to October 31, 2017)				10th fiscal period (From November 1, 2017 to April 30, 2018)			
	Number of tenants at end of period (subleasing) (Note)	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) (Note)	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 (%)
the b sangenjaya	–	–	–	–	1 (1)	100.0	114	2.1
the b nagoya	–	–	–	–	1 (5)	100.0	113	2.1
the b kobe	–	–	–	–	1 (13)	100.0	187	3.4
Quintessa Hotel Osaka Shinsaibashi	–	–	–	–	1 (0)	100.0	82	1.5
hotel androoms Osaka Hommachi	–	–	–	–	1 (0)	100.0	17	0.3
Chisun Inn Shiojiri Kita IC	1 (1)	100.0	28	0.6	1 (1)	100.0	30	0.6
Chisun Inn Sano Fujioka IC	1 (0)	100.0	31	0.7	1 (0)	100.0	32	0.6
Chisun Inn Suwa IC	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.6
Chisun Inn Toyokawa IC	1 (0)	100.0	26	0.6	1 (0)	100.0	27	0.5
Chisun Inn Tosu	1 (0)	100.0	24	0.5	1 (0)	100.0	25	0.5
Chisun Inn Chiba Hamano R16	1 (0)	100.0	33	0.7	1 (0)	100.0	33	0.6
Chisun Inn Kumamoto Miyukifueda	1 (0)	100.0	40	0.9	1 (0)	100.0	39	0.7
Chisun Inn Utsunomiya Kanuma	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.6
Chisun Inn Fukui	1 (0)	100.0	31	0.7	1 (0)	100.0	31	0.6
Chisun Inn Fukushima Nishi IC	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.6
Chisun Inn Niigata Chuo IC	1 (0)	100.0	29	0.6	1 (0)	100.0	30	0.5
Chisun Inn Nagasaki Airport	1 (0)	100.0	28	0.6	1 (0)	100.0	29	0.5
Chisun Inn Hitachinaka	1 (0)	100.0	30	0.7	1 (0)	100.0	31	0.6
Chisun Inn Tsuchiura Ami	1 (0)	100.0	30	0.6	1 (0)	100.0	29	0.5
Chisun Inn Kofu Isawa	1 (0)	100.0	29	0.6	1 (0)	100.0	29	0.5
Chisun Inn Marugame Zentsuji	1 (0)	100.0	29	0.6	1 (0)	100.0	29	0.5
Chisun Inn Munakata	1 (0)	100.0	24	0.5	1 (0)	100.0	24	0.4
Chisun Inn Iwate Ichinoseki IC	1 (1)	100.0	26	0.6	1 (1)	100.0	26	0.5
Chisun Inn Karuizawa	1 (0)	100.0	42	0.9	1 (0)	100.0	42	0.8
Chisun Inn Himeji Yumesakibashi	1 (0)	100.0	28	0.6	1 (0)	100.0	28	0.5
Chisun Inn Kurashiki Mizushima	1 (0)	100.0	32	0.7	1 (0)	100.0	33	0.6
Candeo Hotels Handa	1 (0)	100.0	26	0.6	1 (0)	100.0	26	0.5
Candeo Hotels Chino	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.6
Candeo Hotels Fukuyama	1 (0)	100.0	39	0.8	1 (0)	100.0	39	0.7
Candeo Hotels Sano	1 (0)	100.0	45	1.0	1 (0)	100.0	45	0.8
Candeo Hotels Kameyama	1 (0)	100.0	20	0.5	1 (0)	100.0	20	0.4
Comfort Hotel Hakodate	1 (0)	100.0	32	0.7	1 (0)	100.0	32	0.6
Comfort Hotel Tomakomai	1 (0)	100.0	33	0.7	1 (0)	100.0	33	0.6
Comfort Hotel Kure	1 (0)	100.0	37	0.8	1 (0)	100.0	37	0.7
Chisun Inn Kagoshima Taniyama	1 (1)	100.0	77	1.7	1 (1)	100.0	83	1.5
Total	49 (71)	100.0	4,644	100.0	56 (93)	100.0	5,540	100.0

(Note) “Number of tenants (subleasing)” refers to the total 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	19,100,000	16,600,000	–
Total		19,100,000	16,600,000	–

(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

The following is a summary of incorporated into the portfolio other than those listed in the aforementioned “(3) Summary of portfolio properties,” as of April 30, 2018.

Name of securities	Number of shares (shares)	Acquisition price (thousands of yen)		Appraisal value (thousands of yen) (Note)		Loss (gain) on valuation of investment securities (thousands of yen)	Remarks
		Unit price	Amount	Unit price	Amount		
Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares	332	507	168,530	507	168,530	–	–

(Note) The “Appraisal value” states the acquisition price because the securities are unlisted securities.

With respect to the No. 2 Class B preferred shares and the No. 3 Class B preferred shares (hereinafter collectively referred to as the “shares to be underwritten”), as of March 16, 2018, HRR has concluded an underwriting agreement pertaining to the shares to be underwritten (hereinafter, the “underwriting agreement”), with Yomitan Hotel Management Co., Ltd., the issuer of the shares to be underwritten. HRR treats the underwriting agreement as an agreement that falls under a forward commitment, etc. specified in the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” which has been established by the Financial Services Agency. (This commitment is defined as a postdated sales and purchase agreement under which the settlement and delivery of the property shall be made one month or more from the conclusion of the agreement, or any other agreement similar thereto. The same applies hereinafter.) For the underwriting agreement, each party shall compensate the counterparty for any damage, etc. thereto caused by or related to breach of duty under the underwriting agreement, but no provision for penalties has been stipulated. HRR is planning to allocate cash on hand upon underwriting the shares to be underwritten in accordance with the underwriting agreement.

Furthermore, the type, name of securities, number of shares to be underwritten, planned paid-in amount, total planned paid-in amount and planned payment date of the shares to be underwritten are as follows:

[List of shares to be underwritten]

Asset type	Name of securities	Number of shares to be underwritten (shares)	Planned paid-in amount (Note 1)	Total planned paid-in amount (thousands of yen)	Planned payment date (Note 2)
Preferred shares	Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares	333	500,000 yen per share	166,500	October 30, 2018
Preferred shares	Yomitan Hotel Management Co., Ltd. No. 3 Class B preferred shares	334	500,000 yen per share	167,000	May 30, 2019

(Note 1) “Planned paid-in amount” indicates the paid-in amount described in the underwriting agreement (excluding expenses such as commissions). The paid-in amount is the planned amount as of the date of this document and may be changed in accordance with the provision of the underwriting agreement or based on agreement between HRR and Yomitan Hotel Management Co., Ltd.

(Note 2) “Planned payment date” indicates the payment date described in the underwriting agreement. The payment date is the planned date as of the date of this document and may be changed in accordance with the provision of the underwriting agreement or based on agreement between HRR and Yomitan Hotel Management Co., Ltd.

(6) Status of asset holding by country and region

There is no portfolio overseas real estate outside Japan, as of April 30, 2018.

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 October 31, 2018 for properties held as of April 30, 2018. 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
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Renovation of pool	From January 2018 to June 2018	137	49	50
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Upgrade of private branch exchange (PBX)	From May 2018 to September 2018	49	–	–
Hyatt Regency Osaka	Osaka-shi, Osaka	Renovation of club lounge	From May 2018 to July 2018	46	1	1

(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 April 30, 2018, the following are the major works conducted. The fiscal period under review's capital expenditures amounted to 1,421 million yen and repair expenses separately charged to expenses amounted to 79 million yen for a combined total of 1,501 million yen of construction work implemented.

Name of property	Location	Purpose	Period	Construction costs (millions of yen)
OMO7 Asahikawa	Asahikawa-shi, Hokkaido	Renovation of guest rooms and common-use areas	From September 2017 to April 2018	382
RISONARE Atami	Atami-shi, Shizuoka	Renovation of restaurant and plumbing fixtures in guest rooms	From January 2018 to April 2018	258
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Renovation of guest rooms	From January 2018 to March 2018	34
KAI Kawaji	Nikko-shi, Tochigi	Renovation of cool and hot water system for central air conditioning	From January 2018 to February 2018	30

(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 May 1, 2017 to October 31, 2017)	Current fiscal period (From November 1, 2017 to April 30, 2018)
Asset management fee	396,537	428,283
Asset custody fee	4,349	4,377
Administrative service fees	17,927	18,493
Directors' compensation	3,000	3,000
Audit fee	8,233	8,400
Other expenses	84,663	78,665
Total	514,711	541,220

(2) Status of borrowings

The status of borrowings of HRR as of April 30, 2018 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	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation	October 31, 2017	1,500	–	0.44737%	October 31, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. Mizuho Bank, Ltd.	April 2, 2018	–	4,400	0.35369%	March 29, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal		1,500	4,400					
Long-term loans payable	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	2,320	2,288	1.92875%	July 16, 2018	(Note 4)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	1,228	1,208	2.45886%	July 16, 2020	(Note 5)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, 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
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	May 2, 2014	899	885	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	–	0.36815%	April 27, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.	November 2, 2015	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	0.46816%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.	November 2, 2015	850	850	0.50000%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	1,414	1,392	1.33575%	October 31, 2022	(Note 7)	(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	Sumitomo Mitsui Banking Corporation	March 31, 2016	954	940	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
	MUFG Bank, Ltd.	May 2, 2016	478	471	1.09313%	April 28, 2023	(Note 9)	(Note 3)	Unsecured/Unguaranteed
	Development Bank of Japan Inc.	May 2, 2016	478	471	1.47689%	April 30, 2025	(Note 10)	(Note 3)	Unsecured/Unguaranteed
	MUFG Bank, Ltd.	May 2, 2016	574	565	1.66686%	April 30, 2026	(Note 11)	(Note 3)	Unsecured/Unguaranteed
	MUFG Bank, 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
	MUFG Bank, Ltd.	July 19, 2016	1,000	1,000	0.82289%	April 28, 2023	Lump-sum repayment	(Note 3)	Unsecured/Unguaranteed
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, Ltd. The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd.	May 2, 2017	700	700	0.51900% (Note 2)	May 2, 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	MUFG Bank, 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.	November 1, 2017	–	2,500	0.2950% (Note 2)	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, 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.	November 1, 2017	–	2,000	0.4295% (Note 2)	April 28, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. Mizuho Bank, Ltd.	November 1, 2017	–	2,500	0.6250% (Note 2)	October 31, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited	November 1, 2017	–	3,000	0.8300% (Note 2)	April 30, 2025	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd.	April 27, 2018	–	600	0.3775% (Note 2)	October 29, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation MUFG Bank, Ltd. Development Bank of Japan Inc. Mizuho Bank, Ltd.	April 27, 2018	–	2,800	0.6625% (Note 2)	April 30, 2024	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal			41,409	51,283				
	Total		42,909	55,683					

(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

The status of investment corporation bonds issued as of April 30, 2018 is as follows:

Name of bond	Issued date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Interest rate (%)	Repayment date	Repayment method	Use	Remarks
First Series Unsecured Investment Corporation Bond	February 28, 2018	–	1,500	0.630	February 28, 2025	Lump-sum repayment	(Note 1)	Unsecured / Unguaranteed (Note 2)
Total		–	1,500					

(Note 1) The proceeds shall be allocated for part of the funds for repayment of existing loans.

(Note 2) The bond is subject to the special pari passu conditions among specified investment corporate bonds.

(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 Taketomi Island	November 1, 2017	4,900	–	–	–	–
the b akasaka	November 1, 2017	4,860	–	–	–	–
the b sangenjaya	November 1, 2017	4,420	–	–	–	–
the b nagoya	November 1, 2017	4,500	–	–	–	–
the b kobe	November 1, 2017	7,020	–	–	–	–
Quintessa Hotel Osaka Shinsaibashi	November 1, 2017	3,339	–	–	–	–
hotel androoms Osaka Hommachi	April 2, 2018	4,238	–	–	–	–
HOSHINOYA Taketomi Island Villa Taketomi Annex	April 9, 2018	55	–	–	–	–
Total	–	33,332	–	–	–	–

(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; 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; and the acquisition price of “HOSHINOYA Taketomi Island Villa Taketomi Annex” includes 14 million yen of key money concerning establishment of land subleasehold for Bandai Resort Development Co., Ltd., which is the land subleasehold establisher.

(2) Status of acquisitions and sales of other assets

Asset type	Name of assets	Purchase		Sale		Balance at end of period	
		Number of shares	Amount (millions of yen) (Note)	Number of shares	Amount (millions of yen) (Note)	Number of shares	Amount (millions of yen) (Note)
Shares	Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares	332	166	–	–	332	166

(Note) “Amount” indicates the sales/purchase price of shares described in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions), rounded down to the nearest million yen.

(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 Taketomi Island	November 1, 2017	Real estate, etc.	4,900	5,090	JV	August 1, 2017
Acquisition	the b akasaka	November 1, 2017	Real estate, etc.	4,860	5,130	RC	August 1, 2017
Acquisition	the b sangenjaya	November 1, 2017	Real estate, etc.	4,420	4,660	RC	August 1, 2017
Acquisition	the b nagoya	November 1, 2017	Real estate, etc.	4,500	4,680	RC	August 1, 2017
Acquisition	the b kobe	November 1, 2017	Real estate, etc.	7,020	7,320	RC	August 1, 2017
Acquisition	Quintessa Hotel Osaka Shinsaibashi	November 1, 2017	Real estate, etc.	3,339	3,660	JV	August 1, 2017
Acquisition	hotel androoms Osaka Hommachi	April 2, 2018	Real estate, etc.	4,238	4,450	RC	February 1, 2018
Acquisition	HOSHINOYA Taketomi Island Villa Taketomi Annex	April 9, 2018	Real estate, etc.	55	58	JV	February 1, 2018
Total		–	–	33,332	35,048	–	–

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

JV: Japan Valuers Co., Ltd. RC: Rich Appraisal Institute 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. and Rich Appraisal Institute Co., Ltd. conduct 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 Rich Appraisal Institute 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, city planning tax and consumption taxes.

(Note 5) “Acquisition price” indicates the sum of (a) sales/purchase price 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 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; 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; and the acquisition price of “HOSHINOYA Taketomi Island Villa Taketomi Annex” includes 14 million yen of key money concerning establishment of land subleasehold for Bandai Resort Development Co., Ltd., which is the land subleasehold establisher.

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 two interest rate swap transactions that were subject to surveys during the subject period from November 1, 2017 to April 30, 2018.

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.

In addition, HRR has received survey reports from Grant Thornton Taiyo LLC for one transaction of Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares that was subject to surveys during the subject period from November 1, 2017 to April 30, 2018.

With regard to the aforementioned survey, HRR entrusted surveys of the parties acquiring Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares, the name of the securities, the number of shares in the transaction, the transaction price, and other details of the Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares.

(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	33,498	–
Breakdown of transactions with interested parties		
Hoshino Resorts Inc.	20,800 (62.1%)	–
Hoshino Resort Management Co., Ltd.	4,900 (14.6%)	–
Bandai Resort Development Co., Ltd.	14 (0.0%)	–
Total	25,714 (76.8%)	–

(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.	HOSHINOYA Taketomi Island	336
	KAI Matsumoto	75
	KAI Izumo	75
	KAI Ito	80
	KAI Hakone	95
	KAI Aso	42
	KAI Kawaji	99
Asahikawa Grand Hotel Co., Ltd.	OMO7 Asahikawa	364
HRO Inc.	Hyatt Regency Osaka	754
KK Ishin Minato Akasaka Operations	the b akasaka	211
KK Ishin Sangenjaya Operations	the b sangenjaya	228
KK Ishin NagoyaSakae Operations	the b nagoya	227
KK Ishin KobeSannomiya Operations	the b kobe	374
Osaka Hotel Management LLC	hotel androoms Osaka Hommachi	220

(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, OMO7 Asahikawa 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 April 30, 2018. 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), OMO7 Asahikawa is November 1, 2019 (14th fiscal period), HOSHINOYA Fuji is May 1, 2020 (15th fiscal period), HOSHINOYA Taketomi Island is November 1, 2020 (16th fiscal period), the b akasaka, the b sangenjaya, the b nagoya and the b kobe is May 1, 2018 (11th fiscal period) and hotel androoms Osaka Hommachi is November 1, 2018 (12th 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 April 2018 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)	1,151,924
Hoshino Resort Management Co., Ltd.	HOSHINOYA Taketomi Island (main wing) (Note)	1,050,000
Bandai Resort Development Co., Ltd.	HOSHINOYA Taketomi Island (annex) (Note)	2,839

(Note) HRR borrows the above-mentioned property from the above-mentioned lessors. The monthly rent amounts shown for HOSHINOYA Karuizawa, HOSHINOYA Fuji, and HOSHINOYA Taketomi Island (main wing) are the amounts for April 2018. The monthly rent amount shown for HOSHINOYA Taketomi Island (annex) is the equivalent monthly rent amount of the annual rent amount calculated based on the lease agreement.

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
January 19, 2018	Entrustment of general administration work relating to the investment corporation bond issuance	The Board of Directors approved the candidate companies in regard to entrustment of work relating to the formulation of the issuance conditions, calling for subscribers, etc. for the investment corporation bond, and of general work such as the duties of the issuing agent, fiscal agent, and paying agent, and entrusted the decision of other important matters to the Executive Director.
April 6, 2018	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 entrustment agreement.
April 6, 2018	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)

	9th fiscal period (Reference) (As of October 31, 2017)	10th fiscal period (As of April 30, 2018)
Assets		
Current assets		
Cash and deposits	8,569,474	10,055,273
Operating accounts receivable	39,831	46,889
Prepaid expenses	216,258	248,394
Consumption taxes receivable	39,257	387,420
Deferred tax assets	13	13
Other	173,148	125,678
Total current assets	9,037,984	10,863,669
Non-current assets		
Property, plant and equipment		
Buildings	68,864,102	76,574,949
Accumulated depreciation	(4,497,514)	(5,520,383)
Buildings, net	64,366,588	71,054,566
Structures	1,882,833	3,113,034
Accumulated depreciation	(133,207)	(173,430)
Structures, net	1,749,625	2,939,603
Machinery and equipment	83,801	83,801
Accumulated depreciation	(31,351)	(34,968)
Machinery and equipment, net	52,450	48,832
Tools, furniture and fixtures	622,898	764,845
Accumulated depreciation	(245,343)	(314,929)
Tools, furniture and fixtures, net	377,555	449,916
Land	48,390,183	73,134,835
Construction in progress	119,217	72,766
Total property, plant and equipment	115,055,619	147,700,519
Intangible assets		
Leasehold right	2,062,399	3,478,907
Software	18,024	34,086
Total intangible assets	2,080,423	3,512,994
Investments and other assets		
Investment securities	–	168,530
Long-term prepaid expenses	449,227	563,675
Guarantee deposits	10,000	10,000
Other	364,906	364,906
Total investments and other assets	824,133	1,107,112
Total non-current assets	117,960,177	152,320,626
Deferred assets		
Investment corporation bond issuance costs	–	10,218
Total deferred assets	–	10,218
Total assets	126,998,161	163,194,514

Balance Sheets

(Unit: thousands of yen)

	9th fiscal period (Reference) (As of October 31, 2017)	10th fiscal period (As of April 30, 2018)
Liabilities		
Current liabilities		
Operating accounts payable	136,989	366,635
Short-term loans payable	1,500,000	4,400,000
Current portion of long-term loans payable	5,906,490	4,973,990
Accounts payable - other	656,812	768,104
Income taxes payable	884	868
Accrued expenses	–	6,659
Advances received	807,713	982,055
Total current liabilities	9,008,890	11,498,312
Non-current liabilities		
Long-term loans payable	35,502,842	46,309,980
Investment corporation bonds	–	1,500,000
Tenant leasehold and security deposits	2,889,882	3,131,900
Total non-current liabilities	38,392,724	50,941,880
Total liabilities	47,401,614	62,440,193
Net assets		
Unitholders' equity		
Unitholders' capital	77,532,045	98,129,521
Surplus		
Unappropriated retained earnings (undisposed loss)	2,064,501	2,624,798
Total surplus	2,064,501	2,624,798
Total unitholders' equity	79,596,547	100,754,320
Total net assets	*2 79,596,547	*2 100,754,320
Total liabilities and net assets	126,998,161	163,194,514

III. Statements of Income

(Unit: thousands of yen)

	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)		10th fiscal period (From November 1, 2017 to April 30, 2018)	
Operating revenue				
Lease business revenue	*1	4,644,855	*1	5,540,061
Total operating revenue		4,644,855		5,540,061
Operating expenses				
Expenses related to rent business	*1	1,753,378	*1	1,924,110
Asset management fee		396,537		428,283
Asset custody fee		4,349		4,377
Administrative service fees		17,927		18,493
Directors' compensations		3,000		3,000
Audit fee		8,233		8,400
Other operating expenses		84,663		78,665
Total operating expenses		2,268,090		2,465,330
Operating profit		2,376,765		3,074,730
Non-operating income				
Interest income		39		43
Insurance income		3,032		302
Interest on refund		138		24
Miscellaneous income		358		996
Total non-operating income		3,569		1,367
Non-operating expenses				
Interest expenses		196,492		220,917
Interest expenses on investment corporation bonds		–		1,609
Amortization of investment corporation bond issuance costs		–		249
Borrowing related expenses		84,750		176,896
Investment unit issuance expenses		33,724		50,796
Other		26		13
Total non-operating expenses		314,993		450,482
Ordinary profit		2,065,340		2,625,615
Profit before income taxes		2,065,340		2,625,615
Income taxes - current		890		874
Income taxes - deferred		(0)		0
Total income taxes		889		875
Profit		2,064,450		2,624,739
Retained earnings brought forward		50		59
Unappropriated retained earnings (undisposed loss)		2,064,501		2,624,798

IV. Statements of Changes in Net Assets

9th fiscal period (from May 1, 2017 to October 31, 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	1,900,247	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

10th fiscal period (from November 1, 2017 to April 30, 2018)

(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	77,532,045	2,064,501	2,064,501	79,596,547	79,596,547
Changes of items during period					
Issuance of new investment units	20,597,476	–	–	20,597,476	20,597,476
Dividends of surplus	–	(2,064,442)	(2,064,442)	(2,064,442)	(2,064,442)
Profit	–	2,624,739	2,624,739	2,624,739	2,624,739
Total changes of items during period	20,597,476	560,297	560,297	21,157,773	21,157,773
Balance at end of period	*1 98,129,521	2,624,798	2,624,798	100,754,320	100,754,320

V. Notes to Financial Statements
Summary of significant accounting policies

Item	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)																				
1. Valuation bases and methods of securities	-	Securities Other securities (available-for-sale securities) Non-marketable securities Stated at cost based on the moving-average method.																				
2. Method of depreciation and amortization of non-current assets	<p>i) Property, plant and equipment Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows:</p> <table border="0" data-bbox="448 730 911 853"> <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 Amortization is calculated using the straight-line method. The useful lives are as follows:</p> <table border="0" data-bbox="448 1025 911 1055"> <tr><td>Intangible assets</td><td>2–5 years</td></tr> </table> <p>iii) Long-term prepaid expenses 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 Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows:</p> <table border="0" data-bbox="979 730 1442 853"> <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 Amortization is calculated using the straight-line method. The useful lives are as follows:</p> <table border="0" data-bbox="979 1025 1442 1055"> <tr><td>Intangible assets</td><td>2–5 years</td></tr> </table> <p>iii) Long-term prepaid expenses 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																					
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Structures	3–60 years																					
Machinery and equipment	6–15 years																					
Tools, furniture and fixtures	2–20 years																					
Intangible assets	2–5 years																					
3. Accounting for deferred assets	-	Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized over remaining life of the bonds using the straight-line method.																				
4. Standards for revenue and expense recognition	<p>Accounting for property-related taxes 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. 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 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. 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>																				

Item	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
5. Hedge accounting method	<p>i) Hedge accounting method The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items Hedging instrument Interest rate swap transaction Hedged item Interest on loans</p> <p>iii) Hedging policies 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 Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>	<p>i) Hedge accounting method The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items Hedging instrument Interest rate swap transaction Hedged item Interest on loans</p> <p>iii) Hedging policies 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 Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>
6. Other significant matters serving as the basis for preparation of financial statements	<p>Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>	<p>Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>

Notes to Balance Sheets

(Unit: thousands of yen)

Item	9th fiscal period (Reference) (As of October 31, 2017)	10th fiscal period (As of April 30, 2018)						
1. Commitment line contracts	-	<p>HRR has concluded commitment line contracts with four counterparty financial institutions.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Total amount of committed line of credit</td> <td style="text-align: right;">5,000,000</td> </tr> <tr> <td>Balance executed as loans</td> <td style="text-align: right;">-</td> </tr> <tr> <td style="border-top: 1px solid black;">Balance of unused committed line of credit</td> <td style="text-align: right; border-top: 1px solid black;">5,000,000</td> </tr> </table>	Total amount of committed line of credit	5,000,000	Balance executed as loans	-	Balance of unused committed line of credit	5,000,000
Total amount of committed line of credit	5,000,000							
Balance executed as loans	-							
Balance of unused committed line of credit	5,000,000							
*2. Minimum net assets as required by Article 67, Paragraph 4 of the Investment Trusts Act	50,000	50,000						

Notes to Statements of Income

9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
*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 4,644,855	Lease business revenue 5,540,061
Total operating revenue from real estate leasing 4,644,855	Total operating revenue from real estate leasing 5,540,061
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 18,446	Insurance expenses 19,707
Repair expenses 54,331	Repair expenses 79,177
Land rent 52,932	Land rent 59,387
Depreciation 1,013,285	Depreciation 1,141,661
Loss on retirement of non-current assets 173	Loss on retirement of non-current assets 203
Taxes and dues 407,097	Taxes and dues 406,864
Other expenses 207,111	Other expenses 217,108
Total operating expenses from real estate leasing 1,753,378	Total operating expenses from real estate leasing 1,924,110
C. Operating profit (loss) from real estate leasing [A—B] 2,891,476	C. Operating profit (loss) from real estate leasing [A—B] 3,615,951

Notes to Statements of Changes in Net Assets

9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
*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 172,670 units	Total number of investment units issued and outstanding 212,738 units

Income taxes

9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)																				
<p>1. Breakdown of deferred tax assets and deferred tax liabilities by major causes</p> <p style="text-align: right;">(Unit: thousands of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Deferred tax assets</td> <td style="width: 20%;"></td> </tr> <tr> <td>Enterprise tax payable excluded from deductible expenses</td> <td style="text-align: right;">13</td> </tr> <tr> <td>Total deferred tax assets</td> <td style="text-align: right;">13</td> </tr> <tr> <td>Net deferred tax assets</td> <td style="text-align: right;">13</td> </tr> </table>	Deferred tax assets		Enterprise tax payable excluded from deductible expenses	13	Total deferred tax assets	13	Net deferred tax assets	13	<p>1. Breakdown of deferred tax assets and deferred tax liabilities by major causes</p> <p style="text-align: right;">(Unit: thousands of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Deferred tax assets</td> <td style="width: 20%;"></td> </tr> <tr> <td>Enterprise tax payable excluded from deductible expenses</td> <td style="text-align: right;">13</td> </tr> <tr> <td>Total deferred tax assets</td> <td style="text-align: right;">13</td> </tr> <tr> <td>Net deferred tax assets</td> <td style="text-align: right;">13</td> </tr> </table>	Deferred tax assets		Enterprise tax payable excluded from deductible expenses	13	Total deferred tax assets	13	Net deferred tax assets	13				
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Financial instruments

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

10th fiscal period (from November 1, 2017 to April 30, 2018)

(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 and investment corporation bonds are mainly used for acquisition of assets, and repayment, redemption, etc. of existing interest-bearing liabilities. Concerning the liquidity risk and the risk of fluctuations in interest rate at times of repayment and redemption associated with such fund procurement, HRR manages and limits the concerned risks by diversifying fund procurement sources, and also by effective use of surplus funds and procurement of funds from the capital market through issuance of investment units, etc., entering into commitment line contracts with major financing institutions and creating a timetable of planned funds operations.

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, 2018 are as follows:

(Unit: thousands of yen)

	Carrying amount (Note 1)	Fair value (Note 1) (Note 2)	Difference
(1) Cash and deposits	10,055,273	10,055,273	–
(2) Short-term loans payable	(4,400,000)	(4,400,000)	–
(3) Current portion of long-term loans payable	(4,973,990)	(4,975,984)	1,994
(4) Long-term loans payable	(46,309,980)	(46,352,718)	42,738
(5) Investment corporation bonds	(1,500,000)	(1,497,900)	(2,100)
(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) 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) Investment corporation bonds

The fair values of investment corporation bonds are based on reference prices published by the Japan Securities Dealers Association.

(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	19,100,000	16,600,000	(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 “(3) Current portion of long-term loans payable; (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. Investment securities are not subject to valuation at fair value, because discerning the fair value is extremely difficult due to there being no market price and being impossible to reasonably estimate their cash flows. The carrying amount of tenant leasehold and security deposits is as follows:

(Unit: thousands of yen)

	Carrying amount
Tenant leasehold and security deposits	3,131,900
Investment securities	168,530

(Note 4) Redemption schedule for monetary claims after the closing date (April 30, 2018)

(Unit: thousands of yen)

	Due within one year
Cash and deposits	10,055,273

(Note 5) Redemption schedule for loans payable and investment corporation bonds after the closing date (April 30, 2018)

(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	4,400,000	–	–	–	–	–
Long-term loans payable	4,973,990	8,785,724	7,433,853	9,217,148	8,395,696	12,477,559
Investment corporation bonds	–	–	–	–	–	1,500,000

Investment and rental properties

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

10th fiscal period (from November 1, 2017 to April 30, 2018)

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	
116,621,246	34,035,498	150,656,745	168,297,000

(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 seven properties including HOSHINOYA Taketomi Island (33,783,877 thousand yen in total) and the decrease due to depreciation (1,066,709 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, 2018 are presented in “Notes to Statements of Income.”

Transactions with related parties

9th fiscal period (from May 1, 2017 to October 31, 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	3.6	-	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.

10th fiscal period (from November 1, 2017 to April 30, 2018)

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	2.9	-	Real estate leasing	Purchase of real estate	20,800,000	-	-
						Real estate leasing	666,302	Operating accounts receivable	19,251
								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	Real estate leasing	1,966,326	Operating accounts receivable	6,898
								Advances received	353,375
								Tenant leasehold and security deposits	1,074,100
Parent etc. of Asset Management Company	Hoshino Resort Management Co., Ltd.	Hotels and ryokans business	-	-	Real estate leasing	Purchase of real estate	4,900,000	-	-

(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)

	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Net assets per unit	460,974	473,607
Basic earnings per unit	11,959	12,354

(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)

	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Profit	2,064,450	2,624,739
Amount not attributable to common unitholders	-	-
Profit attributable to common investment units	2,064,450	2,624,739
Average number of investment units during period (units)	172,617	212,453

Significant subsequent events

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

(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)	Borrowing date	Maturity date (Note 6)	Repayment method
Floating	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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
	MUFG Bank, 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 maturity 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 maturity date.

10th fiscal period (from November 1, 2017 to April 30, 2018)

(1) Issuance of new investment units

HRR resolved at meetings of the Board of Directors held on April 6, 2018 and April 17, 2018 on the following issuance of new investment units, and payment was completed on May 1, 2018 for the new investment units through primary offering and on May 22, 2018 for the new investment units through third-party allotment.

Issuance of new investment units through primary offering

Number of investment units issued:	8,690 units
Issue price:	523,342 yen per unit
Total issue price:	4,547,841,980 yen
Paid-in amount:	505,092 yen per unit
Total paid-in amount:	4,389,249,480 yen
Payment due date:	May 1, 2018

Issuance of new investment units through third-party allotment

Number of investment units issued:	434 units
Paid-in amount:	505,092 yen per unit
Total paid-in amount:	219,209,928 yen
Payment due date:	May 22, 2018
Allottee:	Nomura Securities Co., Ltd.

Use of funds

The funds procured from the primary offering were allocated to part of the funds for repayment of loans stated in “(2) Repayment of loans” 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) Repayment of loans

HRR implemented early repayment of the following loan on May 10, 2018.

Floating / Fixed	Lender	Loan amount	Interest rate	Borrowing date	Maturity date (Note 2)	Repayment method
Floating	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. Mizuho Bank, Ltd.	4.4 billion yen	Base rate 1-month Japanese Yen TIBOR +0.300% (Note 1)	April 2, 2018	March 29, 2019	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) If the maturity 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 maturity date.

(3) Additional borrowings

HRR obtained the following bank loan on July 17, 2018 to procure funds for repayment of the principal of an existing loan due for repayment.

Floating / Fixed	Lender	Loan amount	Interest rate (Note 1) (Note 2)	Borrowing date	Maturity date (Note 3)	Repayment method
Floating	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	2.2 billion yen	Base rate 1-month Japanese Yen TIBOR +0.754%	July 17, 2018	April 30, 2027	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 1.0390% with the effect of the interest rate swap agreement to hedge the risk of rising interest rates.

(Note 3) If the maturity 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 maturity date.

VI. Statements of Cash Distributions

(Unit: yen)

	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
I. Unappropriated retained earnings	2,064,501,692	2,624,798,793
II. Amount of distributions	2,064,442,520	2,624,761,444
[Amount of distribution per investment unit]	[11,956]	[12,338]
III. Retained earnings brought forward	59,172	37,349
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 required by 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 required by 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 required by Article 67-15 of the Act on Special Measures Concerning Taxation,” the decision was made to distribute 2,624,761,444 yen, which is almost the entire amount of unappropriated retained earnings, as distributions of earnings. Furthermore, the distribution of cash in excess of earnings required by Article 37, Paragraph 2 of the Articles of Incorporation will not be conducted.

VII. Statements of Cash Flows (Reference Information)

(Unit: thousands of yen)

	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
Cash flows from operating activities		
Profit before income taxes	2,065,340	2,625,615
Depreciation	1,014,153	1,142,529
Loss on retirement of non-current assets	173	203
Amortization of investment corporation bond issuance costs	–	249
Interest income	(39)	(43)
Interest expenses	196,492	222,526
Borrowing related expenses	84,750	176,896
Investment unit issuance expenses	33,724	50,796
(Increase) decrease in operating accounts receivable	(2,268)	(7,058)
(Increase) decrease in prepaid expenses	(7,475)	(32,135)
(Increase) decrease in consumption taxes refund receivable	455,537	(348,163)
Increase (decrease) in operating accounts payable	(14,551)	(1,783)
Increase (decrease) in accounts payable - other	39,190	89,870
Increase (decrease) in advances received	38,309	174,341
(Increase) decrease in long-term prepaid expenses	64,717	(114,448)
Other, net	(83,258)	(129,262)
Subtotal	3,884,796	3,850,133
Interest income received	39	43
Interest expenses paid	(198,663)	(216,032)
Income taxes paid	(882)	(890)
Net cash provided by operating activities	3,685,290	3,633,254
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,782,274)	(33,538,089)
Purchase of intangible assets	(737,027)	(1,428,361)
Purchase of investment securities	–	(168,530)
Proceeds from tenant leasehold and security deposits	100,428	242,018
Payments for lease and guarantee deposits	(38,016)	–
Net cash used in investing activities	(6,456,891)	(34,892,962)
Cash flows from financing activities		
Proceeds from short-term loans payable	1,500,000	4,400,000
Repayments of short-term loans payable	(1,500,000)	(1,500,000)
Proceeds from long-term loans payable	700,000	13,400,000
Repayments of long-term loans payable	(825,362)	(3,525,362)
Proceeds from issuance of investment units	4,940,421	20,597,476
Payments for investment unit issuance expenses	(33,724)	(50,796)
Proceeds from issuance of investment corporation bonds	–	1,500,000
Payments for investment corporation bond issuance costs	–	(10,467)
Dividends paid	(1,899,182)	(2,065,343)
Net cash provided by financing activities	2,882,152	32,745,506
Net increase (decrease) in cash and cash equivalents	110,552	1,485,799
Cash and cash equivalents at beginning of period	8,458,921	8,569,474
Cash and cash equivalents at end of period	*1 8,569,474	*1 10,055,273

Summary of significant accounting policies (Reference information)

Item	9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)
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)

9th fiscal period (Reference) (From May 1, 2017 to October 31, 2017)		10th fiscal period (From November 1, 2017 to April 30, 2018)	
*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)		*1. Reconciliation of cash and cash equivalents at end of the period to the corresponding Balance sheet item (As of April 30, 2018) (Unit: thousands of yen)	
Cash and deposits	8,569,474	Cash and deposits	10,055,273
Cash and cash equivalents	8,569,474	Cash and cash equivalents	10,055,273

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 April 30, 2018, and the statement of income, the statement of changes in net assets for the six months then ended, 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 April 30, 2018, 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. issues new investments units, repays bank loans and obtained additional borrowings.

July 30, 2018
Tokyo, Japan

Grant Thornton Taiyo LLC
