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Supplementary Explanation regarding Asset Management under the Management Contract Scheme

As announced in today's press release "Notice regarding the Election of Directors," Japan Hotel and Resort, Inc. (hereinafter the "JHR") is aiming to introduce "assignment of hotel management to hotel business (management) companies based on Management Contract Agreement" (hereinafter the "Management Contract Scheme") and so the Board Meeting held today passed a resolution to put a proposed amendment to the articles of incorporation necessitated by the introduction of the scheme onto the agenda at the General Meeting of Unit-holders of JHR. Therefore, we hereby provide the following comprehensive explanation of JHR's Management Contract Scheme.

1. Purpose

JHR is a J-REIT with the unique product characteristic that it has introduced variable rents with the intention of reflecting the profitability of the assets being operated, namely the hotels, in the profit and dividends of JHR. The variable rents system is designed so that when the lessee managing the hotels is earning high revenues that profit is returned to JHR, the real estate owner, while conversely, at times when the revenues of the lessee are deteriorating, rent payments in excess of the lessee's rent payment capacity are prevented while JHR aims for growth and stability over the mid/long-term.

In order to create this product characteristic, JHR has previously introduced variable rents under "leasing to lessees based on lease agreements" (hereinafter the "Lease Scheme") as a method of obtaining earnings from the asset management of real estate. However, now JHR is aiming to introduce the Management Contract Scheme, a structure for the asset management of real estate that are more closely linked to the revenues of the hotels.

The proposed amendment to the articles of incorporation is the framework-building needed to make possible asset management based on the Management Contract Scheme in JHR. At the current time conclusion of management contract agreements with existing lessees or, at the time of new property acquisitions, with hotel business (management) companies is not automatically determined. JHR plans to judge that direction for each individual hotel after comprehensively taking into consideration the future characteristics, operational situation and business environment, etc. of hotel real estate. (Please refer to section 5 below for details about the future direction.)

2. Outline of Management Contract Scheme

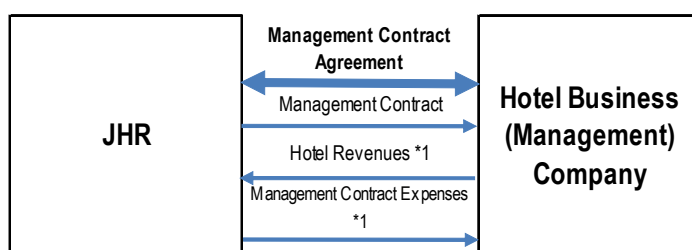
Under the Management Contract Scheme, the management of the hotels owned by JHR is assigned to hotel business (management) companies and the business profits are brought into JHR in the form of earnings from the asset management of real estate.

Specifically, JHR, the owner of the hotel real estate, concludes management contract agreements with hotel business (management) companies and assigns the operations necessary for the management of the hotel business to the hotel business (management) companies. JHR recognizes the hotel revenues arising from the hotel business (management) of the hotel business (management) companies as earnings from the asset management of real estate and at the same time pays management contract fees to the hotel business (management) companies. As a result, JHR recognizes the management contract fee as the “earnings from the asset management of real estate through management contract” and this earnings portion corresponds to management of real estate under the Lease Scheme. The management contract fee is the total of all of the expenses related to hotel management incurred by the hotel business (management) companies including labor costs, materials costs, utilities costs, advertising costs, etc. plus the profit of the hotel business (management) companies.

JHR has received confirmation from the related government ministries and agencies, etc. regarding the applicability of laws related to investment trusts and investment corporations and regulations related to tax pass-through, etc. upon the introduction of the Management Contract Scheme. However, there is a possibility that we will become unable to apply the Management Contract Scheme if the related regulations on the interpretation, operation, etc. of these regulations change in the future.

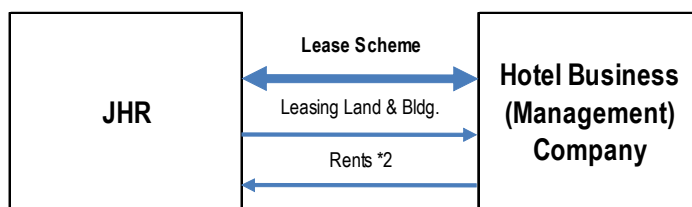
(Reference 1: Concept Diagram of Management Contract Scheme and Lease Scheme)

<Management Contract Scheme>



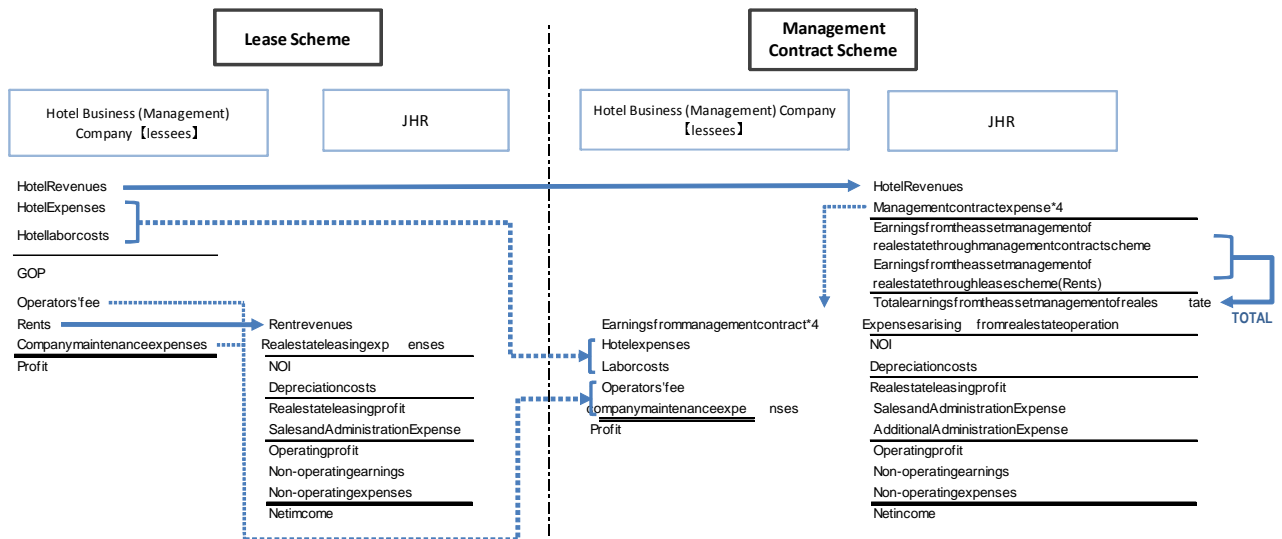
*1 : The revenues of the hotels owned by JHR minus the management contract expenses as the “earnings from the asset management of real estate through management contract” and this earnings portion corresponds to the rents that are the earnings from the operation of real estate under the Lease Scheme.

<Lease Scheme>



Note 2: The concept of variable rents has been incorporated into JHR's Lease Scheme in addition to fixed rents and we have established a scheme under which we can collect rents linked to hotel revenues.

(Reference 2: Concept Diagram of Profit and Loss Statement under the Management Contract Scheme and Lease Scheme)



*3 The above Profit and Loss Statement is a concept diagram to facilitate understanding of the structure of the two schemes. The details of the accounting terms, etc. have not been decided at the present time.

*4 The management contract fee that JHR pays to the hotel business (management) companies are booked as a management contract expense of JHR. Furthermore, the said management contract fees are booked as earnings from management contract by the hotel business (management) companies, and the hotel business (management) companies use these earnings from management contract as a source of funds to pay hotel expenses such as materials costs, utilities costs, advertising costs, etc., hotel labor costs, fees to operators and company maintenance expenses.

3.Roles

It is anticipated that the roles of JHR and the hotel business (management) companies under the Management Contract Scheme will be as follows.

■ The role of JHR

JHR will do detailed monitoring, etc. of the management status of the hotels through the JHR to increase the revenues of the hotels, the hotel business (management) companies for

■ The role of the hotel business (management) companies

The hotel business (management) companies will run the hotel business (management), which includes the hiring of employees, acquiring the necessary permits and licenses including inn and restaurant business licenses based on the Food Sanitation Act, etc., providing services to the hotel guests and the restaurant guests, concluding travel agency agreements and purchasing agreements with travel agencies and other business partners, and soon.

4.Advantages of the Management Contract Scheme

We believe that operation under the Management Contract Scheme will produce the advantages stated below for JHR.

a) Direct recognition of hotel revenue results

All of the hotel revenues will be reflected in JHR's earnings from the operation of real estate so

in a hotel revenue growth phase it will become possible to bring the results of those increasing revenues directly into JHR. On the other hand, in a downward phase for hotel revenues there is a possibility that as those revenues decline substantially (Note 1) there will be a significant impact on the final profit-and-loss of JHR (Note 2) (Note 3). In this way the up-side and down-side of hotel revenues will be directly reflected in JHR's earnings from the asset management of real estate.

able to bring the results of those increasing downward phase for hotel revenues there is a possibility (Note 1) there will be a significant impact 3). In this way the up-side and down-side of earnings from the asset management of real estate.

- b) JHR and the hotel business (management) companies will have a common goal. It will become possible for JHR and the hotel business (management) companies to have the common goal of maximization of hotel profit.

- c) A simple structure

Under the Lease Scheme, the introduction of a complex variable rents structure is necessary in order to reflect the profitability of the hotels in the profit and dividends of JHR. On the other hand, under the Management Contract Scheme hotel revenues are reflected in JHR's earnings from the asset management of real estate so it is a structure that is easy for investors to understand.

- d) Increased transparency

Due to the structure that reflects all of the hotel revenues in JHR's earnings from the management of real estate, JHR will be able to see all of the effects of the capital investment it carries out so the measurement of the investment effects and the calculation of the payout times will become easy to understand, increasing the transparency of the investment effects.

- e) Expanded acquisition opportunities

Introduction of the Management Contract Scheme will create a situation in which it is easy to acquire package disposition of hotel operation and hotel real estate, which have been difficult for JHR to acquire in the past, and this will lead to expanded acquisition opportunities (Note 4).

5. Direction of Application of the Management Contract Scheme

- 1) Application to newly acquired properties

It will be possible to apply either the Lease Scheme or the Management Contract Scheme to newly acquired properties on and after the date of the amendment to the articles of incorporation but JHR will decide the scheme to apply after a comprehensive assessment of the characteristics, management status, etc. of the hotel real estate.

- 2) Application to existing properties

- a) 3 hotels with fixed rents

(Nara Washington Hotel Plaza, Hakata Naka Daiwa Roynet Hotel Akita) su Washington Hotel Plaza,

These three hotels have concluded standard lease agreements so there will be no change until the expiration dates of those agreements.

- b) 5 hotels with variable rents

(Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima)

The expiration date for the fixed-term lease agreements of these five hotels is February 14, 2012 so JHR is examining whether or not to renew these agreements on September 1, 2011, the first day of the financial year in which the expiration date occurs. As a part of this examination, we are considering whether we will apply the Management Contract Scheme instead of the Lease Scheme or not in the case of each individual hotel based on a comprehensive assessment of the characteristics, operational situation and business environment, etc. of each piece of hotel real estate, and we plan to announce our decisions by the end of February 2011.

- (Note 1) There is a possibility that a large fall in hotel revenues will result in the “earnings from the asset management of real estate through management contract” becoming negative.
- (Note 2) Under the Lease Scheme, hotel revenues are underpinned to a certain extent by payment of fixed rents which is based on the payment capacity of the lessee.
- (Note 3) Excluding this possibility of a significant impact on the final profit-and-loss of JHR in a downward phase for hotel revenues, the risks related to the operation of the Management Contract Scheme are similar to the risks of operation under the current Lease Scheme with variable rents.
- (Note 4) There are two main cases when hotel real estate is traded. The first is the case in which the hotel operation and the hotel real estate are traded together as a single package and the second is the case in which only the hotel real estate is traded. Recently in Japan hotel real estate and hotel operation have been closely tied together and so, reflecting this reality, there have been a significant number of examples of the first case, namely cases of trades of the hotel business and the hotel real estate as a single package. In this case, under the Lease Scheme it is necessary for JHR to separately find someone to lease the hotel and to conclude a lease agreement with them. On the other hand, even when using an approach based on management contract agreements it is necessary for JHR to separately find someone to undertake the hotel business (management) and to conclude a management contract agreement with them. However, taking into consideration the risk burden of the person undertaking the management, it is likely to be easier to find a person to undertake the management than to find a lessee so it is anticipated that the situation under the new scheme will be more conducive to cases of trading the hotel business and the hotel real estate as a single package.

*The Japanese original was distributed to the prescribers in the Tokyo Stock Exchange, Ministry of Land, Infrastructure and Transport.

*Japan Hotel and Resort, Inc. website: <http://www.jhrth.com/>