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August 25, 2020

Midterm Financial Report for the Fiscal Year Ending December 31, 2020 (January 1, 2020 – June 30, 2020)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
Securities code: 8985
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Preparation of supplementary material on midterm financial report: Yes
Schedule for presentation of midterm financial results: Yes (Institutional investors and analysts only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the midterm of the fiscal year ending December 31, 2020 (January 1, 2020 - June 30, 2020)

(1) Operating results

(Percentages: full year—changes from the previous year, midterm period—changes from the previous midterm period)

	Operating revenue		Operating income		Ordinary profit (loss)		Net income (loss)	
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
Midterm period ended								
June 30, 2020	5,536	(56.5)	325	(95.5)	(550)	—	(551)	—
June 30, 2019	12,719	3.2	7,293	(0.4)	6,354	(0.5)	6,353	(0.5)
Fiscal year ended								
December 31, 2019	28,278	0.1	17,148	(4.7)	15,291	(5.7)	15,290	(5.7)

	Net income per unit
Midterm period ended	JPY
June 30, 2020	(123)
June 30, 2019	1,441
Fiscal year ended	
December 31, 2019	3,447

(Note) Net income per unit is calculated based on the period-average number of investment units issued.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Midterm period ended	JPY1M	JPY1M	%	JPY
June 30, 2020	398,827	219,427	55.0	49,173
June 30, 2019	406,018	227,021	55.9	50,874
Fiscal year ended				
December 31, 2019	415,722	236,522	56.9	53,004

(Note) Net assets per unit are calculated based on the total number of investment units issued and outstanding at the end of the midterm period / full year.

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period/year
Midterm period ended	JPY1M	JPY1M	JPY1M	JPY1M
June 30, 2020	5,085	(2,264)	(16,455)	20,708
June 30, 2019	8,368	(70,001)	49,260	24,811
Fiscal year ended				
December 31, 2019	20,000	(72,464)	49,623	34,343

**2. Operating forecast for the fiscal year ending December 31, 2020
(January 1, 2020 – December 31, 2020)**

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary profit		Net income		Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%	JPY	JPY
Full year	13,126	(53.6)	2,085	(87.8)	244	(98.4)	243	(98.4)	126	—

(Reference) Estimated net income per unit for the fiscal year ending December 31, 2020 (full year) ¥54

(Calculated based on the estimate of period-average number of investment units of 4,462,347.)

(Note) The source of the dividend payment is planned to be the total amount of net income plus the reversed amount of the reserve for temporary difference adjustment (¥319 million).

*** Other**

(1) Changes in accounting policies, changes in accounting estimates, and restatement of financial statements for prior period after error corrections

(a) Changes in accounting policies due to revisions to accounting standards and other regulations: No change

(b) Changes in accounting policies due to other reasons than above (a): No change

(c) Changes in accounting estimates: No change

(d) Restatement of financial statements for prior period after error corrections: No change

(2) Total number of investment units issued and outstanding

(a) Total number of investment units issued and outstanding at the end of the midterm period / full year

(including investment units owned by Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”))

As of June 30, 2020 4,462,347 units

As of June 30, 2019 4,462,347 units

As of December 31, 2019 4,462,347 units

(b) Number of JHR's own investment units held at the end of the midterm period / full year

As of June 30, 2020 0 units

As of June 30, 2019 0 units

As of December 31, 2019 0 units

(Note) For the number of investment units serving as the basis of computation of net income per unit, please refer to “Notes on per unit information” on page 36.

*** Status of midterm audit procedures**

Midterm financial report is not subject to audit procedures by accountants.

*** Appropriate use of forecasts of results and other special items**

Forward-looking statements presented in this midterm financial report including operating forecasts are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors. Furthermore, we do not intend to guarantee any dividend amount by this forecast. For the assumptions of the operating forecast and notes for the use of operating forecast, please refer to “1. Operating results; (1) Operating results; (B) Outlook for the second half of the fiscal year” on page 6 and “Assumptions of the operating forecast for the full year of the fiscal year ending December 31, 2020 (21st period)” on page 14.

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1. Operating results

(1) Operating results

(A) Overview of the midterm period under review

(a) Brief history and principal activities

Japan Hotel REIT Investment Corporation (JHR) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) on November 10, 2005, and was listed on the Real Estate Investment Trust (REIT) section of the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

JHR entrusts asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on importance as social infrastructure and profitability as investment real estate of hotels, JHR primarily invests in real estate which are wholly or partially used as hotels or real estate equivalents of such real estate or related assets that are backed by such real estate or real estate equivalents (hereinafter referred to as “Real Estate for Hotels, Etc.”).

JHR, the former Nippon Hotel Fund Investment Corporation, merged with Japan Hotel and Resort, Inc. with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”), and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger, JHR has carried out nine public offerings for capital increase and continuously acquired “highly competitive hotels” in mainly “strategic investment areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 26 properties amounting to ¥275,160 million (acquisition price basis) in total in the little more than eight years since the Merger through the end of the midterm period under review (June 30, 2020). As a result, JHR had a portfolio of 43 properties with a combined acquisition price of ¥374,508 million. The total number of investment units issued stood at 4,462,347 units at the end of the midterm period under review.

(b) Investment performance for midterm period under review

The Japanese economy in the midterm period under review (six-month period from January 1, 2020 to June 30, 2020) continued to recover moderately due to continuous improvement in the employment and income environments, although weakness in exports was seen up to January. The domestic accommodation and tourism market remained stable although some hotels were impacted by the decrease in the number of visitors from South Korea during the same period. However, economic activities have been significantly restrained both inside and outside Japan from February due to the spread of COVID-19, and the domestic accommodation and tourism market has been significantly impacted by self-restraint concerning nationwide events and the suspension of operation of large theme parks attributable to the declaration of a state of emergency by the government, in addition to the decrease in the number of foreign visitors to Japan (hereinafter referred to as “inbound”) with the impact of travel restrictions to Japan. Although the state of emergency declared by the government was lifted in May, it is taking time for the economy to recover due to self-restraint concerning inter-prefectural travel based on the “standard of gradual easing of stay-at-home request” of the government. During the midterm period under review, the cumulative number of overnight guests at domestic accommodation facilities totaled 136 million guest nights (preliminary release) (-52.3% from the same period of the previous year), indicating a significant decrease. In addition, the number of inbound visitors during the period was an estimated 3.94 million (-76.3% from the same period of the previous year), decreasing significantly from 2019 when a record-high number of 31.88 million was marked.

Under these circumstances, as for the performance of hotels owned by JHR, RevPAR (Note 2) and GOP (gross operating profit) of all hotels including the 24 hotels with variable rent, etc. (Note 1) fell significantly below the figures of the same period of the previous year due to the impact by spread of infections by COVID-19 including the suspension of the hotel operations of part of the hotels owned by JHR.

Under such circumstances, JHR had close communication mainly with each hotel lessee and operator, and discussed to maintain profit of hotels including reduction of operating costs after checking of the financial conditions of the lessees and operators of each hotel as well as conditions of the agreements etc. Based on such actions. Especially, with Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) and its subsidiaries (hereinafter collectively called the “HMJ Group”), group companies of the Asset Management Company, JHR has considered and negotiated various countermeasures such as implementation of thorough measures to prevent infections, management of the health of employees at each hotel, the reduction of hotel operating costs by thoroughly reviewing the operations at each hotel, maintenance of necessary employment, correspondence to financing and rescheduling or waiving of rents as well as cooperated in the securement of management stability of the HMJ Group.

After the thorough consideration and examination with JHR, the HMJ Group conducted large-scale restructuring of labor costs, outsourcing costs, etc., and the HMJ Group is expected to reduce more than ¥4.2 billion of costs in the current fiscal year and ¥1.5 billion of costs permanently from the following fiscal year. Compared to the fiscal year 2019, and the HMJ Group are working to further to reduce costs based on the continuing impact of the spread of infections. However, it is difficult for JHR to receive fixed rent for the current fiscal year, as the rent burden ratio to GOP is high and internal reserve are small under the lease contract with the HMJ Group. Therefore, JHR reviewed the lease contracts of the HMJ Group, and on August 25, 2020, decided to drastically reduce the fixed rent from the current fiscal year including the midterm period under review, and revise rent from the next fiscal year onward (¥3,970 million for the midterm period and ¥8,736 million for the full year). On the other hand, JHR intends to collect the amount of reduction in cost in the medium to long term by collecting about half of the cost reduction effect going forward through the variable rent. Since most of the hotels operated by the HMJ Group are large-scale full-service hotels and require a high level of operating know-how, it is difficult for JHR to secure an alternative operator which JHR needs. Therefore, JHR has determined that it will contribute to medium-to-long term interests of JHR by focusing on rebuilding its sustainable relations with the HMJ Group, and then, decided to review the lease contracts. For the other hotels, JHR has been discussing on the rent payment and continuing negotiations with each lessee and operator. On the other hand, JHR drastically reviewed capital expenditures, including the postponement of large-scale renovations scheduled during the current fiscal year, and also reduced the costs of each item such as real estate operating costs and general and administrative expenses, etc. through discussions with relevant parties and other measures. For further details of sales, GOP and other management indicators for the 24 hotels with variable rent, etc., please refer to “<Reference Information 3> Hotel operation indexes, sales and GOP” on page 19.

(Note 1) The hotel group combining the hotels which JHR leases to HMJ (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivilla and Oriental Hotel Hiroshima, (hereinafter referred to as the “Five HMJ hotels”)), with the hotels which JHR leases to HMJ subsidiaries (Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), Oriental Hotel Fukuoka Hakata Station, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, Hotel Nikko Nara, Hotel Oriental Express Osaka Shinsaibashi, and Hilton Tokyo Odaiba, totaled 14 hotels, are referred to as the HMJ Group Hotels. The 24 hotels with variable rent, etc. refers to the HMJ Group Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata. The same shall apply hereinafter.

(Note 2) RevPAR represents revenue per available room, which is calculated by dividing revenue of the rooms department for a certain period (including service charge) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

(c) Funding status

In the midterm period under review (six-month period from January 1, 2020 to June 30, 2020), JHR took out loans of ¥4,700 million in total mainly to refinance existing borrowings that were due for repayment in January 2020. Furthermore, JHR took out loans of ¥1,092 million in total mainly to refinance existing borrowings that were due for repayment also in June 2020.

Consequently, as of the end of the midterm period under review, balance of interest-bearing debt totaled ¥168,754 million, including short-term loans payable of ¥5,792 million, current portion of long-term loans payable of ¥13,790 million, long-term loans payable of ¥107,572 million, and investment corporation bonds of ¥41,600 million, and the ratio of interest-bearing debt to total assets at end of the midterm period (Note) stood at 42.3%. The ratio of fixed interest rate to the total interest-bearing debt at the end of the midterm period was at 95.0%.

(Note) Ratio of interest-bearing debt to total assets at end of the midterm period = Balance of interest-bearing debt at end of the midterm

period ÷ Total assets at end of the midterm period × 100

As of the end of the midterm period under review, JHR's issuer ratings were as follows.

The issuer rating outlook by Rating and Investment Information, Inc. has been changed from "A (Positive)" to "A (Stable)" on April 9, 2020.

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd.	A+	Stable
Rating and Investment Information, Inc.	A	Stable

(d) Financial results

As a result of the abovementioned asset management, operating revenue, operating income, and ordinary loss for the midterm period under review (six-month period from January 1, 2020 to June 30, 2020) totaled ¥5,536 million, ¥325 million, and ¥550 million, respectively. Net loss for the midterm period under review was ¥551 million. Variable rent from the hotels with variable rent leased to the HMJ Group Hotels in the amount of ¥188 million is included in operating revenue, but this amount is calculated based on the GOP of the HMJ Group Hotels for the midterm period under review. The variable rent to be ultimately received from the HMJ Group Hotels will be determined by the full-year GOP (12-month period) of each hotel of the HMJ Group Hotels.

JHR settles accounts on an annual basis and investment corporations do not have a system for interim dividends under the Investment Trusts Act. Accordingly, no distribution of earnings can be made in the midterm period under review. Distribution of earnings is made based on the earnings for the full year (12-month period from January 1, 2020 to December 31, 2020). With regard to such distribution of earnings, in accordance with the policy that earnings exceeding 90% of JHR's distributable profit as defined by Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called "the Act on Special Measures Concerning Taxation") will be distributed. The plan is, for the period ending December 31, 2020, that the amount calculated by adding a reversal of reserve for temporary difference adjustment (amount of use of negative goodwill, such as for the amount equivalent to 50-year amortization amount of negative goodwill (Note), loss on retirement of fixed assets incurred by the replacement of facilities and depreciation of the trademark right for the "Oriental Hotel" brand) to unappropriated retained earnings would all be distributed except for fractions of less than one yen of dividend per unit.

(Note) For 50-year amortization amount of negative goodwill, please refer to Dividend per Unit (Note 1) of "Assumptions of the operating forecast for the full year of the fiscal year ending December 2020 (21st period)" on page 16.

(B) Outlook for the second half of the fiscal year

(a) Investment policies and issues to be addressed

Although the state of emergency from the government was lifted in May 2020, it is forecast that the Japanese economy will be impacted by COVID-19 and a harsh situation will continue for the meanwhile. Even in the domestic accommodation and tourism market, a harsh environment is forecast to continue due to a significant decrease in the number of inbound visitors and the decrease in domestic travelers. Under such circumstances, JHR will continue to have close communication mainly with each hotel lessee and operator. Especially with lessees and operators of hotels with variable rent, JHR is discussing various measures centered on cost reduction measures with lessees and operators and aiming to maximize hotel revenue. JHR especially collaborates closely with the HMJ Group through negotiations and examinations of various countermeasures, such as implementation of measures to prevent infections and health management of employees at each hotel, the reduction of hotel operating costs by thoroughly reviewing the operations at each hotel, maintaining of necessary employment and correspondence to financing, etc. and JHR will cooperate in the securement of management stability of hotel lessees and operators, mainly the HMJ Group, and strive to maximize the GOP of each hotel, and as a result, JHR endeavors to maximize the rent that JHR can receive.

In addition, JHR has also received requests for reduction of fixed rents from many lessees who have been significantly impacted by COVID-19. In order to respond to their requests, while considering the requests from the government (Note) etc., JHR will examine the details of the requests from each lessee, details of the conditions of existing lease contracts, rent level in comparison with the market, possibility to collect the reduced rent in the future as well as their financial conditions, and careful consideration of the possibility of replacement of operator, and individually respond to the requests after having discussions with each lessee and operator. As described at (A) Overview of the midterm period under review (b) Investment performance for midterm period under review on page 4, JHR has reached an agreement with the HMJ Group to reduce the fixed rent in 2020 and adopt variable rent on and after February 2020 until the end of 2021 and return to scheme of fixed rent and variable rent as before after 2022. For details, please refer to “(b) Significant subsequent events; 2. Conclusion of a memorandum of understanding and contracts to change the fixed-term lease contracts” on page 11 below.

On the other hand, through the return of Japanese outbound tourists to domestic travel and government’s policy to promote consumption at tourist destinations including an unprecedentedly large budget for discount of travel commodities to stimulate demand for accommodations under recording of ¥1.6794 trillion of budget as the supplementary budget of the Ministry of Land, Infrastructure, Transport and Tourism for fiscal 2020, demand for accommodation is expected to recover gradually. JHR expects inbound and domestic accommodation demand to return over medium term, and believes that in doing so, the location and competitiveness of individual hotels, as well as the capabilities of operators (for example, whether they can differentiate from other hotels, improve their profitability, including cost management, and fully capture new demand that recovers, etc.) will lead to disparities in hotel performance. There is no change in the view of JHR that the domestic accommodation and tourism market will grow over the medium to long term, and JHR will continue to implement the same differentiation strategy as in the past. On the other hand, as a result from the spread of COVID-19, the spread of contactless new behavior pattern such as web conferencing, etc. may cause structural changes in hotel industry, for instance, a reduction in banquet demand etc. JHR will work more closely than ever with hotel lessees and operators to respond to environmental changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate hotels owned by JHR in the market by utilizing the experience it has cultivated as a J-REIT specializing in hotel investment, and manage assets based on the approach described below.

(Note) Financial Services Agency’s “Financing Support for Businesses etc. regarding Rent Payment (Request)” dated April 8, 2020

Internal Growth

JHR will work to secure “stability” mainly with fixed rent contracts, while at the same time aim for “upside potential” of hotel revenue through implementation of active asset management, which proactively pursues greater profitability and asset value in properties by way of a variety of measures such as expanding international brands and coordinating with HMJ.

For properties with fixed rent contracts, JHR will continue to focus on setting and maintaining appropriate rents based on rent levels in the market where respective hotels are located or each tenant’s creditworthiness and ability to bear the rent costs, and appropriately respond to the requests for the fixed rent reduction from lessees, which was greatly affected by COVID-19, aiming at raising rents (including introduction of revenue-sharing structure) in accordance with the conditions of the accommodation market.

For hotels under variable rent contracts and under a management contract structure, JHR is working to increase variable rent and reduce management contract fees by implementing the active asset management strategy.

i) Properties under variable rent contracts

JHR works to enhance the profitability of its properties under variable rent contracts through its active asset management strategy. JHR has adopted world-leading international brands such as Hilton, Marriott, Sheraton, Mercure and Holiday Inn as well as leading brands in Japan including Oriental Hotel and Hotel Nikko that are operated in various areas throughout the country and, together with excellent operators, aims to increase variable rent, etc. through improved performance of these hotels. JHR coordinates with the operators in an effort to enhance hotel performance by requesting them to implement marketing initiatives to attract a wider range of demand with considerations given to recovery of leisure demand from domestic and inbound visitors, measures to maintain and increase room rates, and realization of synergy effects like cost reductions from operating multiple properties, among other issues.

On the other hand, the expansion of the spread of COVID-19 is expected to continue to have a negative impact on performance of hotels for the time being. In order to cope with such situation, JHR will cooperate closely with the lessees and operators of each hotel to promote drastic reform of the hotel revenue structure through cost-cutting measures, etc. centered on thorough efficiency of the operating system. JHR will also promote various measures to restore hotel revenue, such as the creation of appropriate products in response to major changes in the market environment and the development of hotel facility environments.

Moreover, JHR will strive to recover and improve hotel earnings by accurately grasping the conditions in the domestic accommodation and tourism market, and changing customers' needs, and implementing strategic capital expenditure (CAPEX) as necessary.

ii) Properties under fixed rent contracts

JHR will pursue efforts to monitor operating conditions of these hotels appropriately, pay careful attention to each tenant's creditworthiness and ability to bear the cost of rent, and set and maintain reasonable rent, while appropriately respond to the requests for the fixed rent reduction from lessees, which was greatly affected by COVID-19. In addition, JHR will execute investment for the purpose of an ongoing program of facilities and equipment maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and enhance asset value.

External Growth

In terms of external growth strategy, JHR believes that domestic and inbound leisure demand will recover over the medium to long term and will continue targeting acquisition of highly competitive Real Estate for Hotels, Etc. (Hotel Assets) in areas which can expect "domestic and inbound leisure demand" over the medium to long term as it has done to date. In addition, JHR will build a portfolio which can secure stable revenues with future growth potential in mind in order to achieve upside gains.

Upon acquiring properties, JHR will focus on infrastructure aspects of the relevant Hotel Assets such as buildings and facilities, services aspects such as the credibility of the hotel lessee and operator (including the ability of the hotel lessee to bear the cost of rent) as well as operation and management capabilities, and the properties' locational superiority that serves as the base for stability in demand and growth potential.

Specifically, JHR will aim to invest in "full-service hotels" and "resort hotels" that pose barriers to new opening due to such factors as operation and management know-how required for operating the hotels and limitations in terms of invested capital and location. As for "limited-service hotels," JHR emphasizes the credibility and operation capabilities of the hotel lessee and operator as well as the building age, location, guestroom composition, profitability, etc. of the properties. Moreover, JHR will take a particularly selective approach to hotels specialized for accommodation and of a budget type (low price zone) that mainly offers single rooms and where the source of competitiveness relies only on prices.

In the hotel investment market, hotel transactions remain stagnant due to a sense of uncertainty over the domestic accommodation and tourism market caused by the impact of COVID-19. On the other hand, there is a possibility of an increase in special opportunities unlike before, such as sales of assets due to a rapid deterioration in the financial position of operators, sales of non-core assets such as hotels due to a deterioration in main business performance, sales of hotels completed or scheduled to be completed without operators, etc., and JHR will deal with such investment opportunities by utilizing efficient hotel operation platform of HMJ. Moreover, JHR believes that the spread of infection may come to an end over the medium to long term and domestic accommodation demand including inbound tourists associated with it may recover. If such conditions arise, many investors who had been quieter than ever may resume hotel investments and competition over acquisition may become active again. While flexibly responding to changes in the revenue structures and investment environment of hotels resulting from the spread of infection by COVID-19, JHR will aim for expansion of asset size that accompanies an improvement in the quality of its portfolio by acquiring highly competitive properties while leveraging its strength and advantages and also utilizing the HMJ platform in some properties.

Finance Strategy

Under the basic policy of carrying out a conservative financial strategy which places importance on securement of financial stability and soundness, JHR intends to maintain and enhance the relationships of trust with existing financial institutions with which it does business while endeavoring to diversify the means of financing. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% as in the past. In addition, when seeking new loans for property acquisitions or refinancing existing borrowings, JHR will work to disperse maturity dates of its borrowings as well as further reinforce and expand its base of lenders and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds), while considering the balance with the funding costs. Moreover, while JHR understands that no abrupt change is likely to occur to the interest rate level in the current situation, it aims to further improve its financial foundation by managing risk of the interest rate market as necessary by taking into consideration the dispersion of maturity dates while optimizing financing costs, in preparation for the future change in the environment of the financial market. While being impacted by COVID-19, JHR will conduct appropriate control of capital expenditure, secure liquidity on hand, and aim to strengthen its financial foundation.

Policy on Handling of Negative Goodwill

JHR has conducted appropriation for dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations (Cabinet Order No. 47 of 2006, as amended)” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan since the fiscal year ended December 31, 2017 (18th period). For the fiscal year under review and thereafter, JHR stipulated a policy to reverse ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the balance of the reserve for temporary difference adjustment for the fiscal year ended December 2017, to pay out as dividends, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount (Note).

Furthermore, in cases of incurrence of losses caused by property dispositions, impairment loss of assets, dilution of dividend per unit due to the issuance of new investment units through public offering, etc., loss on retirement of noncurrent assets, depreciation of trademark rights, and suspension of sales and such due to large-scale renovations with significant impact on revenues, JHR stipulated a policy to reverse the additional portion of negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note). As for the fiscal year ending December 31, 2020 (21st period), JHR expects ¥319 million, which is the total of the 50-year amortization amount of negative goodwill (¥262 million), loss on retirement of noncurrent assets (¥19 million) and the depreciation of the trademark rights for the “Oriental Hotel” brand (¥37 million) as additional amounts to dividends by reversing negative goodwill.

(Note) The policy may change due to a resolution of the board of directors, and it does not guarantee the way to reverse the reserve for temporary different adjustment and specific amounts, etc., for the future.

Initiatives for Sustainability

In recent years, the risks and opportunities of ESG (Environment, Social and Governance) issues have grown in importance in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management based on consideration for ESG is important to enhance unitholder value and to further raise the attractiveness of JHR. In addition, JHR believes that it is indispensable to establish favorable relationships with its stakeholders including unitholders, hotel users (guests), lessees, operators, business partners including property managers, etc., local communities, officers and employees of the Asset Management Company and others and to fulfill our social responsibilities expected from each of them.

In order to put such ideas into practice, JHR, along with the Asset Management Company, has established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at properties in our portfolio based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for hotel properties owned by a J-REIT (Note 1). Moreover, in September 2018, JHR became the first J-REIT specializing in hotels (Note 1) to be recognized by GRESB for its environmental awareness and sustainability initiatives, acquiring “Green Star,” the highest ranking, in the GRESB Real Estate Assessment (Note 2) and acquired “4 Stars” in the “GRESB Rating” in September 2019.

Moreover, in July 2019, JHR became the first case of a J-REIT specializing in hotels to issue green bonds (Note 1), which used procured funds to repay the existing loans allocated to the investments and construction costs for renovations at Oriental Hotel Fukuoka Hakata Station which contribute to environmental conservation, such as reducing CO₂ and water usage.

In addition, as an effort under the spread of COVID-19, JHR provided two hotels which it owns in Tokyo as facilities to accept patients with mild or no symptoms who do not require hospital treatment among the patients infected with COVID-19.

Recognizing its social responsibility towards local communities as a J-REIT specializing in hotels, JHR will proactively carry out social contribution activities capitalizing on the characteristics of the hotel sector and each hotel.

(Note 1) Investigated by the Asset Management Company based on public information.

(Note 2) GRESB, which stands for Global Real Estate Sustainability Benchmark, is an annual benchmarking program to evaluate Environment, Social and Governance (ESG) awareness of real estate companies and funds. It evaluates initiatives for sustainability of real estate companies, REITs and real estate funds, not of individual properties. The GRESB Rating makes relative assessment based on total scores, with 5 Stars being the highest ranking.

(b) Significant subsequent events

1. Sale of Asset

JHR sold Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on July 1, 2020.

Name of sold asset	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi
Type of sold asset	Real estate beneficial interest in trust
Classification by use	Hotel
Location	Minato-ku, Tokyo
Sale price (Note 1)	¥8,000 million
Book value (Note 2)	¥4,791 million
Gain on sale (forecast) (Note 3)	¥3,156 million
Closing date	July 1, 2020
Buyer	Undisclosed (Note 4)

(Note 1) Sale price excludes settlement amount of fixed asset tax and city planning tax, etc., as well as selling expenses, consumption tax and local consumption tax.

(Note 2) Book value (forecast) is as of July 1, 2020.

(Note 3) The amount obtained by deducting the book value (forecast) and selling expenses (forecast) as of July 1, 2020 from the sale price is indicated.

(Note 4) Undisclosed as the consent of the buyer has not been obtained.

2. Conclusion of a memorandum of understanding and contracts to change the fixed-term lease contracts

Due to the rapid deterioration of the hotel market caused by the worldwide spread of infections by COVID-19, it is difficult for the lessee (HMJ Group) to pay the full amount of the fixed rent for the current fiscal year, as the rent burden ratio is high and it is difficult to have internal reserve under the contracts. Therefore, in the board of directors meeting held on August 25, 2020, JHR has resolved to conclude a “Memorandum of Understanding on the fixed-term lease contracts” to revise the rent structure in the fiscal year 2020 and “Revised Fixed-term Lease Contracts” (Note 1) to revise the rent structure from the fiscal year 2021 onwards between JHR and the HMJ Group, regarding the fixed-term lease contracts with the HMJ Group as lessee in relation with total 14 properties, and concluded on the same date. The “Memorandum of Understanding on the fixed-term lease contracts” to revise the rent structure in the fiscal year 2020 will be applied retroactively from January 1, 2020.

Since most of the hotels operated by the HMJ Group are large-scale full-service hotels and require a high level of operating know-how, it is difficult for JHR to secure an alternative operator which JHR needs. Therefore, JHR has determined that it will contribute to medium-to-long term interests of JHR by focusing on rebuilding its sustainable relations with the HMJ Group.

The content of the revision is as follows.

(1) Fixed rent

No	Name	Lessee	Fixed rent			
			Before	After		
			FY2020 onwards	FY2020	FY2021	From FY2022 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	JPY3,221MM/year	January only JPY268MM	Not applicable	JPY3,221MM/year
2	Oriental Hotel tokyo bay					
3	Namba Oriental Hotel					
4	Hotel Nikko Alivila					
5	Oriental Hotel Hiroshima					
6	Okinawa Marriott Resort & Spa	Lagoon resort Nago Co., Ltd.	JPY550MM/year	January only JPY45MM		JPY550MM/year
7	Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA) (Note 4)	K.K. A.I.C Hiroshima Management	JPY348MM/year	January only JPY29MM		JPY348MM/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	JPY425MM/year	January only JPY35MM		JPY425MM/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	JPY576MM/year	January only JPY48MM		JPY576MM/year
10	Hilton Tokyo Narita Airport	KK NaritaKosuge Operations	JPY444MM/year	January only JPY37MM		JPY444MM/year
11	International Garden Hotel Narita	KK NaritaYoshikura Operations	JPY336MM/year	January only JPY28MM		JPY336MM/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	JPY420MM/year	January only JPY35MM		JPY420MM/year
13	Hotel Oriental Express Osaka Shinsaibashi	K.K. HOTEL ORIENTAL EXPRESS	JPY110MM/year	January only JPY9MM		JPY110MM/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise Inc.	JPY3,100MM/year On and after January 1, 2022: JPY1,600MM/year	January only JPY258MM		JPY1,600MM/year

(2) Variable rent

	Name	Method of calculation of variable rent			
		Before	After		
		FY2020 onwards	FY2020	FY2021	From FY2022 onwards
1	Kobe Meriken Park Oriental Hotel	(The total GOP of The Five HMJ Hotels (Note 5) — base amount (JPY3,351MM/year)(Note 6)) x 85.0%	The total GOP of The Five HMJ Hotels x 89.78% — fixed rent for January	AGOP x 86.0%	(The total AGOP of The Five HMJ Hotels — base amount (JPY4,120MM/year)(Note 7)) x 85.0%
2	Oriental Hotel tokyo bay			AGOP x 79.0%	
3	Namba Oriental Hotel			AGOP x 91.0%	
4	Hotel Nikko Alivila			AGOP x 74.0%	
5	Oriental Hotel Hiroshima			AGOP x 89.0%	
6	Okinawa Marriott Resort & Spa	(GOP — base amount (JPY700MM/year)) x 90.0%	GOP x 82.92% — fixed rent for January	AGOP x 89.0%	(AGOP — base amount (JPY655MM/year)) x 95.0%
7	Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA) (Note 4)	(GOP — base amount (JPY468MM/year)) x 82.5%	GOP x 79.03% — fixed rent for January	AGOP x 93.0%	(AGOP — base amount (JPY360MM/year)) x 90.0%
8	Oriental Hotel Fukuoka Hakata Station	(GOP — base amount (JPY442MM/year)) x 98.0%	GOP x 96.98% — fixed rent for January	AGOP x 97.0%	(AGOP — base amount (JPY442MM/year)) x 98.0%
9	Holiday Inn Osaka Namba	(GOP — base amount (JPY650MM/year)) x 92.5%	GOP x 90.15% — fixed rent for January	AGOP x 98.0%	(AGOP — base amount (JPY580MM/year)) x 97.0%
10	Hilton Tokyo Narita Airport	(GOP — base amount (JPY550MM/year)) x 86.5%	GOP x 83.59% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY450MM/year)) x 93.0%
11	International Garden Hotel Narita	(GOP — base amount (JPY360MM/year)) x 98.0%	GOP x 95.35% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY360MM/year)) x 98.0%
12	Hotel Nikko Nara	(GOP — base amount (JPY470MM/year)) x 91.5%	GOP x 90.05% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY440MM/year)) x 95.0%
13	Hotel Oriental Express Osaka Shinsaibashi	(GOP — base amount (JPY128MM/year)) x 91.0%	GOP x 87.11% — fixed rent for January	AGOP x 87.0%	(AGOP — base amount (JPY128MM/year)) x 91.0%
14	Hilton Tokyo Odaiba	FY2020 to FY2021: (AGOP — base amount (JPY2,970MM/year)) x 30.0% On and after FY2022: (AGOP — base amount (JPY1,660MM/year)) x 98.0%	GOP x 92.10% — fixed rent for January	AGOP x 97.0%	(AGOP — base amount (JPY1,660MM/year)) x 98.0%

(*1) The existing fixed-term lease contracts for Okinawa Marriott Resort & Spa and Hotel Nikko Nara will expire on December 31, 2020. Therefore, the rent structure for FY2021 and beyond is stipulated in the new fixed-term lease contracts with the term of the lease from January 1, 2021 to December 31, 2030.

(*2) GOP (gross operating profit) is the remainder after expenses, such as personnel costs and general and administrative expenses, etc. incurred in hotel operation, are deducted from total sales.

(*3) AGOP is the amount calculated by subtracting certain fees and other items from hotel GOP.

(*4) Stating the rent for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(*5) The Five HMJ Hotels refers to Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima, which JHR leases to HMJ.

(*6) The breakdown of the GOP base amount of The Five HMJ Hotels (¥3,351 million/year) are as follows: Kobe Meriken Park Oriental Hotel ¥599,900 thousands, Oriental Hotel tokyo bay ¥693,200 thousands, Namba Oriental Hotel ¥832,200 thousands, Hotel Nikko Alivila ¥995,700 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(*7) The breakdown of the AGOP base amount of The Five HMJ Hotels (¥4,120 million/year) are as follows: Kobe Meriken Park Oriental Hotel ¥690,000 thousands, Oriental Hotel tokyo bay ¥1,060,000 thousands, Namba Oriental Hotel ¥890,000 thousands, Hotel Nikko Alivila ¥1,250,000 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(3) Impact amount on profit or loss of the conclusion of the contracts

As a result of the conclusion of the contracts, the fixed rent to be recorded in operating revenue is expected to decrease by ¥8,736 million in the fiscal year ending December 2020. However, as the variable rent recorded in operating revenue is determined by the full year GOP (12-month period) of the fiscal year ending December 2020, the amount of impact cannot be estimated as of today.

(c) Operating forecast

The following is JHR's operating forecast for the full year of the fiscal year ending December 31, 2020 (21st period). For the assumptions of the operating forecast, please refer to "Assumptions of the operating forecast for the full year of the fiscal year ending December 31, 2020 (21st period)" on page 14.

Full year of the fiscal year ending December 31, 2020 (21st period)	Forecast this time	Previous forecast (Note 1)	Forecast dated February 20, 2020 (Note 2)	Variance (Note 2)
Operating revenue	¥13,126 million	TBD	¥29,971 million (¥16,844 million)	
Operating income	¥2,085 million	TBD	¥18,128 million (¥16,042 million)	
Ordinary profit (loss)	¥244 million	TBD	¥16,239 million (¥15,994 million)	
Net income (loss)	¥243 million	TBD	¥16,238 million (¥15,994 million)	
Dividend per unit	¥126	TBD	¥3,750	(¥3,624)
Dividend per unit resulting from excess of earnings	¥—	TBD	¥—	¥—

(Note 1) JHR announced that the operating forecast and forecast of dividend for the fiscal year ending December 31, 2020 (21st period) will be determined later in the press release, "Notice Concerning Revision of Operating Forecast and Forecast of Dividend for the Fiscal Year Ending December 2020 (21st Period)" dated March 25, 2020.

(Note 2) The figures announced in "Financial Report for the Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019)," dated February 20, 2020 are shown in the forecast dated February 20, 2020, and variance with the forecast dated February 20, 2020 and forecast this time is shown in variance.

(Note 3) The forecast figures above are the current forecasts calculated based on certain assumptions. As such, actual operating revenue, operating income, ordinary profit (loss), net income (loss), dividend per unit and dividend per unit resulting from excess of earnings may vary due to changes in the circumstances. Furthermore, the forecasts are not intended to guarantee any dividend amount.

Assumptions of the operating forecast for the full year of the fiscal year ending December 31, 2020 (21st period)

Item	Assumptions																																																																																																																																											
Calculation Period	<ul style="list-style-type: none">Full fiscal year ending December 2020 (21st Period): January 1, 2020 through December 31, 2020 (366 days)																																																																																																																																											
Assets Under Management	<ul style="list-style-type: none">The 42 properties owned by JHR as of today after the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (hereinafter called the “Sale”) on July 1, 2020, are assumed.It is assumed that there will be no change (acquisition of new property or disposition of the existing properties, etc.) in assets under management other than the Sale through the end of the fiscal year ending December 2020 (21st period). However, the actual results may fluctuate depending on the changes in assets under management that may take place.																																																																																																																																											
Operating Revenue	<ul style="list-style-type: none">Gain on sale of real estate properties of ¥3,156 million is expected to be recognized due to the Sale.Operating revenue is calculated based on the conditions of the lease and other contracts effective as of today, taking into consideration the competitiveness of hotels, market environment, and other factors. If there are lease contracts with facilities other than hotels, such as retail facilities and offices, operating revenue calculated based on the said lease contracts is included.Rents, etc. of the main hotels are calculated based on the following assumptions. <p>(1) The HMJ Group Hotels</p> <p>JHR concluded a memorandum of understanding for the fixed-term lease contracts of the HMJ Group Hotels on August 25, 2020. Assumptions for fixed and variable rent from January 1, 2020, to December 31, 2020 are as follows.</p> <p>Total rent = Fixed rent + Variable rent Fixed rent = ¥794 million (equivalent to monthly fixed rent for one month) Variable rent = Total GOP of the hotels x Variable rent ratio (%) – Fixed rent Variable rent is calculated separately for each hotel, and is set as 0 (zero) when GOL arises.</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th></th><th>Total GOP of the hotel(s)</th><th>Variable rent ratio</th><th>Variable rent</th><th>Fixed rent</th><th>Total rent</th></tr><tr><td rowspan="2">The Five HMJ Hotels</td><td>Midterm</td><td>(120)</td><td rowspan="2">89.78%</td><td>-</td><td>268</td><td>268</td></tr><tr><td>Full year</td><td>241</td><td>-</td><td>268</td><td>268</td></tr><tr><td rowspan="2">Okinawa Marriott Resort & Spa</td><td>Midterm</td><td>(149)</td><td rowspan="2">82.92%</td><td>-</td><td>45</td><td>45</td></tr><tr><td>Full year</td><td>(170)</td><td>-</td><td>45</td><td>45</td></tr><tr><td rowspan="2">Sheraton Grand Hiroshima Hotel (*1)</td><td>Midterm</td><td>86</td><td rowspan="2">79.03%</td><td>39</td><td>29</td><td>68</td></tr><tr><td>Full year</td><td>118</td><td>65</td><td>29</td><td>94</td></tr><tr><td rowspan="2">Oriental Hotel Fukuoka Hakata Station</td><td>Midterm</td><td>170</td><td rowspan="2">96.98%</td><td>130</td><td>35</td><td>165</td></tr><tr><td>Full year</td><td>286</td><td>242</td><td>35</td><td>278</td></tr><tr><td rowspan="2">Holiday Inn Osaka Namba</td><td>Midterm</td><td>63</td><td rowspan="2">90.15%</td><td>- (*2)</td><td>48</td><td>48</td></tr><tr><td>Full year</td><td>22</td><td>-</td><td>48</td><td>48</td></tr><tr><td rowspan="2">Hilton Tokyo Narita Airport</td><td>Midterm</td><td>91</td><td rowspan="2">83.59%</td><td>- (*3)</td><td>37</td><td>37</td></tr><tr><td>Full year</td><td>64</td><td>16</td><td>37</td><td>53</td></tr><tr><td rowspan="2">International Garden Hotel Narita</td><td>Midterm</td><td>49</td><td rowspan="2">95.35%</td><td>19</td><td>28</td><td>47</td></tr><tr><td>Full year</td><td>64</td><td>33</td><td>28</td><td>61</td></tr><tr><td rowspan="2">Hotel Nikko Nara</td><td>Midterm</td><td>(175)</td><td rowspan="2">90.05%</td><td>-</td><td>35</td><td>35</td></tr><tr><td>Full year</td><td>(210)</td><td>-</td><td>35</td><td>35</td></tr><tr><td rowspan="2">Hotel Oriental Express Osaka Shinsaibashi</td><td>Midterm</td><td>(16)</td><td rowspan="2">87.11%</td><td>-</td><td>9</td><td>9</td></tr><tr><td>Full year</td><td>(42)</td><td>-</td><td>9</td><td>9</td></tr><tr><td rowspan="2">Hilton Tokyo Odaiba</td><td>Midterm</td><td>(369)</td><td rowspan="2">92.10%</td><td>-</td><td>258</td><td>258</td></tr><tr><td>Full year</td><td>(170)</td><td>-</td><td>258</td><td>258</td></tr><tr><td rowspan="2">Total</td><td>Midterm</td><td>(370)</td><td rowspan="2">-</td><td>188</td><td>794</td><td>982</td></tr><tr><td>Full year</td><td>204</td><td>357</td><td>794</td><td>1,151</td></tr></table>			Total GOP of the hotel(s)	Variable rent ratio	Variable rent	Fixed rent	Total rent	The Five HMJ Hotels	Midterm	(120)	89.78%	-	268	268	Full year	241	-	268	268	Okinawa Marriott Resort & Spa	Midterm	(149)	82.92%	-	45	45	Full year	(170)	-	45	45	Sheraton Grand Hiroshima Hotel (*1)	Midterm	86	79.03%	39	29	68	Full year	118	65	29	94	Oriental Hotel Fukuoka Hakata Station	Midterm	170	96.98%	130	35	165	Full year	286	242	35	278	Holiday Inn Osaka Namba	Midterm	63	90.15%	- (*2)	48	48	Full year	22	-	48	48	Hilton Tokyo Narita Airport	Midterm	91	83.59%	- (*3)	37	37	Full year	64	16	37	53	International Garden Hotel Narita	Midterm	49	95.35%	19	28	47	Full year	64	33	28	61	Hotel Nikko Nara	Midterm	(175)	90.05%	-	35	35	Full year	(210)	-	35	35	Hotel Oriental Express Osaka Shinsaibashi	Midterm	(16)	87.11%	-	9	9	Full year	(42)	-	9	9	Hilton Tokyo Odaiba	Midterm	(369)	92.10%	-	258	258	Full year	(170)	-	258	258	Total	Midterm	(370)	-	188	794	982	Full year	204	357	794	1,151
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	<p>(*1) Stating the rent for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA. Fixed rent and variable rent for office and commercial tenants of ACTIVE-INTER CITY HIROSHIMA are as follows.</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th>Variable rent</th><th>Fixed rent</th><th>Total rent</th></tr><tr><td>Midterm</td><td>3</td><td>239</td><td>243</td></tr><tr><td>Full year</td><td>5</td><td>477</td><td>483</td></tr></table>		Variable rent	Fixed rent	Total rent	Midterm	3	239	243	Full year	5	477	483																																																																																																																															
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	<p>(*2) Variable rent for the midterm is not recognized since variable rent does not arise based on the expected full-year GOP.</p> <p>(*3) As the expected GOP for the full year is less than the GOP for the midterm period, variable rent is not recorded in the midterm period.</p>																																																																																																																																											

Item	Assumptions		
Operating Revenue	(2) Income from management contracts (*4) and variable rent from other hotels with variable rent, etc. (Unit: millions of yen)		
		Midterm	Full year
	ibis Tokyo Shinjuku	18	3
	ibis Styles Kyoto Station	- (*5)	- (*5)
	ibis Styles Sapporo	23	38
	Mercure Sapporo	40	68
	Mercure Okinawa Naha	- (*5)	- (*5)
	Mercure Yokosuka	27	17
	the b suidobashi	-	-
	the b ikebukuro	1	1
	the b hachioji	44	105
	the b hakata	2	2
	Comfort Hotel Tokyo Higashi Nihombashi	1	1
	Smile Hotel Nihombashi Mitsukoshimae	12	12
	Hotel Vista Kamata Tokyo	-	-
	Chisun Inn Kamata	15	18
	Hotel Keihan Universal City	Undisclosed (*6)	Undisclosed (*6)
	Sotetsu Fresa Inn Shimbashi Karasumoriguchi (*6)	66	66
	Hilton Tokyo Bay	Undisclosed (*6)	Undisclosed (*6)
	Hilton Nagoya	Undisclosed (*6)	Undisclosed (*6)
	Total	454	685
	(*4) For income from management contracts, it is assumed that each hotel's GOP amount is recognized as income from management contracts, and GOL and the management contract fees to be paid by JHR are recognized as an operating expense.		
	(*5) GOL recognized as cost for management contracts are as follows.		
	(Unit: millions of yen)		
		Midterm	Full year
ibis Styles Kyoto Station	(20)	(40)	
Mercure Okinawa Naha	(13)	(39)	
Total	(33)	(80)	
(*6) Undisclosed since tenants that concluded lease contracts did not agree to disclose rent revenue, etc.			
(*7) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020. The above shows the variable rent arising before the sale date.			
• The following is the breakdown of variable rent and income from management contracts (Unit: millions of yen)			
	Midterm	Full year	
The HMJ Group Hotels	188	357	
Office and commercial tenants (*8)	3	5	
Other hotels with variable rent, etc. (18 hotels)	454	685	
Total (32 hotels)	646	1,049	
(*8) Variable rent for office and commercial tenants of ACTIVE-INTER CITY HIROSHIMA is shown.			
(*9) For details of variable rent, please refer to page 51, “3. Reference Information; B. Assets under management; (C) Other major assets under management; C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing.”			
Operating Expenses	<ul style="list-style-type: none">• Based on the discussions with tenants concerning temporary rent reduction due to the impact of spread of infection by COVID-19, JHR assumes a risk of revenue decrease of ¥200 million considering the possible impact of revenue decrease on operating income.• With respect to real estate leasing expenses, which constitute a major part of the operating expenses, expenses other than depreciation are calculated based on historical data, and variable factors are reflected in the calculation.• It is assumed that ¥1,915 million will be recognized as expenses for fixed asset tax, city planning tax, etc.• In general, fixed asset tax, city planning tax, and other taxes and public dues on acquired assets are settled with the previous owners at the time of acquisition calculated on a pro rata basis of the holding period. For JHR, such settlement amount is included in the acquisition price, and it will not be recognized as expenses for the calculation period.• For capital expenditure, ¥3,000 million was assumed for the large-scale renovation at Hilton Tokyo Odaiba for the fiscal year ending December 2020 (21st period) and ¥2,600 was assumed for the large-scale renovation at Namba Oriental Hotel for the fiscal year ending December 2021 (22nd period) in the forecast dated February 20, 2020. However, all renovations including large-scale renovations were reviewed (whether to execute in the future is undecided), and capital expenditure for the fiscal year ending December 2020 (21st period) is assumed to be ¥1,799 million (¥1,605 million for capital expenditure I, ¥93 million for capital expenditure II, and ¥100 million for capital expenditure III).		

Item	Assumptions																
	<p>(*) JHR classifies capital expenditures across the following three categories. (I) Capital investment related to renewal of equipment and facilities of buildings, which is required to maintain proper values of properties; (II) capital investment for fixtures, furniture, and equipment that are not directly related to building structure or facilities but necessary for operating hotels; and (III) strategic capital investment such as renovating guest rooms, etc. for improving the competitiveness of the hotels.</p> <ul style="list-style-type: none"> Depreciation is calculated using the straight-line method including the planned capital expenditures above and is assumed to be ¥4,751 million. Repair expenses for buildings are recognized as expenses in the assumed amount necessary for each operating period. Please note that the repair expenses of each operating period may differ materially from the forecast amount for various reasons, such as; (1) Emergency repair expenses may be necessary due to damage to buildings from unexpected causes; (2) The amount of repair expenses generally tends to increase in difference over time; and (3) Repair expenses are not required on a regular basis. 																
Non-Operating Expenses	<ul style="list-style-type: none"> ¥1,876 million is expected for borrowing-related costs, including interest expense, amortization for financing fee and arrangement fee, and other non-operating expenses. Expenses for issuance of new investment units and secondary offering are amortized over a period of three years under the straight-line method. 																
Interest- Bearing Debt	<ul style="list-style-type: none"> The balance of interest-bearing debt (sum of loans and investment corporation bonds) as of the end of June 2020 was ¥168,754 million. It is assumed that the balance of interest-bearing debt will be ¥168,754 million as of December 31, 2020. It is assumed that loans totaling ¥12,782 million due in the second half of the fiscal year ending December 2020 (21st period) will be fully refinanced. 																
Dividend per Unit	<ul style="list-style-type: none"> Dividend per unit for the fiscal year ending December 2020 (21st period) is calculated based on the following assumptions. <table> <tr> <td>Net income</td><td>¥243 million</td></tr> <tr> <td>Reversal of reserve for temporary difference adjustment (negative goodwill)</td><td></td></tr> <tr> <td> 50-year amortization amount of negative goodwill (*1)</td><td>¥262 million</td></tr> <tr> <td> Loss on retirement of noncurrent assets (*2)</td><td>¥19 million</td></tr> <tr> <td> Amortization of trademark rights (*3)</td><td>¥37 million</td></tr> <tr> <td>Distributable amount</td><td>¥562 million</td></tr> <tr> <td>Total number of investment units issued</td><td>4,462,347 units</td></tr> <tr> <td>Dividend per unit</td><td>¥126</td></tr> </table> <p>(*)1 ¥262 million (hereinafter called “50-year amortization amount of negative goodwill”) is scheduled to be paid out as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every fiscal year.</p> <p>(*)2 The amount recognized as loss on retirement of noncurrent assets will be appropriated by reserve for temporary difference adjustment (negative goodwill) and is expected to have no impact on dividend per unit.</p> <p>(*)3 As announced in the press release “Notice Concerning Acquisition of New Assets (Trademark Rights of “Oriental Hotel” brand, etc.)” dated May 15, 2020, JHR acquired the trademark rights on May 15, 2020. The trademark rights are amortized over 10 years using the straight-line method. Amortization expected to be recognized during the current fiscal year will be appropriated by reserve for temporary difference adjustment (negative goodwill) and is expected to have no impact on dividend per unit.</p> <ul style="list-style-type: none"> Dividend per unit may fluctuate due to various causes, such as fluctuation of rent revenue resulting from transfer of assets under management, change of tenants, etc. of hotels, change in the business environment surrounding tenants, etc. of hotels, unexpected repairs, and actual number of new units issued, etc. The remaining balance of reserve for temporary difference adjustment (negative goodwill) after the appropriation of reserve for temporary difference adjustment (negative goodwill) for dividends for the fiscal year ending December 2020 (21st period) is expected to be ¥10,298 million. 	Net income	¥243 million	Reversal of reserve for temporary difference adjustment (negative goodwill)		50-year amortization amount of negative goodwill (*1)	¥262 million	Loss on retirement of noncurrent assets (*2)	¥19 million	Amortization of trademark rights (*3)	¥37 million	Distributable amount	¥562 million	Total number of investment units issued	4,462,347 units	Dividend per unit	¥126
Net income	¥243 million																
Reversal of reserve for temporary difference adjustment (negative goodwill)																	
50-year amortization amount of negative goodwill (*1)	¥262 million																
Loss on retirement of noncurrent assets (*2)	¥19 million																
Amortization of trademark rights (*3)	¥37 million																
Distributable amount	¥562 million																
Total number of investment units issued	4,462,347 units																
Dividend per unit	¥126																
Dividend per Unit Resulting from Excess of Earnings	<ul style="list-style-type: none"> It is assumed that excess of earnings (dividend per unit resulting from excess of earnings) will not be distributed. 																

Item	Assumptions
Others	<ul style="list-style-type: none"> • It is assumed that no revisions to laws, tax systems, accounting standards, listing regulations, and regulations of the Investment Trusts Association, Japan (“ITAJ”) that may impact the forecast above will be made. • It is assumed that no unexpected major incident in the general economy, real estate market, and hotel business environment, etc. will occur. • In the above assumptions, numerical values are rounded down to the nearest million yen.

<Reference Information 1> Highlights of the operating forecast and forecast of dividend

The following is a comparison and major causes of variance between the actual results and the operating forecast and forecast of dividend for the fiscal year ending December 31, 2020 (21st period) (forecast dated February 20, 2020) announced in “Financial Report for the Fiscal Year Ended December 31, 2019 (January 1, 2019 – December 31, 2019),” dated February 20, 2020.”

(Unit: millions of yen)

	FY12/2019 (20th Period)	FY12/2020 (21st Period)				Comparison with the Forecast dated February 20, 2020 (B)-(A)	%	Sale of Property (*3)	Existing Properties (*4)	Major Factors Causing the Variance
		Actual	Forecast dated February 20, 2020 (*1) (A)	Forecast This Time (B)	Forecast This Time (annualized effect) (*2)					
Properties	No. of Properties	43	43	42	42	(1)		(1)	-	
	Acquisition Price	374,508	374,508	369,708	369,708	(4,800)	(1.3%)	(4,800)	-	
Profit and Loss Statement	Operating Revenue	28,278	29,971	13,126	9,738	(16,844)	(56.2%)	2,990	(19,835)	
	Real Estate Operating Revenue	28,278	29,971	9,970	9,738	(20,001)	(66.7%)	(165)	(19,835)	
	Fixed Rent	Composition 56.3% 15,931	Composition 56.1% 16,828	Composition 79.5% 7,931	Composition 79.9% 7,782	(8,897)	(52.9%)	(149)	(8,748)	1) Decrease in fixed rent from the HMJ Group Hotels by JPY8,736MM 2) Decrease in fixed rent from other tenants by JPY11M
	Other Rent	4.1% 1,170	3.9% 1,158	9.9% 989	10.0% 974	(169)	(14.6%)	(16)	(152)	Decrease mainly in utilities cost
	Variable Rent	39.5% 11,176	40.0% 11,984	10.5% 1,049	10.1% 982	(10,935)	(91.2%)	-	(10,935)	1) Decrease in variable rent, etc. from the 24 Hotels with Variable Rent, etc. by JPY9,771M (of these, decrease in variable rent, etc. from the HMJ Group Hotels by JPY6,614M) 2) Decrease in variable rent, etc. from other hotels with variable rent, etc. by JPY1,163M
	Gain on Sale of Properties, etc.	-	-	3,156	-	3,156	-	3,156	-	
	NOI (*5)	24,087	25,273	5,614	5,330	(19,658)	(77.8%)	(133)	(19,524)	
	NOI Yield	6.4%	6.7%	1.5%	1.4%	(5.2%)				
	NOI after Depreciation (*5)	19,281	20,392	841	568	(19,550)	(95.9%)	(122)	(19,427)	
	NOI Yield after Depreciation	5.1%	5.4%	0.2%	0.2%	(5.2%)				
	Operating Income	17,148	18,128	2,085	(1,340)	(16,042)	(88.5%)			
Dividend	Ordinary Profit (Loss)	15,291	16,239	244	(3,181)	(15,994)	(98.5%)			
	Net Income (Loss)	15,290	16,238	243	(3,182)	(15,994)	(98.5%)			
	Reversed Amount of the Reserve for Temporary Difference Adjustment (Negative Goodwill)	1,176	496	319	337	(177)	(35.8%)			Reversed Amount of the Reserve for Temporary Difference Adjustment (*6) 2019: 50-year negative goodwill amortization: JPY262 MM, Loss on retirement of noncurrent assets: JPY246 MM, Correspondence to large-scale renovation work: JPY357 MM, Correspondence to dilution: JPY310 MM 2020: 50-year negative goodwill amortization: JPY262 MM, Loss on retirement of noncurrent assets: JPY19 MM, Amortization of trademark rights: JPY37 MM (annualized effect: JPY56 MM)
	Total Dividends	16,466	16,733	562	-	(16,171)	(96.6%)			
	Number of Units Issued (Unit)	4,462,347	4,462,347	4,462,347	4,462,347	-	-			
	Dividend per Unit (JPY)	3,690	3,750	126	-	(3,624)	(96.6%)			

- (*1) The forecast dated February 20, 2020 indicates figures announced in “Financial Report for the Fiscal Year Ended December 31, 2019 (January 1, 2019 - December 31, 2019)” dated February 20, 2020. The same shall apply hereinafter.
- (*2) For the assumptions of the annualized effect for the forecast this time, please refer to “<Reference Information 2> Assumptions of the annualized effect (full-year effect) for the forecast for the fiscal year ending December 2020 (21st period)” below.
- (*3) The amount of the impact of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi, which was sold on July 1, 2020, is stated.
- (*4) “Existing properties” refers to the 42 properties excluding Sotetsu Fresa Inn Shimbashi-Karasumoriguchi sold on July 1, 2020, of the 43 properties owned by JHR as of June 30, 2020. The same shall apply hereinafter.
- (*5) Each is calculated using the following formula. The same shall apply hereinafter.
 NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses
 NOI yield = NOI ÷ acquisition price
 NOI after depreciation = Real estate operating revenue – Real estate operating costs
 NOI yield after depreciation = NOI after depreciation ÷ acquisition price
- (*6) For the details of the reversed amount of the reserve for temporary difference adjustment, please refer to “Assumptions of the operating forecast for the full year of the fiscal year ending December 2020 (21st period)” mentioned above.

<Reference Information 2> Highlights of the operating forecast and forecast of dividend

- (1) It is assumed that the existing properties (42 properties) excluding Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (hereinafter the “Sold Property”) sold on July 1, 2020, will be held throughout the year and that there will be no gain on sale of real estate properties.
- (2) There is no change in operating revenue and operating expenses of the existing properties (42 properties) excluding the Sold Property from the above “<Reference Information 1> Assumptions of the operating forecast for the full fiscal year ending December 2020 (21st period),” except for fixed asset tax and city planning tax.
- (3) Fixed asset tax, city planning tax, etc. for Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba acquired in the fiscal year ended December 2019 (20th period) are assumed to be ¥337 million (for 12 months).
- (4) The trademark rights are amortized over 10 years using the straight-line method. Annualized amortization is assumed to be ¥56 million and is appropriated by reserve for temporary difference adjustment (negative goodwill).

<Reference Information 3> Hotel operation indexes, sales and GOP

The numeral figures are based on figures obtained from hotel lessees, etc. Please note that these figures have not been audited nor have they gone through other procedures. No guarantee is made as to the accuracy or completeness of the figures and information.

ADR and RevPAR are rounded off to the nearest yen. Sales and GOP are rounded off to the nearest million yen. Occupancy rate and comparison with the previous period are rounded off to one decimal place.

<1> The 24 Hotels with Variable Rent, etc.

		Fiscal year ended December 2019		Fiscal year ending December 2020			
		Actual	Comparison with the previous period	Forecast dated February 20, 2020	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the forecast dated February 20, 2020
Occupancy Rate	First half of the year	85.1%	(2.9pt)	87.0%	34.0%	(51.1pt)	(53.0pt)
	Second half of the year	86.9%	0.5pt	87.3%	34.2%	(52.6pt)	(53.1pt)
	Full year	86.0%	(1.2pt)	87.1%	34.1%	(51.9pt)	(53.1pt)
ADR (Note 1)	First half of the year	15,691	0.4%	15,690	13,362	(14.8%)	(14.8%)
	Second half of the year	17,263	(3.4%)	18,970	13,264	(23.2%)	(30.1%)
	Full year	16,492	(1.6%)	17,341	13,313	(19.3%)	(23.2%)
RevPAR (Note 2)	First half of the year	13,348	(3.0%)	13,649	4,536	(66.0%)	(66.8%)
	Second half of the year	14,993	(2.9%)	16,559	4,541	(69.7%)	(72.6%)
	Full year	14,178	(2.9%)	15,112	4,539	(68.0%)	(70.0%)
Sales (JPY 1M)	First half of the year	28,259	(2.0%)	29,036	10,718	(62.1%)	(63.1%)
	Second half of the year	31,453	(2.0%)	34,219	11,593	(63.1%)	(66.1%)
	Full year	59,712	(2.0%)	63,255	22,310	(62.6%)	(64.7%)
GOP (JPY 1M)	First half of the year	9,067	(5.6%)	9,167	(213)	(102.4%)	(102.3%)
	Second half of the year	11,804	(2.8%)	13,177	628	(94.7%)	(95.2%)
	Full year	20,871	(4.0%)	22,344	414	(98.0%)	(98.1%)

(Note 1) ADR: Represents average daily rate, which is calculated by dividing revenue of the rooms department for a given period (including service charges) by the total number of rooms sold during the period. As for service charge, Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), International Garden Hotel Narita, Hotel Nikko Nara, and Oriental Hotel Fukuoka Hakata Station request 10%, Hilton Tokyo Narita Airport requests 12%, and Hilton Tokyo Odaiba requests 13%. Moreover, the other 24 hotels with variable rent, etc. do not request a service charge. The same shall apply hereinafter.

(Note 2) RevPAR represents revenue per available room, which is calculated by dividing total room revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

<2> The HMJ Group Hotels

		Fiscal year ended December 2019		Fiscal year ending December 2020			
		Actual	Comparison with the previous period	Forecast dated February 20, 2020	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the forecast dated February 20, 2020
Occupancy Rate	First half of the year	85.3%	(3.0pt)	87.6%	33.1%	(52.2pt)	(54.5pt)
	Second half of the year	87.9%	1.4pt	86.9%	31.2%	(56.7pt)	(55.7pt)
	Full year	86.6%	(0.8pt)	87.3%	32.2%	(54.4pt)	(55.1pt)
ADR (Note 1)	First half of the year	17,587	(0.7%)	17,587	15,222	(13.4%)	(13.5%)
	Second half of the year	19,635	(4.5%)	21,950	16,623	(15.3%)	(24.3%)
	Full year	18,635	(2.7%)	19,772	15,906	(14.6%)	(19.6%)
RevPAR (Note 2)	First half of the year	15,005	(4.1%)	15,406	5,045	(66.4%)	(67.3%)
	Second half of the year	17,263	(3.0%)	19,083	5,193	(69.9%)	(72.8%)
	Full year	16,143	(3.5%)	17,255	5,120	(68.3%)	(70.3%)
Sales (JPY 1M)	First half of the year	24,050	(2.4%)	24,766	9,167	(61.9%)	(63.0%)
	Second half of the year	27,137	(2.0%)	29,483	10,191	(62.4%)	(65.4%)
	Full year	51,187	(2.2%)	54,248	19,358	(62.2%)	(64.3%)
GOP (JPY 1M)	First half of the year	7,230	(6.1%)	7,363	(370)	(105.1%)	(105.0%)
	Second half of the year	9,886	(2.0%)	11,014	575	(94.2%)	(94.8%)
	Full year	17,116	(3.8%)	18,376	204	(98.8%)	(98.9%)

(Note 1) Large-scale renovation work with the suspension of hotel operation was implemented at Oriental Hotel Fukuoka Hakata Station from October 1, 2018 to April 8, 2019. Actual for the fiscal year ended December 2019 includes the impact of the suspension due to the renovation work.

(Note 2) Large-scale renovation work was scheduled at Namba Oriental Hotel from November 2020 to March 2021 and at Hilton Tokyo Odaiba from September 2020 to December 2020. Therefore, the forecast dated February 20, 2020 for the fiscal year ending December 2020 includes the impact of the suspension of operations and sales due to the large-scale renovation works.

(Note 3) As Hotel Oriental Express Osaka Shinsaibashi opened on April 2, 2018, tallies for 2018 do not include figures before the opening.

(Note 4) Hilton Tokyo Odaiba was acquired on April 8, 2019. The actual and comparison with the previous period for the fiscal year ended December 2019 are calculated as the total for the full year including figures prior to the acquisition date.

2. Semi-annual financial statements

(1) Semi-annual balance sheets

(thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	22,449,911	13,887,918
Cash and deposits in trust	11,894,019	6,821,019
Operating accounts receivable	2,779,730	669,803
Prepaid expenses	550,281	492,182
Income taxes receivable	54	–
Consumption taxes receivable	–	169,943
Derivative assets	573	–
Other	88,045	117,151
Total current assets	37,762,616	22,158,018
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	579,731	585,944
Accumulated depreciation	(195,551)	(223,764)
Machinery and equipment, net	384,180	362,179
Tools, furniture and fixtures	4,211,971	4,239,516
Accumulated depreciation	(2,102,782)	(2,412,882)
Tools, furniture and fixtures, net	2,109,188	1,826,633
Construction in progress	–	4,948
Buildings in trust	*1 136,930,501	*1 137,583,645
Accumulated depreciation	(21,656,979)	(23,500,371)
Buildings in trust, net	115,273,521	114,083,273
Structures in trust	2,721,962	2,737,347
Accumulated depreciation	(438,160)	(474,826)
Structures in trust, net	2,283,802	2,262,521
Machinery and equipment in trust	675,362	676,881
Accumulated depreciation	(154,739)	(171,150)
Machinery and equipment in trust, net	520,622	505,730
Tools, furniture and fixtures in trust	136,526	136,526
Accumulated depreciation	(104,535)	(108,775)
Tools, furniture and fixtures in trust, net	31,990	27,751
Land in trust	219,901,119	219,901,119
Construction in progress in trust	18,384	72,292
Net property and equipment	340,522,811	339,046,451
Intangible assets		
Software	227,600	190,660
Trademark right	–	551,543
Leasehold rights in trust	28,532,362	28,532,362
Fixed-term leasehold rights in trust	5,036,941	4,967,803
Other	7,756	7,416
Total intangible assets	33,804,661	34,249,786
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,766,474	2,601,051
Derivative assets	43,870	9,884
Reserve for repairs and maintenance	307,513	320,968
Total investments and other assets	3,280,602	3,094,647
Total noncurrent assets	377,608,075	376,390,885
Deferred assets		
Investment unit issuance costs	140,631	84,166
Investment corporation bond issuance costs	211,194	194,385
Total deferred assets	351,826	278,552
Total assets	415,722,517	398,827,456

(thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Operating accounts payable	1,485,375	493,859
Short-term loans payable	–	5,792,000
Current portion of long-term loans payable	12,782,000	13,790,000
Accrued expenses	651,435	501,506
Income taxes payable	1,210	605
Consumption taxes payable	661,048	–
Advances received	909,293	562,351
Dividends payable	15,852	22,624
Deposits received	8,696	2,403,679
Derivative liabilities	17,229	30,849
Other current liabilities	95,331	33,189
Total current liabilities	16,627,473	23,630,664
Long-term liabilities		
Investment corporation bonds	41,600,000	41,600,000
Long-term loans payable	114,372,000	107,572,000
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,681,825	4,648,572
Derivative liabilities	416,600	456,596
Deferred tax liabilities	13,981	3,109
Asset retirement obligations	447,677	448,709
Total long-term liabilities	162,572,605	155,769,507
Total liabilities	179,200,079	179,400,172
Net assets		
Unitholders' equity		
Unitholders' capital	186,894,169	186,894,169
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 11,794,071	*2 10,617,580
Reserve for tax purpose reduction entry	–	1,174,860
Reserve for special account for tax purpose reduction entry	1,174,860	–
Total voluntary reserve	12,968,932	11,792,441
Unappropriated retained earnings (undisposed loss)	15,290,314	(550,718)
Total surplus	50,005,645	32,988,121
Total unitholders' equity	236,899,815	219,882,290
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(377,376)	(455,007)
Total valuation and translation adjustments	(377,376)	(455,007)
Total net assets	*3 236,522,438	*3 219,427,283
Total liabilities and net assets	415,722,517	398,827,456

(2) Semi-annual statements of income

(thousands of yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Operating revenue		
Real estate operating revenue	*1 12,143,382	*1 5,092,804
Other real estate operating revenue	*1 576,264	*1 443,894
Total operating revenue	12,719,646	5,536,698
Operating Expenses		
Real estate operating costs	*1 4,425,425	*1 4,316,312
Asset management fee	840,598	733,044
Asset custody and administrative service fee	58,704	60,366
Directors' compensation	6,900	8,700
Other operating expenses	94,934	92,707
Total operating expenses	5,426,561	5,211,131
Operating income	7,293,084	325,567
Non-operating income		
Interest income	192	155
Gain on forfeiture of unclaimed dividends	4,361	3,535
Gain on insurance claims	3,014	29,857
Gain on derivative instruments	2,100	1,536
Total non-operating income	9,668	35,084
Non-operating Expenses		
Interest expense	444,771	484,215
Interest expense on investment corporation bonds	126,567	157,677
Borrowing costs	253,560	188,141
Amortization of investment corporation bond issuance costs	13,634	16,809
Amortization of investment unit issuance costs	95,457	56,464
Loss on derivative instruments	9,309	1,207
Other	5,329	6,994
Total non-operating expenses	948,632	911,511
Ordinary profit (loss)	6,354,121	(550,858)
Profit (loss) before income taxes	6,354,121	(550,858)
Income taxes – current	605	605
Total income taxes	605	605
Profit (loss)	6,353,516	(551,463)
Retained earnings brought forward	–	744
Unappropriated retained earnings (undisposed loss)	6,353,516	(550,718)

(3) Semi-annual statements of changes in net assets

For the six months ended June 30, 2019

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						Total unitholders' equity
		Capital surplus	Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustment	Reserve for special account for tax purpose reduction entry	Total voluntary reserve			
Balance, January 1, 2019	153,516,129	21,746,398	12,357,644	—	12,357,644	16,213,482	50,317,525	203,833,655
Changes of items during the period:								
Issuance of new investment units	33,378,040							33,378,040
Reversal of reserve for temporary difference adjustment			(563,572)		(563,572)	563,572	—	—
Provision of reserve for special account for tax purpose reduction entry				1,174,860	1,174,860	(1,174,860)	—	—
Dividends paid						(15,602,194)	(15,602,194)	(15,602,194)
Profit (loss)						6,353,516	6,353,516	6,353,516
Net changes of items other than unitholders' equity								
Total changes of items during the period	33,378,040	—	(563,572)	1,174,860	611,287	(9,859,966)	(9,248,678)	24,129,361
Balance, June 30, 2019	*1 186,894,169	21,746,398	11,794,071	1,174,860	12,968,932	6,353,516	41,068,847	227,963,016

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2019	(461,435)	(461,435)	203,372,219
Changes of items during the period			
Issuance of new investment units			33,378,040
Reversal of reserve for temporary difference adjustment			—
Provision of reserve for special account for tax purpose reduction entry			—
Dividends paid			(15,602,194)
Profit (loss)			6,353,516
Net changes of items other than unitholders' equity	(480,381)	(480,381)	(480,381)
Total changes of items during the period	(480,381)	(480,381)	23,648,980
Balance, June 30, 2019	(941,817)	(941,817)	227,021,199

For the six months ended June 30, 2020

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						
		Capital surplus	Voluntary reserve				Unappropriated retained earnings (undisposed loss)	Total surplus
			Reserve for temporary difference adjustment	Reserve for tax purpose reduction entry	Reserve for special account for tax purpose reduction entry	Total voluntary reserve		
Balance, January 1, 2020	186,894,169	21,746,398	11,794,071	—	1,174,860	12,968,932	15,290,314	50,005,645
Changes of items during the period								
Reversal of reserve for temporary difference adjustment			(1,176,490)			(1,176,490)	1,176,490	—
Provision of reserve for tax purpose reduction entry				1,174,860		1,174,860	(1,174,860)	—
Reversal of reserve for special account for tax purpose reduction entry					(1,174,860)	(1,174,860)	1,174,860	—
Dividends paid							(16,466,060)	(16,466,060)
Profit (loss)							(551,463)	(551,463)
Net changes of items other than unitholders' equity								
Total changes of items during the period	—	—	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(15,841,033)	(17,017,524)
Balance, June 30, 2020	*1 186,894,169	21,746,398	10,617,580	1,174,860	—	11,792,441	(550,718)	32,988,121

(thousands of yen)

	Unitholders' equity	Valuation and translation adjustments		Total net assets
	Total unitholders' equity	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2020	236,899,815	(377,376)	(377,376)	236,522,438
Changes of items during the period				
Reversal of reserve for temporary difference adjustment	—			—
Provision of reserve for tax purpose reduction entry	—			—
Reversal of reserve for special account for tax purpose reduction entry	—			—
Dividends paid	(16,466,060)			(16,466,060)
Profit (loss)	(551,463)			(551,463)
Net changes of items other than unitholders' equity		(77,630)	(77,630)	(77,630)
Total changes of items during the period	(17,017,524)	(77,630)	(77,630)	(17,095,155)
Balance, June 30, 2020	219,882,290	(455,007)	(455,007)	219,427,283

(4) Semi-annual statements of cash flows

(thousands of yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	6,354,121	(550,858)
Depreciation and amortization	2,165,386	2,365,860
Loss on retirement of noncurrent assets	218,928	876
Loss (profit) on derivative instruments	7,208	(328)
Amortization of investment corporation bond issuance costs	13,634	16,809
Amortization of investment unit issuance costs	95,457	56,464
Interest income	(192)	(155)
Interest expense	571,339	641,893
(Increase) decrease in operating accounts receivable	679,039	2,109,926
(Increase) decrease in consumption taxes receivable	(679,677)	(169,943)
(Increase) decrease in prepaid expenses	24,904	58,098
(Increase) decrease in long-term prepaid expenses	(197,630)	165,423
Increase (decrease) in operating accounts payable	(276,727)	(74,782)
Increase (decrease) in accrued expenses	73,134	(146,707)
Increase (decrease) in consumption taxes payable	(496,921)	(661,048)
Increase (decrease) in advances received	13,075	(346,942)
Increase (decrease) in deposits received	19,967	2,394,983
Other	353,058	(128,021)
Subtotal	8,938,109	5,731,548
Interest received	298	192
Interest paid	(568,998)	(645,114)
Income taxes – refunded (paid)	(1,175)	(1,155)
Net cash provided by operating activities	8,368,233	5,085,470
Cash flows from investing activities		
Purchase of property and equipment	(856,198)	(425,310)
Purchase of property and equipment in trust	(69,160,596)	(1,219,101)
Purchase of intangible assets	(48,292)	(603,180)
Payments of reserve for repairs and maintenance	(20,214)	(20,288)
Reimbursements of tenant leasehold and security deposits	(496)	–
Proceeds from tenant leasehold and security deposits in trust	285,709	26,762
Reimbursements of tenant leasehold and security deposits in trust	(201,445)	(23,580)
Net cash used in investing activities	(70,001,534)	(2,264,698)
Cash flows from financing activities		
Proceeds from short-term loans payable	8,000,000	5,792,000
Repayments of short-term loans payable	(7,100,000)	–
Proceeds from long-term loans payable	29,800,000	–
Repayments of long-term loans payable	(5,000,000)	(5,792,000)
Proceeds from investment corporation bonds	8,000,000	–
Redemption of investment corporation bonds	(2,000,000)	–
Payments for investment corporation bond issuance costs	(55,408)	–
Proceeds from issuance of investment units	33,209,706	–
Dividends paid	(15,593,948)	(16,455,764)
Net cash provided by financing activities	49,260,349	(16,455,764)
Net increase (decrease) in cash and cash equivalents	(12,372,950)	(13,634,992)
Cash and cash equivalents at beginning of period	37,184,716	34,343,930
Cash and cash equivalents at end of period	*1 24,811,765	*1 20,708,937

(5) Notes on going concern assumption

Not applicable.

(6) Notes on matters concerning significant accounting policies

1. Method of depreciation and amortization of noncurrent assets	<p>(1) Property and equipment (including trust accounts)</p> <p>Depreciation of property and equipment is calculated using the straight-line method. The useful lives of major property and equipment components are as follows:</p> <table><tr><td>Machinery and equipment</td><td>2 to 17 years</td></tr><tr><td>Tools, furniture and fixtures</td><td>2 to 20 years</td></tr><tr><td>Buildings in trust</td><td>2 to 64 years</td></tr><tr><td>Structures in trust</td><td>2 to 64 years</td></tr><tr><td>Machinery and equipment in trust</td><td>3 to 32 years</td></tr><tr><td>Tools, furniture and fixtures in trust</td><td>2 to 27 years</td></tr></table> <p>(2) Intangible assets</p> <p>Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.</p> <table><tr><td>Software (for internal use)</td><td>5 years as internally usable years</td></tr><tr><td>Trademark right</td><td>10 years</td></tr></table> <p>Fixed-term leasehold rights in trust is amortized using the straight-line method based on remaining period (41 years and 49 years) of the contract.</p> <p>(3) Long-term prepaid expenses</p> <p>Long-term prepaid expenses are amortized using the straight-line method.</p>	Machinery and equipment	2 to 17 years	Tools, furniture and fixtures	2 to 20 years	Buildings in trust	2 to 64 years	Structures in trust	2 to 64 years	Machinery and equipment in trust	3 to 32 years	Tools, furniture and fixtures in trust	2 to 27 years	Software (for internal use)	5 years as internally usable years	Trademark right	10 years
Machinery and equipment	2 to 17 years																
Tools, furniture and fixtures	2 to 20 years																
Buildings in trust	2 to 64 years																
Structures in trust	2 to 64 years																
Machinery and equipment in trust	3 to 32 years																
Tools, furniture and fixtures in trust	2 to 27 years																
Software (for internal use)	5 years as internally usable years																
Trademark right	10 years																
2. Accounting for deferred assets	<p>(1) Investment unit issuance costs</p> <p>Investment unit issuance costs are amortized using the straight-line method over three years.</p> <p>(2) Investment corporation bond issuance costs</p> <p>Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.</p>																
3. Standards for recognition of revenues and expenses	<p>Treatment of property taxes and other taxes</p> <p>For taxes imposed on properties, etc. under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the midterm period and expensed as “Real estate operating costs.”</p> <p>Cash paid for property taxes and city planning taxes, etc. to the transferor of real properties, etc. at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property.</p> <p>The amount of such taxes capitalized in the acquisition cost of real properties was ¥241,920 thousand for the previous midterm period and none for the midterm period under review.</p>																
4. Method of hedge accounting	<p>(1) Method of hedge accounting</p> <p>Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items</p> <table><tr><td>Hedging instruments</td><td>Interest rate swaps</td></tr><tr><td>Hedged items</td><td>Interest rates on loans payable</td></tr></table> <p>(3) Hedging policy</p> <p>JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Articles of Incorporation.</p> <p>(4) Method for assessing hedge effectiveness</p> <p>JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.</p>	Hedging instruments	Interest rate swaps	Hedged items	Interest rates on loans payable												
Hedging instruments	Interest rate swaps																
Hedged items	Interest rates on loans payable																

5. Scope of funds (cash and cash equivalents) in the semi-annual statements of cash flows	Cash and cash equivalents in the semi-annual statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.
6. Other significant matters serving as the basis for preparing semi-annual financial statements	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets</p> <p>For trust beneficial interests in real estate, etc., all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the accompanying semi-annual balance sheet and income statement accounts accordingly.</p> <p>The following material items of the trust accounts recorded in the relevant accounts are presented separately on the semi-annual balance sheets.</p> <p>(a) Cash and deposits in trust</p> <p>(b) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust</p> <p>(c) Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust</p> <p>(d) Tenant leasehold and security deposits in trust</p> <p>(2) Accounting treatment of consumption taxes</p> <p>Consumption taxes are excluded from the transaction amounts.</p>

(7) Notes to semi-annual financial statements

Disclosure of notes on “securities” and “share of (profit) loss of entities accounted for using equity method” is omitted because there is thought to be no significant need for disclosure in the midterm financial report.

[Notes to semi-annual balance sheets]

*1. Accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received, etc.

	(thousands of yen)	
	As of December 31, 2019	As of June 30, 2020
Buildings in trust	¥24,921	¥24,921

*2. Matters concerning provision and reversal of reserve for temporary difference adjustment
As of December 31, 2019

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	12,357,644	-	563,572	11,794,071	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill, which was recorded as a dividend reserve before the fiscal year ended December 2016, and is scheduled for reversal every fiscal year starting from the fiscal year following the fiscal year in which the reserve was made in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

As of June 30, 2020

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	11,794,071	-	1,176,490	10,617,580	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill, which was recorded as a dividend reserve before the fiscal year ended December 2016, and is scheduled for reversal every fiscal year starting from the fiscal year following the fiscal year in which the reserve was made in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

*3. Minimum net assets as required by Article 67, Paragraph 4 of the Investment Trusts Act

	As of December 31, 2019	As of June 30, 2020
	¥50,000 thousand	¥50,000 thousand

[Notes to semi-annual statements of income]

*1. Components of real estate operating revenue and real estate operating costs

(thousands of yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
A. Real estate operating revenue		
Real estate operating revenue		
Fixed rent	7,537,244	4,446,315
Variable rent	3,436,291	564,409
Income from management contracts	1,169,847	82,079
Total	12,143,382	5,092,804
Other real estate operating revenue		
Parking lots	80,036	52,647
Other incidental revenue	33,454	32,119
Utilities	396,928	276,959
Other	65,844	82,167
Total	576,264	443,894
Total real estate operating revenue	12,719,646	5,536,698
B. Real estate operating costs		
Real estate operating costs		
Land lease and other rent expenses	450,856	447,307
Property taxes	827,699	919,540
Outsourcing expenses (Note)	285,627	230,352
Nonlife insurance	24,589	27,357
Depreciation and amortization	2,165,386	2,365,860
Loss on retirement of noncurrent assets	218,928	876
Repairs	13,838	9,456
Utilities	406,847	289,373
Trust fees	21,863	21,066
Other	9,787	5,120
Total real estate operating costs	4,425,425	4,316,312
C. Net real estate operating income	8,294,221	1,220,385
(A - B)		

(Note) Outsourcing expenses include management contract fees of ¥107,495 thousand for the six months ended June 30, 2019, and ¥51,281 thousand for the six months ended June 30, 2020.

[Notes to semi-annual statements of changes in net assets]

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
*1. Total number of investment units authorized, and issued and outstanding		
Total number of investment units authorized	20,000,000 units	20,000,000 units
Total number of investment units issued and outstanding	4,462,347 units	4,462,347 units

[Notes to semi-annual statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of period and the amount in semi-annual balance sheet accounts

(thousands of yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Cash and deposits	¥13,751,181	¥13,887,918
Cash and deposits in trust	¥11,060,584	¥6,821,019
Cash and cash equivalents	¥24,811,765	¥20,708,937

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

(thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Due within one year	¥1,459,034	¥1,375,327
Due after one year	¥2,106,234	¥1,546,034
Total	¥3,565,268	¥2,921,362

[Notes on financial instruments]

Matters concerning fair value of financial instruments

Carrying amounts of financial instruments on the (semi-annual) balance sheets, their fair values, and the differences were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table.

See Note 2 below.

As of December 31, 2019

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	22,449,911	22,449,911	-
(2) Cash and deposits in trust	11,894,019	11,894,019	-
(3) Operating accounts receivable	2,779,730	2,779,730	-
Total assets	37,123,661	37,123,661	-
(4) Short-term loans payable	-	-	-
(5) Current portion of long-term loans payable	12,782,000	12,782,000	-
(6) Investment corporation bonds	41,600,000	41,480,400	(119,600)
(7) Long-term loans payable	114,372,000	114,372,000	-
Total liabilities	168,754,000	168,634,400	(119,600)
(8) Derivative transactions (*)	(389,386)	(389,386)	-

As of June 30, 2020

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	13,887,918	13,887,918	-
(2) Cash and deposits in trust	6,821,019	6,821,019	-
(3) Operating accounts receivable	669,803	669,803	-
Total assets	21,378,741	21,378,741	-
(4) Short-term loans payable	5,792,000	5,792,000	-
(5) Current portion of long-term loans payable	13,790,000	13,790,000	-
(6) Investment corporation bonds	41,600,000	35,677,040	(5,922,960)
(7) Long-term loans payable	107,572,000	107,572,000	-
Total liabilities	168,754,000	162,831,040	(5,922,960)
(8) Derivative transactions (*)	(477,561)	(477,561)	-

(*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

(Note 1) Methods to measure fair value of financial instruments, and derivative transactions

- (1) Cash and deposits; (2) Cash and deposits in trust; (3) Operating accounts receivable; (4) Short-term loans payable
The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.
- (5) Current portion of long-term loans payable; (7) Long-term loans payable
The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are revised periodically to reflect market interest rates.
- (6) Investment corporation bonds
The fair value of these instruments is measured based on the market price.
- (8) Derivative transactions
The information on the fair value of derivative transactions is presented in “Notes on derivative transactions” below.

(Note 2) Carrying amount of financial instruments whose fair values are considered extremely difficult to measure

(thousands of yen)

Classification	As of December 31, 2019	As of June 30, 2020
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,681,825	4,648,572
Total	5,722,345	5,689,092

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) are not subject to fair value disclosure because they have no market price and their actual deposit periods from a tenant’s move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows is difficult.

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

As of December 31, 2019

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(25,992)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of June 30, 2020

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(25,663)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

2. Derivative transactions to which hedge accounting is applied

As of December 31, 2019

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	112,654,000	101,072,000	(363,394)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of June 30, 2020

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for the midterm for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	107,954,000	94,272,000	(451,897)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the (semi-annual) balance sheets

1. Outline of the subject asset retirement obligations

JHR recognizes asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former name: Hotel Centraza Hakata), acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with the fixed-term leasehold contract.

Calculation method of the subject asset retirement obligations

Calculated the amount of asset retirement obligations estimating that the expected useful life is 34 years and 48 years, respectively, due to their remaining use period and using the discount rate of 0.484% and 0.394%, respectively.

2. Increase and decrease of the subject asset retirement obligations

(thousands of yen)

	For the year ended December 31, 2019	For the six months ended June 30, 2020
Balance at beginning of period	445,622	447,677
Increase due to acquisition of property and equipment	-	-
Adjustment due to passage of time	2,054	1,032
Balance at end of period	447,677	448,709

[Notes on rental properties, etc.]

JHR owns rental properties for hotels to earn lease income and income from management contracts. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2019	For the six months ended June 30, 2020
Hotel	Carrying amount		
	Balance at beginning of period	306,789,379	374,314,498
	Net increase (decrease) during period	67,525,119	(1,031,806)
	Balance at end of period	374,314,498	373,282,691
	Fair value at end of period	525,910,000	502,690,000

(Note 1) Increase during the year ended December 31, 2019, principally represents the acquisition of Hotel Oriental Express Osaka Shinsaibashi for ¥2,841 million and Hilton Tokyo Odaiba for ¥63,468 million. Decrease during the six months ended June 30, 2020, principally represents the depreciation.

(Note 2) Fair value at end of mid-term (end of fiscal period) is the appraisal value determined by licensed real estate appraisers from outside. Fair value of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi at June 30, 2020 indicates the sale price of the property which sold on July 1, 2020.

[Notes on segment and related information]

1. Segment information

The segment information has been omitted because JHR has only one segment, which is the investment and management of hotel real estate.

2. Related information

For the six months ended June 30, 2019

(1) Information about products and services

Information about products and services has been omitted because operating revenue from external customers in a single product/service category accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment on the semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note)	6,253,233	Investment and management of hotel real estate
AAPC Japan K.K.	1,438,063	Investment and management of hotel real estate

(Note) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

For the six months ended June 30, 2020

(1) Information about products and services

Information about products and services has been omitted because operating revenue from external customers in a single product/service category accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the semi-annual statements of income.

(ii) Property and equipment, at cost

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment on the semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note 1)	1,042,301	Investment and management of hotel real estate
THE DAIICHI BUILDING CO., LTD.	Undisclosed (Note 2)	Investment and management of hotel real estate

(Note 1) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

(Note 2) Undisclosed as the consent of the lessee has not been obtained.

[Notes on per unit information]

Net assets per unit is as follows

	As of December 31, 2019	As of June 30, 2020
Net assets per unit	¥53,004	¥49,173

Net income (loss) per unit and the basis of computation of net income per unit are as follows:

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Net income (loss) per unit	¥1,441	(¥123)
[Basis of computation]		
Net income (loss) for midterm (JPY 1,000)	6,353,516	(551,463)
Amount not attributable to common unitholders (JPY 1,000)	—	—
Net income (loss) for midterm attributable to common investment units (JPY 1,000)	6,353,516	(551,463)
Average number of investment units during period (units)	4,406,896	4,462,347

(Note) Net income (loss) per unit for midterm is computed by dividing net income (loss) for midterm by the average number of investment units during the midterm period.

Net income (loss) per unit for midterm after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

[Notes on significant subsequent events]

1. Sale of Asset

JHR sold Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on July 1, 2020.

Name of sold asset	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi
Type of sold asset	Real estate beneficial interest in trust
Classification by use	Hotel
Location	Minato-ku, Tokyo
Sale price (Note 1)	¥8,000 million
Book value (Note 2)	¥4,791 million
Gain on sale (forecast) (Note 3)	¥3,156 million
Closing date	July 1, 2020
Buyer	Undisclosed (Note 4)

(Note 1) Sale price excludes settlement amount of fixed asset tax and city planning tax, etc., as well as selling expenses, consumption tax and local consumption tax.

(Note 2) Book value (forecast) is as of July 1, 2020.

(Note 3) The amount obtained by deducting the book value (forecast) and selling expenses (forecast) as of July 1, 2020 from the sale price is indicated.

(Note 4) Undisclosed as the consent of the buyer has not been obtained.

2. Conclusion of a Memorandum of Understanding and contracts to change the fixed-term lease contracts

Due to the rapid deterioration of the hotel market caused by the worldwide spread of infections by COVID-19, it is difficult for the lessee (HMJ Group) to pay the full amount of the fixed rent for the current fiscal year, as the rent burden ratio is high and it is difficult to have internal reserve under the contracts. Therefore, in the board of directors meeting held on August 25, 2020, JHR has resolved to conclude a “Memorandum of Understanding on the fixed-term lease contracts” to revise the rent structure in the fiscal year 2020 and “Revised Fixed-term Lease Contracts” (Note 1) to revise the rent structure from the fiscal year 2021 onwards between JHR and the HMJ Group, regarding the fixed-term lease contracts with the HMJ Group as lessee in relation with total 14 properties, and concluded on the same date. The “Memorandum of Understanding on the fixed-term lease contracts” to revise the rent structure in the fiscal year 2020 will be applied retroactively from January 1, 2020.

Since most of the hotels operated by the HMJ Group are large-scale full-service hotels and require a high level of operating know-how, it is difficult for JHR to secure an alternative operator which JHR needs. Therefore, JHR has determined that it will contribute to medium-to-long term interests of JHR by focusing on rebuilding its sustainable relations with the HMJ Group.

The content of the revision is as follows.

(1) Fixed rent

No	Name	Lessee	Fixed rent			
			Before	After		
			FY2020 onwards	FY2020	FY2021	From FY2022 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	JPY3,221MM/year	January only JPY268MM	Not applicable	JPY3,221MM/year
2	Oriental Hotel tokyo bay					
3	Namba Oriental Hotel					
4	Hotel Nikko Alivila					
5	Oriental Hotel Hiroshima					
6	Okinawa Marriott Resort & Spa	Lagoon resort Nago Co., Ltd.	JPY550MM/year	January only JPY45MM		JPY550MM/year
7	Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA) (Note 4)	K.K. A.I.C Hiroshima Management	JPY348MM/year	January only JPY29MM		JPY348MM/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	JPY425MM/year	January only JPY35MM		JPY425MM/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	JPY576MM/year	January only JPY48MM		JPY576MM/year
10	Hilton Tokyo Narita Airport	KK NaritaKosuge Operations	JPY444MM/year	January only JPY37MM		JPY444MM/year
11	International Garden Hotel Narita	KK NaritaYoshikura Operations	JPY336MM/year	January only JPY28MM		JPY336MM/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	JPY420MM/year	January only JPY35MM		JPY420MM/year
13	Hotel Oriental Express Osaka Shinsaibashi	K.K. HOTEL ORIENTAL EXPRESS	JPY110MM/year	January only JPY9MM		JPY110MM/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise Inc.	JPY3,100MM/year On and after January 1, 2022: JPY1,600MM/year	January only JPY258MM		JPY1,600MM/year

(2) Variable rent

No	Name	Method of calculation of variable rent			
		Before	After		
		FY2020 onwards	FY2020	FY2021	From FY2022 onwards
1	Kobe Meriken Park Oriental Hotel	(The total GOP of The Five HMJ Hotels (Note 5) — base amount (JPY3,351MM/year) (Note 6)) x 85.0%	The total GOP of The Five HMJ Hotels x 89.78% — fixed rent for January	AGOP x 86.0%	(The total AGOP of The Five HMJ Hotels — base amount (JPY4,120MM/year) (Note 7)) x 85.0%
2	Oriental Hotel tokyo bay			AGOP x 79.0%	
3	Namba Oriental Hotel			AGOP x 91.0%	
4	Hotel Nikko Alivila			AGOP x 74.0%	
5	Oriental Hotel Hiroshima			AGOP x 89.0%	
6	Okinawa Marriott Resort & Spa	(GOP — base amount (JPY700MM/year)) x 90.0%	GOP x 82.92% — fixed rent for January	AGOP x 89.0%	(AGOP — base amount (JPY655MM/year)) x 95.0%
7	Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA) (Note 4)	(GOP — base amount (JPY468MM/year)) x 82.5%	GOP x 79.03% — fixed rent for January	AGOP x 93.0%	(AGOP — base amount (JPY360MM/year)) x 90.0%
8	Oriental Hotel Fukuoka Hakata Station	(GOP — base amount (JPY442MM/year)) x 98.0%	GOP x 96.98% — fixed rent for January	AGOP x 97.0%	(AGOP — base amount (JPY442MM/year)) x 98.0%
9	Holiday Inn Osaka Namba	(GOP — base amount (JPY650MM/year)) x 92.5%	GOP x 90.15% — fixed rent for January	AGOP x 98.0%	(AGOP — base amount (JPY580MM/year)) x 97.0%
10	Hilton Tokyo Narita Airport	(GOP — base amount (JPY550MM/year)) x 86.5%	GOP x 83.59% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY450MM/year)) x 93.0%
11	International Garden Hotel Narita	(GOP — base amount (JPY360MM/year)) x 98.0%	GOP x 95.35% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY360MM/year)) x 98.0%
12	Hotel Nikko Nara	(GOP — base amount (JPY470MM/year)) x 91.5%	GOP x 90.05% — fixed rent for January	AGOP x 95.0%	(AGOP — base amount (JPY440MM/year)) x 95.0%
13	Hotel Oriental Express Osaka Shinsaibashi	(GOP — base amount (JPY128MM/year)) x 91.0%	GOP x 87.11% — fixed rent for January	AGOP x 87.0%	(AGOP — base amount (JPY128MM/year)) x 91.0%
14	Hilton Tokyo Odaiba	FY2020 to FY2021: (AGOP — base amount (JPY2,970MM/year)) x 30.0% On and after FY2022: (AGOP — base amount (JPY1,660MM/year)) x 98.0%	GOP x 92.10% — fixed rent for January	AGOP x 97.0%	(AGOP — base amount (JPY1,660MM/year)) x 98.0%

(*1) The existing fixed-term lease contracts for Okinawa Marriott Resort & Spa and Hotel Nikko Nara will expire on December 31, 2020. Therefore, the rent structure for FY2021 and beyond is stipulated in the new fixed-term lease contracts with the term of the lease from January 1, 2021 to December 31, 2030.

(*2) GOP (gross operating profit) is the remainder after expenses, such as personnel costs and general and administrative expenses, etc. incurred in hotel operation, are deducted from total sales.

(*3) AGOP is the amount calculated by subtracting certain fees and other items from hotel GOP.

(*4) Stating the rent for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(*5) The Five HMJ Hotels refers to Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, and Oriental Hotel Hiroshima, which JHR leases to HMJ.

(*6) The breakdown of the GOP base amount of The Five HMJ Hotels (¥3,351 million/year) are as follows: Kobe Meriken Park Oriental Hotel ¥599,900 thousands, Oriental Hotel tokyo bay ¥693,200 thousands, Namba Oriental Hotel ¥832,200 thousands, Hotel Nikko Alivila ¥995,700 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(*7) The breakdown of the AGOP base amount of The Five HMJ Hotels (¥4,120 million/year) are as follows: Kobe Meriken Park Oriental Hotel ¥690,000 thousands, Oriental Hotel tokyo bay ¥1,060,000 thousands, Namba Oriental Hotel ¥890,000 thousands, Hotel Nikko Alivila ¥1,250,000 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(3) Impact amount on profit or loss of the conclusion of the contracts

As a result of the conclusion of the contracts, the fixed rent to be recorded in operating revenue is expected to decrease by ¥8,736 million in the fiscal year ending December 2020. However, as the variable rent recorded in operating revenue is determined by the full year GOP (12-month period) of the fiscal year ending December 2020, the amount of impact cannot be estimated as of today.

[Additional Information]

Impact of COVID-19

Although the state of emergency by the government was lifted in May 2020, the worldwide spread of infections by COVID-19 and the deterioration in social and economic conditions has not been settled, and the recovery of hotel's performance is expected to take some time.

Under such circumstances, some of the lessees whose business performance has deteriorated have requested to reduce or wave fixed rent, and there is a risk that JHR's operating revenue may decrease.

The timing of the convergence of COVID-19 is uncertain and difficult to estimate. Based on available information as of the date of production of the mid-term financial report, we made estimate on accounting to apply accounting for impaired asset based on assumptions that impact by COVID-19 will continue through the fiscal year ending December 31, 2020 and recover after certain period of time.

It is uncertain and difficult to predict the exact timing of the convergence of COVID-19 and extent of its impact. If the recovery is delayed, it is possible that the status of asset, profit and loss, cash flow of JHR may be affected.

(8) Changes in total number of investment units issued and outstanding

The following is the status of increase (decrease) in the total number of investment units issued and outstanding and unitholders' capital for past five years through to the end of the midterm period under review.

Date	Capital transaction	Total number of investment units issued and outstanding (Units)		Unitholders' capital (JPY1M)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
July 23, 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 1)
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 2)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 3)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 4)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 5)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 6)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 7)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 8)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 9)

- (Note 1) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to procure funds for allocation to part of future acquisitions of specified assets, part of other repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 2) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to procure funds for the acquisition of new properties, etc.
- (Note 3) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to procure funds for the acquisition of new properties, etc.
- (Note 4) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to procure funds for the acquisition of new properties, etc.
- (Note 5) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 6) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to procure funds for the acquisition of new properties, etc.
- (Note 7) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 8) New investment units were issued through public offering with an issue price per unit of ¥76,342 (issue value of ¥73,927) in order to procure funds for the acquisition of new properties, etc.
- (Note 9) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to procure part of funds for the acquisition of new properties, etc.

3. Reference information

For the detail information of the each properties and operating result of hotels, please see reference information below as well as Financial Results Briefing dated today and the website of JHR (<https://www.jhrth.co.jp/en/ir/library.html>).

(1) Information on values of assets under management, etc.

A. Investment status

The following outlines the investment status of JHR as of the end of the midterm period under review.

The following outlines the investment status of SHR as of the end of the interim period under review.								
Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2019		As of June 30, 2020		
				Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,985	6.5	26,928	6.8	
			Namba Oriental Hotel	14,539	3.5	14,482	3.6	
			Hotel Oriental Express Osaka Shinsaibashi	2,817	0.7	2,811	0.7	
		Tokyo	ibis Tokyo Shinjuku	7,908	1.9	7,868	2.0	
			CANDEO HOTELS UENO-KOEN	6,644	1.6	6,624	1.7	
			the b ikebukuro	6,584	1.6	6,583	1.7	
			Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	4,801	1.2	4,791	1.2	
			Comfort Hotel Tokyo Higashi Nihombashi	3,527	0.8	3,509	0.9	
			the b hachioji	2,680	0.6	2,666	0.7	
			Smile Hotel Nihombashi Mitsukoshimae	2,022	0.5	2,012	0.5	
			R&B Hotel Ueno Hirokoji	1,822	0.4	1,814	0.5	
			Hotel Vista Kamata Tokyo	1,452	0.3	1,439	0.4	
			the b suidobashi	1,194	0.3	1,183	0.3	
			dormy inn·global cabin Asakusa	941	0.2	939	0.2	
			Chisun Inn Kamata	769	0.2	764	0.2	
		Hokkaido	ibis Styles Sapporo	6,561	1.6	6,525	1.6	
			Mercure Sapporo	5,792	1.4	5,760	1.4	
		Fukuoka	HOTEL ASCENT FUKUOKA	5,161	1.2	5,234	1.3	
			the b hakata	2,340	0.6	2,333	0.6	
			Hakata Nakasu Washington Hotel Plaza	2,022	0.5	2,030	0.5	
			Toyoko Inn Hakata-guchi Ekimae	1,419	0.3	1,410	0.4	
		Kyoto	ibis Styles Kyoto Station	6,650	1.6	6,636	1.7	
		Okinawa	Mercure Okinawa Naha	2,833	0.7	2,825	0.7	
		Kumamoto	Dormy Inn Kumamoto	2,139	0.5	2,184	0.5	
		Nara	Nara Washington Hotel Plaza	1,798	0.4	1,781	0.4	
		Subtotal			121,410	29.2	121,145	30.4
		Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,429	15.3	63,403	15.9
				Oriental Hotel tokyo bay	17,486	4.2	17,333	4.3
			Chiba	Hilton Tokyo Narita Airport	13,205	3.2	13,130	3.3
				International Garden Hotel Narita	9,162	2.2	9,134	2.3
				Hotel Francs	3,178	0.8	3,156	0.8
			Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 5)	17,327	4.2	17,270	4.3
	Oriental Hotel Hiroshima			4,099	1.0	4,073	1.0	
	Aichi		Hilton Nagoya	15,650	3.8	15,691	3.9	
	Nara		Hotel Nikko Nara	10,355	2.5	10,300	2.6	
	Hyogo		Kobe Meriken Park Oriental Hotel	9,678	2.3	9,571	2.4	
	Fukuoka		Oriental Hotel Fukuoka Hakata Station	9,560	2.3	9,411	2.4	
	Kanagawa		Mercure Yokosuka	1,621	0.4	1,608	0.4	
	Subtotal			174,756	42.0	174,085	43.6	
	Resort hotel	Okinawa	Hotel Nikko Alivila	17,904	4.3	17,881	4.5	
			Okinawa Marriott Resort & Spa	14,924	3.6	14,808	3.7	
			The Beach Tower Okinawa	6,581	1.6	6,519	1.6	
		Chiba	Hilton Tokyo Bay	26,408	6.4	26,319	6.6	
		Osaka	Hotel Keihan Universal City	5,905	1.4	5,868	1.5	
		Kanagawa	Hakone Setsugetsuka	3,689	0.9	3,652	0.9	
		Subtotal			75,413	18.1	75,049	18.8
Real estate in trust – Total			371,580	89.4	370,280	92.8		
Deposits and other assets (Note 6)			44,142	10.6	28,546	7.2		
Total assets			415,722	100.0	398,827	100.0		
				Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)	
Total liabilities				179,200	43.1	179,400	45.0	
Total net assets				236,522	56.9	219,427	55.0	

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of total amount of each asset held to total assets, rounded off to one decimal place.
- (Note 4) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.
- (Note 5) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 6) Includes machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold of land in trust).

B. Assets under management

(A) Major issues of investment securities

Not applicable.

(B) Real estate properties under management

Not applicable.

(C) Other major assets under management

A. Summary of real estate properties (in trust) under management

The following summarizes the real estate properties (in trust) under management by JHR as of the end of the midterm period under review.

a. Details of assets under management (acquisition price, etc.)

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
1	Kobe Meriken Park Oriental Hotel	Upper-middle	10,900	9,762	14,600	N	2.9	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	17,530	32,100	N	5.3	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,571	31,400	N	4.0	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	18,132	28,900	N	5.0	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,139	4,370	N	1.1	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	7,958	9,900	N	1.9	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,524	10,100	N	2.0	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,659	5,310	N	1.1	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,184	2,990	J	0.6	Unsecured
12	the b suidobashi	Mid-price	1,120	1,199	2,420	N	0.3	Unsecured
13	dormy inn·global cabin Asakusa	Economy	999	939	1,280	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,030	4,510	N	0.6	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,782	2,430	N	0.5	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,814	1,910	J	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,509	5,390	J	1.0	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,012	2,930	J	0.6	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,410	2,750	T	0.4	Unsecured
25	Hotel Vista Kamata Tokyo	Economy	1,512	1,440	1,930	T	0.4	Unsecured
26	Chisun Inn Kamata	Economy	823	767	1,370	T	0.2	Unsecured
29	Hotel Keihan Universal City	Mid-price	6,000	5,869	13,400	R	1.6	Unsecured
30	Sotetsu Fresa Inn Shimbashi-Karsumoriguchi (Note 8)	Mid-price	4,800	4,792	8,000	-	1.3	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,332	40,000	D	7.0	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,657	10,200	D	1.8	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,561	11,100	N	1.8	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,824	10,600	N	1.6	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,872	6,950	N	0.8	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,603	7,280	N	1.7	Unsecured
39	the b hachioji	Mid-price	2,610	2,682	2,770	N	0.7	Unsecured
40	the b hakata	Mid-price	2,300	2,350	4,550	N	0.6	Unsecured
41	Hotel Francs	Mid-price	3,105	3,156	4,120	D	0.8	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,640	3,450	D	0.4	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	14,962	17,500	N	4.0	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,360	21,200	D	4.6	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,632	7,610	D	1.8	Unsecured
46	Oriental Hotel Fukuoka Hakata Station	Upper-middle	7,197	9,661	15,200	D	1.9	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	27,032	26,500	N	7.2	Unsecured
48	HOTEL ASCENT FUKUOKA	Economy	4,925	5,234	6,530	D	1.3	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,692	15,000	D	4.1	Unsecured
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,392	13,500	N	3.5	Unsecured
51	International Garden Hotel Narita	Mid-price	9,125	9,210	9,500	N	2.4	Unsecured

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
52	Hotel Nikko Nara	Upper-middle	10,373	10,379	9,840	D	2.8	Unsecured
53	Hotel Oriental Express Osaka Shinsaibashi	Mid-price	2,738	2,823	2,900	D	0.7	Unsecured
54	Hilton Tokyo Odaiba	Upper-middle	62,400	63,634	68,400	N	16.7	Unsecured
	Total		374,508	372,731	502,690		100.0	

- (Note 1) JHR categorizes hotels into the four grade classes of “Luxury,” “Upper-middle,” “Mid-price” and “Economy” mainly from the perspective of average daily rate, etc.
- (Note 2) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust, etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted through the Merger.
- (Note 3) “Carrying amount at end of period” is the book value at the end of the midterm period under review, and includes not only the amounts for real estate in trust, but also for machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust and intangible assets.
- (Note 4) “Appraisal value at end of period” is the appraisal value at the end of the midterm period under review as the date of appraisal, in accordance with the asset valuation methods and standards provided in JHR’s Articles of Incorporation and the regulations set forth by The Investment Trusts Association, Japan.
- (Note 5) Under “Appraisal agency,” the letters indicate the appraisers for the properties as follows:
N: Nihon Fudosan Kenkyusho (Japan Real Estate Institute)
J: JLL Morii Valuation & Advisory K.K.
T: The Tanizawa Sōgō Appraisal Co., Ltd.
R: Rich Appraisal Institute Co., Ltd.
D: DAIWA REAL ESTATE APPRAISAL CO., LTD.
- (Note 6) “Investment ratio” is the ratio of acquisition price of the respective asset held at the end of the midterm period under review to the total amount of acquisition price of all assets held at the end of the midterm period under review, rounded off to one decimal place.
- (Note 7) “Collateral” is whether or not a pledge has been established for the beneficial interest in trust.
- (Note 8) Sotetsu Fresa Inn Shimbashi-Karsumoriguchi was sold on July 1, 2020. Appraisal value at end of period indicates the sale price.
- (Note 9) The omitted property numbers are the property numbers of assets that have been sold.

b. Details of assets under management (change in tenants of portfolio)

The following is the change in total number of tenants, total leasable area, total leased area, and occupancy rate, etc. of real estate properties (in trust) under management for the past five years.

	End of 16th period December 2015	End of 17th period December 2016	End of 18th period December 2017	End of 19th period December 2018	End of 20th period December 2019	End of midterm period of 21st period June 2020
Total number of tenants (Note 1)	113	128	131	126	125	123
Total leasable area (Note 2)	493,758.78 m ²	587,481.02 m ²	687,124.54 m ²	678,714.48 m ²	746,329.68 m ²	746,329.68 m ²
Total leased area (Note 3)	493,138.06 m ²	587,050.94 m ²	686,694.46 m ²	677,863.00 m ²	745,227.67 m ²	745,151.00 m ²
Occupancy rate (Note 4)	99.9%	99.9%	99.9%	99.9%	99.9%	99.8%

- (Note 1) Total number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period or midterm period. However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. from end tenants as is in principle, the total number of end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 2) In principle, total leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). The same shall apply hereinafter.
- (Note 3) In principle, total leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. with rents, etc. from end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. The same shall apply hereinafter.
- (Note 4) Occupancy rate indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period or midterm period. The same shall apply hereinafter.

c. Details of assets under management (information on major real estate)

Major real estate of which total annual rent accounts for 10% or more of the total annual rent (Note 1) of the entire portfolio is as follows.

Property name	Total number of tenants	Total annual rent	Total leased area	Total leasable area	Change in occupancy rate for the past five years	
Hilton Tokyo Bay	1	(Note 2)	64,928.83 m ² (Note 3)	64,928.83 m ² (Note 3)	December 2015	100.0%
					December 2016	100.0%
					December 2017	100.0%
					December 2018	100.0%
					December 2019	100.0%
					June 2020	100.0%

(Note 1) “Total annual rent” is the amount of (i) the amount arrived at when monthly fixed rent (rent of the building itself only, excluding common area maintenance charges and signage and parking usage fees; not factoring in any change in rent during the fiscal year) in lease contracts at the end of the midterm period under review is multiplied by 12, plus (ii) assumed amounts of revenue sharing, variable rent or income from management contracts for full year.

The total of the fixed rent stated in the memorandum of understanding concerning the fixed-term lease contract concluded on August 25, 2020, and the assumed amount of variable rent is used as the total annual rent for the HMJ Group Hotels.

(Note 2) Total annual rent for Hilton Tokyo Bay is not disclosed as consent for disclosure has not been obtained from the tenant.

(Note 3) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,928.83 square meters (JHR owns 9/10 of co-ownership interest).

d. Details of assets under management (NOI, etc.)

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	50,961	(74,314)	(223,423)
2	Oriental Hotel Tokyo Bay (Note 4)	Variable/Fixed	63,216	4,029	(179,316)
3	Namba Oriental Hotel	Variable/Fixed	70,325	17,561	(61,762)
4	Hotel Nikko Alivila (Note 4)	Variable/Fixed	67,008	(7,123)	(159,859)
5	Oriental Hotel Hiroshima (Note 4)	Variable/Fixed	17,875	(4,401)	(48,028)
6	ibis Tokyo Shinjuku	Management contract	90,440	27,760	(29,520)
8	The Beach Tower Okinawa	Fixed	255,504	234,061	167,019
9	Hakone Setsugetsuka	Fixed	147,469	135,723	88,516
10	Dormy Inn Kumamoto	Fixed	97,230	86,213	64,191
12	the b suidobashi	Variable/Fixed	42,499	37,181	22,563
13	dormy inn global cabin Asakusa (Note 4)	Fixed	31,997	27,503	20,661
14	Hakata Nakasu Washington Hotel Plaza (Note 4) (Note 5)	Fixed	120,000	112,000	100,000
15	Nara Washington Hotel Plaza (Note 5)	Fixed	75,000	67,000	49,000
16	R&B Hotel Ueno Hirokoji (Note 4)	Fixed	48,654	41,513	33,218
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 7)	136,911	121,758	103,456
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 7)	79,847	71,792	61,472
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	70,519	63,737	54,627
25	Hotel Vista Kamata Tokyo (Note 4)	Variable/Fixed (Note 7)	46,837	39,685	27,001
26	Chisun Inn Kamata	Variable	15,650	12,141	6,992
29	Hotel Keihan Universal City (Note 4)	Variable/Fixed (Note 7)	285,410	248,139	204,727
30	Sotetsu Fresa Inn Shimbashi-Karsumoriguchi (Note 6)	Variable/Fixed (Note 7)	231,184	201,402	190,390
31	Hilton Tokyo Bay (Note 4)	Variable/Fixed (Note 7)	989,150	848,139	756,609
32	ibis Styles Kyoto Station (Note 4)	Management contract	22,967	(10,045)	(28,934)
33	ibis Styles Sapporo (Note 4)	Management contract	50,357	11,734	(29,360)
34	Mercure Sapporo (Note 4)	Management contract	110,495	34,131	(13,185)
35	Mercure Okinawa Naha (Note 4)	Management contract	-	(32,145)	(64,475)
37	the b ikebukuro (Note 4)	Variable/Fixed	112,878	100,244	84,199
39	the b hachioji	Variable/Fixed	103,323	90,331	73,649

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
40	the b hakata	Variable/Fixed	47,738	41,126	30,049
41	Hotel Francs	Fixed	150,000	119,073	96,523
42	Mercure Yokosuka	Variable	45,422	(2,910)	(20,600)
43	Okinawa Marriott Resort & Spa (Note 4)	Variable/Fixed	45,833	3,858	(141,077)
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 4)	Variable/Fixed	410,020	225,154	115,929
45	CANDEO HOTELS UENO-KOEN (Note 4)	Fixed	174,985	162,103	142,053
46	Oriental Hotel Fukuoka Hakata Station (Note 4)	Variable/Fixed	165,773	42,150	(161,921)
47	Holiday Inn Osaka Namba (Note 4)	Variable/Fixed	48,000	23,687	(72,008)
48	HOTEL ASCENT FUKUOKA (Note 4)	Fixed	228,131	165,939	148,357
49	Hilton Nagoya	Variable	399,826	92,666	9,904
50	Hilton Tokyo Narita Airport	Variable/Fixed	37,000	(6,298)	(115,753)
51	International Garden Hotel Narita (Note 4)	Variable/Fixed	47,004	24,916	(48,085)
52	Hotel Nikko Nara (Note 4)	Variable/Fixed	35,000	11,353	(61,676)
53	Hotel Oriental Express Osaka Shinsaibashi (Note 4)	Variable/Fixed	9,200	4,983	(1,459)
54	Hilton Tokyo Odaiba (Note 4)	Variable/Fixed	258,300	173,767	38,487
	Total		5,536,698	3,588,155	1,229,734

(Note 1) Under “Rent type,” “Fixed” is a property under a fixed rent structure, “Variable” is a property under a variable rent structure, “Management contract” is a property under a management contract structure, and “Variable/Fixed” is a property under a combination of fixed and variable rent structures.

(Note 2) $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$

(Note 3) $\text{NOI after depreciation (net real estate operating income)} = \text{Real estate operating revenue} - \text{Real estate operating costs}$

(Note 4) Temporarily closed for some time during the midterm period under review due to the impact of COVID-19.

(Note 5) For Hakata Nakasu Washington Hotel Plaza and Nara Washington Hotel Plaza, consent on disclosure of rent in units of thousand yen has not been obtained from the lessees and numbers are thus rounded down to the nearest million yen.

(Note 6) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 7) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, Hotel Vista Kamata Tokyo, Hotel Keihan Universal City, Sotetsu Fresa Inn Shimbashi-Karasumoriguchi and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly has rent based on a revenue sharing structure.

(Note 8) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

B. Income statements for individual real estate properties (in trust) under management

The following are the individual income statements for real estate properties (in trust) under management for the midterm period under review (from January 1, 2020 to June 30, 2020). Figures are rounded down to the nearest thousand yen in principle, but are otherwise noted if circumstances do not allow for the figures to be stated in units of thousand yen.

Property No.	-	1	2	3	4	5
Property name	Portfolio total (Note 1)	Kobe Meriken Park Oriental Hotel	Oriental Hotel tokyo bay (Note 2)	Namba Oriental Hotel	Hotel Nikko Alivila (Note 2)	Oriental Hotel Hiroshima (Note 2)
Number of operating days	-	182	182	182	182	182
(A) Real estate operating revenue subtotal	5,536,698	50,961	63,216	70,325	67,008	17,875
Fixed rent	4,446,315	49,991	63,216	70,325	67,008	17,875
Variable rent	646,488	-	-	-	-	-
Other revenue	443,894	969	-	-	-	-
(B) Real estate operating costs subtotal	4,306,964	274,385	242,532	132,087	226,868	65,903
Land lease and other rent expenses	447,307	96,354	-	-	42,074	-
Property taxes	919,540	26,193	56,503	50,257	28,757	20,584
Outsourcing expenses	230,352	480	480	480	960	480
Nonlife insurance	27,357	1,705	1,697	744	1,325	555
Depreciation and amortization	2,356,512	148,659	183,345	79,324	152,460	43,626
Loss on retirement of noncurrent assets	876	449	-	-	275	-
Other costs	325,018	543	506	1,281	1,015	656
(C) Net real estate operating income = (A) - (B)	1,229,734	(223,423)	(179,316)	(61,762)	(159,859)	(48,028)
(Reference) Occupancy rate	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	123	1	1	1	1	1

Property No.	6	8	9	10	12	13
Property name	ibis Tokyo Shinjuku (Note 1)	The Beach Tower Okinawa	Hakone Setsugetsuka	Dormy Inn Kumamoto	the b suidobashi	dormy inn·global cabin Asakusa (Note 2)
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	90,440	255,504	147,469	97,230	42,499	31,997
Fixed rent	51,889	255,504	147,169	97,230	42,499	31,697
Variable rent	18,475	-	-	-	-	-
Other revenue	20,075	-	300	-	-	300
(B) Real estate operating costs subtotal	119,961	88,484	58,953	33,038	19,936	11,336
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	17,721	19,839	10,860	9,554	4,076	3,048
Outsourcing expenses	23,578	-	-	-	600	600
Nonlife insurance	307	583	339	225	98	57
Depreciation and amortization	57,281	67,042	47,206	22,021	14,617	6,841
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	21,072	1,019	545	1,236	544	788
(C) Net real estate operating income = (A) - (B)	(29,520)	167,019	88,516	64,191	22,563	20,661
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	1	1	1	1	1

Property No.	14	15	16	18	22	24
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2) (Note 3)	Nara Washington Hotel Plaza (Note 3)	R&B Hotel Ueno Hirokoji (Note 2)	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae	Toyoko Inn Hakata-guchi Ekimae
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	120,000	75,000	48,654	136,911	79,847	70,519
Fixed rent	120,000	73,000	48,252	130,110	67,200	70,519
Variable rent	-	-	-	1,197	12,647	-
Other revenue	0	1,000	402	5,602	-	-
(B) Real estate operating costs subtotal	20,000	26,000	15,436	33,454	18,374	15,891
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	6,000	5,000	6,114	13,388	6,537	5,497
Outsourcing expenses	0	1,000	420	807	600	540
Nonlife insurance	0	0	88	221	99	126
Depreciation and amortization	12,000	18,000	8,294	18,302	10,320	9,109
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	0	0	518	735	817	618
(C) Net real estate operating income = (A) – (B)	100,000	49,000	33,218	103,456	61,472	54,627
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	2	1	1

Property No.	25	26	29	30	31	32
Property name	Hotel Vista Kamata Tokyo (Note 2)	Chisun Inn Kamata	Hotel Keihan Universal City (Note 2)	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 5)	Hilton Tokyo Bay (Note 2)	ibis Styles Kyoto Station (Note 1) (Note 2)
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	46,837	15,650	285,410	231,184	989,150	22,967
Fixed rent	46,767	-	Undisclosed (Note 4)	149,002	Undisclosed (Note 4)	21,167
Variable rent	-	15,650	Undisclosed (Note 4)	66,668	Undisclosed (Note 4)	-
Other revenue	70	-	Undisclosed (Note 4)	15,513	Undisclosed (Note 4)	1,800
(B) Real estate operating costs subtotal	19,835	8,658	80,683	40,794	232,541	51,902
Land lease and other rent expenses	-	-	10,555	-	61,860	-
Property taxes	5,913	2,398	22,587	12,965	70,128	10,290
Outsourcing expenses	600	540	2,069	2,403	6,508	21,718
Nonlife insurance	119	51	864	183	1,709	216
Depreciation and amortization	12,684	5,149	43,260	11,012	91,530	18,889
Loss on retirement of noncurrent assets	-	-	151	-	-	-
Other costs	518	518	1,194	14,230	804	786
(C) Net real estate operating income = (A) – (B)	27,001	6,992	204,727	190,390	756,609	(28,934)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	4	1	2

Property No.	33	34	35	37	39	40
Property name	ibis Styles Sapporo (Note 1) (Note 2)	Mercure Sapporo (Note 1) (Note 2)	Mercure Okinawa Naha (Note 1) (Note 2)	the b ikebukuro (Note 2)	the b hachioji	the b hakata
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	50,357	110,495	-	112,878	103,323	47,738
Fixed rent	10,645	28,153	-	110,590	56,139	44,761
Variable rent	23,387	40,216	-	1,219	44,223	2,977
Other revenue	16,323	42,125	-	1,068	2,960	-
(B) Real estate operating costs subtotal	79,717	123,681	64,475	28,679	29,673	17,689
Land lease and other rent expenses	-	-	160	-	-	-
Property taxes	18,551	24,868	11,658	11,106	10,667	4,966
Outsourcing expenses	3,904	14,121	18,272	600	600	600
Nonlife insurance	440	533	369	209	228	133
Depreciation and amortization	41,095	47,317	32,329	16,045	16,681	11,077
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	15,725	36,840	1,685	717	1,495	912
(C) Net real estate operating income = (A) – (B)	(29,360)	(13,185)	(64,475)	84,199	73,649	30,049
(Reference) Occupancy rate	98.3%	94.8%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	11	1	4	10	2

Property No.	41	42	43	44	45	46
Property name	Hotel Francs	Mercure Yokosuka	Okinawa Marriott Resort & Spa (Note 2)	ACTIVE-INTER CITY HIROSHIMA (Note 2)	CANDEO HOTELS UENO-KOEN (Note 2)	Oriental Hotel Fukuoka Hakata Station (Note 2)
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	150,000	45,422	45,833	410,020	174,985	165,773
Fixed rent	150,000	-	45,833	268,619	Undisclosed (Note 4)	35,416
Variable rent	-	27,995	-	42,813	-	130,357
Other revenue	-	17,427	-	98,588	Undisclosed (Note 4)	-
(B) Real estate operating costs subtotal	53,476	66,022	186,911	294,090	32,932	327,694
Land lease and other rent expenses	-	-	-	-	-	111,103
Property taxes	29,283	17,597	39,136	59,979	11,478	9,990
Outsourcing expenses	900	9,838	1,200	47,199	600	1,500
Nonlife insurance	491	857	1,214	1,752	247	605
Depreciation and amortization	22,549	17,689	144,936	109,224	20,050	203,264
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	251	20,039	423	75,935	556	1,231
(C) Net real estate operating income = (A) – (B)	96,523	(20,600)	(141,077)	115,929	142,053	(161,921)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	99.6%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	38	1	1

Property No.	47	48	49	50	51	52
Property name	Holiday Inn Osaka Namba (Note 2)	HOTEL ASCENT FUKUOKA (Note 2)	Hilton Nagoya	Hilton Tokyo Narita Airport	International Garden Hotel Narita (Note 2)	Hotel Nikko Nara (Note 2)
Number of operating days	182	182	182	182	182	182
(A) Real estate operating revenue subtotal	48,000	228,131	399,826	37,000	47,004	35,000
Fixed rent	48,000	181,913	Undisclosed (Note 4)	37,000	28,000	35,000
Variable rent	-	-	Undisclosed (Note 4)	-	19,004	-
Other revenue	-	46,218	Undisclosed (Note 4)	-	-	-
(B) Real estate operating costs subtotal	120,008	79,774	389,921	152,753	95,090	96,676
Land lease and other rent expenses	-	13,999	111,200	-	-	-
Property taxes	22,534	15,803	51,997	39,905	19,721	20,354
Outsourcing expenses	780	8,304	50,662	1,260	1,140	1,380
Nonlife insurance	577	251	1,712	1,654	753	1,380
Depreciation and amortization	95,695	17,357	82,761	109,455	73,002	73,029
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	420	24,057	91,586	477	472	530
(C) Net real estate operating income = (A) – (B)	(72,008)	148,357	9,904	(115,753)	(48,085)	(61,676)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	6	4	1	1	1

Property No.	53	54
Property name	Hotel Oriental Express Osaka Shinsaibashi (Note 2)	Hilton Tokyo Odaiba (Note 2)
Number of operating days	182	182
(A) Real estate operating revenue subtotal	9,200	258,300
Fixed rent	9,200	258,300
Variable rent	-	-
Other revenue	-	-
(B) Real estate operating costs subtotal	10,659	219,812
Land lease and other rent expenses	-	-
Property taxes	2,795	81,861
Outsourcing expenses	1,080	60
Nonlife insurance	92	2,191
Depreciation and amortization	6,443	135,279
Loss on retirement of noncurrent assets	-	-
Other costs	249	418
(C) Net real estate operating income = (A) – (B)	(1,459)	38,487
(Reference) Occupancy rate	100.0%	100.0%
(Reference) Number of tenants	1	1

(Note 1) Variable rent includes income from management contracts. For details of the management contract, please refer to “C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing” on page 51.

(Note 2) Temporarily closed for some time during the midterm period under review due to the impact of COVID-19.

(Note 3) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and numbers are thus rounded down to the nearest million yen.

(Note 4) Rent income, etc. is not disclosed as consent on disclosure has not been obtained from the tenant with whom a lease contract has been concluded and thus considered to be a case where disclosure cannot be made due to unavoidable circumstances.

(Note 5) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 6) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

C. Overview of the hotel business

a. Rent structures of hotels with variable rent, management contract or revenue sharing

	Property No.	Name	Rent type	Method of calculating variable rent and income from management contracts		
				FY2020	FY2021	FY2022 and after
HMJ Group Hotels (Note 1)	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	Total GOP of The Five HMJ Hotels x 89.78% – fixed rent of one month	AGOP (Note 3) x 86.0%	(‘Total AGOP of The Five HMJ Hotels – base amount (¥4,120 million/year (Note 4))) x 85.0%
	2	Oriental Hotel tokyo bay			AGOP x 79.0%	
	3	Namba Oriental Hotel			AGOP x 91.0%	
	4	Hotel Nikko Alivila			AGOP x 74.0%	
	5	Oriental Hotel Hiroshima			AGOP x 89.0%	
	43	Okinawa Marriott Resort & Spa	Variable/Fixed	GOP x 82.92% – fixed rent of one month	AGOP x 89.0%	(AGOP – base amount (¥665 million/year)) x 95.0%
	44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 2)	GOP x 79.03% – fixed rent of one month	AGOP x 93.0%	(AGOP – base amount (¥360 million/year)) x 90.0%
	46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed	GOP x 96.98% – fixed rent of one month	AGOP x 97.0%	(AGOP – base amount (¥442 million/year)) x 98.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	GOP x 90.15% – fixed rent of one month	AGOP x 98.0%	(AGOP – base amount (¥580 million/year)) x 97.0%
	50	Hilton Tokyo Narita Airport	Variable/Fixed	GOP x 83.59% – fixed rent of one month	AGOP x 95.0%	(AGOP – base amount (¥450 million/year)) x 93.0%
	51	International Garden Hotel Narita	Variable/Fixed	GOP x 95.35% – fixed rent of one month	AGOP x 95.0%	(AGOP – base amount (¥360 million/year)) x 98.0%
	52	Hotel Nikko Nara	Variable/Fixed	GOP x 90.05% – fixed rent of one month	AGOP x 95.0%	(AGOP – base amount (¥440 million/year)) x 95.0%
	53	Hotel Oriental Express Osaka Shinsaibashi	Variable/Fixed	GOP x 87.11% – fixed rent of one month	AGOP x 87.0%	(AGOP – base amount (¥128 million/year)) x 91.0%
	54	Hilton Tokyo Odaiba	Variable/Fixed	GOP x 92.10% – fixed rent of one month	AGOP x 97.0%	(AGOP – base amount (¥1,660 million/year)) x 98.0%
The Accor Group Hotels	6	ibis Tokyo Shinjuku	Management contract (Note 5)	Amount equivalent to GOP		
	32	ibis Styles Kyoto Station		Amount equivalent to GOP		
	33	ibis Styles Sapporo		Amount equivalent to GOP		
	34	Mercure Sapporo		Amount equivalent to GOP		
	35	Mercure Okinawa Naha		Amount equivalent to GOP		
	42	Mercure Yokosuka	Variable	Amount linked to GOP (Note 6)		
The Ishin Group Hotels	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 6)		
	37	the b ikebukuro				
	39	the b hachioji				
	40	the b hakata				
Other hotels with variable rent or revenue sharing	18	Comfort Hotel Tokyo Higashi Nihombashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	25	Hotel Vista Kamata Tokyo	Fixed + Revenue sharing	When total sales of the hotel from January 1 to December 31 of every year exceeds ¥270 million, the amount arrived at when the amount exceeding ¥270 million is multiplied by 32.5%		
	26	Chisun Inn Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).		
	29	Hotel Keihan Universal City	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 6)		

(Note 1) Variable rents for the HMJ Group Hotels are those stated in the memorandum of understanding concerning the fixed-term lease contracts and the revised fixed-term lease contracts concluded on August 25, 2020.

(Note 2) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 3) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.

(Note 4) For the purpose of payments of variable rent from each hotel, etc. JHR has set individual GOP base amount for each hotel. The breakdown of the AGOP base amount of The Five HMJ Hotels (¥4,120 million/year) is as follows.
Kobe Meriken Park Oriental Hotel ¥690,000 thousands, Oriental Hotel tokyo bay ¥1,060,000 thousands, Namba Oriental Hotel ¥890,000 thousands, Hotel Nikko Alivila ¥1,250,000 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(Note 5) The management contract structure is a structure for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue. Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management fee to the operator. This hotel revenue achieved is recognized as “real estate operating revenue through management contract” and is equivalent to the rent that is the real estate operating revenue under the leasing structure.

(Note 6) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee, etc.

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2020, through June 30, 2020, based on the data provided by the hotel lessees. While these indicators of the hotels are among the indicators that show the operating status of the rooms departments, please note that they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the room rates and profit margins, etc. of the respective rooms available for sale are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

	Kobe Meriken Park Oriental Hotel		Oriental Hotel tokyo bay (Note 4)		Namba Oriental Hotel		Hotel Nikko Alivila (Note 4)		Oriental Hotel Hiroshima (Note 4)		The Five HMJ Hotels Total/Average	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	35.4%	—	31.7%	—	31.7%	—	36.4%	—	47.5%	—	35.6%	—
ADR (Note 1)	16,166	—	17,444	—	14,282	—	20,908	—	7,559	—	15,855	—
RevPAR (Note 2)	5,722	—	5,533	—	4,527	—	7,605	—	3,589	—	5,639	—
Total sales	1,050	100.0	1,042	100.0	588	100.0	1,030	100.0	407	100.0	4,118	100.0
Rooms department	336	32.0	515	49.4	213	36.1	549	53.4	148	36.4	1,761	42.8
Food & beverage department	609	58.0	408	39.1	16	2.6	377	36.7	234	57.5	1,644	39.9
Tenant department	38	3.7	70	6.7	327	55.5	1	0.1	11	2.7	447	10.9
Other departments (Note 3)	67	6.4	50	4.8	33	5.7	102	9.9	13	3.3	266	6.4
GOP	(112)	(10.7)	(177)	(16.9)	297	50.5	(50)	(4.8)	(79)	(19.3)	(121)	(2.9)

	Okinawa Marriott Resort & Spa (Note 4)		Sheraton Grand Hiroshima Hotel (Note 4) (Note 5)		Oriental Hotel Fukuoka Hakata Station (Note 4)		Holiday Inn Osaka Namba (Note 4)		Hilton Tokyo Narita Airport		International Garden Hotel Narita (Note 4)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	29.9%	—	32.8%	—	35.0%	—	25.2%	—	45.9%	—	32.6%	—
ADR (Note 1)	16,228	—	18,621	—	14,916	—	13,287	—	13,047	—	8,677	—
RevPAR (Note 2)	4,853	—	6,105	—	5,217	—	3,353	—	5,994	—	2,829	—
Total sales	551	100.0	664	100.0	524	100.0	209	100.0	849	100.0	310	100.0
Rooms department	319	57.8	264	39.8	210	40.1	192	91.6	598	70.4	238	76.8
Food & beverage department	160	29.0	345	52.0	179	34.2	—	—	203	24.0	46	15.0
Tenant department	12	2.2	—	—	130	24.9	17	8.2	23	2.7	3	0.9
Other departments (Note 3)	60	10.9	54	8.2	5	0.9	0	0.2	25	2.9	23	7.3
GOP	(149)	(27.0)	86	13.0	171	32.6	63	30.2	91	10.7	49	15.9

	Hotel Nikko Nara (Note 4)		Hotel Oriental Express Osaka Shinsaibashi (Note 4)		Hilton Tokyo Odaiba (Note 4)		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	20.7%	—	21.7%	—	28.6%	—	33.1%	—
ADR (Note 1)	11,959	—	7,699	—	25,837	—	15,222	—
RevPAR (Note 2)	2,470	—	1,668	—	7,400	—	5,045	—
Total sales	424	100.0	40	100.0	1,479	100.0	9,167	100.0
Rooms department	148	35.0	38	94.8	610	41.3	4,378	47.8
Food & beverage department	256	60.4	2	5.0	736	49.8	3,572	39.0
Tenant department	7	1.6	—	—	59	4.0	698	7.6
Other departments (Note 3)	13	3.0	0	0.2	73	4.9	518	5.7
GOP	(176)	(41.4)	(17)	(41.7)	(369)	(25.0)	(370)	(4.0)

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms sold during the period.

Service charges are 10% for Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station; 12% for Hilton Tokyo Narita Airport; and 13% for Hilton Tokyo Odaiba. Holiday Inn Osaka Namba and Hotel Oriental Express Osaka Shinsaibashi do not request service charges. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

(Note 3) Figures for the other departments include sales of the department for sale of goods.

(Note 4) Due to the impact of COVID-19, the temporary closure was implemented for certain period during the mid-term period. However, the occupancy rate is calculated including the closure period.

(Note 5) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 6) For Total/Average of the HMJ Group Hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees.

(Note 7) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place.

(2) Status of capital expenditures

a. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work during the fiscal year planned as of the end of the midterm period under review. Capital expenditures are expected to total ¥1,081 million for the second half and, in aggregate with the capital expenditures for the first half, capital expenditures are expected to total ¥1,799 million for the full year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY 1M)		
			Total amount	Payment for the first half	Total amount paid
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of air-conditioning equipment	From May 2020 to July 2020	52	—	—
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of elevators	From February 2020 to December 2020	51	—	—
International Garden Hotel Narita (Narita-shi, Chiba)	Renewal of air-conditioning units	From November 2020 to December 2020	55	—	—
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of central monitoring device	From October 2020 to October 2020	64	—	—
Total			223	—	—

(Note) New construction and renewal work include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned renovation work and whether the renovation work will be performed may change.

b. Capital expenditures during the period (Note)

Major construction work conducted by JHR during the midterm period under review that represents capital expenditures is as below. Capital expenditures for the midterm period under review totaled ¥717 million, and repair expenses that were accounted for as expense in the period totaled ¥9 million. In aggregate, ¥727 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY 1M)
Hotel Nikko Alivila (Nakagami-gun, Okinawa)	Additional installation of sewage tank	From March 2020 to June 2020	72
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air-conditioning equipment	From May 2020 to June 2020	67
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of air-conditioning equipment	From March 2020 to March 2020	90
Hilton Nagoya (Nagoya-shi, Aichi)	Work on plumbing equipment	From March 2020 to May 2020	57
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of banquet rooms	From December 2019 to March 2020	92
Total			379

(Note) New construction and renewal work include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures.