

# **Asset Management Report**

**For the Year Ended December 31, 2021**

**Japan Hotel REIT Investment Corporation**



Dear Investors,

Thank you for your support and patronage to Japan Hotel REIT Investment Corporation (JHR) and its asset management company, Japan Hotel REIT Advisors Co., Ltd.

Having settled the accounts for the 22nd fiscal period (from January 1, 2021 to December 31, 2021) of JHR, we are pleased to present you with the status of management and detail of the settlement of accounts for the period.

In the second year of COVID-19 pandemic, the Japanese economy continued to face severe conditions by the impact of the state-of-emergency declarations and stricter measures to prevent the spread of the virus, etc. implemented in line with the spread of infection by COVID-19. In addition to a sharp decline in the number of inbound visitors to Japan, domestic demand was sluggish due to restrictions on moving, etc. and the overall tourism market including accommodation market became further severe throughout the year. However, it gradually showed movements of picking up in and after October when the state-of-emergency was lifted with improvement in the COVID-19 situation.

Under such environment, JHR maintained close communication with the lessees and operators of its respective hotels and worked to secure hotel earnings through reduction of operating costs, etc. The HMJ Group, JHR's largest lessee and strategic partner, implemented large-scale restructuring such as reduction of labor costs through closure of unprofitable restaurants within hotels and reduction of outsourcing costs with the switch from outsourcing to insourcing and change of specifications.

In conjunction with that, JHR conducted rebranding of four hotels in order to improve hotel operation and increase earnings. In addition, JHR acquired land that is a part of the site of Oriental Hotel Universal City upon the expiration of the ground lease contract with the City of Osaka and changed to wholly owned property. Moreover, JHR sold ibis Tokyo Shinjuku and recorded ¥3,258 million as gain on sales of real estate properties and actualized a portion of unrealized gains on assets in order to secure distributable profits and improve liquidity on hand.

As a result, JHR posted operating revenue of ¥13,633 million and net income of ¥1,296 million for the 22nd Period. Dividend per unit came to ¥366.

In 2022, variants of COVID-19 caused the number of confirmed new cases of infection to sharply rise from the beginning of the year, however, policy review in accordance with the status of infection such as promotion of the additional dose of vaccination and development and practical application of effective therapeutic drugs, etc. are expected. Although a harsh environment is forecast for the time being, the pace of recovery in domestic travel demand will likely be fast if the situation of infection by COVID-19 improves to a certain level like that in and after October 2021. Moreover, given the large potential demand for overseas tourism globally, the popularity of Japan as a travel destination, etc. JHR believes that Japan's accommodation demand from inbound visitors will recover over the medium to long term.

JHR will continue to cooperate and collaborate with lessees and operators of each hotel and implement a variety of measures to capture accommodation demand in the hotel market for recovery period. JHR and its asset management company, Japan Hotel REIT Advisors Co., Ltd., will make full efforts for further growth and improvement of the attractiveness of JHR through flexible response to changes in the hotel industry by leveraging the high level of expertise and know-how cultivated to date and promotion of initiatives for sustainability.

We would appreciate your continued support for us.

Kaname Masuda  
Executive Director  
Japan Hotel REIT Investment Corporation

Hisashi Furukawa  
Representative Director, President and CEO  
Japan Hotel REIT Advisors Co., Ltd.

# JAPAN HOTEL REIT INVESTMENT CORPORATION

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This section (P1-P42) is the translation of the Asset Management Report for the 22nd Period released on March 22, 2022 except for, if any, the update on I.6. Significant subsequent events. If any discrepancy is identified between this translation and the Japanese original, the Japanese original shall prevail.

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# I. ASSET MANAGEMENT REPORT

## Outline of Asset Management Operation

### 1. Operating results and financial position, etc.

Fiscal period Account closing date		18th period December 2017	19th period December 2018	20th period December 2019	21st period December 2020	22nd period December 2021
Operating revenue (Note 1)	¥1M	25,475	28,253	28,278	13,838	13,633
[Real estate operating revenue]	¥1M	[25,475]	[26,318]	[28,278]	[10,495]	[10,374]
Operating expenses	¥1M	9,717	10,260	11,129	10,662	10,673
[Real estate operating costs]	¥1M	[7,911]	[8,344]	[8,997]	[8,717]	[8,830]
Operating income	¥1M	15,757	17,993	17,148	3,176	2,959
Ordinary income	¥1M	14,006	16,211	15,291	1,398	1,298
Net income (Note 2)	¥1M	14,005	16,210	15,290	1,527	1,296
Total assets	¥1M	352,183	350,556	415,722	400,296	394,323
[Period-on-period change]	[%]	[10.8]	[(0.5)]	[18.6]	[(3.7)]	[(1.5)]
Net assets	¥1M	201,963	203,372	236,522	221,201	221,542
[Period-on-period change]	[%]	[11.0]	[0.7]	[16.3]	[(6.5)]	[0.2]
Unitholders' capital	¥1M	153,516	153,516	186,894	186,894	187,194
Number of investment units issued and outstanding	Units	4,010,847	4,010,847	4,462,347	4,462,347	4,467,006
Net assets per unit	¥	50,354	50,705	53,004	49,570	49,595
Net income per unit (Note 3)	¥	3,606	4,041	3,447	342	290
Total dividends	¥1M	14,771	15,602	16,466	1,829	1,634
Dividend per unit	¥	3,683	3,890	3,690	410	366
[Earnings dividend per unit]	¥	3,683	3,890	3,690	410	366
[Dividend per unit resulted from excess of earnings]	¥	–	–	–	–	–
Ratio of ordinary income to total assets (Note 4)	%	4.2	4.6	4.0	0.3	0.3
Return on unitholders' equity (Note 5)	%	7.3	8.0	7.0	0.7	0.6
Ratio of net assets to total assets (Note 6)	%	57.3	58.0	56.9	55.3	56.2
[Period-on-period change]	[%]	[0.1]	[0.7]	[(1.1)]	[(1.6)]	[0.9]
Payout ratio (Note 7)	%	105.5	96.2	107.7	119.8	126.1
[Additional information]						
NOI (Note 8)	¥1M	21,424	22,104	24,087	6,547	6,366
FFO per unit (Note 9) (Note 10)	¥	4,454	4,588	4,503	632	640
FFO multiple (Note 10) (Note 11)	Times	17.0	17.1	18.0	83.9	87.8
Debt service coverage ratio (Note 10) (Note 12)	Times	15.6	18.0	17.5	3.3	3.4
Interest-bearing debt	¥1M	140,399	136,671	168,754	168,754	164,754
Ratio of interest-bearing debt to total assets (Note 13)	%	39.9	39.0	40.6	42.2	41.8
Number of investment properties	Properties	44	41	43	42	41
Total leasable area	m <sup>2</sup>	687,124.54	678,714.48	746,329.68	741,083.02	733,995.61
Number of tenants at end of period (Note 14)	Tenants	131	126	125	121	116
Occupancy rate at end of period (Note 15)	%	99.9	99.9	99.9	99.9	99.8
Depreciation	¥1M	3,725	4,091	4,557	4,761	4,804
Capital expenditures	¥1M	2,898	3,056	6,767	1,665	3,367
Number of operating days	Days	365	365	365	366	365

(Note 1) Operating revenue does not include consumption tax, etc.

(Note 2) Net income for the 19th fiscal period includes gain on sale of real estate properties (¥1,934 million). Net income for the 21st fiscal period includes gain on sale of real estate properties (¥3,158 million) and gain on exchange of real estate properties (¥184 million). Net income for the 22nd fiscal period includes gain on sale of real estate properties (¥3,258 million).

- (Note 3) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.
- (Note 4) Ratio of ordinary income to total assets = Ordinary income / ((Total assets at beginning of period + Total assets at end of period) / 2) × 100
- (Note 5) Return on unitholders' equity = Net income / ((Net assets at beginning of period + Net assets at end of period) / 2) × 100
- (Note 6) Ratio of net assets to total assets = Net assets at end of period / Total assets at end of period × 100
- (Note 7) Payout ratio = Total dividends (excess of earnings exclusive) / Net income × 100
- (Note 8) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses
- (Note 9) FFO per unit = (Net income + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses - gain on sale of real estate properties - gain on exchange of real estate properties ± Extraordinary loss or income (excluding loss on disaster)) / Number of investment units issued and outstanding
- (Note 10) For the 19th fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥1,934 million). For the 21st fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥3,158 million) and gain on exchange of real estate properties (¥184 million) and extraordinary income (¥130 million). For the 22nd fiscal period, FFO per unit, FFO multiple and debt service coverage ratio are calculated excluding gain on sale of real estate properties (¥3,258 million).
- (Note 11) FFO multiple = Investment unit price at end of period / Annualized FFO per unit
- (Note 12) Debt service coverage ratio = (Income before income taxes + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses - gain on sale of real estate properties - gain on exchange of real estate properties ± Extraordinary loss or income (excluding loss on disaster) + Amortization of investment corporation bond issuance costs + Amortization of investment unit issuance expenses ± Loss or gain on derivative instruments + Interest expense + Interest expense on investment corporation bonds) / (Interest expense + Interest expense on investment corporation bonds + Total of contractual principal repayments (excluding lump-sum principal repayments))
- (Note 13) Ratio of interest-bearing debt to total assets = Interest-bearing debt at end of period / Total assets at end of period × 100
- (Note 14) Number of tenants at end of period indicates the total number of tenants based on the lease contracts for respective real estate properties in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the total number of the end tenants (excluding tenants of parking lots, etc.) is indicated.
- (Note 15) Occupancy rate at end of period indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period.

## 2. Asset management operation for the fiscal period under review

### (1) Brief history and principal activities

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

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”), merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) 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 by the end of the fiscal period under review, JHR has carried out nine public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target 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 (on an acquisition price basis) in total in approximately a little less than ten years since the Merger. As a result, as of the end of the fiscal period under review, JHR had a portfolio of 41 properties with a combined acquisition price of ¥363,542 million and the total number of investment units issued and outstanding stood at 4,467,006 units.

## (2) Investment performance for the fiscal period under review

The Japanese economy in the fiscal period under review (12-month period from January 1, 2021 to December 31, 2021) was in a severe situation due to the impact of state-of-emergency declarations, stricter measure to prevent the spread of the virus, etc. implemented in line with the spread of COVID-19, but gradually showed movements of picking up in and after October when the state-of-emergency declaration was lifted with improvement in the COVID-19 situation.

The domestic accommodation and tourism market was heavily impacted by the low number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”), which was estimated to be 245,000 in 2021 (-94.0% from the previous year; -99.2% from 2019), due to travel restrictions to Japan from various countries, etc., as well as the sluggish domestic demand due to the worsening of the COVID-19 situation. Accordingly, the cumulative number of overnight guests at domestic accommodation facilities in 2021 fell by 4.8% from the previous year or fell by 47.0% from 2019 to 315 million guest nights (preliminary release).

As to the performance of hotels owned by JHR under these circumstances, RevPAR (Note 2) of the 24 Hotels with Variable Rent, etc. (Note 1) for the fiscal period under review fell below that of the previous year by 5.4% due to the impact of the spread of COVID-19, but GOP (gross operating profit) increased from the previous year by 47.4% due to the effects of cost management measures at hotels, etc.

Under such circumstances, JHR maintained, as it did in the previous year, close communication with the lessees and operators of its respective hotels and worked to secure hotel earnings through reduction of operating costs, etc. In particular, Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), which is a group company of the Asset Management Company, and its subsidiaries (hereinafter collectively referred to as the “HMJ Group”), implemented large-scale restructuring (such as reduction of labor costs through closure of unprofitable restaurants within hotels, reduction of outsourcing costs with the switch from outsourcing to insourcing and change of specifications, and consolidation of back offices and common operations) upon conclusion of contracts to change fixed-term building lease contracts on August 25, 2020, and resulted in achieving results that were better than initially planned.

In conjunction with that, JHR changed lessees and conducted rebranding during the fiscal period under review in order to improve hotel operations and increase earnings as follows. In January 2021, for Chisun Hotel Kamata (former name: Hotel Vista Kamata Tokyo), JHR changed lessees and conducted rebranding after terminating the existing lease contract. In addition, JHR changed lessees and conducted rebranding to the HMJ Group for Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA) in June 2021 and for Oriental Hotel Universal City (former name: Hotel Keihan Universal City) in July 2021, and also conducted rebranding to the HMJ Group for Oriental Hotel Okinawa Resort & Spa (former name: Okinawa Marriott Resort & Spa) in October 2021. Following aforementioned implementation, we are promoting more efficient operations through measures including sharing of human resources and back offices with the HMJ Group Hotels located in the surrounding areas. Furthermore, with the improving earnings structure of hotel operations through the restructuring by the HMJ Group, the amount of rent JHR will receive during the hotel market recovery period is expected to increase.

Moreover, JHR decided that it is appropriate to partly realize unrealized gain of owned assets to record it as gain on sale of real estate properties and enhance the liquidity on hand. Accordingly, JHR sold ibis Tokyo Shinjuku as of December 15, 2021, recording ¥3,258 million as gain on sale of real estate properties. In addition, JHR acquired land that is part of the site of Oriental Hotel Universal City on July 30, 2021, upon the expiration of the ground lease contract with the City of Osaka. Through this, the hotel is now real estate under full ownership and there is no need to pay ground rent of ¥21 million a year.

Furthermore, JHR conducted a drastic review of its capital expenditures, including postponement of large-scale renovation work planned for the fiscal period under review, and also worked to reduce costs of each cost items including real estate operating costs and general and administrative expenses through discussions with relevant counterparties and other measures. For further details of sales, GOP (gross operating profit) and other management indicators for the 24 Hotels with Variable Rent, etc., please refer to “<Reference 2> Hotel operation indexes, sales and GOP” in 7. Reference information.

(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 Alivila and Oriental Hotel Hiroshima, (hereinafter referred to as “The

Five HMJ hotels”), with the hotels which JHR leases to subsidiaries of HMJ (Oriental Hotel Okinawa 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.” Although the lessee of Hotel Oriental Express Fukuoka Tenjin was changed on June 18, 2021, and the lessee of Oriental Hotel Universal City was changed on July 1, 2021, to subsidiaries of HMJ, these are not included in the HMJ Group Hotels in the fiscal period under review. The 24 hotels with variable rent, etc. refers to the HMJ Group Hotels plus ibis Tokyo Shinjuku (completed its transfer on December 15, 2021), 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 for rooms for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

### (3) Funding conditions

In the fiscal period under review (12-month period from January 1, 2021 to December 31, 2021), JHR procured ¥300 million through third-party allotment with the sponsor group as the allottee in March 2021, and took out loans of ¥6,800 million in total to refinance existing borrowings that were due for repayment in the same month. Moreover, also for the purpose of refinancing existing borrowings that were due for repayment, JHR took out loans of ¥935 million in total in June, ¥15,847 million in total in September, respectively. Moreover, JHR redeemed the fourth unsecured investment corporation bonds of ¥1,500 million due for redemption in December 2021 by taking out loans in the same amount mainly from main banks. JHR also used part of the funds from the sale of ibis Tokyo Shinjuku, which was sold in the same month, for partial early repayment of existing borrowings, reducing the ratio of interest-bearing debt to total assets by 0.9 points in an effort to strengthen financial soundness.

Consequently, as of the end of the fiscal period under review, balance of interest-bearing debt totaled ¥164,754 million, including short-term loans payable of ¥24,002 million, current portion of long-term loans payable of ¥8,434 million, long-term loans payable of ¥92,218 million, current portion of investment corporation bonds of ¥6,000 million and investment corporation bonds of ¥34,100 million, and the ratio of interest-bearing debt to total assets at end of year (Note) stood at 41.8%. The ratio of fixed interest rate debt to the total interest-bearing debt at the end of the fiscal period under review was at 85.3%.

(Note) Ratio of interest-bearing debt to total assets at end of period = Balance of interest-bearing debt at end of period / Total assets at end of period x 100

As of the end of the fiscal period under review, JHR’s issuer ratings were as follows:

Rating agency	Rating	Outlook
Japan Credit Rating Agency, Ltd. (JCR)	A+	(Negative)
Rating and Investment Information, Inc. (R&I)	A	(Negative)

### (4) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥13,633 million, ¥2,959 million and ¥1,298 million, respectively, for the fiscal period under review (12-month period from January 1, 2021 to December 31, 2021). Net income was ¥1,296 million.

With regard to dividends, it was decided that ¥1,634 million will be distributed, which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥335 million to unappropriated retained earnings of ¥1,300 million. Consequently, ¥1,634 million will be distributed as dividend and the dividend per unit came to ¥366.

For details of the appropriation for dividends for the fiscal period under review, please refer to “<Reference 3> Dividend per unit and appropriation for dividends” in 7. Reference information.

### 3. Changes in unitholders' capital, etc.

The table below indicates increases (decreases) in the number of investment units issued and outstanding and unitholders' capital of JHR in the past five years.

Date	Capital transaction	Number of units issued (Units)		Unitholders' capital (¥1M)		Note
		Increase (decrease)	Balance	Increase (decrease)	Balance	
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 1)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 2)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 3)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 4)
March 16, 2021	Capital increase through third-party allotment of investment units	4,659	4,467,006	300	187,194	(Note 5)

(Note 1) 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 raise funds for the acquisition of new properties, etc.

(Note 2) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to raise funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(Note 3) 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 raise funds for the acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to raise funds for allocation to part of the acquisition of new properties.

(Note 5) New investment units were issued through third-party allotment with an issue value per unit of ¥64,400 in order to raise funds for allocation to part of capital expenditures.

[Fluctuation in market price of investment units]

The highest and lowest prices (closing price) during each fiscal period of the investment units of JHR on the Tokyo Stock Exchange REIT section are as follows:

Fiscal period Account closing month	(yen)				
	18th period December 2017	19th period December 2018	20th period December 2019	21st period December 2020	22nd period December 2021
Highest price	81,200	85,000	91,800	82,400	71,400
Lowest price	71,100	75,000	75,900	24,700	51,600
Price at end of period	75,600	78,400	81,200	53,000	56,200

#### 4. Dividends, etc.

Earnings dividend for the period under review was decided in accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation. And ¥1,634,924,196, which excludes fractions of less than one yen of dividend per unit from ¥1,636,095,860, which was calculated by adding a reversal of the reserve for temporary difference adjustment of ¥335,371,387 to unappropriated retained earnings of ¥1,300,724,473 as of end of the fiscal period under review, will be distributed. Consequently, the dividend per unit came to ¥366.

(yen)

Classification	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)	21st period (From January 1, 2020 to December 31, 2020)	22nd period (From January 1, 2021 to December 31, 2021)
Unappropriated retained earnings	14,005,489,588	16,213,482,816	15,290,314,375	1,527,790,689	1,300,724,473
Retained earnings	3,048,696	–	744,789	3,922,801	1,171,664
Total cash dividends	14,771,949,501	15,602,194,830	16,466,060,430	1,829,562,270	1,634,924,196
[Dividend per unit]	[3,683]	[3,890]	[3,690]	[410]	[366]
Of the above, total earnings dividends	14,771,949,501	15,602,194,830	16,466,060,430	1,829,562,270	1,634,924,196
[Earnings dividend per unit]	[3,683]	[3,890]	[3,690]	[410]	[366]
Of the above, total return of capital contributions	–	–	–	–	–
[Return of capital contributions per unit]	[–]	[–]	[–]	[–]	[–]
Of total return of capital contributions, total distributions from allowance for temporary difference adjustment	–	–	–	–	–
[Of return of capital contributions per unit, distributions from allowance for temporary difference adjustment per unit]	[–]	[–]	[–]	[–]	[–]
Of total return of capital contributions, total distributions from the unitholders' capital for tax purpose	–	–	–	–	–
[Of return of capital contribution per unit, distributions from the unitholders' capital for tax purpose per unit]	[–]	[–]	[–]	[–]	[–]

## 5. Investment policies and issues to be addressed

### General investment outlook

The Japanese economy remains in a severe situation due to the impact of the spread of infection by COVID-19. In 2021, signs of picking up were seen with the increasing moves to gradually ease movement restrictions due to progress in the vaccination rollout and other factors through the second half of the year. In 2022, however, variants of COVID-19 caused the number of confirmed new cases of infection to sharply rise in various areas from the beginning of the year, leading to application of a stricter measure to prevent the spread of the virus, etc. in various regions again and other factors turning the situation into an uncertain outlook. In the domestic accommodation and tourism market, although upcoming recovery in demand is expected as the third-dose vaccination rollout progresses, effective therapeutic medicine for COVID-19 are developed and put into practical use, etc., a harsh environment is forecast for the time being. On the other hand, the pace of recovery in domestic travel demand will likely be fast if the COVID-19 situation improves to a certain level like that in November through December 2021.

JHR will continue to discuss, investigate and implement with lessees and operators a variety of measures, such as reducing operating costs through review of operations at each hotel, maintaining necessary employment, handling cash management, and also implementing sales measures in response to new demand including “staycation” and “workation.” Especially for the hotels with variable rent, etc., JHR will endeavor to maximize GOP of each hotel and thus maximize the rent JHR can receive as a result. In particular, with the HMJ Group, a strategic partner of JHR, in addition to strengthening the initiatives of the large-scale restructuring plan mentioned earlier and pursuing further consistent cost reduction, measures to create and capture demand will be proactively promoted, such as making attractive products with the hotel itself as the tourism destination and increasing brand awareness through TV commercials, etc., conducting initiatives from both sides to enhance profitability.

In addition, if JHR receives requests for rent reduction, etc. from the lessees that have been impacted by the spread of infection by COVID-19, etc., JHR will examine what has been requested from respective lessees, the details of the existing lease contracts with them, rent levels compared with the market rent, the possibility to collect the reduced rent portion in the future, and their financial conditions. By doing so, JHR will respond to requests individually after discussing with each lessee and operator, while carefully considering the possibility of replacing operators. With the HMJ Group, in the contracts to change fixed-term building lease contracts concluded on August 25, 2020, mentioned earlier in “2. Asset management operation for the fiscal period under review; (2) Investment performance for the fiscal period under review” above, JHR agreed to set all rent as variable rent only from February 2020 through the end of 2021. In light of the situation of the spread of infection by COVID-19 and other factors, agreement has been reached to similarly set all rent to be variable rent only throughout 2022, too, by conclusion of memorandums of understandings related to modifying fixed-term building lease contracts on February 25, 2022. For details, please refer to “6. Significant subsequent events” later in this document on page 14.

On the other hand, JHR believes that accommodation demand from inbound visitors to Japan will recover over a medium to long term, given the large potential demand for overseas tourism globally and in particular, improvement in income levels in Asian countries as well as the popularity of Japan as travel destination. As such, there is no change in the view of JHR that the accommodation and tourism market will expand over the medium to long term. On the belief that the location and competitiveness of individual hotels as well as the capabilities of the operators (the ability to differentiate from other hotels, improve profitability including cost management and capture recovering demand, etc.) will lead to differentiation of performance among hotels, JHR will continue to implement strategies to differentiate its hotels as it has done to date.

In the meanwhile, as a result from the spread of infection by 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 flexibly to environmental changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies continuously 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.

## **Internal growth**

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

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 aiming at raising rents (including introduction of a revenue sharing structure) in accordance with the conditions of the accommodation market while appropriately responding to requests for reduction of fixed rent from lessees greatly affected by COVID-19.

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.

In 2021, JHR changed lessees and conducted rebranding by the HMJ Group for Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA) in June and for Oriental Hotel Universal City (former name: Hotel Keihan Universal City) in July. Each was aimed at achieving more efficient operations, such as through sharing of human resources and back offices with the HMJ Group Hotels located in the surrounding areas. Furthermore, JHR aims to maximize revenue from the hotels in the recovery period of domestic demand by upgrading the hotel grade from economy to mid-price in the case of the former and as a theme park hotel adjacent to Universal Studios Japan in the case of the latter. JHR has adopted a rent scheme that combines fixed rent and variable rent in the lease contract with the HMJ Group. Under the scheme, the rent burden ratio for the Group has risen compared with the former lease contract, and thus the amount of rent JHR will receive during the market recovery period is expected to increase.

In addition, in October 2021, JHR conducted rebranding by the HMJ Group for Oriental Hotel Okinawa Resort & Spa (former name: Okinawa Marriott Resort & Spa) upon the expiration of the franchise contract. The HMJ Group is deploying its branding strategy of “Oriental Hotels & Resorts” since 2021 in order to further strengthen its effort to capture business and leisure demand. JHR believes that, with the brand development by the HMJ Group, increase in hotel revenue can be expected from the “Oriental Hotel” brand penetration, and that will contribute to improvement of the revenue of JHR’s portfolio.

### **A. 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, Sheraton, Mercure and Holiday Inn or 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 through improved performance of these hotels. JHR coordinates with the operators in an effort to enhance the hotel performances by requesting them to implement marketing initiatives to attract a wider range of demand with considerations given to the recovery of leisure demand from domestic and inbound visitors, measures to maintain and increase room rates, and realization of the synergy effects like cost reductions from operating multiple properties, among other issues.

On the other hand, under the impact of the spread of infection by COVID-19, recovery in hotel performance is expected to take time. To cope with such a situation, JHR will closely cooperate with the lessees and operators of respective hotels to promote drastic reform of the hotel earnings structure through cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while continuing efforts on health consideration for the guests and employees of respective hotels and environmental sanitation management. JHR will also promote various measures to restore hotel earnings, such as the creation of appropriate products in response to major changes in the market environment and the preparation of hotel facility environments, etc.

Moreover, in an attempt to recover and enhance hotel earnings, JHR will accurately grasp the situation of the accommodation and tourism market and changing customer needs and conduct strategic capital expenditures (CAPEX) in an appropriate manner as needed.

### **B. Properties under fixed rent contracts**

JHR will pursue efforts to set and maintain reasonable rent levels by appropriately monitoring operating

conditions of these hotels and by paying careful attention to each tenant's ability to bear the rent costs. At the same time, JHR will appropriately respond to requests to reduce fixed rent from the lessees that were greatly affected by the spread of infection of COVID-19. In addition, JHR will carry out investments for the purpose of continuous maintenance and renewal of facilities and equipment to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

### **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 and with future growth potential in mind in order to achieve upside.

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

Specifically, JHR will target 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 capital to be invested in 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 and profitability of the properties, etc. 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 transaction market, although hotel transactions had remained stagnant due to a sense of uncertainty over the domestic accommodation and tourism market stemming from the impact of COVID-19 and transactions continued to remain in low volume as it was in 2021, transactions, including those involving large properties, have started to show movement. Furthermore, there is also increasing possibility of special investment opportunities unlike before, such as sales of assets due to rapid deterioration in the financial position of operators, sales of hotels which are categorized as non-core assets for companies facing deterioration of its main business performance, sales of hotels completed or scheduled to be completed without operators, etc.

JHR will flexibly deal with such investment opportunities by utilizing the efficient hotel operation platform of HMJ Group or by other measures. Moreover, over the medium to long term, JHR believes that, along with the spread of COVID-19 coming to an end and accompanying recovery of domestic accommodation demand including that from inbound visitors, many investors who have been on the sideline may resume investment in hotels, and competition over acquisition may become active again. Going forward, while closely monitoring market trends from many angles, JHR will flexibly respond to changes in earnings structures of hotels and the investment environment by leveraging the strengths and advantages it has cultivated as a J-REIT specializing in hotel investment. As it does so, JHR will aim to expand asset size that accompanies improvement of the portfolio quality through acquiring highly competitive properties, while utilizing the operation platform of the HMJ Group as necessary. For the time being, however, JHR intends to be careful with property acquisition from the standpoint of procurement of new funds for property acquisition in light of the uncertainty of the hotel market environment due to the impact of COVID-19. In addition, from a comprehensive standpoint including financial soundness and portfolio management, JHR will also consider asset replacement accompanying property disposition as necessary.

### **Finance strategy**

As the impact of the spread of infection by COVID-19 prolongs and the outlook of earnings remains uncertain, JHR will focus on the enhancement of financial stability and soundness more than before and intends to maintain and enhance the relationship of trust with financial institutions with which it does business through close communication and such.

Specifically, JHR will work to securely achieve refinancing of existing borrowings while paying attention to financing costs and maintaining good relationships with respective lenders. In addition, JHR will secure liquidity on hand in an effort to strengthen its financial foundation through appropriate control of capital expenditures and

property disposition, if necessary, etc. Although JHR 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, JHR intends to maintain around the current level for the time being. In addition, when seeking new borrowing for property acquisitions, JHR will work to disperse maturity dates of its debt as well as further reinforce its formation of lenders while considering the balance with the funding cost and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds).

### **Policy on handling of negative goodwill**

From the fiscal period ended December 31, 2017 (18th period), JHR started 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 Office Ordinance No. 47 of 2006, as amended; hereinafter referred to as the “Ordinance on Accountings of Investment Corporations”) and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. 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 period ended December 31, 2017, to pay out as dividends every year, 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 offerings, etc., loss on retirement of noncurrent assets, and suspension of sales and such due to large-scale renovations with significant impact on revenues, JHR stipulated a policy to reverse additional portion of the negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note).

(Note) The policy may change due to a resolution of the board of directors. etc., and it does not guarantee the method of reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.

### **Initiatives for Sustainability**

In recent years, there has been growing importance of the risks and opportunities of ESG (Environment, Social and Governance) issues 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 guests, lessees, operators, business partners including property managers, 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. JHR received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for the two properties of Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for hotel properties owned by J-REITs (Note 1). In September 2018, JHR became the first J-REIT specializing in hotels to be recognized by GRESB (Note 2) for its environmental awareness and sustainability initiatives and acquired “Green Star” in the GRESB Real Estate Assessment for the four consecutive years since then. Moreover, for the second consecutive year, JHR was selected as a Sector Leader of Asian Hotel Sector in the GRESB Real Estate Assessment conducted in 2021. In April 2020, Hilton Tokyo Odaiba acquired CASBEE Certification for Buildings, the first such recognition for an existing hotel property. In May 2021, Oriental Hotel Fukuoka Hakata Station also acquired CASBEE Certification for Buildings, the second case of such for an existing hotel property following Hilton Tokyo Odaiba. In addition, in December 2021, JHR defined its materiality (key issues) in terms of ESG from the dual standpoints of expectations by stakeholders and impact on its business. Also, the Asset Management Company expressed support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB), and joined the TCFD Consortium, an organization made up of Japanese companies that support the recommendations. Going forward, JHR, together with the Asset Management Company, will continue to actively promote enhancement of its initiatives and disclosure on a variety of sustainability issues.

Furthermore, JHR issued green bonds in July 2019 to allocate funds mainly to refinance loans procured for funding

capital expenditures and constructions cost, etc. which contribute to the environment, including reduction of CO<sub>2</sub> and water consumption in the renovation work at Oriental Hotel Fukuoka Hakata Station. It was the first case of a J-REIT specializing in hotels issuing green bonds. Of the funds procured from the green bonds, the remaining funds, excluding the repayment of such loans, were used to fund renovation work, etc. at other hotels, and during the fiscal period under review, JHR allocated funds to construction costs for reduction of CO<sub>2</sub>, etc. at four hotels including Hilton Nagoya. As a result, the funds procured from the green bonds have been fully appropriated for eligible projects and there is no unappropriated balance.

In addition, as an effort under the expanding spread of infection by COVID-19, JHR worked together with the lessees to provide a total of nine hotels it owns as facilities to accept patients with mild or no symptoms who do not require hospital treatment among the patients infected with COVID-19 from 2020 through the date of this document. JHR also provided restaurants and banquet rooms in Oriental Hotel Tokyo Bay and Hotel Nikko Nara as venues for vaccination under workplace vaccination programs and for local residents. Furthermore, the HMJ Group conducted workplace vaccination to provide vaccinations to its employees who wish to be vaccinated so that hotel guests can use the hotels safely with peace of mind.

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 disclosed information

(Note 2) GRESB is an annual benchmarking assessment to measure ESG (Environmental, Social and Governance) integration 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.

## 6. Significant subsequent events

### Conclusion of memorandums of understanding related to modifying fixed-term building lease contracts

JHR resolved at its Board of Directors' meeting held on February 25, 2022 to conclude "memorandums of understanding related to fixed-term building lease contracts" with the HMJ Group in order to revise the rent structure for the fiscal year 2022 for the 14 properties listed in (1) Fixed rent in the table below, out of the 16 properties leased to the HMJ Group as lessee, concerning the "contracts to modify fixed-term building lease contracts" dated August 25, 2020 (hereinafter, the "Previous Modification Contracts"). JHR concluded the memorandums of understanding as of the same date.

Although JHR believes that the hotel market will gradually recover during fiscal year 2022 due to progress of vaccination and development of therapeutic medicine in addition to supporting measures by national and local governments to promote tourism, it is difficult to make reasonable estimate as to the speed of recovery and downside risks. Therefore, as it did in the Previous Modification Contracts dated August 2020, JHR has decided to exempt annual fixed rents totaling ¥8,030 million by HMJ group hotels in fiscal year 2022 and adopt a full variable rent structure. No change is made for the base amount of AGOP (Note 1) and payment ratio of variable rent when AGOP exceeds the base amount. In addition, rent structure for the fiscal year 2023 onwards is unchanged from that for the fiscal year 2022 onwards set forth in the Previous Modification Contracts.

The details of the change are indicated below.

#### (1) Fixed rent

No.	Name of property	Lessee	Fixed rent		
			Before change	After change	
			From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	¥ 3,221 million/year	Not applicable	¥ 3,221 million/year
2	Oriental Hotel Tokyo Bay				
3	Namba Oriental Hotel				
4	Hotel Nikko Alivila				

No.	Name of property	Lessee	Fixed rent		
			Before change	After change	
			From FY2022 onwards	FY2022	From FY2023 onwards
5	Oriental Hotel Hiroshima				
6	Oriental Hotel Okinawa Resort & Spa	Lagoon resort Nago Co., Ltd.	¥ 550 million/year		¥ 550 million/year
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 2)	K.K. A.I.C Hiroshima Management	¥ 348 million/year		¥ 348 million/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	¥ 425 million/year		¥ 425 million/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	¥ 576 million/year		¥ 576 million/year
10	Hilton Tokyo Narita Airport	KK Narita Kosuge Operations	¥ 444 million/year		¥ 444 million/year
11	International Garden Hotel Narita	KK Narita Yoshikura Operations	¥ 336 million/year		¥ 336 million/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	¥ 420 million/year		¥ 420 million/year
13	Hotel Oriental Express Osaka Shinsaibashi	Hotel Oriental Express Co., Ltd.	¥ 110 million/year		¥ 110 million/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise KK	¥ 1,600 million/year		¥ 1,600 million/year

## (2) Variable rent

No.	Name of property, etc.	Calculation method of variable rent		
		Before change	After change	
		From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel		AGOP x 86.0%	
2	Oriental Hotel tokyo bay	(Total AGOP of The Five HMJ Hotels (Note 3) – base amount (¥4,120 million/year (Note 4)) x 85.0%)	AGOP x 79.0%	(Total AGOP of The Five HMJ Hotels (Note 3) – base amount (¥4,120 million/year (Note 4)) x 85.0%)
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	Oriental Hotel Okinawa Resort & Spa		(AGOP – base amount (¥655 million/year)) x 95.0%	
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 2)	(AGOP – base amount (¥360 million/year)) x 90.0%	AGOP x 93.0%	(AGOP – base amount (¥360 million/year)) x 90.0%
8	Oriental Hotel Fukuoka Hakata Station	(AGOP – base amount (¥442 million/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (¥442 million/year)) x 98.0%
9	Holiday Inn Osaka Namba	(AGOP – base amount (¥580 million/year)) x 97.0%	AGOP x 98.0%	(AGOP – base amount (¥580 million/year)) x 97.0%
10	Hilton Tokyo Narita Airport	(AGOP – base amount (¥450 million/year)) x 93.0%	AGOP x 95.0%	(AGOP – base amount (¥450 million/year)) x 93.0%
11	International Garden Hotel Narita	(AGOP – base amount (¥360 million/year)) x 98.0%	AGOP x 95.0%	(AGOP – base amount (¥360 million/year)) x 98.0%
12	Hotel Nikko Nara	(AGOP – base amount (¥440 million/year)) x 95.0%	AGOP x 95.0%	(AGOP – base amount (¥440 million/year)) x 95.0%
13	Hotel Oriental Express Osaka Shinsaibashi	(AGOP – base amount (¥128 million/year)) x 91.0%	AGOP x 87.0%	(AGOP – base amount (¥128 million/year)) x 91.0%
14	Hilton Tokyo Odaiba	(AGOP – base amount (¥1,660 million/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (¥1,660 million/year)) x 98.0%

(Note 1) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. GOP (Gross Operating Profit) is the amount calculated by subtracting cost for hotel operation (personal cost, general administration cost, etc.) from sales of the hotel. The same shall apply hereinafter.

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

(Note 3) The Five HMJ Hotels refers to the 5 hotels (Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima) which JHR leases to HMJ.

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

(3) Impact of concluding the memorandums of understanding on profit and loss

Due to the conclusion of the memorandums, fixed rent to be recorded for operating revenue is anticipated to decrease by ¥8,030 million for the fiscal period ending December 2022. However, the impact on variable rent cannot be estimated at this point as variable rent to be recorded for operating revenue will be determined by the AGOP for the full year of the fiscal period ending December 2022.

7. Reference information

<Reference 1> Major indicators of the hotel business for the fiscal period ended December 31, 2021

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2021 through December 31, 2021, based on the data provided by the hotel lessees, etc. Furthermore, while the indicators of the hotels are among the indicators that show the operating status of the rooms departments, 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. 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		Namba Oriental Hotel		Hotel Nikko Alivila		Oriental Hotel Hiroshima		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	40.7%	—	36.7%	—	26.8%	—	29.2%	—	76.6%	—	39.5%	—
ADR (Note 1)	17,680	—	13,849	—	6,186	—	25,258	—	8,811	—	14,471	—
RevPAR (Note 2)	7,188	—	5,076	—	1,659	—	7,384	—	6,746	—	5,715	—
Total sales (millions of yen)	2,820	100.0%	2,103	100.0%	775	100.0%	2,275	100.0%	993	100.0%	8,966	100.0%
Rooms department	847	30.1%	947	45.0%	156	20.1%	1,070	47.0%	559	56.3%	3,579	39.9%
Food & beverage department	1,548	54.9%	562	26.7%	5	0.6%	643	28.2%	137	13.8%	2,895	32.3%
Tenant department	70	2.5%	112	5.3%	567	73.1%	2	0.1%	5	0.5%	757	8.4%
Other departments (Note 3)	353	12.5%	482	22.9%	48	6.1%	560	24.6%	293	29.5%	1,735	19.4%
GOP (millions of yen)	41	1.5%	(53)	(2.5%)	317	40.8%	213	9.4%	334	33.6%	851	9.5%

	Oriental Hotel Okinawa Resort & Spa		Sheraton Grand Hiroshima Hotel		Oriental Hotel Fukuoka Hakata Station		Holiday Inn Osaka Namba		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		Ratio to total sales	(Note 5)	Ratio to total sales		Ratio to total sales	(Note 4)	Ratio to total sales		Ratio to total sales		Ratio to total sales
Occupancy rate	26.5%	—	31.5%	—	44.8%	—	37.5%	—	45.0%	—	54.8%	—
ADR (Note 1)	19,948	—	21,173	—	10,446	—	3,273	—	11,354	—	7,504	—
RevPAR (Note 2)	5,284	—	6,673	—	4,678	—	1,228	—	5,104	—	4,109	—
Total sales (millions of yen)	1,296	100.0%	1,558	100.0%	999	100.0%	175	100.0%	1,655	100.0%	1,005	100.0%
Rooms department	696	53.7%	580	37.2%	377	37.8%	141	80.5%	1,021	61.7%	694	69.1%
Food & beverage department	288	22.2%	853	54.8%	307	30.7%	—	—	421	25.4%	231	23.0%
Tenant department	39	3.0%	—	—	208	20.9%	31	17.7%	22	1.4%	2	0.2%
Other departments (Note 3)	273	21.1%	125	8.1%	106	10.6%	3	1.7%	191	11.5%	78	7.7%
GOP (millions of yen)	(237)	(18.3%)	235	15.1%	251	25.2%	77	44.0%	101	6.1%	299	29.8%

	Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average	
		Ratio to total sales	(Note 4)	Ratio to total sales		Ratio to total sales	(Note 6)	Ratio to total sales
Occupancy rate	24.8%	—	—	—	41.4%	—	38.5%	—
ADR (Note 1)	12,500	—	—	—	28,582	—	14,068	—
RevPAR (Note 2)	3,103	—	—	—	11,843	—	5,413	—
Total sales (millions of yen)	916	100.0%	1	100.0%	4,505	100.0%	21,078	100.0%
Rooms department	374	40.8%	—	—	1,958	43.5%	9,421	44.7%
Food & beverage department	443	48.4%	—	—	1,857	41.2%	7,295	34.6%
Tenant department	5	0.5%	—	—	79	1.7%	1,143	5.4%
Other departments (Note 3)	94	10.3%	1	100.0%	612	13.6%	3,220	15.3%
GOP (millions of yen)	(100)	(10.9%)	(21)	—	594	13.2%	2,050	9.7%

(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.

(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 product sales department.

(Note 4) The properties were temporarily closed for a certain period of time during the fiscal period under review due to the impact of COVID-19, but the occupancy rate has been calculated by including the closed 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, etc.

(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.

**<Reference 2> Hotel operation indexes, sales and GOP**

The numerical figures are based on figures obtained from hotel lessees, etc. Please note that these figures have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the figures and information.

**<1> The HMJ Group Hotels**

		Fiscal period ended December 31, 2020		Fiscal period ended December 31, 2021	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	33.1%	(52.2)pt	27.7%	(5.4)pt
	Second half	38.4%	(49.5)pt	49.0%	10.6pt
	Full year	35.8%	(50.8)pt	38.5%	2.7pt
ADR	First half	15,222	(13.4)%	13,048	(14.3)%
	Second half	16,814	(14.4)%	14,636	(13.0)%
	Full year	16,081	(13.7)%	14,068	(12.5)%
RevPAR	First half	5,045	(66.4)%	3,618	(28.3)%
	Second half	6,460	(62.6)%	7,179	11.1%
	Full year	5,757	(64.3)%	5,413	(6.0)%
Sales (millions of yen)	First half	9,167	(61.9)%	8,313	(9.3)%
	Second half	11,978	(55.9)%	12,765	6.6%
	Full year	24,146	(58.7)%	21,078	(0.3)%
GOP (millions of yen)	First half	(370)	(105.1)%	(136)	–%
	Second half	1,696	(82.8)%	2,186	28.9%
	Full year	1,326	(92.3)%	2,050	54.7%

**<2> The 24 Hotels with Variable Rent**

		Fiscal period ended December 31, 2020		Fiscal period ended December 31, 2021	
		Actual	Comparison with previous period	Actual	Comparison with previous period
Occupancy rate	First half	34.0%	(51.1)pt	30.6%	(3.3)pt
	Second half	40.8%	(46.1)pt	49.6%	8.9pt
	Full year	37.4%	(48.6)pt	40.2%	2.8pt
ADR	First half	13,362	(14.8)%	10,846	(18.8)%
	Second half	13,354	(22.6)%	12,313	(7.8)%
	Full year	13,357	(19.0)%	11,757	(12.0)%
RevPAR	First half	4,536	(66.0)%	3,320	(26.8)%
	Second half	5,445	(63.7)%	6,112	12.2%
	Full year	4,993	(64.8)%	4,724	(5.4)%
Sales (millions of yen)	First half	10,718	(62.1)%	9,478	(11.6)%
	Second half	13,378	(57.5)%	14,309	7.0%
	Full year	24,096	(59.6)%	23,786	(1.3)%
GOP (millions of yen)	First half	(213)	(102.4)%	(65)	–%
	Second half	1,867	(84.2)%	2,502	34.0%
	Full year	1,654	(92.1)%	2,437	47.4%

**<Reference 3> Dividend per unit and appropriation for dividends**

Dividend per unit for the fiscal periods ended December 31, 2020 and December 31, 2021 were calculated based on the assumptions described below.

		(millions of yen)	
		Fiscal period ended December 31, 2020	Fiscal period ended December 31, 2021
Unappropriated retained earnings		1,527	1,300
Total of reserve for temporary difference adjustments (negative goodwill) used		305	335
	Negative goodwill – 50-year amortization amount (Note 1)	262	262
	Loss on retirement of noncurrent assets (Note 2)	5	16
	Amortization of trademark rights (Note 3)	37	56
Total dividends		1,829	1,634
Total number of investment units issued (Units)		4,462,347	4,467,006
Dividend per unit (¥)		410	366

(Note 1) JHR reverses ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”) to payout as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year.

(Note 2) The amount recognized as a loss on retirement of noncurrent assets are appropriated by reserve for temporary difference adjustment (negative goodwill).

(Note 3) The trademark rights for the Oriental Hotel brand, etc. are amortized over 10 years using the straight-line method. For the amount to be amortized in the fiscal period under review, reserve for temporary difference adjustment (negative goodwill) is appropriated.

**<Reference 4> Balance of reserve for temporary difference adjustment**

The balance of reserve for temporary difference adjustment (negative goodwill) after appropriation for dividends for the fiscal period ended December 2021 is as follows.

	(millions of yen)
Balance of reserve for temporary difference adjustment as of December 31, 2021	10,311
Appropriation for dividends as of December 31, 2021	(335)
Balance of reserve for temporary difference adjustment after appropriation for dividends for the fiscal period ended December 31, 2021	9,976

## Overview of JHR

### 1. Unitholders' capital

Account closing date	18th period	19th period	20th period	21st period	22nd period
	As of December 31, 2017	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020	As of December 31, 2021
Total number of authorized units (Units)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Number of investment units issued and outstanding (Units)	4,010,847	4,010,847	4,462,347	4,462,347	4,467,006
Unitholders' capital (¥1M)	153,516	153,516	186,894	186,894	187,194
Number of unitholders (Persons)	35,046	31,155	30,574	35,117	31,481

### 2. Matters regarding investment units

Major unitholders of JHR as of December 31, 2021 were as follows:

Name	Number of units held (Units)	Percentage (Note) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	723,372	16.19%
Custody Bank of Japan, Ltd. (Trust Account)	473,663	10.60%
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	196,659	4.40%
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	184,396	4.12%
SDSS K INVESTCO LIMITED	117,567	2.63%
ELLIOTT INTERNATIONAL LP	76,823	1.71%
STATE STREET BANK WEST CLIENT TREATY 505234	71,249	1.59%
THE BANK OF NEW YORK MELLON 140044	63,021	1.41%
SSBTC CLIENT OMNIBUS ACCOUNT	62,547	1.40%
JP MORGAN CHASE BANK 385781	59,668	1.33%
Total	2,028,965	45.42%

(Note) The percentage indicates the ratio of the number of units held to the number of units issued and outstanding, rounded down to the two decimal places.

### 3. Matters regarding officers, etc.

(1) Officers, etc. as of December 31, 2021 were as follows:

Position	Name	Major concurrent post outside JHR	Total amount of remuneration for each position during the corresponding fiscal period (¥1000)
Executive Director	Kaname Masuda (Note 1)	Representative Partner, Masuda & Partners Law Office	6,600
Supervisory Director	Tetsuya Mishiku (Note 1)	Representative Attorney, Mishiku & Nagamachi Law Office	3,600
Supervisory Director	Hiroto Kashii (Note1)	—	3,600
Supervisory Director	Mayumi Umezawa (Note1)	Representative of Umezawa Accountant Office	3,600
Independent auditor	KPMG AZSA LLC	—	25,000

(Note 1) None of the Executive Director and the Supervisory Directors own investment units of JHR in their own name or another person's name. Moreover, although the Supervisory Directors may be officers in corporations other than those listed above, there are no conflicts of interest between those corporations including those listed above and JHR.

(Note 2) In case the number of Executive Director does not meet the requirement stipulated by laws and regulations, Hisashi Furukawa, Representative Director of the Asset Management Company, was reappointed as Substitute Executive Director, based on the resolution made by the 11th General Meeting of Unitholders of JHR held on November 25, 2021.

(2) Policy for decisions on dismissal or non-reappointment of independent auditor

We have a policy to determine, at a General Meeting of Unitholders, whether to dismiss the independent auditor pursuant to provisions of the Investment Trusts Act, and to determine whether or not to reappoint the independent auditor taking into comprehensive consideration the audit quality, audit fees and other various matters.

**4. Matters regarding directors and officers liability insurance contract**

JHR has entered into a directors and officers liability insurance agreement as follows:

Scope of the insured	Overview of contract
Executive Director and Supervisory Directors	<p>(Overview of insured event covered by the insurance)</p> <p>JHR has entered into a directors and officers liability insurance contract, as provided in Article 116-3-1 of the Investment Trusts Act, with an insurance company. The contract shall cover, to a certain extent, such legal loss as compensation payment for damages and dispute costs to be borne by the insured when they receive a claim for compensation of damages caused by the actions they have taken as a director of JHR.</p> <p>(Burden ration of insurance premium)</p> <p>JHR bears 92.7% of the insurance premium and the insured persons bear the remaining 7.3%.</p> <p>(Measures to ensure the appropriateness of the execution of duties by directors and officers)</p> <p>When the insured suffer damages by actions which they executed while recognizing that it may constitute criminal act or violate the laws and regulations, the loss is not subject of the protection.</p>

**5. Asset management company, custodian and general administrators**

The asset management company, etc. as of December 31, 2021 were as follows:

Consignment classification	Name
Asset management company	Japan Hotel REIT Advisors Co., Ltd.
Custodian	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration of the unitholders' registry, etc., bookkeeping, etc., tax payments, etc., organizational operations, etc., and administration of the special account management agency)	Sumitomo Mitsui Trust Bank, Limited
General administrator (administration regarding investment corporation bonds)	Sumitomo Mitsui Trust Bank, Limited Mizuho Bank, Ltd. Resona Bank, Limited MUFG Bank, Ltd.
General administrator (tax return preparation, etc.)	PwC Tax Japan

## Status of Investment Assets

### 1. Composition of assets

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	21st period (As of December 31, 2020)		22nd period (As of December 31, 2021)			
				Total amount of assets held (¥1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (¥1M) (Note 2)	Ratio to total assets (%) (Note 3)		
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,870	6.7	26,757	6.8		
			Namba Oriental Hotel	14,437	3.6	14,354	3.6		
			Hotel Oriental Express Osaka Shinsaibashi	2,805	0.7	2,793	0.7		
		Tokyo	ibis Tokyo Shinjuku (Note 4)	7,830	2.0	—	—		
			the b ikebukuro	6,578	1.6	6,567	1.7		
			CANDEO HOTELS UENO-KOEN	6,606	1.7	6,567	1.7		
			Comfort Hotel Tokyo Higashi Nihombashi	3,491	0.9	3,457	0.9		
			the b hachioji	2,664	0.7	2,683	0.7		
			Smile Hotel Nihombashi Mitsukoshimae	2,042	0.5	2,028	0.5		
			R&B Hotel Ueno Hirokoji	1,806	0.5	1,794	0.5		
			Chisun Hotel Kamata	1,447	0.4	1,452	0.4		
			the b suidobashi	1,173	0.3	1,170	0.3		
			dormy inn · global cabin Asakusa	934	0.2	930	0.2		
			Chisun Inn Kamata	768	0.2	775	0.2		
		Hokkaido	ibis Styles Sapporo	6,492	1.6	6,432	1.6		
			Mercure Sapporo	5,735	1.4	5,671	1.4		
		Fukuoka	Hotel Oriental Express Fukuoka Tenjin (former name: HOTEL ASCENT FUKUOKA) (Note 5)	5,450	1.4	5,716	1.4		
			the b hakata	2,329	0.6	2,345	0.6		
			Hakata Nakasu Washington Hotel Plaza	2,038	0.5	2,054	0.5		
			Toyoko Inn Hakata-guchi Ekimae	1,401	0.4	1,382	0.4		
		Kyoto	ibis Styles Kyoto Station	6,623	1.7	6,599	1.7		
		Okinawa	Mercure Okinawa Naha	2,801	0.7	2,784	0.7		
		Kumamoto	Dormy Inn Kumamoto	2,170	0.5	2,203	0.6		
		Nara	Nara Washington Hotel Plaza	1,764	0.4	1,736	0.4		
		Subtotal				116,265	29.0	108,259	27.5
		Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,376	15.8	63,266	16.0	
				Chiba	Oriental Hotel tokyo bay	17,190	4.3	16,945	4.3
	Hilton Tokyo Narita Airport				13,088	3.3	13,015	3.3	
	International Garden Hotel Narita				9,127	2.3	9,059	2.3	
	Hotel Francs				3,145	0.8	3,141	0.8	
	Hiroshima		ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,215	4.3	17,060	4.3		
			Oriental Hotel Hiroshima	4,048	1.0	4,043	1.0		
	Aichi		Hilton Nagoya	15,695	3.9	15,618	4.0		
Nara	Hotel Nikko Nara		10,254	2.6	10,145	2.6			
Hyogo	Kobe Meriken Park Oriental Hotel		9,482	2.4	9,337	2.4			
Fukuoka	Oriental Hotel Fukuoka Hakata Station		9,251	2.3	8,955	2.3			
Kanagawa	Mercure Yokosuka	1,606	0.4	1,598	0.4				
Subtotal				173,483	43.3	172,186	43.7		
Resort hotel	Okinawa	Hotel Nikko Alivila	17,790	4.4	17,627	4.5			
		Oriental Hotel Okinawa Resort & Spa (former name: Okinawa Marriott Resort & Spa) (Note 5)	14,745	3.7	14,597	3.7			
		The Beach Tower Okinawa	6,490	1.6	6,472	1.6			
	Chiba	Hilton Tokyo Bay	26,289	6.6	26,159	6.6			
	Osaka	Oriental Hotel Universal City (former name: Hotel Keihan Universal City) (Note 5)	5,830	1.5	7,019	1.8			

Type of assets	Hotel Type (Note 1)	Prefectural location	Name of property, etc.	21st period (As of December 31, 2020)		22nd period (As of December 31, 2021)	
				Total amount of assets held (¥1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount of assets held (¥1M) (Note 2)	Ratio to total assets (%) (Note 3)
		Kanagawa	Hakone Setsugetsuka	3,616	0.9	3,593	0.9
		Subtotal		74,763	18.7	75,469	19.1
		Real estate in trust – Total		364,512	91.1	355,915	90.3
		Deposits and other assets (Note 7)		35,783	8.9	38,408	9.7
		Total assets		400,296	100.0	394,323	100.0

- (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 of assets 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 each asset held to total assets, rounded off to one decimal place.
- (Note 4) ibis Tokyo Shinjuku was sold on December 15, 2021.
- (Note 5) Through rebranding, HOTEL ASCENT FUKUOKA changed its name to Hotel Oriental Express Fukuoka Tenjin on June 18, 2021, Hotel Keihan Universal City changed its name to Oriental Hotel Universal City on July 1, 2021, and Okinawa Marriott Resort & Spa changed its name to Oriental Hotel Okinawa Resort & Spa on October 1, 2021. In this report, the same shall apply hereinafter.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the hotel type of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Includes machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold rights in trust).

## 2. Major portfolio assets

An overview of the portfolio assets of JHR (41 properties in total) as of December 31, 2021 are as follows.

Property No.	Name of property, etc.	Book value (¥1M) (Note 1)	Leasable area (m <sup>2</sup> ) (Note 2)	Leased area (m <sup>2</sup> ) (Note 3)	Tenant occupancy ratio (%)	Ratio of rental revenue to total rental revenue (%) (Note 4)	Major use
1	Kobe Meriken Park Oriental Hotel (Note 5)	9,541	32,663.90	32,663.90	100.0	0.3	Hotel
2	Oriental Hotel tokyo bay	17,106	44,833.11	44,833.11	100.0	0.0	Hotel
3	Namba Oriental Hotel	14,427	19,364.33	19,364.33	100.0	2.8	Hotel
4	Hotel Nikko Alivila (Note 6)	17,839	38,024.98	38,024.98	100.0	1.5	Hotel
5	Oriental Hotel Hiroshima	4,100	13,752.22	13,752.22	100.0	2.9	Hotel
8	The Beach Tower Okinawa (Note 7)	6,476	20,140.01	20,140.01	100.0	4.9	Hotel
9	Hakone Setsugetsuka	3,599	10,655.03	10,655.03	100.0	2.8	Hotel
10	Dormy Inn Kumamoto	2,203	7,701.19	7,701.19	100.0	1.9	Hotel
12	the b suidobashi	1,187	3,097.25	3,097.25	100.0	0.1	Hotel
13	dormy inn • global cabin Asakusa	930	2,014.90	2,014.90	100.0	0.6	Hotel
14	Hakata Nakasu Washington Hotel Plaza	2,054	5,602.04	5,602.04	100.0	2.3	Hotel
15	Nara Washington Hotel Plaza	1,736	5,271.54	5,271.54	100.0	1.4	Hotel
16	R&B Hotel Ueno Hirokoji	1,794	3,060.31	3,060.31	100.0	0.9	Hotel
18	Comfort Hotel Tokyo Higashi Nihombashi	3,457	5,765.27	5,765.27	100.0	2.6	Hotel
22	Smile Hotel Nihombashi Mitsukoshimae	2,028	3,167.82	3,167.82	100.0	1.3	Hotel
24	Toyoko Inn Hakata-guchi Ekimae	1,382	Main building: 3,581.66 Annex: 868.36	Main building: 3,581.66 Annex: 868.36	100.0	1.4	Hotel
25	Chisun Hotel Kamata	1,467	3,831.80	3,831.80	100.0	0.1	Hotel
26	Chisun Inn Kamata	782	1,499.87	1,499.87	100.0	0.0	Hotel
29	Oriental Hotel Universal City (Note 8)	7,292	15,926.83	15,926.83	100.0	4.5	Hotel
31	Hilton Tokyo Bay (Note 9)	26,169	64,928.83	64,928.83	100.0	19.1	Hotel
32	ibis Styles Kyoto Station	6,615	5,003.99	5,003.99	100.0	0.4	Hotel
33	ibis Styles Sapporo	6,463	14,992.49	14,896.40	99.4	0.5	Hotel
34	Mercure Sapporo	5,726	15,189.42	14,532.53	95.7	1.1	Hotel
35	Mercure Okinawa Naha	2,821	10,884.25	10,884.25	100.0	0.0	Hotel
37	the b ikebukuro (Note 10)	6,579	5,650.01	5,650.01	100.0	3.9	Hotel
39	the b hachioji (Note 10)	2,702	7,847.65	7,847.65	100.0	0.4	Hotel
40	the b hakata (Note 10)	2,362	3,986.09	3,986.09	100.0	0.3	Hotel
41	Hotel Francs	3,141	19,213.39	19,213.39	100.0	2.9	Hotel
42	Mercure Yokosuka (Note 11)	1,627	16,881.82	16,881.82	100.0	2.3	Hotel
43	Oriental Hotel Okinawa Resort & Spa	14,728	36,430.15	36,430.15	100.0	0.0	Hotel
44	ACTIVE-INTER CITY HIROSHIMA (Note 12)	17,153	31,181.03	31,025.15	99.5	8.5	Hotel
45	CANDEO HOTELS UENO-KOEN (Note 13)	6,574	7,934.26	7,934.26	100.0	3.4	Hotel
46	Oriental Hotel Fukuoka Hakata Station	9,123	18,105.42	18,105.42	100.0	2.4	Hotel
47	Holiday Inn Osaka Namba	26,788	11,501.10	11,501.10	100.0	0.7	Hotel
48	Hotel Oriental Express Fukuoka Tenjin	5,828	8,238.75	7,916.69	96.1	3.9	Hotel
49	Hilton Nagoya (Note 14)	15,618	47,942.71	47,942.71	100.0	7.5	Hotel
50	Hilton Tokyo Narita Airport	13,252	56,817.28	56,817.28	100.0	0.4	Hotel
51	International Garden Hotel Narita	9,124	21,814.93	21,814.93	100.0	2.7	Hotel
52	Hotel Nikko Nara (Note 15)	10,238	21,011.31	21,011.31	100.0	0.0	Hotel
53	Hotel Oriental Express Osaka Shinsaibashi	2,816	2,710.55	2,710.55	100.0	0.0	Hotel
54	Hilton Tokyo Odaiba	63,486	64,907.76	64,907.76	100.0	5.0	Hotel
	Total	358,352	733,995.61	732,764.69	99.8	98.2	

(Note 1) Book value includes real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets.

(Note 2) In principle, 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).

- (Note 3) In principle, 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 companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by 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. In this report, the same shall apply hereinafter.
- (Note 4) Represents the ratio of rental revenue to total real estate operating revenue for the fiscal period under review. In calculating, the figures are rounded off to one decimal place. Please note that the sum of the ratio of rental revenue to total rental revenue is 98.2% because the relevant ratios of the trademark rights for the Oriental Hotel brand, etc. and of ibis Tokyo Shinjuku that was sold in the 22nd fiscal period are not included.
- (Note 5) Kobe Meriken Park Oriental Hotel is a building owned in the form of a compartmentalized ownership by two owners (JHR and Kobe City). The area in this table shows the portion owned exclusively by JHR (including an accessory building of 764.83 square meters).
- (Note 6) Leasable area and leased area for Hotel Nikko Alivila include an accessory building of 120.10 square meters and exclude a building of 493.50 square meters rented by JHR from Kabushiki Kaisha Okinawa Umi No Sono.
- (Note 7) Leasable area and leased area for The Beach Tower Okinawa include the floor area of a warehouse in a two-story light-gauge steel annex building (91.20 square meters).
- (Note 8) The building of Oriental Hotel Universal City is a building with compartmentalized ownership for Universal CityWalk Osaka, which comprises two hotel buildings, business facilities, commercial facilities and others, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 9) 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).
- (Note 10) The b ikebukuro, the b hachioji and the b hakata are properties with pass-through master lease contracts in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle. In this report, the same shall apply hereinafter.
- (Note 11) The building of Mercure Yokosuka is a building with compartmentalized ownership for Bay Square Yokosuka Ichibankan, which comprises a hotel, a theater, stores, apartments, office spaces and parking lots, as a single building. For the leasable area and leased area of the property, the leased area under the lease contract of the hotel is indicated.
- (Note 12) The building of ACTIVE-INTER CITY HIROSHIMA is a building with compartmentalized ownership for ACTIVE-INTER CITY HIROSHIMA, which comprises Sheraton Grand Hiroshima Hotel, office spaces, stores, parking lots and bicycle parking lots etc., as a single building. For the leasable area and leased area of the property, the leased area under the lease contracts of the hotel, office spaces and stores are indicated.
- (Note 13) Leasable area and leased area of CANDEO HOTELS UENO-KOEN indicate the total floor area described in the certificate of inspection, based on the building lease contract with the hotel lessee. Furthermore, the figure includes the floor area for the mechanical parking facilities.
- (Note 14) The building of Hilton Nagoya is a compartmentalized ownership of AMMNAT SQUARE, which consists of a hotel building (including retail space), office building and car parking space, etc., as a single building. Leasable area and leased area indicate the sum total of the leased area for the hotel building, the office building and the retail space described in the lease contracts.
- (Note 15) The building of Hotel Nikko Nara is a compartmentalized ownership of the entire building of Redeveloped Building 1 in front of JR Nara Station, which consists of hotel building, retail space and car parking space, etc. JHR's share of voting right of the building is 223/353 (approximately 63.2%).
- (Note 16) The omitted property numbers are the numbers for assets that have been transferred.

### 3. Details of property assets, etc.

#### (1) Details of property assets

The details of real estate properties, etc. held by JHR as of December 31, 2021 were as follows:

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (¥1M) (Note 1)	Book value (¥1M) (Note 2)	Appraisal agency (Note 3)
1	Kobe Meriken Park Oriental Hotel	5-6 Hatobacho, Chuo-ku, Kobe-shi, Hyogo	Beneficial interest in trust	14,000	9,541	JR
2	Oriental Hotel tokyo bay	8-2 Mihama 1-chome, Urayasu-shi, Chiba	Beneficial interest in trust	32,200	17,106	JR
3	Namba Oriental Hotel	8-17 Sennichimae 2-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	31,400	14,427	JR
4	Hotel Nikko Alivila	600 Aza Gima, Yomitan-son, Nakagami-gun, Okinawa	Beneficial interest in trust	28,800	17,839	JR
5	Oriental Hotel Hiroshima	6-10 Tanakamachi, Naka-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	4,230	4,100	JR
8	The Beach Tower Okinawa (Note 4)	8-6 Aza Mihama, Chatan-cho, Nakagami-gun, Okinawa	Beneficial interest in trust	9,980	6,476	JR
9	Hakone Setsugetsuka	1300 Goura, Hakone-machi, Ashigarashimo-gun, Kanagawa	Beneficial interest in trust	5,260	3,599	JR
10	Dormy Inn Kumamoto	3-1 Karashimacho, Kumamoto-shi, Kumamoto	Beneficial interest in trust	2,950	2,203	JR
12	the b suidobashi	25-27 Hongo 1-chome, Bunkyo-ku, Tokyo	Beneficial interest in trust	2,280	1,187	JR
13	dormy inn · global cabin Asakusa	3-4 Hanakawado 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,300	930	JM
14	Hakata Nakasu Washington Hotel Plaza	8-28 Nakasu 2-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,530	2,054	JR
15	Nara Washington Hotel Plaza	31-1 Shimosanjo-cho, Nara-shi, Nara	Beneficial interest in trust	2,430	1,736	JR
16	R&B Hotel Ueno Hirokoji	18-8 Ueno 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	1,900	1,794	JM
18	Comfort Hotel Tokyo Higashi Nihombashi	10-11 Nihonbashi-bakurocho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	5,340	3,457	JM
22	Smile Hotel Nihombashi Mitsukoshimae	4-14 Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo	Beneficial interest in trust	2,930	2,028	JM
24	Toyoko Inn Hakata-guchi Ekimae	Main building: 15-5 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka Annex: 1-15 Hakataekimae 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	2,760	1,382	T
25	Chisun Hotel Kamata	20-11 Nishikamata 8-chome, Ota-ku, Tokyo	Beneficial interest in trust	2,020	1,467	T
26	Chisun Inn Kamata	23-13 Kamata 4-chome, Ota-ku, Tokyo	Beneficial interest in trust	1,370	782	T
29	Oriental Hotel Universal City	2-78 Shimaya 6-chome, Konohana-ku, Osaka-shi, Osaka	Beneficial interest in trust	16,700	7,292	R
31	Hilton Tokyo Bay	1-33 Maihama, Urayasu-shi, Chiba	Beneficial interest in trust	40,300	26,169	D
32	ibis Styles Kyoto Station	47-1, 47-2 Higashikujo Kamitonodacho, Minami-ku, Kyoto-shi, Kyoto	Beneficial interest in trust	9,990	6,615	D
33	ibis Styles Sapporo	10-10 Minami 8-jo Nishi 3-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	11,100	6,463	JR
34	Mercure Sapporo	2-4 Minami 4-jo Nishi 2-chome, Chuo-ku, Sapporo-shi, Hokkaido	Beneficial interest in trust	10,500	5,726	JR
35	Mercure Okinawa Naha	3-19 Tsubogawa 3-chome, Naha-shi, Okinawa	Beneficial interest in trust	6,950	2,821	JR
37	the b ikebukuro	39-4 Higashi-ikebukuro 1-chome, Toshima-ku, Tokyo	Beneficial interest in trust	7,230	6,579	JR
39	the b hachioji	6-12 Myojincho 4-chome, Hachioji-shi, Tokyo	Beneficial interest in trust	2,570	2,702	JR
40	the b hakata	3-9 Hakata-eki Minami 1-chome, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	4,340	2,362	JR

Property No.	Name of property, etc.	Location (Displayed address)	Form of ownership	Assessed value at end of period (¥1M) (Note 1)	Book value (¥1M) (Note 2)	Appraisal agency (Note 3)
41	Hotel Francs	10-2 Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba	Beneficial interest in trust	4,040	3,141	D
42	Mercure Yokosuka	27 Honcho 3-chome, Yokosuka-shi, Kanagawa	Beneficial interest in trust	3,360	1,627	D
43	Oriental Hotel Okinawa Resort & Spa	1490-1 Kise, Nago-shi, Okinawa	Beneficial interest in trust	17,300	14,728	JR
44	ACTIVE-INTER CITY HIROSHIMA	12-1 Wakakusa-cho, Higashi-ku, Hiroshima-shi, Hiroshima	Beneficial interest in trust	20,700	17,153	D
45	CANDEO HOTELS UENO-KOEN	2-13 Negishi 1-chome, Taito-ku, Tokyo	Beneficial interest in trust	7,440	6,574	D
46	Oriental Hotel Fukuoka Hakata Station	4-23 Hakata-eki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	15,200	9,123	D
47	Holiday Inn Osaka Namba	5-15 Soemon-cho, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	26,600	26,788	JR
48	Hotel Oriental Express Fukuoka Tenjin	3-3-14 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka	Beneficial interest in trust	6,520	5,828	D
49	Hilton Nagoya	1-3-3 Sakae, Naka-ku, Nagoya-shi, Aichi	Beneficial interest in trust	14,800	15,618	D
50	Hilton Tokyo Narita Airport	456 Kosuge, Narita-shi, Chiba	Beneficial interest in trust	13,600	13,252	JR
51	International Garden Hotel Narita	241-1 Yoshikura, Narita-shi, Chiba	Beneficial interest in trust	9,520	9,124	JR
52	Hotel Nikko Nara	8-1 Sanjyohomachi, Nara-shi, Nara	Beneficial interest in trust	9,800	10,238	D
53	Hotel Oriental Express Osaka Shinsaibashi	2-13 Minamisenba 3-chome, Chuo-ku, Osaka-shi, Osaka	Beneficial interest in trust	2,840	2,816	D
54	Hilton Tokyo Odaiba	9-1 Daiba 1-chome, Minato-ku, Tokyo	Beneficial interest in trust	68,400	63,486	JR
Total				485,480	358,352	

(Note 1) Assessed value at end of period shows appraisal value as of the end of the fiscal period under review as the date of valuation, in accordance with JHR's Articles of Incorporation, the Ordinance on Accounting of Investment Corporations and regulations set forth by The Investment Trusts Association, Japan.

(Note 2) Book value includes amounts of real estate in trust, machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets.

(Note 3) The letters indicate the appraisers for the properties as follows:

JR: Japan Real Estate Institute

JM: 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 4) Due to the lack of a displayed address, "location" in the registration or registration record is shown.

(Note 5) The omitted property numbers are the numbers for assets that have been transferred.

## (2) Transition of real estate leasing business, etc.

An overview of leasing business of real estate, etc. owned by JHR is as follows:

Property No.	Name of property, etc.	21st period (From January 1, 2020 to December 31, 2020)				22nd period (From January 1, 2021 to December 31, 2021)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (¥1M)	Ratio to total real estate operating revenue (%) (Note 2)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (¥1M)	Ratio to total real estate operating revenue (%) (Note 2)
1	Kobe Meriken Park Oriental Hotel	1	100.0	176	1.7	1	100.0	36	0.3
2	Oriental Hotel tokyo bay	1	100.0	(134)	(1.3)	1	100.0	—	0.0
3	Namba Oriental Hotel	1	100.0	415	4.0	1	100.0	288	2.8
4	Hotel Nikko Alivila	1	100.0	263	2.5	1	100.0	155	1.5
5	Oriental Hotel Hiroshima	1	100.0	(96)	(0.9)	1	100.0	297	2.9
6	ibis Tokyo Shinjuku (Note 3)	4	100.0	141	1.3	—	—	155	1.5
8	The Beach Tower Okinawa	1	100.0	511	4.9	1	100.0	511	4.9
9	Hakone Setsugetsuka	1	100.0	294	2.8	1	100.0	294	2.8
10	Dormy Inn Kumamoto	1	100.0	194	1.9	1	100.0	194	1.9
12	the b suidobashi	1	100.0	21	0.2	1	100.0	12	0.1
13	dormy inn · global cabin Asakusa	1	100.0	63	0.6	1	100.0	63	0.6
14	Hakata Nakasu Washington Hotel Plaza	1	100.0	240	2.3	1	100.0	240	2.3
15	Nara Washington Hotel Plaza	2	100.0	150	1.4	2	100.0	150	1.4
16	R&B Hotel Ueno Hirokoji	1	100.0	97	0.9	1	100.0	97	0.9
18	Comfort Hotel Tokyo Higashi Nihombashi	2	100.0	272	2.6	2	100.0	271	2.6
22	Smile Hotel Nihombashi Mitsukoshimae	1	100.0	147	1.4	1	100.0	134	1.3
24	Toyoko Inn Hakata-guchi Ekimae	1	100.0	141	1.3	1	100.0	141	1.4
25	Chisun Hotel Kamata	1	100.0	97	0.9	1	100.0	15	0.1
26	Chisun Inn Kamata	1	100.0	22	0.2	1	100.0	2	0.0
29	Oriental Hotel Universal City	1	100.0	558	5.3	1	100.0	470	4.5
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	—	—	232	2.2	—	—	—	—
31	Hilton Tokyo Bay	1	100.0	1,978	18.8	1	100.0	1,979	19.1
32	ibis Styles Kyoto Station	2	100.0	45	0.4	2	100.0	46	0.4
33	ibis Styles Sapporo	4	98.3	92	0.9	5	99.4	55	0.5
34	Mercure Sapporo	11	95.9	154	1.5	11	95.7	115	1.1
35	Mercure Okinawa Naha	1	100.0	—	0.0	1	100.0	—	0.0
37	the b ikebukuro	4	100.0	187	1.8	3	100.0	404	3.9
39	the b hachioji	10	100.0	204	1.9	10	100.0	45	0.4
40	the b hakata	2	100.0	33	0.3	2	100.0	35	0.3
41	Hotel Francs	1	100.0	300	2.9	1	100.0	300	2.9
42	Mercure Yokosuka	1	100.0	112	1.1	1	100.0	242	2.3
43	Oriental Hotel Okinawa Resort & Spa	1	100.0	45	0.4	1	100.0	—	0.0
44	ACTIVE-INTER CITY HIROSHIMA	40	99.8	895	8.5	40	99.5	881	8.5
45	CANDEO HOTELS UENO-KOEN	1	100.0	349	3.3	1	100.0	349	3.4
46	Oriental Hotel Fukuoka Hakata Station	1	100.0	373	3.6	1	100.0	243	2.4
47	Holiday Inn Osaka Namba	1	100.0	48	0.5	1	100.0	71	0.7
48	Hotel Oriental Express Fukuoka Tenjin	6	100.0	468	4.5	5	96.1	405	3.9

Property No.	Name of property, etc.	21st period (From January 1, 2020 to December 31, 2020)				22nd period (From January 1, 2021 to December 31, 2021)			
		Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (¥1M)	Ratio to total real estate operating revenue (%) (Note 2)	Number of tenants at end of period (Note 1)	Tenant occupancy rate at end of period (%)	Real estate operating revenue during the period (¥1M)	Ratio to total real estate operating revenue (%) (Note 2)
49	Hilton Nagoya	4	100.0	816	7.8	4	100.0	780	7.5
50	Hilton Tokyo Narita Airport	1	100.0	123	1.2	1	100.0	41	0.4
51	International Garden Hotel Narita	1	100.0	136	1.3	1	100.0	284	2.7
52	Hotel Nikko Nara	1	100.0	35	0.3	1	100.0	—	0.0
53	Hotel Oriental Express Osaka Shinsaibashi	1	100.0	9	0.1	1	100.0	—	0.0
54	Hilton Tokyo Odaiba	1	100.0	258	2.5	1	100.0	522	5.0
Total		121	99.9	10,480	99.9	116	99.8	10,340	99.7

(Note 1) 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. However, for properties for which master lease companies have concluded lease contracts with lessees, etc. under the pass-through scheme in which JHR receives the same amount of rents, etc. paid by end tenants as is in principle, the number of end tenants is indicated. For properties with sub-lease-type master lease contracts in which JHR receives predetermined rents despite fluctuations in rents from end tenants, the number of the master lease companies is indicated as tenants.

(Note 2) Represents the ratio of real estate operating revenue of each property to total real estate operating revenue. In calculating, the figures are rounded off to the first decimal place. Please note that the sum of the ratio to total real estate operating revenue 99.9% for the 21st fiscal period and 99.7% for the 22nd fiscal period because the relevant ratio of the trademark rights for the Oriental Hotel brand, etc. is not included.

(Note 3) ibis Tokyo Shinjuku was sold on December 15, 2021.

(Note 4) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 5) The property numbers of assets that were transferred before the previous fiscal period are intentionally omitted.

#### 4. Details of securities assets

There are no applicable securities held by JHR as of December 31, 2021.

#### 5. Contractual amounts and fair values of specified transactions

The contractual amounts and fair values of specified transactions as of December 31, 2021 were as follows:

Classification	Transaction	Amounts of contract, etc. (¥1M) (Note 1)		Fair value (¥1M) (Note 2)
			Over 1 year	
Transactions other than market transactions	Interest rate swap transactions	93,154	81,954	(195)
	Payable fixed rate / Receivable floating rate			
Total		93,154	81,954	(195)

(Note 1) Contractual amounts, etc. of interest rate swap transactions are based on notional principal amounts, etc.

(Note 2) Fair value is based on the price, etc. provided by counterparty financial institutions.

#### 6. Other assets

All of the beneficial interest in trust mainly invested in real estate held by JHR is included in “3. Details of property assets, etc.” presented above. There were no other major specified assets that are considered to be JHR’s main investments in the portfolio of JHR as of December 31, 2021.

#### 7. Asset holdings by country and region

There is nothing to be reported on countries and regions other than Japan.

## Capital Expenditures for Portfolio Properties

### 1. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work planned as of the end of the fiscal period under review for investment real estate properties (in trust) held by JHR. Expenditures are expected to total ¥4,762 million, which consists of capital expenditures of ¥4,751 million (Note) and repair expenses of ¥10 million, for the next fiscal period.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (¥1M)	
			Total amount	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From May 2022 to June 2022	75	-
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of executive rooms	From March 2022 to March 2022	100	-
Hotel Nikko Alivila (Nakagami-gun, Okinawa)	Renewal of elevators	From February 2022 to November 2022	151	-
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation of guest rooms, etc.	From January 2022 to July 2022	752	7
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of elevators	From November 2022 to December 2022	72	-
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of air conditioning units in guest rooms	From February 2022 to December 2022	260	-
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of guest room piping	From February 2022 to December 2022	200	-
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From June 2022 to December 2022	70	-
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renovation of lobby and pool area	From December 2021 to March 2022	436	16
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renovation of guest rooms	From June 2022 to December 2022	264	-
ACTIVE-INTER CITY HIROSHIMA (Hiroshima-shi, Hiroshima)	Renovation of lobby and lounge area on sixth floor	From February 2022 to April 2022	100	-
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renewal of heat sources	From February 2022 to April 2022	62	-
Total			2,544	23

(Note) New construction and renewal work includes that 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 or not the renovation work will be performed may change.

## 2. Capital expenditures during the period (Note)

For investment real estate properties (in trust) held by JHR, major construction work conducted during the fiscal period under review that represents capital expenditures is as below. Capital expenditures for the fiscal period under review totaled ¥3,367 million, and repair expenses that were accounted for as expense in the fiscal period under review totaled ¥30 million. In aggregate, ¥3,397 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (¥1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From April 2021 to July 2021	57
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning equipment	From March 2021 to July 2021	80
Oriental Hotel Universal City (Osaka-shi, Osaka)	Renovation related to rebranding	From April 2021 to December 2021	822
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renewal of heat-source equipment for air conditioning facilities	From April 2021 to June 2021	67
Hotel Oriental Express Fukuoka Tenjin (Fukuoka-shi, Fukuoka)	Renovation of guest rooms, etc.	From April 2021 to July 2021	366
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of central monitoring device	From March 2021 to June 2021	63
Total			1,457

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

### 3. Cash reserves for the long-term repairs and maintenance plan (reserve for repairs and maintenance)

JHR accumulates cash reserves from cash flows for each fiscal period as detailed below to utilize for medium- to long-term future expenditures on large-scale repairs and maintenance projects based on long-term repairs and maintenance plans prepared for each property.

(millions of yen)

Fiscal period	18th period (From January 1, 2017 to December 31, 2017)	19th period (From January 1, 2018 to December 31, 2018)	20th period (From January 1, 2019 to December 31, 2019)	21st period (From January 1, 2020 to December 31, 2020)	22nd period (From January 1, 2021 to December 31, 2021)
Balance at beginning of period	791	946	951	1,060	1,075
Provision during the period	154	15	116	25	1
Reversal during the period	-	9	8	10	11
Amount carried forward	946	951	1,060	1,075	1,066

## Expenses and Liabilities

### 1. Details of expenses related to asset management, etc.

(thousands of yen)

Item	21st period (From January 1, 2020 to December 31, 2020)	22nd period (From January 1, 2021 to December 31, 2021)
(a) Asset management fees (Note)	1,479,381	1,447,210
(b) Asset custody and administrative service fee	125,986	121,700
(c) Officers' compensation	17,400	17,400
(d) Other operating expenses	322,710	257,097
Total	1,945,477	1,843,408

(Note) For asset management fees for the 21st fiscal period, besides the above amounts, there are ¥7,647 thousand of fees for property acquisition included in the acquisition price of the relevant investment property, and ¥42,615 thousand of fees for property sale deducted from the gain on sale of real estate properties. For asset management fees for the 22nd fiscal period, besides the above amounts, there are ¥5,654 thousand of fees for property acquisition included in the acquisition price of the relevant investment property, and ¥56,500 thousand of fees for property sale deducted from the gain on sale of real estate properties.

## 2. Loans payable

The status of loans by contractual agreement and by financial institution as of December 31, 2021 was as follows:

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Short-term loans payable	Sumitomo Mitsui Banking Corporation	September 30, 2020	2,787	—	0.38%	September 30, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Shinsei Bank, Limited		1,470	—					
	Mizuho Bank, Ltd.		3,470	—					
	Sumitomo Mitsui Trust Bank, Limited		1,485	—					
	Resona Bank, Limited		1,600	—					
	Development Bank of Japan Inc.		650	—					
	Aozora Bank, Ltd.		285	—					
	Subtotal			11,747	—				
	The Chiba Bank, Ltd.	September 30, 2020	100	—	0.31%	September 30, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal			100					
	MUFG Bank, Ltd.	December 30, 2020	935	—	0.58%	June 30, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal			935					
	Sumitomo Mitsui Banking Corporation	March 31, 2021	—	648	0.58%	March 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Shinsei Bank, Limited		—	2,516					
	Sumitomo Mitsui Trust Bank, Limited		—	1,120					
	Resona Bank, Limited		—	2,516					
	Subtotal			—	6,800				
	Sumitomo Mitsui Banking Corporation	September 30, 2021	—	3,487	0.56%	September 30, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		—	4,670					
	Resona Bank, Limited		—	2,450					
Shinsei Bank, Limited	—		2,220						
Sumitomo Mitsui Trust Bank, Limited	—		2,085						
Development Bank of Japan Inc. (Note 3)	—		505						
Aozora Bank, Ltd.	—		285						
Subtotal			—	15,702					
Sumitomo Mitsui Banking Corporation	December 16, 2021	—	626	0.58%	December 16, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Mizuho Bank, Ltd.		—	434						
Sumitomo Mitsui Trust Bank, Limited		—	310						
Development Bank of Japan Inc.		—	130						
Subtotal			—	1,500					
Short-term loans payable — Total			12,782	24,002					

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	March 31, 2014	648	—	1.15%	March 31, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Resona Bank, Limited		2,516	—					
	Shinsei Bank, Limited		2,516	—					
	Sumitomo Mitsui Trust Bank, Limited		1,120	—					
	Subtotal		6,800	—					
	Sumitomo Mitsui Banking Corporation	September 30, 2014	600	—	1.04%	September 30, 2021	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd.		1,200	—					
	Resona Bank, Limited		850	—					
	Shinsei Bank, Limited		750	—					
	Sumitomo Mitsui Trust Bank, Limited		600	—					
	Subtotal	4,000	—						
	Sumitomo Mitsui Banking Corporation (Note 3)	January 30, 2015	1,700	909	0.90%	January 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Mizuho Bank, Ltd. (Note 3)		3,000	2,526					
	Shinsei Bank, Limited (Note 3)		1,050	593					
	Resona Bank, Limited (Note 3)		1,000	756					
	Sumitomo Mitsui Trust Bank, Limited (Note 3)		1,000	660					
	Aozora Bank, Ltd. (Note 3)		150	67					
	Subtotal	7,900	5,511						
	Sumitomo Mitsui Banking Corporation	March 31, 2015	1,500	1,500	0.93%	March 31, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Subtotal	1,500	1,500						
Aozora Bank, Ltd.	July 10, 2015	1,000	1,000	0.95%	June 30, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
MUFG Bank, Ltd. (Note 3)		500	423						
Subtotal		1,500	1,423						
Sumitomo Mitsui Trust Bank, Limited	September 24, 2015	960	960	1.07%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Resona Bank, Limited		960	960						
The Nomura Trust and Banking Co., Ltd.		960	960						
Subtotal	2,880	2,880							
Sumitomo Mitsui Banking Corporation	September 30, 2015	703	703	1.07%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Shinsei Bank, Limited		189	189						
Subtotal		892	892						
Sumitomo Mitsui Banking Corporation	March 28, 2016	1,050	1,050	0.77%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Mizuho Bank, Ltd.		1,050	1,050						
Subtotal		2,100	2,100						

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Long-term loans payable	The Nomura Trust and Banking Co., Ltd.	March 31, 2016	1,200	1,200	0.77%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	The Chiba Bank, Ltd.		600	600						
	Development Bank of Japan Inc.		550	550						
	The Bank of Fukuoka, Ltd. (Note 3)		300	186						
	Subtotal			2,650	2,536					
	Sumitomo Mitsui Banking Corporation	March 31, 2016	1,200	1,200	0.68%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		1,000	1,000						
	Shinsei Bank, Limited		1,000	1,000						
	Resona Bank, Limited		500	500						
	The Nomura Trust and Banking Co., Ltd. (Note 3)		500	388						
	Subtotal			4,200	4,088					
	Sumitomo Mitsui Trust Bank, Limited	March 31, 2016	800	800	0.66%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			800						800
	Development Bank of Japan Inc.	March 31, 2016	500	500	0.57%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						500
	Sumitomo Mitsui Banking Corporation	September 1, 2016	2,900	2,900	0.74%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		1,700	1,700						
	Mizuho Bank, Ltd.		1,700	1,700						
	Resona Bank, Limited		1,000	1,000						
	The Nomura Trust and Banking Co., Ltd.		500	500						
	The Chiba Bank, Ltd.		500	500						
	The Bank of Fukuoka, Ltd.		1,200	1,200						
	Subtotal			9,500	9,500					
	Sumitomo Mitsui Trust Bank, Limited	September 1, 2016	1,300	1,300	0.56%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			1,300						1,300
	MUFG Bank, Ltd.	September 1, 2016	2,000	2,000	0.56%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			2,000						2,000
Development Bank of Japan Inc.	September 1, 2016	700	700	0.59%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Subtotal			700						700	
Aozora Bank, Ltd.	September 1, 2016	500	500	0.71%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Subtotal			500						500	
Sumitomo Mitsui Banking Corporation	July 12, 2017	1,750	1,750	0.48%	June 30, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
The Chiba Bank, Ltd.		500	500							
Subtotal			2,250						2,250	

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Long-term loans payable	Sumitomo Mitsui Banking Corporation	August 1, 2017	1,250	1,250	0.85%	September 30, 2026	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		1,250	1,250						
	Mizuho Bank, Ltd.		1,250	1,250						
	Resona Bank, Limited		500	500						
	Subtotal			4,250	4,250					
	Sumitomo Mitsui Trust Bank, Limited	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			1,000	1,000					
	MUFG Bank, Ltd.	August 1, 2017	700	700	0.68%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			700	700					
	Development Bank of Japan Inc.	August 1, 2017	500	500	0.75%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500	500					
	The Bank of Fukuoka, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500	500					
	Aozora Bank, Ltd.	August 1, 2017	500	500	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500	500					
	THE NISHI-NIPPON CITY BANK, LTD.	August 1, 2017	1,000	1,000	0.73%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			1,000	1,000					
	Shinsei Bank, Limited	August 1, 2017	300	300	0.68%	September 30, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			300	300					
	Sumitomo Mitsui Banking Corporation	September 19, 2017	1,200	1,200	0.65%	March 31, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Mizuho Bank, Ltd.		500	500						
	Sumitomo Mitsui Trust Bank, Limited		460	460						
	Shinsei Bank, Limited		390	390						
	Subtotal			2,550	2,550					
Sumitomo Mitsui Banking Corporation	November 15, 2017	2,500	2,500	0.57%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		1,500	1,500							
Subtotal			4,000	4,000						
Sumitomo Mitsui Banking Corporation	November 15, 2017	1,500	1,500	0.65%	March 31, 2025	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		500	500							
Development Bank of Japan Inc.		300	300							
The Bank of Fukuoka, Ltd.		150	150							
Subtotal			2,450	2,450						
Sumitomo Mitsui Banking Corporation	March 30, 2018	1,700	1,700	0.43%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Subtotal			1,700	1,700						

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks	
Long-term loans payable	Sumitomo Mitsui Banking Corporation	April 26, 2018	650	650	0.43%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Shinsei Bank, Limited		950	950						
	The Chiba Bank, Ltd. (Note 3)		500	432						
	THE NISHI-NIPPON CITY BANK, LTD.(Note 3)		250	184						
	Sompo Japan Insurance Inc. (Note 3)		500	464						
	Subtotal			2,850	2,680					
	The Hiroshima Bank, Ltd. (Note 3)	April 26, 2018	500	454	0.52%	March 31, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						454
	The Shizuoka Bank, Ltd. (Note 3)	September 28, 2018	500	488	0.55%	September 29, 2023	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Subtotal			500						488
	Sumitomo Mitsui Banking Corporation	September 28, 2018	1,700	1,700	0.95%	September 30, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	Sumitomo Mitsui Trust Bank, Limited		1,400	1,400						
	Shinsei Bank, Limited		500	500						
	Mizuho Bank, Ltd.		300	300						
	Subtotal			3,900	3,900					
	The Bank of Fukuoka, Ltd.	April 8, 2019	500	500	0.38%	March 29, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
	The Chiba Bank, Ltd.		500	500						
	THE NISHI-NIPPON CITY BANK, LTD.		500	500						
	Sompo Japan Insurance Inc.		1,000	1,000						
	Subtotal			2,500	2,500					
Sumitomo Mitsui Banking Corporation	April 8, 2019	2,500	2,500	0.72%	March 31, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed		
Shinsei Bank, Limited		1,500	1,500							
Mizuho Bank, Ltd.		1,500	1,500							
Sumitomo Mitsui Trust Bank, Limited		1,000	1,000							
Development Bank of Japan Inc.		1,000	1,000							
Subtotal			7,500	7,500						

Category	Lender	Borrowing date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Average interest rate (%) (Note 1)	Maturity date	Repayment method	Use	Remarks
Long-term loans payable	Sumitomo Mitsui Banking Corporation	April 8, 2019	4,000	4,000	0.82%	March 31, 2028	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	Shinsei Bank, Limited		3,000	3,000					
	Mizuho Bank, Ltd.		3,000	3,000					
	Sumitomo Mitsui Trust Bank, Limited		2,500	2,500					
	Resona Bank, Limited		1,000	1,000					
	The Nomura Trust and Banking Co., Ltd.		500	500					
	Development Bank of Japan Inc.		1,000	1,000					
	The Bank of Fukuoka, Ltd.		1,000	1,000					
	Aozora Bank, Ltd.		1,000	1,000					
	THE NISHI-NIPPON CITY BANK, LTD.		1,000	1,000					
	Subtotal	18,000	18,000						
	The Chiba Bank, Ltd.	September 30, 2019	200	200	0.23%	September 30, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed
	The Hiroshima Bank, Ltd.		1,400	1,400					
Subtotal	1,600	1,600							
Sumitomo Mitsui Banking Corporation	September 30, 2019	550	550	0.68%	September 30, 2027	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed	
Shinsei Bank, Limited		450	450						
Mizuho Bank, Ltd.		1,400	1,400						
Sumitomo Mitsui Trust Bank, Limited		200	200						
Resona Bank, Limited		200	200						
Development Bank of Japan Inc.		700	700						
The Bank of Fukuoka, Ltd.		1,100	1,100						
The Nomura Trust and Banking Co., Ltd.		1,000	1,000						
Subtotal	5,600	5,600							
Long-term loans payable – Total	114,372	100,652							
Total loans payable	127,154	124,654							

(Note 1) The average interest rate is a weighted average of interest rates during the period, rounded off to second decimal places. As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps, rounded off to second decimal places.

(Note 2) The funds were appropriated for acquisition of the beneficial interest of real estate in trust, refinancing of borrowings and redemption of investment corporation bonds.

(Note 3) JHR made partial early repayment of the loan on December 17, 2021.

(Note 4) In order to list each loan payable, ¥8,434 million of the current portion of long-term loans payable in the balance sheets is included in long-term loans payable in the above table.

### 3. Investment corporation bonds

Status of investment corporation bonds as of December 31, 2021 was as follows:

Name	Issuance date	Balance at beginning of period (¥1M)	Balance at end of period (¥1M)	Interest rate (%)	Maturity date	Repayment method	Use	Remarks
Fourth unsecured investment corporation bonds	December 19, 2014	1,500	—	0.860	December 17, 2021	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 5)
Fifth unsecured investment corporation bonds	October 23, 2015	6,000	6,000	0.820	October 21, 2022	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 6)
Sixth unsecured investment corporation bonds	March 22, 2016	3,000	3,000	0.935	March 19, 2026	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 5)
Seventh unsecured investment corporation bonds	November 29, 2016	9,000	9,000	0.600	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 6)
Eighth unsecured investment corporation bonds	November 29, 2016	1,100	1,100	0.600	November 27, 2026	Lump-sum repayment	(Note 3)	Unsecured, unguaranteed (Note 5)
Ninth unsecured investment corporation bonds	November 24, 2017	1,000	1,000	0.530	November 22, 2024	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 5)
Tenth unsecured investment corporation bonds	February 21, 2018	10,000	10,000	0.840	February 21, 2028	Lump-sum repayment	(Note 1)	Unsecured, unguaranteed (Note 6)
Eleventh unsecured investment corporation bonds	June 14, 2019	8,000	8,000	0.854	June 14, 2029	Lump-sum repayment	(Note 2)	Unsecured, unguaranteed (Note 6)
Twelfth unsecured investment corporation bonds (green bonds)	July 31, 2019	2,000	2,000	0.400	July 31, 2024	Lump-sum repayment	(Note 4)	Unsecured, unguaranteed (Note 5)
Total		41,600	40,100					

(Note 1) The funds were appropriated for repayment of existing borrowings and acquisition of real estate or the beneficial interest of real estate in trust, etc.

(Note 2) The funds were appropriated to partly fund the repayment of existing borrowings.

(Note 3) The funds were appropriated for redemption of the second unsecured investment corporation bonds, repayment of existing borrowings and acquisition of real estate or the beneficial interest of real estate in trust, etc.

(Note 4) The funds were mainly appropriated for repayment of existing borrowings that were appropriated for capital expenditures and constructions costs which contribute to environment, including reduction of CO<sub>2</sub> and water consumption.

(Note 5) A special pari passu clause among specified investment corporation bonds is attached to the bonds.

(Note 6) A special pari passu clause among investment corporation bonds is attached to the bonds.

### 4. Short-term investment corporation bonds

Not applicable.

### 5. Subscription rights to new investment units

Not applicable.

## Purchase and Sale during the Period

### 1. Purchase and sale, etc. of real estate, etc., asset-backed securities, etc. infrastructure assets, etc., and infrastructure-related assets

Asset type	Name of property, etc.	Acquisition		Sale			
		Acquisition date	Acquisition price (¥1M) (Note 1)	Sale date	Sale price (¥1M) (Note 1)	Book value (¥1M)	Gain (loss) on sale (¥1M)
Real estate	Oriental Hotel Universal City (part of site)	July 30, 2021	753	—	—	—	—
Beneficial interest of real estate in trust	ibis Tokyo Shinjuku	—	—	December 15, 2021	11,300	7,809	3,258
Total		—	753	—	11,300	7,809	3,258

(Note) Acquisition price and Sale price indicates contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

### 2. Purchase and sale of other assets, etc.

Assets other than real estate, etc., asset-backed securities, etc., infrastructure assets, etc. and infrastructure-related assets are mostly bank deposits and bank deposits in trust.

### 3. Investigation into prices, etc. of specified assets

#### (1) Real estate properties, etc.

Acquisition/sale	Asset type	Name of property, etc.	Acquisition/sale date	Acquisition/sale price (¥1M) (Note 1)	Appraisal value (¥1M) (Note 2)	Date of appraisal	Appraisal agency
Acquisition	Real estate	Oriental Hotel Universal City (part of site)	July 30, 2021	753	763	June 30, 2021	Rich Appraisal Institute Co., Ltd.
Sale	Beneficial interest of real estate in trust	ibis Tokyo Shinjuku	December 15, 2021	11,300	9,900	June 30, 2021	Japan Real Estate Institute

(Note 1) Acquisition price and sale price indicate contracted amount of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 2) The above appraisals were evaluated by applying the “Real Estate Appraisal Standards, Chapter 3: Valuation for price of real estate for securitization.”

#### (2) Transaction of securities

Not applicable.

#### (3) Other

Not applicable.

#### 4. Transactions with interested parties, etc. (Note 1)

##### (1) Transactions

(millions of yen)

Category	Price, etc. (Note 2) (Note 3)		
	Acquisition price, etc.	Sale price, etc.	Real estate operating revenue
Total amount	753	11,300	10,374
Breakdown of transactions with interested parties, etc.			
Kyoritsu Maintenance Co., Ltd.	– [–%]	– [–%]	1,063 [10.3%]
Hotel Management Japan Co., Ltd.	– [–%]	– [–%]	803 [7.7%]
Tokyo Humania Enterprise KK	– [–%]	– [–%]	522 [5.0%]
K.K. A.I.C Hiroshima Management	– [–%]	– [–%]	301 [2.9%]
KK Narita Yoshikura Operations	– [–%]	– [–%]	284 [2.7%]
Hotel Centraza Co., Ltd.	– [–%]	– [–%]	243 [2.4%]
KK Osaka Sakurajima Operations	– [–%]	– [–%]	171 [1.6%]
KK Fukuoka Tenjin Operations	– [–%]	– [–%]	84 [0.8%]
OW Hotel Operations KK	– [–%]	– [–%]	71 [0.7%]
KK Narita Kosuge Operations	– [–%]	– [–%]	41 [0.4%]
Total	– [–%]	– [–%]	3,587 [34.6%]

(Note 1) Interested parties, etc. are the Asset Management Company’s interested parties, etc. stipulated in Article 201, paragraph 1 of the Investment Trust Act (hereinafter referred to as “Interested parties, etc.”). The amounts in “(1) Transactions” above and “(2) Amounts of fees paid, etc.” below include transactions with the Interested parties, etc. as well as major transactions with sponsor-related parties stipulated in the Asset Management Company’s company code for transactions with sponsor-related parties, which include 1. Interested parties, etc., 2. The Asset Management Company’s shareholders, 3. Companies, etc. that take a 50% or more stake in a shareholder that holds 50% or more of the shares in the Asset Management Company, 4. Companies in which a shareholder of the Asset Management Company have a 50% or more stake, 5. Companies with which the Asset Management Company has concluded an asset management agreement, a discretionary investment agreement or an investment advisory agreement, 6. Entity or persons who ceased to fall under 1. through 5. within 3 months, and 7. Entity or persons who are deemed appropriate by the compliance officer of the Asset Management Company to be treated as sponsor-related parties in light of the company code for transactions with sponsor-related parties and the purpose of these rules.

(Note 2) Acquisition price, etc. and sale price, etc. indicate contracted amounts of the property in the purchase and sale agreement, etc. excluding related expenses (brokerage fees, taxes, etc.) incurred on the acquisition or sale of such property.

(Note 3) The figures in brackets show the ratio of the relevant amount to the total amount, rounded off to one decimal place.

##### (2) Amount of fees paid, etc.

(thousands of yen)

Classification	Total amounts of fees paid, etc. (A)	Breakdown of transactions with interested parties, etc.		Ratio to total amount B/A (%)
		Counter party	Amount of payment (B)	
Outsourcing expenses (Note)	494,005	Hotel Management Japan Co., Ltd.	5,760	1.2
		Tokyo Humania Enterprise KK	120	0.0

(Note) Includes base fees under the property management agreement as well as outsourcing expenses related to routine maintenance and management of buildings and facilities and management contract fees, etc.

#### 5. Transactions with the Asset Management Company in other businesses of the Asset Management Company

The Asset Management Company does not concurrently conduct any of the class 1 financial instruments transaction business, class 2 financial instruments transaction business, building lots and buildings transaction business, or real estate specified joint enterprise business, and there are no applicable transactions.

## II. Financial Information

### 1. Assets, liabilities, equity, and profit and loss

For the status of assets, liabilities, equity (contribution), and profit and loss, please refer to “Balance Sheets,” “Statements of Income,” “Statements of Changes in Net Assets,” and “Notes to Financial Statements.”

### 2. Changes in calculation method of depreciation

Not applicable.

### 3. Changes in evaluation method of real estate, etc. and infrastructure assets, etc.

Not applicable.

### Status of beneficiary certificates of investment trusts set up by asset management company, etc.

Japan Hotel REIT Advisors Co., Ltd., the asset management company of JHR, has acquired JHR’s investment units as indicated below.

#### (1) Status of acquisition, etc.

Date	Number of units acquired (units)	Number of units disposed (units)	Number of units held (units)
July 5, 2017	1,200	—	3,700
Accumulated total	1,200	—	3,700

#### (2) Status of holding units

		Number of units held at end of period (units)	Total investment at end of period (thousands of yen) (Note 1)	Ratio to total units issued (%) (Note 2)	(Reference) Total number of units issued at end of period (units)
18th fiscal period	From January 1, 2017 to December 31, 2017	3,700	305,571	0.09	4,010,847
19th fiscal period	From January 1, 2018 to December 31, 2018	3,700	305,571	0.09	4,010,847
20th fiscal period	From January 1, 2019 to December 31, 2019	3,700	305,571	0.08	4,462,347
21st fiscal period	From January 1, 2020 to December 31, 2020	3,700	305,571	0.08	4,462,347
22nd fiscal period	From January 1, 2021 to December 31, 2021	3,700	305,571	0.08	4,467,006

(Note 1) Total investment at end of period indicates the acquisition price.

(Note 2) Ratio to total units issued is percentage of investment units held at end of period to the total investment units issued at end of period and is rounded down to second decimal place.

## Other

### (1) Announcements

The following shows the summary of major conclusions, changes, etc. of the principal agreements that were approved or reported at meetings of JHR's Board of Directors during the fiscal period under review.

Approval date	Item	Summary
March 4, 2021	Conclusion of an underwriting agreement for new investment units in association with the issuance of new investment units through third-party allotment	Due to the issuance of new investment units through third-party allotment, general administration for offering the investment units was entrusted to SMBC Nikko Securities Inc.
April 22, 2021	Shelf registration and comprehensive resolution on the issuance of investment corporation bonds and entrustment of accompanying administration	A comprehensive resolution was made on the issuance of investment corporation bonds with the issuance period between May 9, 2021 and May 8, 2023 with the total amount issued of within ¥100 billion. At the same time, a resolution was made on the issuance of investment corporation bonds of within ¥20 billion in total, and the decision on matters regarding the issuance of investment corporation bonds, including the administration related to issuance and entrustment of operations, was left to the discretion of the Executive Director.

The 11th General Meeting of Unitholders of JHR was held on November 25, 2021. The major items approved at the General Meeting of Unitholders are summarized below.

Agenda	Summary
Partial amendments to the Articles of Incorporation	In association with the amendment of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10) (including newly established or revised accounting standards and guidance in relation thereto), necessary changes were made in the method of asset evaluation.
Election of one Executive Director	Kaname Masuda was again elected as Executive Director. His term of office commences on November 25, 2021 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since his election and at which a vote will be held on the election of Executive Director(s).
Election of three Supervisory Directors	Tetsuya Mishiku, Hiroto Kashii and Mayumi Umezawa were elected as Supervisory Directors. The term of office of the elected Supervisory Directors commences on November 25, 2021 and continues until the end of the general meeting of unitholders which will be held within 30 days from the day immediately following the day on which two years have passed since their election and at which a vote will be held on the election of Supervisory Directors.
Election of one Substitute Executive Director	Hisashi Furukawa, Representative Director of the Asset Management Company, was again elected as Substitute Executive Director.

### (2) Status, etc. of corporation owning foreign real estate

Not applicable.

### (3) Status, etc. of real estate owned by foreign real property holding corporations

Not applicable.

### (4) Other

Unless otherwise noted, amounts and ratios in this report are rounded down and rounded off to the stated unit, respectively.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Balance Sheets**  
**As of December 31, 2021 and 2020**

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and deposits ( <i>Notes 6 and 7</i> )	¥ 22,838,609	¥ 19,382,019
Cash and deposits in trust ( <i>Notes 6 and 7</i> )	7,458,225	9,171,145
Operating accounts receivable ( <i>Note 7</i> )	1,750,164	672,415
Prepaid expenses	485,240	533,150
Income taxes receivable	40	42
Other current assets	108,411	82,698
Total current assets	32,640,693	29,841,471
<b>Property and equipment, at cost (<i>Notes 19 and 21</i>):</b>		
Machinery and equipment	677,977	622,365
Tools, furniture and fixtures	4,889,299	4,373,456
Construction in progress	21,972	2,761
Buildings in trust ( <i>Note 16</i> )	137,035,704	137,193,115
Structures in trust	2,844,532	2,772,035
Machinery and equipment in trust	645,033	683,995
Tools, furniture and fixtures in trust	126,678	133,628
Land in trust	212,263,515	216,410,533
Construction in progress in trust	110,371	83,507
	358,615,085	362,275,397
Less: Accumulated depreciation	(32,471,257)	(28,971,718)
Net property and equipment	326,143,828	333,303,679
<b>Intangible assets:</b>		
Software	275,488	162,441
Trademark rights	467,409	523,498
Leasehold rights in trust ( <i>Note 21</i> )	27,324,752	28,532,362
Fixed-term leasehold rights in trust ( <i>Note 21</i> )	4,630,789	4,765,994
Other intangible assets ( <i>Note 21</i> )	5,920	7,076
Total intangible assets	32,704,360	33,991,374
<b>Other assets:</b>		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	139,668	150,223
Long-term prepaid expenses	2,191,650	2,449,539
Derivative assets ( <i>Notes 7 and 20</i> )	12,117	-
Reserve fund for repairs and maintenance	327,476	314,067
Investment unit issuance costs	7,735	56,111
Investment corporation bond issuance costs	143,863	177,418
Total other assets	2,835,031	3,159,879
<b>Total assets</b>	<b>¥394,323,913</b>	<b>¥400,296,404</b>

(Continued)

# JAPAN HOTEL REIT INVESTMENT CORPORATION

## Balance Sheets

As of December 31, 2021 and 2020

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Operating accounts payable	¥ 1,426,861	¥ 2,654,679
Short-term loans payable ( <i>Notes 7 and 8</i> )	24,002,000	12,782,000
Current portion of investment corporation bonds ( <i>Notes 7 and 9</i> )	6,000,000	1,500,000
Current portion of long-term loans payable ( <i>Notes 7, 8 and 20</i> )	8,434,000	10,800,000
Accrued expenses	538,359	527,572
Income taxes payable	1,210	1,210
Consumption taxes payable	172,743	143,389
Advances received	658,839	423,355
Dividends payable	9,714	17,381
Deposits received	6,002	9,111
Derivative liabilities ( <i>Notes 7 and 20</i> )	5,289	21,398
Other current liabilities	10,281	42,763
Total current liabilities	41,265,303	28,922,861
<b>Long-term liabilities:</b>		
Investment corporation bonds ( <i>Notes 7 and 9</i> )	34,100,000	40,100,000
Long-term loans payable ( <i>Notes 7, 8 and 20</i> )	92,218,000	103,572,000
Tenant leasehold and security deposits ( <i>Note 7</i> )	1,040,520	1,040,520
Tenant leasehold and security deposits in trust ( <i>Note 7</i> )	3,614,474	4,356,804
Derivative liabilities ( <i>Notes 7 and 20</i> )	202,673	767,749
Deferred tax liabilities ( <i>Note 17</i> )	3,812	-
Asset retirement obligations ( <i>Note 10</i> )	336,783	335,161
Total long-term liabilities	131,516,263	150,172,234
<b>Total liabilities</b>	172,781,567	179,095,095
<b>Net assets (<i>Note 11</i>):</b>		
Unitholders' equity:		
Unitholders' capital		
Units authorized: 20,000,000 units		
Units issued and outstanding; 4,467,006 units and 4,462,347 units as of December 31, 2021 and 2020, respectively		
Surplus:		
Capital surplus	21,746,398	21,746,398
Voluntary reserve:		
Reserve for temporary difference adjustment ( <i>Note 12</i> )	10,311,886	10,617,580
Reserve for advanced depreciation	1,174,860	1,174,860
Total voluntary reserve	11,486,747	11,792,441
Unappropriated retained earnings	1,300,724	1,527,790
Total surplus	34,533,870	35,066,630
Total unitholders' equity	221,728,079	221,960,800
Valuation and translation adjustments:		
Deferred gains (losses) on hedges ( <i>Note 20</i> )	(185,733)	(759,492)
Total valuation and translation adjustments	(185,733)	(759,492)
<b>Total net assets</b>	221,542,346	221,201,308
<b>Total liabilities and net assets</b>	¥394,323,913	¥400,296,404

See notes to financial statements.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Income**  
**For the years ended December 31, 2021 and 2020**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	For the year ended December 31, 2020
<b>Operating revenue:</b>		
Real estate operating revenue ( <i>Note 13</i> )	¥ 9,502,439	¥ 9,603,724
Other real estate operating revenue ( <i>Note 13</i> )	872,223	892,001
Gain on sale of real estate properties ( <i>Note 14</i> )	3,258,950	3,158,381
Gain on exchange of real estate properties ( <i>Note 15</i> )	-	184,725
Total operating revenue	13,633,613	13,838,832
<b>Operating expenses:</b>		
Real estate operating costs ( <i>Note 13</i> )	8,830,354	8,717,332
Asset management fee	1,447,210	1,479,381
Asset custody and administrative service fee	121,700	125,986
Directors' compensation	17,400	17,400
Other operating expenses	257,097	322,710
Total operating expenses	10,673,763	10,662,810
Operating income	2,959,849	3,176,022
<b>Non-operating income:</b>		
Interest income	267	278
Gain on forfeiture of unclaimed dividends	4,233	3,535
Gain on insurance claims	34,144	34,217
Refunded taxes on property and equipment	20,527	-
Interest on tax refunds	10,590	95
Gain on derivative instruments	15,730	1,138
Other	151	-
Total non-operating income	85,646	39,266
<b>Non-operating expenses:</b>		
Interest expense	907,653	963,502
Interest expense on investment corporation bonds	315,762	316,795
Borrowing costs	416,416	399,645
Amortization of investment corporation bond issuance costs	33,554	33,776
Amortization of investment unit issuance costs	59,086	84,520
Loss on derivative instruments	1,000	4,802
Other	14,011	13,989
Total non-operating expenses	1,747,484	1,817,032
Ordinary income	1,298,011	1,398,255
<b>Extraordinary income:</b>		
Gain from collection of security deposits	-	130,000
Total extraordinary income	-	130,000
Income before income taxes	1,298,011	1,528,255
<b>Income taxes (<i>Note 17</i>):</b>		
Current	1,210	1,210
Total income taxes	1,210	1,210
Net income	1,296,801	1,527,045

See notes to financial statements.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Changes in Net Assets**  
**For the years ended December 31, 2021 and 2020**

	<i>Thousands of yen</i>							
	Unitholders' equity							
	Surplus							
	Unitholders' capital	Capital surplus	Voluntary reserve			Total voluntary reserve	Unappropriated retained earnings	Total surplus
Reserve for temporary difference adjustment			Reserve for advanced depreciation	Reserve for special advanced depreciation				
<b>Balance, January 1, 2020</b>	¥ 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 year:								
Reversal of reserve for temporary difference adjustment	-	-	(1,176,490)	-	-	(1,176,490)	1,176,490	-
Provision of reserve for advanced depreciation	-	-	-	1,174,860	-	1,174,860	(1,174,860)	-
Reversal of reserve for special advanced depreciation	-	-	-	-	(1,174,860)	(1,174,860)	1,174,860	-
Dividends paid	-	-	-	-	-	-	(16,466,060)	(16,466,060)
Net income	-	-	-	-	-	-	1,527,045	1,527,045
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	-	-	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(13,762,523)	(14,939,014)
<b>Balance, December 31, 2020</b>	¥ 186,894,169	¥ 21,746,398	¥ 10,617,580	¥ 1,174,860	¥ -	¥ 11,792,441	¥ 1,527,790	¥ 35,066,630
Changes of items during the year:								
Issuance of new investment units	300,039	-	-	-	-	-	-	-
Reversal of reserve for temporary difference adjustment	-	-	(305,694)	-	-	(305,694)	305,694	-
Dividends paid	-	-	-	-	-	-	(1,829,562)	(1,829,562)
Net income	-	-	-	-	-	-	1,296,801	1,296,801
Net changes in items other than unitholders' equity	-	-	-	-	-	-	-	-
Total changes in amount during the year	300,039	-	(305,694)	-	-	(305,694)	(227,066)	(532,760)
<b>Balance, December 31, 2021</b>	¥ 187,194,209	¥ 21,746,398	¥ 10,311,886	¥ 1,174,860	¥ -	¥ 11,486,747	¥ 1,300,724	¥ 34,533,870

  

	<i>Thousands of yen</i>			
	Unitholders' equity			
	Total unitholders' equity	Valuation and translation adjustments		Total net assets
		Deferred gains (losses) on hedges	Total valuation and translation adjustments	
<b>Balance, January 1, 2020</b>	¥ 236,899,815	¥ (377,376)	¥ (377,376)	¥ 236,522,438
Changes of items during the year:				
Reversal of reserve for temporary difference adjustment	-	-	-	-
Provision of reserve for advanced depreciation	-	-	-	-
Reversal of reserve for special advanced depreciation	-	-	-	-
Dividends paid	(16,466,060)	-	-	(16,466,060)
Net income	1,527,045	-	-	1,527,045
Net changes in items other than unitholders' equity	-	(382,115)	(382,115)	(382,115)
Total changes in amount during the year	(14,939,014)	(382,115)	(382,115)	(15,321,130)
<b>Balance, December 31, 2020</b>	¥ 221,960,800	¥ (759,492)	¥ (759,492)	¥ 221,201,308
Changes of items during the year:				
Issuance of new investment units	300,039	-	-	300,039
Reversal of reserve for temporary difference adjustment	-	-	-	-
Dividends paid	(1,829,562)	-	-	(1,829,562)
Net income	1,296,801	-	-	1,296,801
Net changes in items other than unitholders' equity	-	573,758	573,758	573,758
Total changes in amount during the year	(232,720)	573,758	573,758	341,037
<b>Balance, December 31, 2021</b>	¥ 221,728,079	¥ (185,733)	¥ (185,733)	¥ 221,542,346

See notes to financial statements.

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2021 and 2020**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	For the year ended December 31, 2020
<b>Cash flows from operating activities:</b>		
Income before income taxes	¥ 1,298,011	¥ 1,528,255
Depreciation and amortization	4,804,111	4,761,907
Gain on exchange of real estate properties	-	(184,725)
Loss on retirement of noncurrent assets	16,682	5,701
(Gain) Loss on derivative instruments	(14,730)	3,663
Amortization of investment corporation bond issuance costs	33,554	33,776
Amortization of investment unit issuance costs	59,086	84,520
Decrease of property and equipment due to sale	48,841	1,010
Decrease of property and equipment in trust due to sale	7,757,292	4,789,585
Decrease of intangible assets due to sale	2,918	-
Gain from collection of security deposits	-	(130,000)
Interest income	(267)	(278)
Interest expense	1,223,415	1,280,297
Interest on tax refunds	(10,590)	(95)
(Increase) decrease in operating accounts receivable	(1,077,749)	2,107,315
(Increase) decrease in prepaid expenses	47,910	17,130
(Increase) decrease in long-term prepaid expenses	257,888	316,935
Increase (decrease) in operating accounts payable	(1,694,120)	1,693,683
Increase (decrease) in accrued expenses	12,475	(124,063)
Increase (decrease) in consumption taxes payable	29,354	(517,659)
Increase (decrease) in advances received	235,483	(485,938)
Increase (decrease) in deposits received	(3,108)	414
Other	(128,639)	(153,173)
Subtotal	12,897,821	15,028,266
Interest received	271	312
Interest paid	(1,225,104)	(1,280,097)
Interest received on tax refunds	10,590	95
Income taxes – refunded (paid)	(1,208)	(1,197)
Net cash provided by operating activities	11,682,370	13,747,378
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(666,633)	(476,704)
Purchase of property and equipment in trust	(2,828,665)	(1,858,016)
Purchase of intangible assets	(199,936)	(604,760)
Payments of reserve fund for repairs and maintenance	(40,625)	(36,549)
Proceeds from collection of security deposits	-	130,000
Proceeds from collection of security deposits in trust	10,555	-
Proceeds from tenant leasehold and security deposits in trust	56,530	64,941
Repayment of tenant leasehold and security deposits in trust	(726,247)	(296,047)
Payments into deposit with withdrawal restrictions	(300,000)	-
Net cash used in investing activities	¥ (4,695,022)	¥ (3,077,137)

(Continued)

**JAPAN HOTEL REIT INVESTMENT CORPORATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2021 and 2020**

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	For the year ended December 31, 2020
<b>Cash flows from financing activities:</b>		
Proceeds from short-term loans payable	¥ 25,082,000	¥ 18,574,000
Repayments of short-term loans payable	(13,862,000)	(5,792,000)
Repayments of long-term loans payable	(13,720,000)	(12,782,000)
Repayments of investment corporation bond	(1,500,000)	-
Proceeds from issuance of investment units	289,329	-
Dividends paid	(1,833,006)	(16,461,008)
Net cash provided by (used in) financing activities	<u>(5,543,676)</u>	<u>(16,461,008)</u>
Net increase (decrease) in cash and cash equivalents	1,443,670	(5,790,766)
Cash and cash equivalents at beginning of year	<u>28,553,164</u>	<u>34,343,930</u>
Cash and cash equivalents at end of year ( <i>Note 6</i> )	<u>¥ 29,996,835</u>	<u>¥ 28,553,164</u>

*See notes to financial statements.*

# JAPAN HOTEL REIT INVESTMENT CORPORATION

## Notes to Financial Statements

### For the years ended December 31, 2021 and 2020

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#### 1. Organization and Basis of Presentation

##### a. Organization

Japan Hotel REIT Investment Corporation (“JHR”), formerly known as Nippon Hotel Fund Investment Corporation (the “Former NHF”), was established under the Act on Investment Trusts and Investment Corporations (the “Investment Trust Act”) on November 10, 2005 and was listed on the Real Estate Investment Trust (“REIT”) Section on the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006. JHR is externally managed by a licensed asset management company, Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”).

Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves wholly or partially used as hotels or real estate equivalents of such real estate or which are backed by such real estate or real estate equivalents.

In the fiscal period ended December 31, 2012, the Former NHF, as the surviving entity, merged with Japan Hotel and Resort, Inc. (the “Former JHR”), as the dissolved entity, with an effective date of April 1, 2012 (the “Merger”). In conjunction with the Merger, the Former NHF changed its name to Japan Hotel REIT Investment Corporation.

Through the Merger, nine properties held by the Former JHR were succeeded by JHR. As a result, as of the effective date of the Merger, JHR’s property portfolio expanded to 28 properties. As of December 31, 2021, JHR has ownership interests in 41 properties.

##### b. Basis of presentation

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

The accompanying financial statements have been reformatted and translated into English (with certain reclassifications and expanded descriptions) from the financial statements of JHR prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language financial statements, but not necessarily required for fair presentation, is not presented in the accompanying financial statements. JHR has not prepared consolidated financial statements, as JHR has no consolidating subsidiaries or entities.

As permitted by the regulations under the Financial Instruments and Exchange Law of Japan, the amounts are rounded down to the nearest thousands or millions. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

#### 2. Summary of Significant Accounting Policies

##### a. Cash and cash equivalents

Cash and cash equivalents in the 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.

##### b. Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over their estimated useful lives. The useful lives of major property and equipment components are as follows:

Machinery and equipment:	2 to 17 years
Tools, furniture and fixtures:	2 to 26 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

### c. Intangible assets

Intangible assets are stated at cost and amortized using the straight-line method. The amortization period of major intangible assets is as follows.

Software (internal use): 5 years

Trademark rights: 10 years

Fixed-term leasehold rights in trust: 41 years (remaining contractual period at the time of acquisition)

Leasehold rights in trust are intangible assets with indefinite useful lives.

### d. Investment unit issuance costs

Investment unit issuance costs are capitalized and amortized using the straight-line method over three years.

### e. Investment corporation bond issuance costs

Investment corporation bond issuance costs are capitalized and amortized using the effective interest rate method over the respective term of the bond.

### f. Taxes on property and equipment

Taxes imposed on properties such as property taxes, city planning taxes, and depreciable asset taxes are allocated to the respective reporting period and expensed as “Real estate operating costs.” Cash paid for those properties related taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property. The amount of such taxes capitalized in the acquisition cost of real properties was not applicable either for the year ended December 31, 2021 or for the year ended December 31, 2020.

### g. Derivatives and hedging activities

JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which are defined in the Articles of Incorporation, mainly arising from adverse fluctuations in interest rates on loans payable. Derivative financial instruments are carried at fair value with changes in the unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting in which case the unrealized gain or loss is deferred as a component of net assets.

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.

### h. Beneficial interests of real estate in trust

For beneficial interests of real estate in trust, 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 relevant balance sheet and statement of income accounts.

### i. Consumption taxes

Consumption taxes are excluded from the transaction amounts.

## 3. Significant Accounting Estimates

Valuation of noncurrent assets

### a. Amounts recorded in the financial statements

	<i>Thousands of yen</i>	
	For the year ended December	
	31, 2021	
Property and equipment	¥	326,143,828
Intangible assets		32,704,360
Impairment loss		-

### b. Information on the nature of significant accounting estimates for identified items

In accordance with the accounting standard for impairment of noncurrent assets, JHR has adopted the accounting treatment to reduce the book value of noncurrent assets to a recoverable amount when the invested amount is deemed to be unrecoverable due to decline in profitability.

In adopting the accounting treatment, the respective properties owned by JHR are regarded as a single asset group,

and judgment is made whether it is required to recognize impairment losses when indications of impairment are deemed to exist for the group due to a significant decline in the market value and such.

Future cash flow estimates are used to determine whether or not to recognize impairment losses. When it is determined that impairment losses should be recognized, the book value is reduced to the recoverable amount, and the reduced amount is recorded as impairment losses.

In estimating the future cash flow, the underlying rent, occupancy rate and real estate operating costs, etc. are assumed by comprehensively taking into account the market trends and transaction cases of similar properties, etc.

JHR's asset management business in real estate have seen risks of its operating revenue decreasing, etc. due to requests for reduction or postponement of fixed rent arising from some of the lessees whose business performance has worsened, a decrease in variable rents linked to hotel sales and other factors brought about by the worldwide spread of the COVID-19 infection and the deterioration in social and economic conditions due to the such spread of infection.

Although it is uncertain and difficult to foresee when COVID-19 will be contained, JHR made accounting estimates related to impairment accounting for noncurrent assets by assuming that the impact by COVID-19 will continue through the fiscal period ending December 31, 2022, followed by recovery in performance after a certain period of time, based on the information available as of the date of preparation of the financial statements.

However, as it is difficult to accurately predict when COVID-19 will be contained and how large its impact will be, JHR's financial position, results of operations and cash flows may be affected in case the recovery is delayed.

#### **4. Changes in Presentation Methods**

Notes on Significant Accounting Estimates is provided as JHR adopted the "Accounting Standard for Disclosure of Accounting Estimates" (Accounting Standards Board of Japan ("ASBJ") Statement No. 31, issued on March 31, 2020) from the fiscal year under review. However, in accordance with the transitional treatment as stipulated in the proviso of Paragraph 11 of the Accounting Standard, there is no information provided for the previous fiscal year.

#### **5. Accounting Standards Issued but Not Yet Applied**

- "Accounting Standard for Revenue Recognition" ASBJ Statement No. 29 revised on March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 revised on March 26, 2021)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 31, 2020)

##### **(1) Overview**

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued "Revenue from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. Given the situation where IFRS 15 is applied from fiscal periods beginning on or after January 1, 2018 and that Topic 606 is applied from fiscal periods beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the implementation guidance.

The basic policy for the ASBJ when it developed the accounting standards for revenue recognition was to establish the standards by incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining consistency with IFRS 15. The basic policy also allowed to add alternative treatments to the extent that comparability is not impaired, if consideration should be given to current practices that have been used thus far in Japan.

##### **(2) Scheduled date of application**

The above standards will be applied from the beginning of the fiscal period ending December 31, 2022.

##### **(3) Impact of applying the accounting standards**

The impact on the financial statements of applying the standards, etc. will be immaterial.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 issued on July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 revised on July 4, 2019)

- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31 issued on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 revised on March 31, 2020)

(1) Overview

IASB and FASB have established detailed guidance for fair value measurement (IFRS 13 “Fair Value Measurement” under the IFRS and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification under the U.S. accounting standards) containing almost the same content. In light of this, the ASBJ worked to secure consistency of the Japanese accounting standards with these internationally recognized accounting standards, mainly in terms of the guidance on and disclosure of the fair value of financial instruments, and announced the Accounting Standard for Fair Value Measurement, etc.

The basic policy of ASBJ for the development of the Accounting Standard for Fair Value Measurement was to adopt all provisions of IFRS 13 as a rule from the viewpoint of improving the comparability between the financial statements of the Japanese and foreign companies by using a unified measurement approach. Moreover, in consideration of the practices that have been used in Japan to date, ASBJ determined to establish other treatments for certain items, to the extent that they do not significantly impair the comparability between the financial statements.

(2) Scheduled date of application

The above standards will be applied from the beginning of the fiscal period ending December 31, 2022.

(3) Impact of applying the accounting standards

The impact on the financial statements of applying the standards will be immaterial.

## 6. Cash Flow Information

Cash and cash equivalents as of December 31, 2021 and 2020 in the statements of cash flows consisted of the following:

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
Cash and deposits	¥ 22,838,609	¥ 19,382,019
Cash and deposits in trust	7,458,225	9,171,145
Deposit with withdrawal restrictions	(300,000)	-
Cash and cash equivalents	<u>¥ 29,996,835</u>	<u>¥ 28,553,164</u>

## 7. Financial Instruments

### a. Status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trust Act, managing investments mainly in specified assets as prescribed in the Investment Trust Act. As a policy, JHR procures funds through issuance of investment units, etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

Operating accounts receivable are exposed to credit risks of customers. To address the risks, JHR monitors payment dates and balances by customers in order to detect and mitigate any suspicious accounts in a timely manner.

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risks, JHR may enter into derivative transactions, if it is judged that fixing interest payment is necessary.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the Asset Management Company. Derivative transactions are arranged by the finance section of the

Asset Management Company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

Loans payable expose JHR to liquidity risks. The finance section of the Asset Management Company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitors compliance with restrictive covenants set forth in the loan agreements. JHR manages liquidity risks by managing the ratio of short-term and long-term loans payable, etc. considering the current financial environment and other conditions through approval and resolution by authorized personnel and meeting committee structure in the Asset Management Company and resolution of JHR's board of directors.

#### b. Fair value of financial instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2021 and 2020 were as follows. Financial instruments whose fair values are difficult to estimate are not included in the table. See Note (2) below.

		<i>Thousands of yen</i>		
		As of December 31, 2021		
		Carrying amount	Fair value	Difference
(i)	Cash and deposits	¥ 22,838,609	¥ 22,838,609	¥ -
(ii)	Cash and deposits in trust	7,458,225	7,458,225	-
(iii)	Operating accounts receivable	1,750,164	1,750,164	-
	Total	<u>¥ 32,046,999</u>	<u>¥ 32,046,999</u>	<u>¥ -</u>
(iv)	Short-term loans payable	¥ 24,002,000	¥ 24,002,000	¥ -
(v)	Current portion of investment corporation bonds	6,000,000	5,886,600	(113,400)
(vi)	Current portion of long-term loans payable	8,434,000	8,434,000	-
(vii)	Investment corporation bonds	34,100,000	29,514,460	(4,585,540)
(viii)	Long-term loans payable	92,218,000	92,218,000	-
	Total	<u>¥ 164,754,000</u>	<u>¥ 160,055,060</u>	<u>¥ (4,698,940)</u>
(ix)	Derivative transactions (*)	<u>¥ (195,846)</u>	<u>¥ (195,846)</u>	<u>¥ -</u>
		<i>Thousands of yen</i>		
		As of December 31, 2020		
		Carrying amount	Fair value	Difference
(i)	Cash and deposits	¥ 19,382,019	¥ 19,382,019	¥ -
(ii)	Cash and deposits in trust	9,171,145	9,171,145	-
(iii)	Operating accounts receivable	672,415	672,415	-
	Total	<u>¥ 29,225,579</u>	<u>¥ 29,225,579</u>	<u>¥ -</u>
(iv)	Short-term loans payable	¥ 12,782,000	¥ 12,782,000	¥ -
(v)	Current portion of investment corporation bonds	1,500,000	1,468,350	(31,650)
(vi)	Current portion of long-term loans payable	10,800,000	10,800,000	-
(vii)	Investment corporation bonds	40,100,000	34,415,280	(5,684,720)
(viii)	Long-term loans payable	103,572,000	103,572,000	-
	Total	<u>¥ 168,754,000</u>	<u>¥ 163,037,630</u>	<u>¥ (5,716,370)</u>
(ix)	Derivative transactions (*)	<u>¥ (789,147)</u>	<u>¥ (789,147)</u>	<u>¥ -</u>

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

#### Notes:

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

(i) Cash and deposits, (ii) Cash and deposits in trust, (iii) Operating accounts receivable, (iv) 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.

(v) Current portion of investment corporation bonds, (vii) Investment corporation bonds  
The fair value of these instruments is measured based on the market price.

(vi) Current portion of long-term loans payable, (viii) 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 adjusted periodically to reflect market interest rates.

(ix) Derivative transactions  
The information on the fair value of derivative transactions is presented in Note 20.

(2) Information on financial instruments whose fair values are difficult to estimate as of December 31, 2021 and 2020 was as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
	<u>Carrying amount</u>	
Tenant leasehold and security deposits	¥ 1,040,520	¥ 1,040,520
Tenant leasehold and security deposits in trust	3,614,474	4,356,804
Total	<u>¥ 4,654,994</u>	<u>¥ 5,397,324</u>

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 difficult.

(3) Redemption schedule for monetary claims as of December 31, 2021 and 2020:

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2021	¥22,838,609	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits	7,458,225	-	-	-	-	-
Cash and deposits in trust	1,750,164	-	-	-	-	-
Operating accounts receivable	¥32,046,999	¥ -	¥ -	¥ -	¥ -	¥ -
Total						

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2020	¥19,382,019	¥ -	¥ -	¥ -	¥ -	¥ -
Cash and deposits	9,171,145	-	-	-	-	-
Cash and deposits in trust	672,415	-	-	-	-	-
Operating accounts receivable	¥29,225,579	¥ -	¥ -	¥ -	¥ -	¥ -
Total						

(4) Schedule for repayment of loans payable and redemption of investment corporation bonds as of December 31, 2021 and 2020.

	<i>Thousands of yen</i>					
	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
As of December 31, 2021	¥24,002,000	¥ -	¥ -	¥ -	¥ -	¥ -
Short-term loans payable	6,000,000	-	-	-	-	-
Current portion of investment corporation bonds	8,434,000	-	-	-	-	-
Current portion of long-term loans payable	-	-	3,000,000	-	13,100,000	18,000,000
Investment corporation bonds	-	15,432,000	18,536,000	19,000,000	4,250,000	35,000,000
Long-term loans payable	¥38,436,000	¥15,432,000	¥21,536,000	¥19,000,000	¥17,350,000	¥53,000,000
Total						

		<i>Thousands of yen</i>					
<u>As of December 31, 2020</u>	<u>Due within one year</u>	<u>Due after one to two years</u>	<u>Due after two to three years</u>	<u>Due after three to four years</u>	<u>Due after four to five years</u>	<u>Due after five years</u>	
Short-term loans payable	¥12,782,000	¥ -	¥ -	¥ -	¥ -	¥ -	
Current portion of investment corporation bonds	1,500,000	-	-	-	-	-	
Current portion of long-term loans payable	10,800,000	-	-	-	-	-	
Investment corporation bonds	-	6,000,000	-	3,000,000	-	31,100,000	
Long-term loans payable	-	10,900,000	15,772,000	18,650,000	19,000,000	39,250,000	
Total	<u>¥25,082,000</u>	<u>¥16,900,000</u>	<u>¥15,772,000</u>	<u>¥21,650,000</u>	<u>¥19,000,000</u>	<u>¥70,350,000</u>	

## 8. Short-Term and Long-Term Loans Payable

Short-term and long-term loans payable as of December 31, 2021 and 2020 consisted of the following:

	Maturity date	Millions of yen	
		As of December 31, 2021	As of December 31, 2020
		Amount	
<b>Short-term loans payable:</b>			
0.38% Unsecured loan, payable in a lump-sum at maturity	September 30, 2021	¥ -	¥ 11,747
0.31% Unsecured loan, payable in a lump-sum at maturity	September 30, 2021	-	100
0.58% Unsecured loan, payable in a lump-sum at maturity	June 30, 2021	-	935
0.58% Unsecured loan, payable in a lump-sum at maturity	March 31, 2022	6,800	-
0.56% Unsecured loan, payable in a lump-sum at maturity (*1)	September 30, 2022	15,702	-
0.58% Unsecured loan, payable in a lump-sum at maturity	December 16, 2022	1,500	-
Sub-total		24,002	12,782
<b>Long-term loans payable:</b>			
1.15% Unsecured loan, payable in a lump-sum at maturity	March 31, 2021	¥ -	¥ 6,800
1.04% Unsecured loan, payable in a lump-sum at maturity	September 30, 2021	-	4,000
0.90% Unsecured loan, payable in a lump-sum at maturity (*1)	January 31, 2022	5,511	7,900
0.93% Unsecured loan, payable in a lump-sum at maturity	March 31, 2022	1,500	1,500
0.95% Unsecured loan, payable in a lump-sum at maturity (*1)	June 30, 2022	1,423	1,500
1.07% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	2,880	2,880
1.07% Unsecured loan, payable in a lump-sum at maturity	September 29, 2023	892	892
0.77% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,100	2,100
0.77% Unsecured loan, payable in a lump-sum at maturity (*1)	March 29, 2024	2,536	2,650
0.68% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2023	4,088	4,200
0.66% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	800	800
0.57% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	500	500
0.74% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	9,500	9,500
0.56% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,300	1,300
0.56% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	2,000	2,000
0.59% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	700	700
0.71% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	500	500
0.48% Unsecured loan, payable in a lump-sum at maturity	June 30, 2023	2,250	2,250
0.85% Unsecured loan, payable in a lump-sum at maturity	September 30, 2026	4,250	4,250
0.73% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	700	700
0.75% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	500	500
0.73% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	1,000	1,000
0.68% Unsecured loan, payable in a lump-sum at maturity	September 30, 2025	300	300
0.65% Unsecured loan, payable in a lump-sum at maturity	March 31, 2025	2,550	2,550
0.57% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	4,000	4,000
0.65% Unsecured loan, payable in a lump-sum at maturity	March 31, 2025	2,450	2,450
0.43% Unsecured loan, payable in a lump-sum at maturity	March 31, 2023	1,700	1,700
0.43% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2023	2,680	2,850
0.52% Unsecured loan, payable in a lump-sum at maturity (*1)	March 31, 2023	454	500
0.55% Unsecured loan, payable in a lump-sum at maturity (*1)	September 29, 2023	488	500
0.95% Unsecured loan, payable in a lump-sum at maturity	September 30, 2027	3,900	3,900
0.38% Unsecured loan, payable in a lump-sum at maturity	March 29, 2024	2,500	2,500
0.72% Unsecured loan, payable in a lump-sum at maturity	March 31, 2027	7,500	7,500
0.82% Unsecured loan, payable in a lump-sum at maturity	March 31, 2028	18,000	18,000
0.23% Unsecured loan, payable in a lump-sum at maturity	September 30, 2024	1,600	1,600
0.68% Unsecured loan, payable in a lump-sum at maturity	September 30, 2027	5,600	5,600
Sub-total		100,652	114,372
Total of short-term and long-term loans payable		¥ 124,654	¥ 127,154

Stated interest rate, which is a rate per annum, represents the weighted average rate during the year ended December 31, 2021, or the most recent year, based on the number of days and outstanding balance of the loans payable. The interest rate is rounded off to the nearest second decimal place. As JHR has conducted interest rate swap transactions in order to hedge against interest rate fluctuation risks, the interest rate of loans subject to such interest rate swap transactions is presented as the rate obtained by taking into account the effect of interest rate swaps (interest rate fixation), rounded off to second decimal places.

Notes:

(\*1) JHR made partial early repayment of these loans payable on December 17, 2021.

## 9. Investment Corporation Bonds

Investment corporation bonds as of December 31, 2021 and 2020 consisted of the following:

	<i>Millions of yen</i>	
	As of December 31, 2021	As of December 31, 2020
Unsecured 4th investment corporation bond at interest rate of 0.86%, due on December 17, 2021	¥ -	¥ 1,500
Unsecured 5th investment corporation bond at interest rate of 0.82%, due on October 21, 2022	6,000	6,000
Unsecured 6th investment corporation bond at interest rate of 0.935%, due on March 19, 2026	3,000	3,000
Unsecured 7th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	9,000	9,000
Unsecured 8th investment corporation bond at interest rate of 0.60%, due on November 27, 2026	1,100	1,100
Unsecured 9th investment corporation bond at interest rate of 0.53%, due on November 22, 2024	1,000	1,000
Unsecured 10th investment corporation bond at interest rate of 0.84%, due on February 21, 2028	10,000	10,000
Unsecured 11th investment corporation bond at interest rate of 0.854%, due on June 14, 2029	8,000	8,000
Unsecured 12th investment corporation bond (green bonds) at interest rate of 0.40%, due on July 31, 2024	2,000	2,000
Total	¥ 40,100	¥ 41,600

## 10. Asset Retirement Obligations

### a. Outline of the asset retirement obligations

JHR recognized asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former Hotel Centraza Hakata), acquired on April 1, 2016, and Hotel Oriental Express Fukuoka Tenjin (former HOTEL ASCENT FUKUOKA), acquired on August 19, 2016, to the original state in accordance with each of the fixed-term land leasehold agreements. For the asset retirement obligations of Hotel Oriental Express Fukuoka Tenjin, the obligations have been expired with the termination of the fixed-term land leasehold agreement due to the exchange of part of the site as of October 29, 2020.

### b. Calculation method of the asset retirement obligations

JHR calculated the amount of asset retirement obligations by estimating the expected periods of use of 34 years and 48 years based on the remaining useful lives of the related buildings and using the discount rates of 0.484% and 0.394%, respectively.

### c. Changes in the total amount of the asset retirement obligations

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	For the year ended December 31, 2020
Balance at beginning of year	¥ 335,161	¥ 447,677
Adjustment due to accretion expense	1,622	1,989
Decrease due to expiration of asset retirement obligations	-	(114,505)
Balance at end of year	¥ 336,783	¥ 335,161

## 11. Net Assets

JHR maintains at least ¥50,000 thousand as the minimum net assets as required by the Investment Trust Act.

Dividends and other movements in unappropriated retained earnings related to each period that were decided after the balance sheet date are summarized as follows:

		<i>Yen</i>			
		For the year ended December 31, 2021		For the year ended December 31, 2020	
		Total	Per unit	Total	Per unit
I	Unappropriated retained earnings	¥ 1,300,724,473		¥ 1,527,790,689	
II	Reversal of voluntary reserve				
	Reversal of reserve for temporary difference adjustment (*1)	335,371,387	¥ 75	305,694,382	¥ 68
III	Dividends	1,634,924,196	¥ 366	1,829,562,270	¥ 410
IV	Retained earnings carried forward (I+II-III)	¥ 1,171,664		¥ 3,922,801	

Notes:

(\*1) JHR applied the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015) from the fiscal period ended December 31, 2016. As a result, ¥13,127,153,216 of the dividend reserve, representing the remaining balance of the gain on negative goodwill recorded in a prior fiscal period, was transferred to the “Reserve for temporary difference adjustment” account through the appropriation of profit for the year ended December 31, 2016. Starting from the year ended December 31, 2017, JHR plans to reverse the reserve every year in an amount that shall be at least 2% of the transferred amount (¥262,543,065) but not exceeding the remaining amount of the reserve at that point in conformity with applicable rules and regulations.

For the year ended December 31, 2020, reversal of reserve for temporary difference adjustment of ¥305,694,382 was decided, which was the amount calculated by adding ¥5,701,616 equivalent to loss on retirement of noncurrent assets and ¥37,392,766 equivalent to amortization of trademark rights to ¥262,600,000 of the basic reversal.

For the year ended December 31, 2021, reversal of reserve for temporary difference adjustment of ¥335,371,387 has been decided, which is the amount calculated by adding ¥16,682,237 equivalent to loss on retirement of noncurrent assets and ¥56,089,150 equivalent to amortization of trademark rights to ¥262,600,000 of the basic reversal.

## 12. Provision and Reversal of Reserve for Temporary Difference Adjustment

Changes in the balance of reserve for temporary difference adjustment during the years ended December 31, 2021 and 2020 consisted of the following (thousands of yen):

Source	Original amount	Balance as of January 1, 2021	Provision during the year	Reversal during the year	Balance as of December 31, 2021	Rationale for provision or reversal
Dividend reserve	13,127,153	10,617,580	-	305,694	10,311,886	Allocation for dividend

Source	Original amount	Balance as of January 1, 2020	Provision during the year	Reversal during the year	Balance as of December 31, 2020	Rationale for provision or reversal
Dividend reserve	13,127,153	11,794,071	-	1,176,490	10,617,580	Allocation for dividend

(Note) See (\*1) of Note 11 above for further descriptions.

### 13. Real Estate Operating Revenue and Costs

The components of “Real estate operating revenue” and “Real estate operating costs” for the years ended December 31, 2021 and 2020 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	For the year ended December 31, 2020
Operating revenue:		
Real estate operating revenue:		
Fixed rent	¥ 6,413,988	¥ 7,640,060
Variable rent	3,054,524	1,902,240
Income from management contract (*1)	33,926	61,423
Sub-total	<u>9,502,439</u>	<u>9,603,724</u>
Other real estate operating revenue:		
Parking lots	116,270	116,458
Other incidental revenue	66,395	83,051
Utilities	483,341	546,450
Other	206,216	146,041
Sub-total	<u>872,223</u>	<u>892,001</u>
Total operating revenue	<u>10,374,662</u>	<u>10,495,725</u>
Real estate operating costs:		
Land lease and other rent expenses	857,819	890,001
Property taxes	1,947,316	1,915,565
Outsourcing expenses (*2)	494,005	423,852
Nonlife insurance	73,031	67,271
Depreciation and amortization	4,804,111	4,761,907
Loss on retirement of noncurrent assets	16,682	5,701
Repairs	30,176	29,261
Utilities	498,283	559,044
Trust fees	43,558	42,480
Other	65,369	22,245
Total real estate operating costs	<u>8,830,354</u>	<u>8,717,332</u>
Net real estate operating income	<u>¥ 1,544,308</u>	<u>¥ 1,778,393</u>

Notes:

- (\*1) Pursuant to management contracts with a certain hotel operator, JHR receives revenue in the amount equivalent to the properties’ gross operating profit, or GOP, while it pays management contract fees to the operator. In the event a property’s GOP for the relevant period is a negative number, then JHR is required to pay an amount equal to such negative number to the operator. Even though some of the revenue JHR receives under management contracts is variable, it recognizes such revenue as income from management contracts and not as variable rent.
- (\*2) Outsourcing expenses include management contract fees of ¥148,088 thousand for the year ended December 31, 2021 and ¥70,119 thousand for the year ended December 31, 2020.

#### 14. Gain on Sale of Real Estate Properties

The components of “Gain on sale of real estate properties” for the year ended December 31, 2021 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2021	
	ibis Tokyo Shinjuku	
Proceeds from sale of properties	¥	11,300,000
Costs of sale of properties		7,809,052
Other selling expenses		231,996
Gain on sale of real estate properties	¥	3,258,950

The components of “Gain on sale of real estate properties” for the year ended December 31, 2020 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	
	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	
Proceeds from sale of properties	¥	8,000,000
Costs of sale of properties		4,790,596
Other selling expenses		51,021
Gain on sale of real estate properties	¥	3,158,381

#### 15. Gain on Exchange of Real Estate Properties

There was no gain or loss on exchange of real estate properties for the year ended December 31, 2021.

The components of “Gain on exchange of real estate properties” for the year ended December 31, 2020 were as follows:

	<i>Thousands of yen</i>	
	For the year ended December 31, 2020	
	HOTEL ASCENT FUKUOKA (Current name: Hotel Oriental Express Fukuoka Tenjin) (part of site)	
Value of properties transferred for exchange	¥	523,000
Costs of properties transferred for exchange		333,359
Other transferring expenses		4,915
Gain on exchange of real estate properties	¥	184,725

#### 16. Advanced Depreciation of Property and Equipment

The accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received as of December 31, 2021 and 2020 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
Buildings in trust	¥ 24,921	¥ 24,921

## 17. Income Taxes

Significant components of deferred tax assets and liabilities as of December 31, 2021 and 2020 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
Deferred tax assets		
Valuation difference on assets acquired by merger	¥ 1,681,502	¥ 1,696,476
Amortization of fixed-term leasehold rights	248,687	206,151
Asset retirement obligations	19,131	15,530
Amortization of trademark rights	29,409	11,763
Deferred losses on hedges	61,045	238,937
Subtotal deferred tax assets	2,039,776	2,168,860
Valuation allowance	(2,039,776)	(2,168,860)
Total deferred tax assets	¥ -	¥ -
Deferred tax liabilities		
Deferred gains on hedges	3,812	-
Total deferred tax liabilities	¥ 3,812	¥ -

Reconciliation between the effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the years ended December 31, 2021 and 2020 was as follows:

	For the year ended December 31, 2021	For the year ended December 31, 2020
Effective statutory tax rate	31.46%	31.46%
Deduction for dividends paid	(35.22)	(34.09)
Change in valuation allowance	3.76	2.63
Other – net	0.09	0.08
Actual effective tax rate	0.09%	0.08%

## 18. Amounts per Unit

Net income per unit for the years ended December 31, 2021 and 2020 was as follows:

	<i>Thousands of yen</i>	<i>Number of units</i>	<i>Yen</i>
For the year ended December 31, 2021	Net income	Weighted- average units	Net income per unit
Basic net income per unit - Net income attributable to common unitholders	¥ 1,296,801	4,466,061	¥ 290
For the year ended December 31, 2020			
Basic net income per unit - Net income attributable to common unitholders	¥ 1,527,045	4,462,347	¥ 342

Notes:

- (1) The computation of net income per unit is based on the weighted-average number of units outstanding during the year.
- (2) Diluted net income per unit is not presented since there are no potentially dilutive units for the years ended December 31, 2021 and 2020.

Net assets per unit as of December 31, 2021 and 2020 were as follows:

	<i>Yen</i>	
	As of December 31, 2021	As of December 31, 2020
Net assets per unit	¥ 49,595	¥ 49,570

## 19. Leases

### As Lessor:

JHR leases its real estate properties to third parties under non-cancellable operating leases. Minimum rental revenue under the non-cancellable operating leases as of December 31, 2021 and 2020 were as follows:

	<i>Thousands of yen</i>	
	As of December 31, 2021	As of December 31, 2020
Due within one year	¥ 1,293,157	¥ 990,152
Due after one year	4,979,488	1,213,075
Total	¥ 6,272,645	¥ 2,203,227

## 20. Derivatives and Hedging Activities

### a. Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting was not applied as of December 31, 2021 and 2020 were as follows:

As of December 31, 2021	Classification	<i>Thousands of yen</i>		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 3,494,000	¥ 3,494,000	¥ (13,924)

As of December 31, 2020	Classification	<i>Thousands of yen</i>		
		Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Transactions other than market transactions	¥ 3,494,000	¥ 3,494,000	¥ (29,655)

**b. Derivative transactions to which hedge accounting is applied**

Derivative transactions to which hedge accounting was applied as of December 31, 2021 and 2020 were as follows:

As of December 31, 2021	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 89,660,000	¥ 78,460,000	¥ (181,921)

As of December 31, 2020	Method of hedge accounting	Hedged item	Thousands of yen		
			Contract amount (*1)	Contract amount due after one year	Fair value (*2)
Interest rate swaps (fixed rate payment, floating rate receipt)	Deferral method	Long-term loans payable	¥ 101,072,000	¥ 90,272,000	¥ (759,492)

Notes:

(\*1) The contract amounts of the interest rate swap is presented based on the contracted amount or notional principal amounts on the contract, etc. as of the end of the fiscal period. Also, the contract amounts of derivative transactions do not indicate market risk exposure related to derivative transactions.

(\*2) The fair value is measured at the quoted price obtained from the counterparty financial institutions.

**21. Investment and Rental Properties**

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			
	Carrying amount			Fair value (*2)
	January 1, 2021	Net increase (decrease) (*1)	December 31, 2021	December 31, 2021
Hotels	¥ 367,283,696	¥ (8,463,831)	¥ 358,819,865	¥ 485,480,000

Notes:

(\*1) Decrease during 2021 principally represents the sale of ibis Tokyo Shinjuku (¥7,809 million) and recording of depreciation.

(\*2) Fair value of properties as of December 31, 2021 is generally the appraisal value determined by outside licensed real estate appraisers.

	Thousands of yen			
	Carrying amount			Fair value (*2)
	January 1, 2020	Net increase (decrease) (*1)	December 31, 2020	December 31, 2020
Hotels	¥ 374,314,498	¥ (7,030,802)	¥ 367,283,696	¥ 493,330,000

Notes:

(\*1) Decrease during 2020 principally represents the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (¥4,790 million) and recording of depreciation.

(\*2) Fair value of properties as of December 31, 2020 is generally the appraisal value determined by outside licensed real estate appraisers.

Real estate operating revenue and costs for the years ended December 31, 2021 and 2020 related to the rental properties were as follows:

<i>Thousands of yen</i>			
For the year ended December 31, 2021			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 10,374,662	¥ 8,830,354	¥ 1,544,308

<i>Thousands of yen</i>			
For the year ended December 31, 2020			
	Real estate operating revenue (*)	Real estate operating costs (*)	Net real estate operating income
Hotels	¥ 10,495,725	¥ 8,717,332	¥ 1,778,393

Note:

(\*) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other real estate operating revenue) and corresponding expenses (such as depreciation, property taxes, trust fees, and repairs and maintenance expenses), and are included in “Operating revenue” and “Real estate operating costs,” respectively.

## 22. Segment Information

### a. Segment information

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

### b. Related information

(1) Information about products and services for the years ended December 31, 2021 and 2020

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.

(2) Information about geographical areas for the years ended December 31, 2021 and 2020

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue in Japan accounted for more than 90% of total operating revenue.

(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.

(3) Information about major customers

<For the year ended December 31, 2021>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 2,524,020
THE DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management	Undisclosed (*2)

<For the year ended December 31, 2020>

Name of customer	Segment	<i>Thousands of yen</i> Operating revenue
Hotel Management Japan Co., Ltd. (*1)	Hotel real estate investment and management	¥ 1,990,793
THE DAI-ICHI BUILDING CO., LTD.	Hotel real estate investment and management	Undisclosed (*2)

Note:

(\*1) Operating revenue includes the operating revenue from customers belonging to the business group of the said customer.

(\*2) Undisclosed as the consent on disclosure has not been obtained from the lessee.

## 23. Subsequent Events

### Conclusion of memorandums of understanding related to modifying fixed-term building lease contracts

JHR resolved at its Board of Directors' meeting held on February 25, 2022 to conclude "memorandums of understanding related to fixed-term building lease contracts" with the HMJ Group (\*) in order to revise the rent structure for the fiscal year 2022 for the 14 properties listed in (1) Fixed rent in the table below, out of the 16 properties leased to the HMJ Group as lessee, concerning the "contracts to modify fixed-term building lease contracts" dated August 25, 2020 (hereinafter, the "Previous Modification Contracts"). JHR concluded the memorandums of understanding as of the same date.

Although JHR believes that the hotel market will gradually recover during fiscal year 2022 due to progress of vaccination and development of therapeutic medicine in addition to supporting measures by national and local governments to promote tourism, it is difficult to make reasonable estimate as to the speed of recovery and downside risks. Therefore, as it did in the Previous Modification Contracts dated August 2020, JHR has decided to exempt annual fixed rents totaling ¥8,030 million by HMJ group hotels in fiscal year 2022 and adopt a full variable rent structure. No change is made for the base amount of AGOP (Note 1) and payment ratio of variable rent when AGOP exceeds the base amount. In addition, rent structure for the fiscal year 2023 onwards is unchanged from that for the fiscal year 2022 onwards set forth in the Previous Modification Contracts.

The details of the change are indicated below.

\* : HMJ is an abbreviation of Hotel Management Japan Co., Ltd. which is group company of the Asset Management Company and leases 5 hotels from JHR and HMJ Group means HMJ and its subsidiaries which lease 16 hotels from JHR.

#### (1) Fixed rent

No.	Name of property	Lessee	Fixed rent		
			Before change	After change	
			From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	¥ 3,221 million/year	Not applicable	¥ 3,221 million/year
2	Oriental Hotel tokyo bay				
3	Namba Oriental Hotel				
4	Hotel Nikko Alivila				
5	Oriental Hotel Hiroshima				
6	Oriental Hotel Okinawa Resort & Spa	Lagoon resort Nago Co., Ltd.	¥ 550 million/year		¥ 550 million/year
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 2)	K.K. A.I.C Hiroshima Management	¥ 348 million/year		¥ 348 million/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	¥ 425 million/year		¥ 425 million/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	¥ 576 million/year		¥ 576 million/year
10	Hilton Tokyo Narita Airport	KK Narita Kosuge Operations	¥ 444 million/year		¥ 444 million/year
11	International Garden Hotel Narita	KK Narita Yoshikura Operations	¥ 336 million/year		¥ 336 million/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	¥ 420 million/year		¥ 420 million/year
13	Hotel Oriental Express Osaka Shinsaibashi	Hotel Oriental Express Co., Ltd.	¥ 110 million/year		¥ 110 million/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise KK	¥ 1,600 million/year		¥ 1,600 million/year

#### (2) Variable rent

No.	Name of property, etc.	Calculation method of variable rent		
		Before change	After change	
		From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel	(Total AGOP of The Five HMJ Hotels (Note 3) – base amount (¥4,120 million/year (Note 4))) x 85.0%	AGOP x 86.0%	(Total AGOP of The Five HMJ Hotels (Note 3) – 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%	
6	Oriental Hotel Okinawa Resort & Spa	(AGOP – base amount (¥655 million/year)) x 95.0%	AGOP x 89.0%	(AGOP – base amount (¥655 million/year)) x 95.0%
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 2)	(AGOP – base amount (¥360 million/year)) x 90.0%	AGOP x 93.0%	(AGOP – base amount (¥360 million/year)) x 90.0%
8	Oriental Hotel Fukuoka Hakata Station	(AGOP – base amount (¥442 million/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (¥442 million/year)) x 98.0%
9	Holiday Inn Osaka Namba	(AGOP – base amount (¥580 million/year)) x 97.0%	AGOP x 98.0%	(AGOP – base amount (¥580 million/year)) x 97.0%
10	Hilton Tokyo Narita Airport	(AGOP – base amount (¥450 million/year)) x 93.0%	AGOP x 95.0%	(AGOP – base amount (¥450 million/year)) x 93.0%
11	International Garden Hotel Narita	(AGOP – base amount (¥360 million/year)) x 98.0%	AGOP x 95.0%	(AGOP – base amount (¥360 million/year)) x 98.0%
12	Hotel Nikko Nara	(AGOP – base amount (¥440 million/year)) x 95.0%	AGOP x 95.0%	(AGOP – base amount (¥440 million/year)) x 95.0%
13	Hotel Oriental Express Osaka Shinsaibashi	(AGOP – base amount (¥128 million/year)) x 91.0%	AGOP x 87.0%	(AGOP – base amount (¥128 million/year)) x 91.0%
14	Hilton Tokyo Odaiba	(AGOP – base amount (¥1,660 million/year)) x 98.0%	AGOP x 97.0%	(AGOP – base amount (¥1,660 million/year)) x 98.0%

(Note 1) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. GOP (Gross Operating Profit) is the amount calculated by subtracting cost for hotel operation (personal cost, general administration cost, etc.) from sales of the hotel.

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

(Note 3) The Five HMJ Hotels refers to the 5 hotels (Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila and Oriental Hotel Hiroshima) which JHR leases to HMJ.

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

### (3) Impact of concluding the memorandums of understanding on profit and loss

Due to the conclusion of the memorandums, fixed rent to be recorded for operating revenue is anticipated to decrease by ¥8,030 million for the fiscal period ending December 2022. However, the impact on variable rent cannot be estimated at this point as variable rent to be recorded for operating revenue will be determined by the AGOP for the full year of the fiscal period ending December 2022.



## Independent auditor's report

To the Board of Directors of Japan Hotel REIT Investment Corporation:

### Opinion

We have audited the accompanying financial statements of Japan Hotel REIT Investment Corporation (“the Company”), which comprise the balance sheets as at December 31, 2021 and 2020, the statements of income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter

We draw attention to Note 23 (Subsequent Events) to the financial statements, which states that the Company concluded the memorandums of understanding related to modifying fixed-term building lease contracts. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Supervisory Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Supervisory directors are responsible for overseeing the executive director's performance of his duties with regard to the design, implementation and maintenance of the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the executive director regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the executive director with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with him all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

貞廣篤典

Atsunori Sadahiro

Designated Engagement Partner

Certified Public Accountant

橋本宏徳

Hironori Hashizume

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

April 22, 2022