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February 25, 2022

Financial Report for the Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
Securities code: 8985
URL: <https://www.jhrth.co.jp/en/>
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Scheduled date to file Securities Report: March 24, 2022
Scheduled date to start dividend payment: March 18, 2022

Preparation of supplementary material on financial report: Yes
Schedule for presentation of financial results: Yes (Analysts and institutional investors only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the fiscal year ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(1) Operating results

(Percentages show changes from the previous year)

Fiscal year ended	Operating revenue		Operating income		Ordinary income		Net income	
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
December 31, 2021	13,633	(1.5)	2,959	(6.8)	1,298	(7.2)	1,296	(15.1)
December 31, 2020	13,838	(51.1)	3,176	(81.5)	1,398	(90.9)	1,527	(90.0)

Fiscal year ended	Net income per unit	Return on equity (ROE)	Ordinary income to total assets	Ordinary income to operating revenue
	JPY	%	%	%
December 31, 2021	290	0.6	0.3	9.5
December 31, 2020	342	0.7	0.3	10.1

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

(2) Cash distributions

Fiscal year ended	Dividend per unit (Excess of earnings exclusive)	Total dividends (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings	Total dividends from excess of earnings	Payout ratio	Dividend to net assets
	JPY	JPY1M	JPY	JPY1M	%	%
December 31, 2021	366	1,634	—	—	126.1	0.7
December 31, 2020	410	1,829	—	—	119.8	0.8

(Note 1) The source of dividends for the fiscal year ended December 31, 2021, is calculated by adding appropriation for dividends (¥335 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 2> Dividend per unit and appropriation for dividends” on page 15.

(Note 2) The source of dividends for the fiscal year ended December 31, 2020, is calculated by adding appropriation for dividends (¥305 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 2> Dividend per unit and appropriation for dividends” on page 15.

(Note 3) Payout ratio is calculated using the following formula, rounded off to one decimal place.
Total dividends (total dividends from excess of earnings exclusive) ÷ Net income × 100

(3) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Fiscal year ended	JPY1M	JPY1M	%	JPY
December 31, 2021	394,323	221,542	56.2	49,595
December 31, 2020	400,296	221,201	55.3	49,570

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

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
Fiscal year ended	JPY1M	JPY1M	JPY1M	JPY1M
December 31, 2021	11,682	(4,695)	(5,543)	29,996
December 31, 2020	13,747	(3,077)	(16,461)	28,553

2. Operating forecast for the fiscal year ending December 31, 2022 (January 1, 2022 – December 31, 2022)

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary income		Net income		Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%	JPY	JPY
Midterm	-	-	-	-	-	-	-	-	-	-
Full year	-	-	-	-	-	-	-	-	-	-

(Note) It is continuously difficult to reasonably estimate the performance of hotels due to the spread of COVID-19. Because the share of variable rents and income from management contracts that are linked to the performance of hotels in JHR's earnings is large, operating forecast and forecast of dividend for the fiscal year ending December 31, 2022 (from January 1, 2022 to December 31, 2022) are left as undetermined.

*** Other**

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

- (a) Changes in accounting policies due to revisions to accounting standards and other regulations: No change
- (b) Changes in accounting policies due to other reasons than above (a): No change
- (c) Changes in accounting estimates: No change
- (d) Restatement of financial statements for prior period after error corrections: No change

(2) Total number of investment units issued and outstanding

(a) Total number of investment units issued and outstanding at the end of the fiscal year
(including investment units owned by Japan Hotel REIT Investment Corporation (JHR))

As of December 31, 2021 4,467,006 units

As of December 31, 2020 4,462,347 units

(b) Number of JHR's own investment units held at the end of the fiscal year

As of December 31, 2021 0 units

As of December 31, 2020 0 units

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

*** Financial reports are exempt from the audit by a certified public accountant or an auditing firm.**

*** Special items**

Forward-looking statements presented in this financial report including operating forecasts are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors.

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1. Operating results

(1) Operating results

(A) Overview of the fiscal year under review

(a) Brief history and principal activities

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

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

JHR, the former Nippon Hotel Fund Investment Corporation, merged with Japan Hotel and Resort, Inc. with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”), and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger through the end of the fiscal year under review (12-month period from January 1, 2021 to December 31, 2021), JHR has carried out nine public offerings for capital increase and continuously acquired “highly competitive hotels” in mainly “strategic investment areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 26 properties amounting to ¥275,160 million (acquisition price basis) in total in the little less than ten years since the Merger through the end of the fiscal year under review. As a result, 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 at the end of the fiscal year under review.

(b) Investment performance for the fiscal year under review

The Japanese economy in the fiscal year 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 1) of the 24 Hotels with Variable Rent, etc. (Note 2) for the fiscal year 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, JHR changed lessees and conducted rebranding during the fiscal year 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. These have led to more efficient operations being promoted, such as through 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 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 sales of real estate properties and enhance the liquidity on hand. Accordingly, JHR sold ibis Tokyo Shinjuku on December 15, 2021, recording ¥3,258 million as gain on sales of real estate properties. On the other hand, on July 30, 2021, In addition, JHR acquired land that is part of the site of Oriental Hotel Universal City 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.

Moreover, JHR made a drastic review of its capital expenditures, including postponement of large-scale renovation work planned for the fiscal year under review, and also worked to reduce costs under such cost items as real estate operating costs and general and administrative expenses through discussions with related parties 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 Information 1> Hotel operation indexes, sales and GOP (gross operating profit)” on page 14.

(Note 1) 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 in this document.

(Note 2) 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 HMJ subsidiaries (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), totaling 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 HMJ subsidiaries, these are not included in the HMJ Group Hotels in the fiscal year 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, totaling 24 hotels. The same shall apply hereinafter in this document.

(c) Funding status

In the fiscal year 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. In addition, JHR took out loans of ¥935 million in total in June 2021 and ¥15,847 million in total in September 2021 to similarly refinance existing borrowings that were due for repayment. 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 with 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 year under review, the 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 (Note) at the end of the fiscal year under review stood at 41.8%. The ratio of fixed interest rate to total interest-bearing debt at the end of the fiscal year 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 × 100

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

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

(d) 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 year 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, the dividend per unit came to ¥366. For details of the appropriation for dividends for the fiscal year under review, please refer to “<Reference Information 2> Dividend per unit and appropriation for dividends” on page 15.

(B) Outlook for the next fiscal year

(a) Investment policies and issues to be addressed

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 drugs for treating 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 “(A) Overview of the fiscal year under review; (b) Investment performance for the fiscal year under review” on page 4, JHR agreed to set all rent as variable rent only from February 2021 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 change fixed-term building lease contracts on February 25, 2022. For details, please refer to “(b) Significant subsequent events; Conclusion of memorandums of understanding related to change fixed-term building lease contracts” later in this document on page 10.

On the other hand, given the large potential demand for overseas tourism globally, particularly due to the improvement in income levels in Asian countries, 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. 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 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 of the spread of infection by COVID-19, contactless behavior patterns, such as web conferencing, have spread, and these may cause structural changes in the hotel industry, for instance, a reduction in banquet demand. JHR will work more closely than ever with hotel lessees and operators to flexibly respond to the changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to continue to implement strategies to differentiate by utilizing the experience it has cultivated as a J-REIT specializing in hotels, 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 strategies which proactively pursue greater profitability and asset value in properties by way of a variety of measures such as expanding international brands and coordinating with HMJ.

For properties with fixed-rent contracts, JHR will continue to focus on setting and maintaining appropriate rents based on rent levels in the market where respective hotels are located or each tenant's creditworthiness and ability to bear the rent costs, and 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, etc. and reduce management contract fees by implementing active asset management strategies.

In 2021, JHR changed lessees and conducted rebranding to 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 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 to 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.

i) Properties under variable rent contracts

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

On the other hand, under the impact of the spread of infection by COVID-19, recovery in hotel performance is expected to take a certain level of 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 earnings structures of hotels through various cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while continuing efforts on consideration for the health of 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.

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

ii) Properties under fixed rent contracts

JHR will monitor operating conditions of these hotels appropriately, pay careful attention to each lessee's ability to bear the cost of rent, and pursue efforts to set and maintain reasonable rent, while appropriately responding to requests for reduction of fixed rent from lessees greatly affected by the spread of infection by COVID-19. In addition, JHR will continuously execute investment to maintain and renew facilities and equipment in order to ensure each hotel becomes prominent in the market and to maintain and enhance asset value.

External growth

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

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

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

In the hotel 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 be still a low volume in also 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 non-core assets due to deterioration in 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 and such. Moreover, over the medium to long term, JHR believes that, along with the spread of infection by 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 more active. 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 and 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 HMJ Group as necessary. Considering the uncertainty of the hotel market environment due to the impact of COVID-19, JHR intends to be careful with property acquisition for the time being, from the standpoint of procurement of new funds for property acquisition. 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. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% as in the past, but maintains roughly the current level for the time being. In addition, when seeking new borrowing for property acquisitions, JHR will work to disperse the maturity dates of its debt as well as further reinforce its composition of lenders and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds), while considering the balance with the funding costs.

Policy on handling of negative goodwill

From the fiscal year 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 year 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 1).

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, 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, consideration for ESG (Environment, Social and Governance) has grown in importance in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management that considers for ESG is important to maximize 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 such as property managers, local communities, and officers and employees of the Asset Management Company, and to fulfill our social responsibilities expected from each of them.

In order to put such ideas into practice, JHR, along with the Asset Management Company, has established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at properties in our portfolio based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for hotel properties owned by a J-REIT (Note 1). 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 four consecutive years thereafter. 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 (Comprehensive Assessment System for Built Environment Efficiency) 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 stakeholder expectations 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 refinancing of loans procured for funding investment capital and constructions cost, etc. for equipment which contribute to environment, including reduction of CO₂ 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 year under review, JHR allocated funds to construction costs for reduction of CO₂, 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 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 continue to proactively carry out social contribution activities capitalizing on the characteristics of the hotel sector and each hotel.

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

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

(b) Significant subsequent events

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

On February 25, 2022, board of directors meeting of JHR resolved to conclude memorandums of understanding relating to change fixed-term building lease contracts in relation with contracts to change fixed-term building lease contracts dated August 25, 2020 (hereinafter “Previous Contracts for Change”) on 14 properties listed in chart (1) Fixed rent below among 16 properties leased to HMJ Group as tenant in order to change leasing structure for fiscal year 2022. And JHR concluded

the memorandums of understanding on the same date. Although JHR believes that 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, speed of recovery and downside risks are difficult to make reasonable estimate. Therefore, as we did in Previous Contracts for Change dated August 2020, we decided to exempt annual fixed rent in total JPY 8,030 million and adopt full variable rent structure. Base amount of AGOP (*1) and payment ratio of variable rent when AGOP exceed the base amount are unchanged from last change. In addition, rent after 2023 is unchanged from rent structure for 2022 which structured in Previous Contracts for Change.
Please see below for detail of changes.

(1) Fixed rent

No	Name	Tenant	Fixed rent		
			Before change	After change	
			From FY2022 onwards	FY2022	From FY2023 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	JPY 3,221MM/year	Not applicable	JPY 3,221 MM/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.	JPY 550 MM/year		JPY 550 MM/year
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	K.K. A.I.C Hiroshima Management	JPY 348 MM/year		JPY 348 MM/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	JPY 425 MM/year		JPY 425 MM/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	JPY 576 MM/year		JPY 576 MM/year
10	Hilton Tokyo Narita Airport	KK Narita Kosuge Operations	JPY 444 MM/year		JPY 444 MM/year
11	International Garden Hotel Narita	KK Narita Yoshikura Operations	JPY 336 MM/year		JPY 336 MM/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	JPY 420 MM/year		JPY 420 MM/year
13	Hotel Oriental Express Osaka Shinsaibashi	K.K. HOTEL ORIENTAL EXPRESS	JPY 110 MM/year		JPY 110 MM/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise Inc.	JPY 1,600 MM/year		JPY 1,600 MM/year

(2) Variable rent

No	Name of Property	Calculation method of variable rent		
		Before revision	After revision	
		From FY 2022 onwards	FY 2022	From FY 2023 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)	(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 amount calculated by subtracting various cost for hotel operation (personal cost, general administration cost, etc.) from sales of the hotel.

(Note 2) Stating detail of contract for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 3) Five HMJ Hotels are 5 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).

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

(3) Impact on profit and loss by conclusion the memorandum of understandings.

Although fixed rent in amount of JPY 8,030 MM will be reduced from operating revenue due to the conclusion of memorandums of understanding, variable rent will be determined by AGOP of full year for fiscal year 2022. Therefore, it is difficult to reasonably estimate amount of the impact at this point.

(c) Operating forecast

As the impact of the spread of infection by COVID-19 continues, it is continuously difficult at this point to reasonably estimate the performance of hotels through the end of December 2022. Because the share of variable rents and income from management contracts that are linked to the performance of hotels in JHR's earnings is large, it is difficult to reasonably estimate earnings for the midterm of the fiscal year ending December 31, 2022 (23rd period) and the full year of the fiscal year ending December 31, 2022 (23rd period) of JHR.

Therefore, the operating forecast and forecast of dividend are left as undetermined and will be disclosed as soon as it becomes possible to disclose going forward.

Midterm of the fiscal year ending December 31, 2022 (23rd period)

Operating revenue	TBD
Operating income	TBD
Ordinary income	TBD
Net income	TBD

Full year of the fiscal year ending December 31, 2022 (23rd period)

Operating revenue	TBD
Operating income	TBD
Ordinary income	TBD
Net income	TBD
Dividend per unit	TBD
Dividend per unit resulting from excess of earnings	TBD

<Reference Information 1> Hotel operation indexes, sales and GOP (gross operating profit)

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

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

<1> The HMJ Group Hotels

		Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
		Result	Comparison with previous period	Result	Comparison with previous period
Occupancy rate	First half of the year	33.1%	(52.2pt)	27.7%	(5.4pt)
	Second half of the year	38.4%	(49.5pt)	49.0%	10.6pt
	Full year	35.8%	(50.8pt)	38.5%	2.7pt
ADR (Note 1)	First half of the year	15,222	(13.4%)	13,048	(14.3%)
	Second half of the year	16,814	(14.4%)	14,636	(13.0%)
	Full year	16,081	(13.7%)	14,068	(12.5%)
RevPAR (Note 2)	First half of the year	5,045	(66.4%)	3,618	(28.3%)
	Second half of the year	6,460	(62.6%)	7,179	11.1%
	Full year	5,757	(64.3%)	5,413	(6.0%)
Sales (JPY1M)	First half of the year	9,167	(61.9%)	8,313	(9.3%)
	Second half of the year	11,978	(55.9%)	12,765	6.6%
	Full year	21,146	(58.7%)	21,078	(0.3%)
GOP (JPY1M)	First half of the year	(370)	(105.1%)	(136)	—%
	Second half of the year	1,696	(82.8%)	2,186	28.9%
	Full year	1,326	(92.3%)	2,050	54.7%

(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. The same shall apply hereinafter.

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

<2> The 24 Hotels with Variable Rent, etc.

		Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
		Result	Comparison with previous period	Result	Comparison with previous period
Occupancy rate	First half of the year	34.0%	(51.1pt)	30.6%	(3.3pt)
	Second half of the year	40.8%	(46.1pt)	49.6%	8.9pt
	Full year	37.4%	(48.6pt)	40.2%	2.8pt
ADR	First half of the year	13,362	(14.8%)	10,846	(18.8%)
	Second half of the year	13,354	(22.6%)	12,313	(7.8%)
	Full year	13,357	(19.0%)	11,757	(12.0%)
RevPAR	First half of the year	4,536	(66.0%)	3,320	(26.8%)
	Second half of the year	5,445	(63.7%)	6,112	12.2%
	Full year	4,993	(64.8%)	4,724	(5.4%)
Sales (JPY1M)	First half of the year	10,718	(62.1%)	9,478	(11.6%)
	Second half of the year	13,378	(57.5%)	14,309	7.0%
	Full year	24,096	(59.6%)	23,786	(1.3%)
GOP (JPY1M)	First half of the year	(213)	(102.4%)	(65)	—%
	Second half of the year	1,867	(84.2%)	2,502	34.0%
	Full year	1,654	(92.1%)	2,437	47.4%

<Reference Information 2> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal year ended December 31, 2020, and the fiscal year ended December 31, 2021, are calculated based on the following assumptions.

	Fiscal year ended December 31, 2020 (JPY1M)	Fiscal year ended December 31, 2021 (JPY1M)
Unappropriated retained earnings	1,527	1,300
Total of reserve for temporary difference adjustment (negative goodwill) used	305	335
50-year amortization amount of negative goodwill	262	262
Loss on retirement of noncurrent assets	5	16
Amortization of trademark rights	37	56
Total dividends	1,829	1,634
Total number of investment units issued and outstanding	4,462,347 units	4,467,006 units
Dividend per unit	¥410	¥366

(2) Material events related to going concern assumption

In the fiscal year under review, JHR saw deterioration in its earnings because of the decrease in variable rents linked to hotel performance, etc. 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 infection by COVID-19. As a result, continuing from the previous fiscal year, the debt-service coverage ratio, which is designated in the loan-related contracts with the financial institutions with which JHR conducts business, fell below the predetermined reference value. Because such financial situation caused temporary breach of financial covenants, there is a condition where substantial doubts on going concern may arise. However, JHR has agreed with the financial institutions with which it conducts business that such financial situation is not considered a breach of the financial covenants. In the case where the debt-service coverage ratio is lower than the predetermined reference value in the midterm period of the next fiscal year and thereafter, JHR may breach the financial covenants. Still, JHR believes that there is no material uncertainty regarding the going concern assumption due to consideration of the good relationships between JHR and the financial institutions with which it conducts business, continuing support from sponsor related entities, sufficient amount of cash it has on hand, conservative debt ratio, etc.

2. Financial statements

(1) Balance sheets

(thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	19,382,019	22,838,609
Cash and deposits in trust	9,171,145	7,458,225
Operating accounts receivable	672,415	1,750,164
Prepaid expenses	533,150	485,240
Income taxes receivable	42	40
Other	82,698	108,411
Total current assets	29,841,471	32,640,693
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	622,365	677,977
Accumulated depreciation	(252,877)	(311,345)
Machinery and equipment, net	369,487	366,632
Tools, furniture and fixtures	4,373,456	4,889,299
Accumulated depreciation	(2,739,679)	(3,204,701)
Tools, furniture and fixtures, net	1,633,776	1,684,597
Construction in progress	2,761	21,972
Buildings in trust	*1 137,193,115	*1 137,035,704
Accumulated depreciation	(25,172,139)	(28,062,086)
Buildings in trust, net	112,020,975	108,973,617
Structures in trust	2,772,035	2,844,532
Accumulated depreciation	(511,004)	(585,251)
Structures in trust, net	2,261,030	2,259,280
Machinery and equipment in trust	683,995	645,033
Accumulated depreciation	(183,954)	(198,085)
Machinery and equipment in trust, net	500,040	446,947
Tools, furniture and fixtures in trust	133,628	126,678
Accumulated depreciation	(112,061)	(109,785)
Tools, furniture and fixtures in trust, net	21,566	16,893
Land in trust	216,410,533	212,263,515
Construction in progress in trust	83,507	110,371
Net property and equipment	333,303,679	326,143,828
Intangible assets		
Software	162,441	275,488
Trademark right	523,498	467,409
Leasehold rights in trust	28,532,362	27,324,752
Fixed-term leasehold rights in trust	4,765,994	4,630,789
Other	7,076	5,920
Total intangible assets	33,991,374	32,704,360
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	139,668
Long-term prepaid expenses	2,449,539	2,191,650
Derivative assets	—	12,117
Reserve for repairs and maintenance	314,067	327,476
Total investments and other assets	2,926,350	2,683,432
Total noncurrent assets	370,221,403	361,531,621
Deferred assets		
Investment unit issuance costs	56,111	7,735
Investment corporation bond issuance costs	177,418	143,863
Total deferred assets	233,529	151,598
Total assets	400,296,404	394,323,913

(thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Operating accounts payable	2,654,679	1,426,861
Short-term loans payable	12,782,000	24,002,000
Current portion of investment corporation bonds payable	1,500,000	6,000,000
Current portion of long-term loans payable	10,800,000	8,434,000
Accrued expenses	527,572	538,359
Income taxes payable	1,210	1,210
Consumption taxes payable	143,389	172,743
Advances received	423,355	658,839
Dividends payable	17,381	9,714
Deposits received	9,111	6,002
Derivative liabilities	21,398	5,289
Other	42,763	10,281
Total current liabilities	28,922,861	41,265,303
Long-term liabilities		
Investment corporation bonds	40,100,000	34,100,000
Long-term loans payable	103,572,000	92,218,000
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,356,804	3,614,474
Derivative liabilities	767,749	202,673
Deferred tax liabilities	—	3,812
Asset retirement obligations	335,161	336,783
Total long-term liabilities	150,172,234	131,516,263
Total liabilities	179,095,095	172,781,567
Net assets		
Unitholders' equity		
Unitholders' capital	186,894,169	187,194,209
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 10,617,580	*2 10,311,886
Reserve for tax purpose reduction entry	1,174,860	1,174,860
Total voluntary reserve	11,792,441	11,486,747
Unappropriated retained earnings (undisposed loss)	1,527,790	1,300,724
Total surplus	35,066,630	34,533,870
Total unitholders' equity	221,960,800	221,728,079
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(759,492)	(185,733)
Total valuation and translation adjustments	(759,492)	(185,733)
Total net assets	*3 221,201,308	*3 221,542,346
Total liabilities and net assets	400,296,404	394,323,913

(2) Statements of income

(thousands of yen)

	For the year ended December 31, 2020	For the year ended December 31, 2021
Operating revenue		
Real estate operating revenue	*1 9,603,724	*1 9,502,439
Other real estate operating revenue	*1 892,001	*1 872,223
Gain on sales of real estate properties	*2 3,158,381	*2 3,258,950
Gain on exchange of real estate properties	*3 184,725	—
Total operating revenue	13,838,832	13,633,613
Operating Expenses		
Real estate operating costs	*1 8,717,332	*1 8,830,354
Asset management fee	1,479,381	1,447,210
Asset custody and administrative service fee	125,986	121,700
Directors' compensation	17,400	17,400
Other operating expenses	322,710	257,097
Total operating expenses	10,662,810	10,673,763
Operating income	3,176,022	2,959,849
Non-operating income		
Interest income	278	267
Gain on forfeiture of unclaimed dividends	3,535	4,233
Gain on insurance claims	34,217	34,144
Refunded fixed asset tax	—	20,527
Interest on tax refunds	95	10,590
Gain on derivative instruments	1,138	15,730
Other	—	151
Total non-operating income	39,266	85,646
Non-operating Expenses		
Interest expense	963,502	907,653
Interest expense on investment corporation bonds	316,795	315,762
Borrowing costs	399,645	416,416
Amortization of investment corporation bond issuance costs	33,776	33,554
Amortization of investment unit issuance costs	84,520	59,086
Loss on derivative instruments	4,802	1,000
Other	13,989	14,011
Total non-operating expenses	1,817,032	1,747,484
Ordinary profit (loss)	1,398,255	1,298,011
Extraordinary income		
Proceeds from refund of guarantee deposits	130,000	—
Total extraordinary income	130,000	—
Income before income taxes	1,528,255	1,298,011
Income taxes – current	1,210	1,210
Total income taxes	1,210	1,210
Net income (loss)	1,527,045	1,296,801
Retained earnings brought forward	744	3,922
Unappropriated retained earnings (undisposed loss)	1,527,790	1,300,724

(3) Statements of changes in net assets

For the year ended December 31, 2020

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						
		Capital surplus	Voluntary reserve				Unappropriated retained earnings (undisposed loss)	Total surplus
			Reserve for temporary difference adjustment	Reserve for tax purpose reduction entry	Reserve for special account for tax purpose reduction entry	Total voluntary reserve		
Balance, January 1, 2020	186,894,169	21,746,398	11,794,071	—	1,174,860	12,968,932	15,290,314	50,005,645
Changes of items during the year:								
Reversal of reserve for temporary difference adjustment			(1,176,490)			(1,176,490)	1,176,490	—
Provision of reserve for tax purpose reduction entry				1,174,860		1,174,860	(1,174,860)	—
Reversal of reserve for special account for tax purpose reduction entry					(1,174,860)	(1,174,860)	1,174,860	—
Dividends paid							(16,466,060)	(16,466,060)
Net income (loss)							1,527,045	1,527,045
Net changes of items other than unitholders' equity								
Total changes of items during the year	—	—	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(13,762,523)	(14,939,014)
Balance, December 31, 2020	*1 186,894,169	21,746,398	10,617,580	1,174,860	—	11,792,441	1,527,790	35,066,630

	Unitholders' equity	Valuation and translation adjustments		Total net assets
	Total unitholders' equity	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2020	236,899,815	(377,376)	(377,376)	236,522,438
Changes of items during the year:				
Reversal of reserve for temporary difference adjustment	—			—
Provision of reserve for tax purpose reduction entry	—			—
Reversal of reserve for special account for tax purpose reduction entry	—			—
Dividends paid	(16,466,060)			(16,466,060)
Net income (loss)	1,527,045			1,527,045
Net changes of items other than unitholders' equity		(382,115)	(382,115)	(382,115)
Total changes of items during the year	(14,939,014)	(382,115)	(382,115)	(15,321,130)
Balance, December 31, 2020	221,960,800	(759,492)	(759,492)	221,201,308

For the year ended December 31, 2021

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus					Total surplus	Total unitholders' equity
		Capital surplus	Voluntary reserve			Unappropriated retained earnings (undisposed loss)		
			Reserve for temporary difference adjustment	Reserve for tax purpose reduction entry	Total voluntary reserve			
Balance, January 1, 2021	186,894,169	21,746,398	10,617,580	1,174,860	11,792,441	1,527,790	35,066,630	221,960,800
Changes of items during the year:								
Issuance of new investment unit	300,039							300,039
Reversal of reserve for temporary difference adjustment			(305,694)		(305,694)	305,694	—	—
Dividends paid						(1,829,562)	(1,829,562)	(1,829,562)
Net income (loss)						1,296,801	1,296,801	1,296,801
Net changes of items other than unitholders' equity								
Total changes of items during the year	300,039	—	(305,694)	—	(305,694)	(227,066)	(532,760)	(232,720)
Balance, December 31, 2021	*1 187,194,209	21,746,398	10,311,886	1,174,860	11,486,747	1,300,724	34,533,870	221,728,079

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2021	(759,492)	(759,492)	221,201,308
Changes of items during the year:			
Issuance of new investment unit			300,039
Reversal of reserve for temporary difference adjustment			—
Dividends paid			(1,829,562)
Net income (loss)			1,296,801
Net changes of items other than unitholders' equity	573,758	573,758	573,758
Total changes of items during the year	573,758	573,758	341,037
Balance, December 31, 2021	(185,733)	(185,733)	221,542,346

(4) Statements of cash dividends

Classification	For the year ended December 31, 2020	For the year ended December 31, 2021
I. Unappropriated retained earnings	¥1,527,790,689	¥1,300,724,473
II. Reversal of voluntary reserve		
Reversal of reserve for temporary difference adjustment	*1 ¥305,694,382	*1 ¥335,371,387
III. Dividends	¥1,829,562,270	¥1,634,924,196
[Dividend per unit]	[¥410]	[¥366]
IV. Retained earnings carried forward	¥3,922,801	¥1,171,664
Method of calculating the amount of dividends	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥1,829,562,270, which excludes fractions of less than one yen of dividend per unit from ¥1,833,485,071, an amount calculated by adding a reversal of reserve for temporary difference adjustment of ¥305,694,382 to unappropriated retained earnings of ¥1,527,790,689, would all be distributed. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥1,634,924,196, which excludes fractions of less than one yen of dividend per unit from ¥1,636,095,860, an amount calculated by adding a reversal of reserve for temporary difference adjustment of ¥335,371,387 to unappropriated retained earnings of ¥1,300,724,473, would all be distributed. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.

(5) Statements of cash flows

(thousands of yen)

	For the year ended December 31, 2020	For the year ended December 31, 2021
Cash flows from operating activities		
Income before income taxes	1,528,255	1,298,011
Depreciation and amortization	4,761,907	4,804,111
Gain on exchange of real estate properties	(184,725)	—
Loss on retirement of noncurrent assets	5,701	16,682
Loss (profit) on derivative instruments	3,663	(14,730)
Amortization of investment corporation bond issuance costs	33,776	33,554
Amortization of investment unit issuance costs	84,520	59,086
Decrease in property and equipment due to sale	1,010	48,841
Decrease in property and equipment in trust due to sale	4,789,585	7,757,292
Decrease in intangible assets due to sale	—	2,918
Proceeds from refund of guarantee deposits	(130,000)	—
Interest income	(278)	(267)
Interest expense	1,280,297	1,223,415
Interest on tax refunds	(95)	(10,590)
(Increase) decrease in operating accounts receivable	2,107,315	(1,077,749)
(Increase) decrease in prepaid expenses	17,130	47,910
(Increase) decrease in long-term prepaid expenses	316,935	257,888
Increase (decrease) in operating accounts payable	1,693,683	(1,694,120)
Increase (decrease) in accrued expenses	(124,063)	12,475
Increase (decrease) in consumption taxes payable	(517,659)	29,354
Increase (decrease) in advances received	(485,938)	235,483
Increase (decrease) in deposits received	414	(3,108)
Other	(153,173)	(128,639)
Subtotal	15,028,266	12,897,821
Interest received	312	271
Interest paid	(1,280,097)	(1,225,104)
Interest received on tax refunds	95	10,590
Income taxes - refunded (paid)	(1,197)	(1,208)
Net cash provided by (used in) operating activities	13,747,378	11,682,370
Cash flows from investing activities		
Purchase of property and equipment	(476,704)	(666,633)
Purchase of property and equipment in trust	(1,858,016)	(2,828,665)
Purchase of intangible assets	(604,760)	(199,936)
Payments of reserve for repairs and maintenance	(36,549)	(40,625)
Proceeds from collection of guarantee deposits	130,000	—
Proceeds from collection of guarantee deposits in trust	—	10,555
Proceeds from tenant leasehold and security deposits in trust	64,941	56,530
Reimbursements of tenant leasehold and security deposits in trust	(296,047)	(726,247)
Payments into deposit with withdrawal restrictions	—	(300,000)
Net cash provided by (used in) investing activities	(3,077,137)	(4,695,022)
Cash flows from financing activities		
Proceeds from short-term loans payable	18,574,000	25,082,000
Repayments of short-term loans payable	(5,792,000)	(13,862,000)
Repayments of long-term loans payable	(12,782,000)	(13,720,000)
Redemption of investment corporation bonds	—	(1,500,000)
Proceeds from issuance of investment units	—	289,329
Dividends paid	(16,461,008)	(1,833,006)
Net cash provided by (used in) financing activities	(16,461,008)	(5,543,676)
Net increase (decrease) in cash and cash equivalents	(5,790,766)	1,443,670
Cash and cash equivalents at beginning of year	34,343,930	28,553,164
Cash and cash equivalents at end of year	*1 28,553,164	*1 29,996,835

(6) Notes on going concern assumption

Not applicable.

(7) Notes on matters concerning significant accounting policies

1. Method of depreciation and amortization of noncurrent assets	<p>(1) Property and equipment (including trust accounts) Property and equipment are amortized using the straight-line method. The useful lives of major property and equipment components are as follows:</p> <table border="0"><tr><td>Machinery and equipment</td><td>2 to 17 years</td></tr><tr><td>Tools, furniture and fixtures</td><td>2 to 26 years</td></tr><tr><td>Buildings in trust</td><td>2 to 64 years</td></tr><tr><td>Structures in trust</td><td>2 to 64 years</td></tr><tr><td>Machinery and equipment in trust</td><td>3 to 32 years</td></tr><tr><td>Tools, furniture and fixtures in trust</td><td>2 to 27 years</td></tr></table> <p>(2) Intangible assets Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.</p> <table border="0"><tr><td>Software (for internal use)</td><td>5 years as internally usable years</td></tr><tr><td>Trademark right</td><td>10 years</td></tr></table> <p>Fixed-term leasehold rights in trust is amortized using the straight-line method based on remaining period (41 years) of the contract.</p> <p>(3) Long-term prepaid expenses Long-term prepaid expenses are amortized using the straight-line method.</p>	Machinery and equipment	2 to 17 years	Tools, furniture and fixtures	2 to 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	Software (for internal use)	5 years as internally usable years	Trademark right	10 years
Machinery and equipment	2 to 17 years																
Tools, furniture and fixtures	2 to 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																
Software (for internal use)	5 years as internally usable years																
Trademark right	10 years																
2. Accounting for deferred assets	<p>(1) Investment unit issuance costs Investment unit issuance costs are amortized using the straight-line method over three years.</p> <p>(2) Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.</p>																
3. Standards for recognition of revenues and expenses	<p>Treatment of property taxes and other taxes For taxes imposed on properties under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the respective period and expensed as "Real estate operating costs."</p> <p>Cash paid for property taxes and city planning taxes, etc. to the transferor of real properties, etc. at acquisition is not recorded as "Real estate operating costs" but capitalized as part of the acquisition cost of the relevant property.</p> <p>The amount of such taxes capitalized in the acquisition cost of real properties, etc. was none for the year ended December 31, 2020, and for the year ended December 31, 2021.</p>																
4. Method of hedge accounting	<p>(1) Method of hedge accounting Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items Hedging instruments Interest rate swaps Hedged items Interest rates on loans payable</p> <p>(3) Hedging policy JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Articles of Incorporation.</p> <p>(4) Method for assessing hedge effectiveness JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.</p>																
5. Scope of funds (cash and cash equivalents) in the statements of cash flows	<p>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.</p>																
6. Other significant matters serving as the basis for preparing financial statements	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets For trust beneficial interests in real estate, etc., all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the accompanying balance sheet and income statement accounts accordingly. The following material items of the trust accounts recorded in the relevant accounts are presented separately on the balance sheets.</p> <table border="0"><tr><td>(a)</td><td>Cash and deposits in trust</td></tr><tr><td>(b)</td><td>Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust</td></tr><tr><td>(c)</td><td>Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust</td></tr><tr><td>(d)</td><td>Tenant leasehold and security deposits in trust</td></tr></table> <p>(2) Accounting treatment of consumption taxes Consumption taxes are excluded from the transaction amounts.</p>	(a)	Cash and deposits in trust	(b)	Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust	(c)	Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust	(d)	Tenant leasehold and security deposits in trust								
(a)	Cash and deposits in trust																
(b)	Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust																
(c)	Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust																
(d)	Tenant leasehold and security deposits in trust																

(8) Notes on change in the indication method

“Notes on significant accounting estimates” is provided because “Accounting Standard for Disclosure of Accounting Estimates” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 31, March 31, 2020) has been applied 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.

(9) Notes on significant accounting estimates

[Notes on significant accounting estimates]

Valuation of noncurrent assets

1. Amounts recorded in the financial statements for the year ended December 31, 2021

Property and equipment, at cost	¥326,143,828,000
Intangible assets	¥32,704,360,000
Impairment loss	¥ -

2. 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 calculated 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 infection by COVID-19 and the deterioration in social and economic conditions.

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

However, as it is difficult to accurately predict when the spread of the infection by COVID-19 will be contained and how large its impact will be, JHR may see its asset status, income and cash flows affected in case the recovery is delayed.

(10) Notes to financial statements

Disclosure of notes on “securities,” “share of (profit) loss of entities accounted for using equity method,” “related-party transactions” and “retirement benefits” is omitted because the significance of disclosure in the financial report is minimal.

[Notes to balance sheets]

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

(thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Buildings in trust	24,921	24,921

*2. Matters concerning provision and reversal of reserve for temporary difference adjustment

As of December 31, 2020

(thousands of yen)

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

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

As of December 31, 2021

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	10,617,580	-	305,694	10,311,886	Allocation for dividend

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

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

	As of December 31, 2020	As of December 31, 2021
	¥50,000 thousand	¥50,000 thousand

[Notes to statements of income]

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

(thousands of yen)

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

(Note) Outsourcing expenses include management fees of ¥70,119 thousand for the year ended December 31, 2020, and ¥148,088 thousand for the year ended December 31, 2021.

*2. Breakdown of gain on sales of real estate properties

For the year ended December 31, 2020

(thousands of yen)

Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	
Proceeds from sale of real estate	8,000,000
Cost of sale of real estate	4,790,596
Other related sales expenses	51,021
Gain on sales of real estate properties	<u>3,158,381</u>

For the year ended December 31, 2021

(thousands of yen)

ibis Tokyo Shinjuku	
Proceeds from sale of real estate	11,300,000
Cost of sale of real estate	7,809,052
Other related sales expenses	231,996
Gain on sales of real estate properties	<u>3,258,950</u>

*3. Breakdown of gain on exchange of real estate properties

For the year ended December 31, 2020

(thousands of yen)	
HOTEL ASCENT FUKUOKA (Current name: Hotel Oriental Express Fukuoka Tenjin) (part of leasehold land)	
Proceeds from transfer of real estate	523,000
Cost of transfer of real estate	333,359
Other related transfer expenses	4,915
Gain on exchange of real estate properties	184,725

For the year ended December 31, 2021

Not applicable.

[Notes to statements of changes in net assets]

	For the year ended December 31, 2020	For the year ended December 31, 2021
*1 Total number of investment units authorized, and issued and outstanding		
Total number of investment units authorized	20,000,000 units	20,000,000 units
Total number of investment units issued and outstanding	4,462,347 units	4,467,006 units

[Notes to statements of cash dividends]

*1. Reserve for temporary difference adjustment

For the year ended December 31, 2020

By application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015), ¥13,127,153,216 in dividend reserve that is the remaining balance of the amount subdivided into gain on negative goodwill recorded in prior fiscal years is set aside as reserve for temporary difference adjustment on the statements of cash dividends for the year ended December 31, 2016. Starting from the fiscal year following the fiscal year in which the reserve was made, reversal of the concerned reserve amount in an amount that shall be no less than the 50-year even amortization amount (¥262,543,065) of the remaining balance of the amount when the reserve was made, is required. In this fiscal year under review, reversal of ¥305,694,382 has been decided, which is 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 right to ¥262,600,000 of the reversal.

For the year ended December 31, 2021

By application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015), ¥13,127,153,216 in dividend reserve that is the remaining balance of the amount subdivided into gain on negative goodwill recorded in prior fiscal years is set aside as reserve for temporary difference adjustment on the statements of cash dividends for the year ended December 31, 2016. Starting from the fiscal year following the fiscal year in which the reserve was made, reversal of the concerned reserve amount in an amount that shall be no less than the 50-year even amortization amount (¥262,543,065) of the remaining balance of the amount when the reserve was made, is required. In this fiscal year under review, reversal 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 right to ¥262,600,000 of the reversal.

[Notes to statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of year and the amount in balance sheet accounts

(thousands of yen)

	For the year ended December 31, 2020	For the year ended December 31, 2021
Cash and deposits	19,382,019	22,838,609
Cash and deposits in trust	9,171,145	7,458,225
Deposit with withdrawal restrictions	—	(300,000)
Cash and cash equivalents	28,553,164	29,996,835

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

(thousands of yen)

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

[Notes on financial instruments]

1. Matters concerning status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trusts Act, managing investments mainly in specified assets as prescribed in the Investment Trusts 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 is operating receivables and is exposed to credit risks of clients. As for the risks, JHR is managing payment dates and balances by each client with an aim to grasp concerns in collecting due to deterioration in their financial status and other factors in early stage and reduce the risks.

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risk, JHR may enter into derivative transactions, if necessary, to fix the interest expense.

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 section in charge of finance at 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 are exposed to liquidity risks. The section in charge of finance at the Asset Management Company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitor 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 considering the current financial environment through approval and resolution by authorized personnel and meeting committee structure in the Asset Management Company and resolution of JHR's board of directors.

(3) Supplementary explanation on matters concerning fair value, etc. of financial instruments

Regarding the contract amount, etc. of derivative transactions in "2. Matters concerning fair value of financial instruments," the amount itself does not indicate certain scale of market risk exposure related to derivative transactions.

2. Matters concerning fair value of financial instruments

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

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	19,382,019	19,382,019	-
(2) Cash and deposits in trust	9,171,145	9,171,145	-
(3) Operating accounts receivable	672,415	672,415	-
Total assets	29,225,579	29,225,579	-
(4) Short-term loans payable	12,782,000	12,782,000	-
(5) Current portion of investment corporation bonds payable	1,500,000	1,468,350	(31,650)
(6) Current portion of long-term loans payable	10,800,000	10,800,000	-
(7) Investment corporation bonds	40,100,000	34,415,280	(5,684,720)
(8) Long-term loans payable	103,572,000	103,572,000	-
Total liabilities	168,754,000	163,037,630	(5,716,370)
(9) Derivative transactions (*)	(789,147)	(789,147)	-

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

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	22,838,609	22,838,609	-
(2) Cash and deposits in trust	7,458,225	7,458,225	-
(3) Operating accounts receivable	1,750,164	1,750,164	-
Total assets	32,046,999	32,046,999	-
(4) Short-term loans payable	24,002,000	24,002,000	-
(5) Current portion of investment corporation bonds payable	6,000,000	5,886,600	(113,400)
(6) Current portion of long-term loans payable	8,434,000	8,434,000	-
(7) Investment corporation bonds	34,100,000	29,514,460	(4,585,540)
(8) Long-term loans payable	92,218,000	92,218,000	-
Total liabilities	164,754,000	160,055,060	(4,698,940)
(9) Derivative transactions (*)	(195,846)	(195,846)	-

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

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

(1) Cash and deposits; (2) Cash and deposits in trust; (3) Operating accounts receivable; (4) Short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time. Therefore, carrying value is stated.

(5) Current portion of investment corporation bonds payable; (7) Investment corporation bonds

The fair value of these instruments is measured based on the market price.

(6) Current portion of long-term loans payable; (8) Long-term loans payable

The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are revised periodically to reflect market interest rates.

(9) Derivative transactions

The information on the fair value of derivative transactions is presented in “Notes on derivative transactions” below.

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

(thousands of yen)

Classification	As of December 31, 2020	As of December 31, 2021
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,356,804	3,614,474
Total	5,397,324	4,654,994

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

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

3. Redemption schedule for monetary claims subsequent to the account closing date

As of December 31, 2020

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Cash and deposits	19,382,019	-	-	-	-	-
Cash and deposits in trust	9,171,145	-	-	-	-	-
Operating accounts receivable	672,415	-	-	-	-	-
Total	29,225,579	-	-	-	-	-

As of December 31, 2021

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Cash and deposits	22,838,609	-	-	-	-	-
Cash and deposits in trust	7,458,225	-	-	-	-	-
Operating accounts receivable	1,750,164	-	-	-	-	-
Total	32,046,999	-	-	-	-	-

4. Schedule for repayment of loans payable and redemption of investment corporation bonds subsequent to the account closing date

As of December 31, 2020

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Short-term loans payable	12,782,000	-	-	-	-	-
Current portion of investment corporation bonds payable	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	25,082,000	16,900,000	15,772,000	21,650,000	19,000,000	70,350,000

As of December 31, 2021

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Short-term loans payable	24,002,000	-	-	-	-	-
Current portion of investment corporation bonds payable	6,000,000	-	-	-	-	-
Current portion of long-term loans payable	8,434,000	-	-	-	-	-
Investment corporation bonds	-	-	3,000,000	-	13,100,000	18,000,000
Long-term loans payable	-	15,432,000	18,536,000	19,000,000	4,250,000	35,000,000
Total	38,436,000	15,432,000	21,536,000	19,000,000	17,350,000	53,000,000

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

As of December 31, 2020

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

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(29,655)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of December 31, 2021

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

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(13,924)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

2. Derivative transactions to which hedge accounting is applied

As of December 31, 2020

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

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	101,072,000	90,272,000	(759,492)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of December 31, 2021

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

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	89,660,000	78,460,000	(181,921)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

[Notes on tax-effect accounting]

1. Components of deferred tax assets and liabilities by cause

(thousands of yen)

	As of December 31, 2020	As of December 31, 2021
Deferred tax assets:		
Valuation difference on assets accepted through merger	1,696,476	1,681,502
Amortization of fixed-term leasehold of land	206,151	248,687
Asset retirement obligations	15,530	19,131
Amortization of trademark right	11,763	29,409
Deferred gains (losses) on hedges	238,937	61,045
Total gross deferred tax assets	2,168,860	2,039,776
Valuation allowance	(2,168,860)	(2,039,776)
Total deferred tax assets	-	-
Deferred tax liabilities		
Deferred gains (losses) on hedges	-	3,812
Total gross deferred tax liabilities	-	3,812

2. Details of major causes of material differences between the statutory tax rate and the tax rate under effective tax accounting

	As of December 31, 2020	As of December 31, 2021
Statutory tax rate	31.46%	31.46%
[Adjustments]		
Deduction for dividends paid	(34.09%)	(35.22%)
Change in valuation allowance	2.63%	3.76%
Other	0.08%	0.09%
Actual effective tax rate	0.08%	0.09%

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the balance sheet

1. Outline of the subject asset retirement obligations

JHR recognizes asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former name: Hotel Centraza Hakata), acquired on April 1, 2016, and Hotel Oriental Express Fukuoka Tenjin (formerly HOTEL ASCENT FUKUOKA), acquired on August 19, 2016, to the original state in accordance with the fixed-term leasehold agreement. For the asset retirement obligations of Hotel Oriental Express Fukuoka Tenjin, the obligations have been expired as of the end of the fiscal year ended December 31, 2020, with the termination of the fixed-term leasehold agreement on its land due to the exchange of part of the land as of October 29, 2020.

2. Calculation method of the subject asset retirement obligations

Calculated the amount of asset retirement obligations by estimating the expected useful period of use of 34 years and 48 years based on the remaining useful lives of the period of buildings and using the discount rate of 0.484% and 0.394%, respectively.

3. Increase and decrease of the subject asset retirement obligations

(thousands of yen)

	For the year ended December 31, 2020	For the year ended December 31, 2021
Balance at beginning of period	447,677	335,161
Adjustment due to passage of time	1,989	1,622
Decrease due to expiration of asset retirement obligations	(114,505)	-
Balance at end of period	335,161	336,783

[Notes on segment and related information]

1. Segment information

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

2. Related information

For the year ended December 31, 2020

(1) Information about products and services

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

(2) Information about geographical areas

(i) Operating revenue

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

(ii) Property and equipment, at cost

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

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note 1)	1,990,793	Investment and management of hotel real estate
THE DAIICHI BUILDING CO., LTD.	Undisclosed (Note 2)	Investment and management of hotel real estate

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

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

For the year ended December 31, 2021

(1) Information about products and services

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

(2) Information about geographical areas

(i) Operating revenue

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

(ii) Property and equipment, at cost

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

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note 1)	2,524,020	Investment and management of hotel real estate
THE DAIICHI BUILDING CO., LTD.	Undisclosed (Note 2)	Investment and management of hotel real estate

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

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

[Notes on rental properties, etc.]

JHR owns rental properties for hotels. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2020	For the year ended December 31, 2021
Hotel	Carrying amount		
	Balance at beginning of period	374,314,498	367,283,696
	Net increase (decrease) during period	(7,030,802)	(8,463,831)
	Balance at end of period	367,283,696	358,819,865
	Fair value at end of period	493,330,000	485,480,000

(Note 1) Decrease during the year ended December 31, 2020, principally represents the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi for ¥4,790 million and recording of depreciation. Decrease during the year ended December 31, 2021, principally represents the sale of ibis Tokyo Shinjuku for ¥7,809 million and recording of depreciation.

(Note 2) Fair value at end of period is the appraisal value determined by external licensed real estate appraisers.

Real estate operating revenue and costs related to the rental properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2020	For the year ended December 31, 2021
Hotel	Amount on the statements of income		
	Real estate operating revenue	10,495,725	10,374,662
	Real estate operating costs	8,717,332	8,830,354
	Net real estate operating income	1,778,393	1,544,308

(Note) "Real estate operating revenue" and "Real estate operating costs" are income from real estate operation (including other income from real estate operation) and corresponding expenses (such as depreciation, property tax, etc., trust fees, repair expenses and others), and are included in "Real Estate operating revenue" and "Real estate operating costs," respectively.

[Notes on per unit information]

	For the year ended December 31, 2020	For the year ended December 31, 2021
Net assets per unit	¥49,570	¥49,595
Net income per unit	¥342	¥290

(Note 1) Net income per unit is computed by dividing net income by the average number of investment units during the period.

Net income per unit after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

(Note 2) The basis of computation of net income per unit is as follows:

	For the year ended December 31, 2020	For the year ended December 31, 2021
Net income (JPY 1,000)	1,527,045	1,296,801
Amount not attributable to common unitholders (JPY 1,000)	-	-
Net income attributable to common investment units (JPY 1,000)	1,527,045	1,296,801
Average number of investment units during period (units)	4,462,347	4,466,061

[Notes on significant subsequent events]

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

On February 25, 2022, board of directors meeting of JHR resolved to conclude memorandums of understanding relating to change fixed-term building lease contracts in relation with contracts to change fixed-term building lease contracts dated August 25, 2020 (hereinafter “Previous Contracts for Change”) on 14 properties listed in chart (1) Fixed rent below among 16 properties leased to HMJ Group as tenant in order to change leasing structure for fiscal year 2022. And JHR concluded the memorandums of understanding on the same date. Although JHR believes that 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, speed of recovery and downside risks are difficult to make reasonable estimate. Therefore, as we did in Previous Contracts for Change dated August 2020, we decided to exempt annual fixed rent in total JPY 8,030 million and adopt full variable rent structure. Base amount of AGOP (*1) and payment ratio of variable rent when AGOP exceed the base amount are unchanged from last change. In addition, rent after 2023 is unchanged from rent structure for 2022 which structured in Previous Contracts for Change.

Please see below for detail of changes.

(1) Fixed rent

No	Name	Tenant	Fixed rent		
			Before change	After change	
			From FY 2022 onwards	FY 2022	From FY 2023 onwards
1	Kobe Meriken Park Oriental Hotel	Hotel Management Japan Co., Ltd.	JPY 3,221MM/year	Not applicable	JPY 3,221 MM/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.	JPY 550 MM/year		JPY 550 MM/year
7	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	K.K. A.I.C Hiroshima Management	JPY 348 MM/year		JPY 348 MM/year
8	Oriental Hotel Fukuoka Hakata Station	Hotel Centraza Co., Ltd.	JPY 425 MM/year		JPY 425 MM/year
9	Holiday Inn Osaka Namba	OW Hotel Operations KK	JPY 576 MM/year		JPY 576 MM/year
10	Hilton Tokyo Narita Airport	KK Narita Kosuge Operations	JPY 444 MM/year		JPY 444 MM/year
11	International Garden Hotel Narita	KK Narita Yoshikura Operations	JPY 336 MM/year		JPY 336 MM/year
12	Hotel Nikko Nara	Hotel Management Co., Ltd.	JPY 420 MM/year		JPY 420 MM/year
13	Hotel Oriental Express Osaka Shinsaibashi	K.K. HOTEL ORIENTAL EXPRESS	JPY 110 MM/year		JPY 110 MM/year
14	Hilton Tokyo Odaiba	Tokyo Humania Enterprise Inc.	JPY 1,600 MM/year		JPY 1,600 MM/year

(2) Variable rent

No	Name of Property	Calculation method of variable rent		
		Before revision	After revision	
		From FY 2022 onwards	FY 2022	From FY 2023 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)	(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 amount calculated by subtracting various cost for hotel operation (personal cost, general administration cost, etc.) from sales of the hotel.

(Note 2) Stating detail of contract for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 3) Five HMJ Hotels are 5 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).

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

(3) Impact on profit and loss by conclusion the memorandum of understandings.

Although fixed rent in amount of JPY 8,030 MM will be reduced from operating revenue due to the conclusion of memorandums of understanding, variable rent will be determined by AGOP of full year for fiscal year 2022. Therefore, it is difficult to reasonably estimate amount of the impact at this point.

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

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

Date	Capital transaction	Total number of investment units issued and outstanding (Units)		Unitholders' capital (JPY1M)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
July 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 procure 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 procure part of funds for future acquisitions of specified assets, part of funds for repayment of loans, or for repair 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 procure 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 procure part of funds for 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 procure part of funds for capital expenditures.

3. Reference information

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

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

A. Investment status

The following outlines the investment status of JHR as of the end of the fiscal year under review.

Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2020		As of December 31, 2021		
				Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,870	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	
			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 Frances	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		
	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	
				Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)	
Total liabilities				179,095	44.7	172,781	43.8	
Total net assets				221,201	55.3	221,542	56.2	

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of total amount of each asset held to total assets, rounded off to one decimal place.
- (Note 4) ibis Tokyo Shinjuku was transferred 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. The same shall apply hereinafter in this document.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Includes machinery and equipment, tools, furniture and fixtures, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term land lease right in trust).

B. Assets under management

(A) Major issues of investment securities

Not applicable.

(B) Real estate properties under management

Not applicable.

(C) Other major assets under management

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

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

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

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
1	Kobe Meriken Park Oriental Hotel	Upper-middle	10,900	9,541	14,000	N	3.0	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	17,106	32,200	N	5.5	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,427	31,400	N	4.1	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	17,839	28,800	N	5.2	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,100	4,230	N	1.1	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,476	9,980	N	2.1	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,599	5,260	N	1.1	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,203	2,950	N	0.6	Unsecured
12	the b suidobashi	Mid-price	1,120	1,187	2,280	N	0.3	Unsecured
13	dormy inn global cabin Asakusa	Economy	999	930	1,300	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,054	4,530	N	0.6	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,736	2,430	N	0.6	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,794	1,900	J	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,457	5,340	J	1.0	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,028	2,930	J	0.6	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,382	2,760	T	0.5	Unsecured
25	Chisun Hotel Kamata	Economy	1,512	1,467	2,020	T	0.4	Unsecured
26	Chisun Inn Kamata	Economy	823	782	1,370	T	0.2	Unsecured
29	Oriental Hotel Universal City (Note 8)	Mid-price	6,753	7,292	16,700	R	1.9	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,169	40,300	D	7.2	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,615	9,990	D	1.8	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,463	11,100	N	1.9	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,726	10,500	N	1.7	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,821	6,950	N	0.8	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,579	7,230	N	1.8	Unsecured
39	the b hachioji	Mid-price	2,610	2,702	2,570	N	0.7	Unsecured
40	the b hakata	Mid-price	2,300	2,362	4,340	N	0.6	Unsecured
41	Hotel Francs	Mid-price	3,105	3,141	4,040	D	0.9	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,627	3,360	D	0.5	Unsecured
43	Oriental Hotel Okinawa Resort & Spa	Upper-middle	14,950	14,728	17,300	N	4.1	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,153	20,700	D	4.8	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,574	7,440	D	1.8	Unsecured
46	Oriental Hotel Fukuoka Hakata Station	Upper-middle	7,197	9,123	15,200	D	2.0	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	26,788	26,600	N	7.4	Unsecured
48	Hotel Oriental Express Fukuoka Tenjin	Mid-price	5,248	5,828	6,520	D	1.4	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,618	14,800	D	4.2	Unsecured
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,252	13,600	N	3.6	Unsecured
51	International Garden Hotel Narita	Mid-price	9,125	9,124	9,520	N	2.5	Unsecured
52	Hotel Nikko Nara	Upper-middle	10,373	10,238	9,800	D	2.9	Unsecured
53	Hotel Oriental Express Osaka Shinsaibashi	Mid-price	2,738	2,816	2,840	D	0.8	Unsecured
54	Hilton Tokyo Odaiba	Upper-middle	62,400	63,486	68,400	N	17.2	Unsecured
	Total		363,542	358,352	485,480		100.0	

- (Note 1) JHR categorizes hotels into the four grade classes of “Luxury,” “Upper-middle,” “Mid-price” and “Economy” mainly from the perspective of average daily rate, etc.
- (Note 2) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust, etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted through the Merger.
- (Note 3) “Carrying amount at end of period” is the book value at the end of the fiscal year under review and includes the amounts for not only real estate in trust but also machinery and equipment, tools, furniture and fixtures, construction in progress in trust and intangible assets.
- (Note 4) “Appraisal value at end of period” is the appraisal value at the end of the fiscal year under review as the date of appraisal, in accordance with the asset valuation methods and standards provided in JHR’s Articles of Incorporation and the regulations set forth by The Investment Trusts Association, Japan.
- (Note 5) Under “Appraisal agency,” the letters indicate the appraisers for the properties as follows:
 N: Nihon Fudosan Kenkyusho (Japan Real Estate Institute)
 J: JLL Morii Valuation & Advisory K.K.
 T: The Tanizawa Sōgō Appraisal Co., Ltd.
 R: Rich Appraisal Institute Co., Ltd.
 D: DAIWA REAL ESTATE APPRAISAL CO., LTD.
- (Note 6) “Investment ratio” is the ratio of acquisition price of the respective asset held at the end of the fiscal year under review to the total amount of acquisition price of all assets held at the end of the fiscal year under review and is rounded off to one decimal place.
- (Note 7) “Collateral” is whether or not a pledge has been established for the beneficial interest in trust.
- (Note 8) For Oriental Hotel Universal City, acquisition price has changed as JHR acquired part of its site on July 30, 2021.
- (Note 9) The omitted property numbers are the property numbers of assets that have been transferred.

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

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

	End of 18th period December 2017	End of 19th period December 2018	End of 20th period December 2019	End of 21st period December 2020	End of 22nd period December 2021
Total number of tenants (Note 1)	131	126	125	121	116
Total leasable area (Note 2)	687,124.54 m ²	678,714.48 m ²	746,329.68 m ²	741,083.02 m ²	733,995.61 m ²
Total leased area (Note 3)	686,694.46 m ²	677,863.00 m ²	745,227.67 m ²	740,146.96 m ²	732,764.69 m ²
Occupancy rate (Note 4)	99.9%	99.9%	99.9%	99.9%	99.8%

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

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

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

Property name	Total number of tenants	Total annual rent	Total leased area	Total leasable area	Change in occupancy rate for the past five years	
					December 2017	100.0%
Hilton Tokyo Bay	1	(Note 2)	64,928.83 m ² (Note 3)	64,928.83 m ² (Note 3)	December 2018	100.0%
					December 2019	100.0%
					December 2020	100.0%
					December 2021	100.0%
					December 2021	100.0%

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

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

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

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

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
1	Kobe Meriken Park Oriental Hotel	Variable/Fixed (Note 4)	36,169	(212,487)	(512,615)
2	Oriental Hotel tokyo bay	Variable/Fixed (Note 4)	-	(117,418)	(472,614)
3	Namba Oriental Hotel	Variable/Fixed (Note 4)	288,185	184,123	43,891
4	Hotel Nikko Alivila	Variable/Fixed (Note 4)	155,138	7,490	(264,514)
5	Oriental Hotel Hiroshima	Variable/Fixed (Note 4)	297,027	253,111	165,437
6	ibis Tokyo Shinjuku (Note 5)	Management contract	155,682	45,255	(63,024)
8	The Beach Tower Okinawa	Fixed	511,008	467,161	349,692
9	Hakone Setsugetsuka	Fixed	294,953	268,884	172,602
10	Dormy Inn Kumamoto	Fixed	194,460	171,797	121,524
12	the b suidobashi	Variable/Fixed	12,999	585	(27,676)
13	dormy inn global cabin Asakusa	Fixed	63,995	55,241	42,852
14	Hakata Nakasu Washington Hotel Plaza (Note 6)	Fixed	240,000	225,000	198,000
15	Nara Washington Hotel Plaza (Note 6)	Fixed	150,000	134,000	98,000
16	R&B Hotel Ueno Hirokoji	Fixed	97,291	82,942	66,201
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 7)	271,527	240,418	203,217
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 7)	134,400	118,183	97,657
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	141,039	127,392	109,185
25	Chisun Hotel Kamata	Variable	15,471	895	(31,289)
26	Chisun Inn Kamata	Variable	2,067	(4,949)	(16,855)
29	Oriental Hotel Universal City (Note 8) (Note 9)	Variable/Fixed	470,935	383,666	214,763
31	Hilton Tokyo Bay	Variable/Fixed (Note 7)	1,979,352	1,698,065	1,510,545
32	ibis Styles Kyoto Station (Note 8)	Management contract	46,354	(12,216)	(48,799)
33	ibis Styles Sapporo (Note 8)	Management contract	55,899	(29,526)	(112,230)
34	Mercure Sapporo (Note 8)	Management contract	115,880	(75,091)	(166,345)
35	Mercure Okinawa Naha	Management contract	-	(62,176)	(127,978)
37	the b ikebukuro	Variable/Fixed	404,891	376,668	346,941
39	the b hachioji	Variable/Fixed	45,076	20,002	(15,671)
40	the b hakata	Variable/Fixed	35,522	22,764	43
41	Hotel Francs	Fixed	300,000	238,760	193,570
42	Mercure Yokosuka	Variable	242,325	148,326	110,466
43	Oriental Hotel Okinawa Resort & Spa	Variable/Fixed (Note 4)	-	(95,798)	(371,571)
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 4)	881,883	503,832	280,434
45	CANDEO HOTELS UENO-KOEN	Fixed	349,971	323,623	283,287
46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed (Note 4)	243,867	(4,307)	(420,532)

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
47	Holiday Inn Osaka Namba (Note 8)	Variable/Fixed (Note 4)	71,921	23,283	(138,142)
48	Hotel Oriental Express Fukuoka Tenjin (Note 10)	Variable/Fixed	405,369	298,308	220,739
49	Hilton Nagoya	Variable	780,207	193,796	17,660
50	Hilton Tokyo Narita Airport	Variable/Fixed (Note 4)	41,475	(41,239)	(255,199)
51	International Garden Hotel Narita	Variable/Fixed (Note 4)	284,359	240,177	87,894
52	Hotel Nikko Nara	Variable/Fixed (Note 4)	-	(47,382)	(198,977)
53	Hotel Oriental Express Osaka Shinsaibashi (Note 8)	Variable/Fixed (Note 4)	-	(14,004)	(28,513)
54	Hilton Tokyo Odaiba	Variable/Fixed (Note 4)	522,633	194,733	(96,249)
	Total		10,340,570	6,332,632	1,566,305

- (Note 1) Under “Rent type,” “Fixed” is a property under a fixed rent structure, “Variable” is a property under a variable rent structure, “Management contract” is a property under a management contract structure, and “Variable/Fixed” is a property under a combination of fixed and variable rent structures.
- (Note 2) $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$
- (Note 3) $\text{NOI after depreciation (net real estate operating income)} = \text{Real estate operating revenue} - \text{Real estate operating costs}$
- (Note 4) For the HMJ Group Hotels, only variable rent is paid in the fiscal year ending December 2021 and no fixed rent will be incurred.
- (Note 5) Ibis Tokyo Shinjuku was transferred on December 15, 2021.
- (Note 6) For Hakata Nakasu Washington Hotel Plaza and Nara Washington Hotel Plaza, consent on disclosure of rent in units of thousand yen has not been obtained from the lessees and numbers are thus rounded down to the nearest million yen.
- (Note 7) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent but also partial rent based on a revenue sharing structure.
- (Note 8) Temporarily closed for some time during the fiscal year under review due to the impact of the spread of the infection by COVID-19.
- (Note 9) Rent type for Oriental Hotel Universal City that apply from July 1, 2021, are indicated. However, the variable rent will be incurred in the fiscal year ending December 2022 onward. Rent type for Hotel Keihan Universal City through June 30, 2021, were variable (revenue sharing)/fixed.
- (Note 10) Rent type for Hotel Oriental Express Fukuoka Tenjin that apply from June 18, 2021, are indicated. However, the variable rent will be incurred in the fiscal year ending December 2022 onward. The rent type for HOTEL ASCENT FUKUOKA was fixed before June 17, 2021.
- (Note 11) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

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

The following is the individual income statements for real estate properties (in trust) under management for the fiscal year under review (from January 1, 2021 to December 31, 2021). Figures are rounded down to the nearest thousand yen in principle, but are otherwise noted if circumstances do not allow for the figures to be stated in units of thousand yen.

Property No.	-	1	2	3	4	5
Property name	Portfolio total (Note 1)	Kobe Meriken Park Oriental Hotel	Oriental Hotel tokyo bay	Namba Oriental Hotel	Hotel Nikko Alivila	Oriental Hotel Hiroshima
Number of operating days	-	365	365	365	365	365
(A) Real estate operating revenue subtotal	10,340,570	36,169	-	288,185	155,138	297,027
Fixed rent	6,413,988	-	-	-	-	-
Variable rent	3,088,450	35,200	-	288,185	155,138	297,027
Other revenue	838,131	969	-	-	-	-
(B) Real estate operating costs subtotal	8,774,265	548,785	472,614	244,293	419,653	131,589
Land lease and other rent expenses	857,819	192,711	-	-	84,149	-
Property taxes	1,947,316	49,066	110,933	99,584	56,034	40,367
Outsourcing expenses	494,005	960	960	960	1,920	960
Nonlife insurance	73,031	4,598	4,514	1,800	3,420	1,428
Depreciation and amortization	4,748,022	299,905	351,060	139,669	271,985	87,612
Loss on retirement of noncurrent assets	16,682	223	4,136	562	19	61
Other costs	637,388	1,320	1,009	1,717	2,124	1,160
(C) Net real estate operating income = (A) - (B)	1,566,305	(512,615)	(472,614)	43,891	(264,514)	165,437
(Reference) Occupancy rate	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	116	1	1	1	1	1

Property No.	6	8	9	10	12	13
Property name	ibis Tokyo Shinjuku (Note 1) (Note 5)	The Beach Tower Okinawa	Hakone Setsugetsuka	Dormy Inn Kumamoto	the b suidobashi	dormy inn·global cabin Asakusa
Number of operating days	348	365	365	365	365	365
(A) Real estate operating revenue subtotal	155,682	511,008	294,953	194,460	12,999	63,995
Fixed rent	92,630	511,008	294,340	194,460	12,999	63,395
Variable rent	33,926	-	-	-	-	-
Other revenue	29,125	-	613	-	-	600
(B) Real estate operating costs subtotal	218,706	161,315	122,350	72,935	40,676	21,142
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	33,685	39,414	22,936	19,889	7,940	6,030
Outsourcing expenses	43,979	-	-	-	1,200	1,200
Nonlife insurance	741	1,624	946	624	267	167
Depreciation and amortization	108,279	117,469	96,281	50,272	28,261	12,389
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	32,020	2,807	2,186	2,147	3,007	1,356
(C) Net real estate operating income = (A) - (B)	(63,024)	349,692	172,602	121,524	(27,676)	42,852
(Reference) Occupancy rate	-	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	-	1	1	1	1	1

Property No.	14	15	16	18	22	24
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2)	Nara Washington Hotel Plaza (Note 2)	R&B Hotel Ueno Hirokoji	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae	Toyoko Inn Hakata-guchi Ekimae
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	240,000	150,000	97,291	271,527	134,400	141,039
Fixed rent	240,000	146,000	96,504	260,321	134,400	141,039
Variable rent	-	-	-	-	-	-
Other revenue	0	3,000	786	11,205	-	-
(B) Real estate operating costs subtotal	42,000	52,000	31,090	68,309	36,742	31,853
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	11,000	11,000	12,052	26,495	12,978	11,071
Outsourcing expenses	1,000	3,000	840	1,614	1,200	1,080
Nonlife insurance	0	0	244	606	274	367
Depreciation and amortization	27,000	36,000	16,740	37,201	20,526	18,206
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	1,000	0	1,213	2,392	1,763	1,127
(C) Net real estate operating income = (A) – (B)	198,000	98,000	66,201	203,217	97,657	109,185
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	2	1	1

Property No.	25	26	29	31	32	33
Property name	Chisun Hotel Kamata	Chisun Inn Kamata	Oriental Hotel Universal City (Note 3)	Hilton Tokyo Bay	ibis Styles Kyoto Station (Note 1) (Note 3)	ibis Styles Sapporo (Note 1) (Note 3)
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	15,471	2,067	470,935	1,979,352	46,354	55,899
Fixed rent	-	-	Undisclosed (Note 4)	Undisclosed (Note 4)	42,334	22,791
Variable rent	15,401	2,067	Undisclosed (Note 4)	Undisclosed (Note 4)	-	-
Other revenue	70	-	Undisclosed (Note 4)	Undisclosed (Note 4)	4,019	33,107
(B) Real estate operating costs subtotal	46,760	18,923	256,172	468,806	95,153	168,129
Land lease and other rent expenses	-	-	12,257	123,720	-	-
Property taxes	11,670	4,773	44,825	139,546	21,052	36,964
Outsourcing expenses	1,200	1,080	3,130	11,948	36,173	14,349
Nonlife insurance	319	130	2,224	4,732	483	1,319
Depreciation and amortization	32,185	11,906	163,950	187,519	36,582	82,703
Loss on retirement of noncurrent assets	-	-	4,952	-	-	-
Other costs	1,385	1,033	24,830	1,340	861	32,792
(C) Net real estate operating income = (A) – (B)	(31,289)	(16,855)	214,763	1,510,545	(48,799)	(112,230)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	99.4%
(Reference) Number of tenants	1	1	1	1	2	5

Property No.	34	35	37	39	40	41
Property name	Mercure Sapporo (Note 1) (Note 3)	Mercure Okinawa Naha (Note 1)	the b ikebukuro	the b hachioji	the b hakata	Hotel Francs
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	115,880	-	404,891	45,076	35,522	300,000
Fixed rent	52,199	-	102,674	37,998	35,522	300,000
Variable rent	-	-	300,705	-	-	-
Other revenue	63,680	-	1,512	7,077	-	-
(B) Real estate operating costs subtotal	282,225	127,978	57,949	60,747	35,478	106,429
Land lease and other rent expenses	45	327	-	-	-	-
Property taxes	48,969	23,219	21,936	20,879	10,012	57,201
Outsourcing expenses	76,617	36,424	1,200	1,326	1,200	1,800
Nonlife insurance	1,543	1,084	578	671	362	1,543
Depreciation and amortization	91,253	65,801	29,726	35,674	22,721	45,189
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	63,796	1,119	4,507	2,196	1,182	694
(C) Net real estate operating income = (A) – (B)	(166,345)	(127,978)	346,941	(15,671)	43	193,570
(Reference) Occupancy rate	95.7%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	11	1	3	10	2	1

Property No.	42	43	44	45	46	47
Property name	Mercure Yokosuka	Oriental Hotel Okinawa Resort & Spa	ACTIVE-INTER CITY HIROSHIMA	CANDEO HOTELS UENO-KOEN	Oriental Hotel Fukuoka Hakata Station	Holiday Inn Osaka Namba (Note 3)
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	242,325	-	881,883	349,971	243,867	71,921
Fixed rent	-	-	490,133	Undisclosed (Note 4)	-	-
Variable rent	210,736	-	180,775	-	243,867	71,921
Other revenue	31,589	-	210,974	Undisclosed (Note 4)	-	-
(B) Real estate operating costs subtotal	131,859	371,571	601,449	66,684	664,399	210,063
Land lease and other rent expenses	-	-	-	-	222,206	-
Property taxes	33,446	77,151	119,333	22,628	20,243	44,848
Outsourcing expenses	20,328	2,400	96,376	1,200	3,000	1,560
Nonlife insurance	2,184	3,415	4,845	691	1,773	1,391
Depreciation and amortization	37,859	275,131	223,398	40,335	408,518	161,426
Loss on retirement of noncurrent assets	-	641	-	-	6,084	-
Other costs	38,039	12,831	157,495	1,827	2,573	837
(C) Net real estate operating income = (A) – (B)	110,466	(371,571)	280,434	283,287	(420,532)	(138,142)
(Reference) Occupancy rate	100.0%	100.0%	99.5%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	40	1	1	1

Property No.	48	49	50	51	52	53
Property name	Hotel Oriental Express Fukuoka Tenjin	Hilton Nagoya	Hilton Tokyo Narita Airport	International Garden Hotel Narita	Hotel Nikko Nara	Hotel Oriental Express Osaka Shinsaibashi (Note 3)
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	405,369	780,207	41,475	284,359	-	-
Fixed rent	292,458	Undisclosed (Note 4)	-	-	-	-
Variable rent	-	Undisclosed (Note 4)	41,475	284,359	-	-
Other revenue	112,910	Undisclosed (Note 4)	-	-	-	-
(B) Real estate operating costs subtotal	184,629	762,547	296,675	196,465	198,977	28,513
Land lease and other rent expenses	-	222,401	-	-	-	-
Property taxes	31,338	98,892	74,630	38,923	40,438	11,148
Outsourcing expenses	12,783	98,586	2,520	2,280	2,400	2,160
Nonlife insurance	669	4,581	4,613	2,038	3,282	201
Depreciation and amortization	77,568	176,135	213,960	152,282	151,595	14,509
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	62,269	161,949	951	940	1,260	494
(C) Net real estate operating income = (A) – (B)	220,739	17,660	(255,199)	87,894	(198,977)	(28,513)
(Reference) Occupancy rate	96.1%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	5	4	1	1	1	1

Property No.	54
Property name	Hilton Tokyo Odaiba
Number of operating days	365
(A) Real estate operating revenue subtotal	522,633
Fixed rent	-
Variable rent	522,633
Other revenue	-
(B) Real estate operating costs subtotal	618,882
Land lease and other rent expenses	-
Property taxes	321,200
Outsourcing expenses	120
Nonlife insurance	5,744
Depreciation and amortization	290,983
Loss on retirement of noncurrent assets	-
Other costs	833
(C) Net real estate operating income = (A) – (B)	(96,249)
(Reference) Occupancy rate	100.0%
(Reference) Number of tenants	1

(Note 1) Variable rent includes income from management contracts. For details of the management contract, please refer to “C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing” on page 49.

(Note 2) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and numbers are thus rounded down to the nearest million yen.

(Note 3) Temporarily closed for some time during the fiscal year under review due to the impact of the spread of COVID-19.

(Note 4) Undisclosed as consent on disclosure has not been obtained from the tenant with whom a lease contract has been concluded.

(Note 5) ibis Tokyo Shinjuku was transferred on December 15, 2021.

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

C. Overview of the hotel business

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

	Property No.	Name	Rent type	Method of calculating variable rent and income from management contracts		
				FY2021	FY2022	FY2023 and after
The HMJ Group	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	AGOP (Note 2) x 86.0%		
	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%		
	29	Oriental Hotel Universal City (Note 1)	Variable/Fixed	Not applicable	(AGOP – base amount (¥370 million/year)) x 95.0%	
	43	Oriental Hotel Okinawa Resort & Spa	Variable/Fixed	AGOP x 89.0%		(AGOP – base amount (¥655 million/year)) x 95.0%
	44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 2)	AGOP x 93.0%		(AGOP – base amount (¥360 million/year)) x 90.0%
	46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed	AGOP x 97.0%		(AGOP – base amount (¥442 million/year)) x 98.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	AGOP x 98.0%		(AGOP – base amount (¥580 million/year)) x 97.0%
	48	Hotel Oriental Express Fukuoka Tenjin (Note 1)	Variable/Fixed	Not applicable	(AGOP – base amount (¥165 million/year)) x 97.0%	
	50	Hilton Tokyo Narita Airport	Variable/Fixed	AGOP x 95.0%		(AGOP – base amount (¥450 million/year)) x 93.0%
	51	International Garden Hotel Narita	Variable/Fixed	AGOP x 95.0%		(AGOP – base amount (¥360 million/year)) x 98.0%
	52	Hotel Nikko Nara	Variable/Fixed	AGOP x 95.0%		(AGOP – base amount (¥440 million/year)) x 95.0%
	53	Hotel Oriental Express Osaka Shinsaibashi	Variable/Fixed	AGOP x 87.0%		(AGOP – base amount (¥128 million/year)) x 91.0%
54	Hilton Tokyo Odaiba	Variable/Fixed	AGOP x 97.0%		(AGOP – base amount (¥1,660 million/year)) x 98.0%	
The Accor Group	6	ibis Tokyo Shinjuku (Note 5)	Management contract (Note 6)	Amount equivalent to GOP		
	32	ibis Styles Kyoto Station				
	33	ibis Styles Sapporo				
	34	Mercure Sapporo				
	35	Mercure Okinawa Naha				
42	Mercure Yokosuka	Variable	Amount linked to GOP (Note 6)			
The Ishin Group s	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 7)		
	37	the b ikebukuro				
	39	the b hachioji				
	40	the b hakata				
Other hotels with variable rent or revenue sharing	18	Comfort Hotel Tokyo Higashi Nihombashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 7)		
	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 7)		
	25	Chisun Hotel Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).		
	26	Chisun Inn Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).		
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 7)		
	49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 7)		

(Note 1) Rents applied from July 1, 2021 onward for Oriental Hotel Universal City and rents applied from June 18, 2021 onward for Hotel Oriental Express Fukuoka Tenjin are indicated.

Variable rent for HMJ Group Hotels (not include 2 hotels mentioned above) are rent applied from January 1, 2022 based on memorandums of understanding relating to change fixed-term building lease contracts concluded on February 25, 2022

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

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

(Note 4) For the purpose of payments of variable rent from each hotel, etc. JHR has set individual base amount for each hotel. The breakdown of the base amount of The Five HMJ Hotels (¥4,120 million/year) are as follows.

Kobe Meriken Park Oriental Hotel ¥690,000 thousands, Oriental Hotel tokyo bay ¥1,060,000 thousands, Namba Oriental Hotel ¥890,000 thousands, Hotel Nikko Alivila ¥1,250,000 thousands, and Oriental Hotel Hiroshima ¥230,000 thousands.

(Note 5) ibis Tokyo Shinjuku was transferred on December 15, 2021.

(Note 6) The management contract structure is a structure for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue. Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management fee to the operator. This hotel revenue achieved is recognized as “real estate operating revenue through management contract” and is equivalent to the rent that is the real estate operating revenue under the leasing structure.

(Note 7) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee.

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2021, through December 31, 2021, based on the data provided by the hotel lessees. While these indicators of the hotels are among the indicators that show the operating status of the rooms departments, please note that they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the room rates and profit margins, etc. of the respective rooms available for sale are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

	Kobe Meriken Park Oriental Hotel		Oriental Hotel tokyo bay		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	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	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 (Note 5)		Oriental Hotel Fukuoka Hakata Station		Holiday Inn Osaka Namba (Note 4)		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		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	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	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	(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 (Note 4)		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	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	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	(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.

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

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

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

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

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

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

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

(2) Status of capital expenditures

a. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work planned as of the end of the fiscal year under review. 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 year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY 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, Hyogo)	Renovation of executive rooms	From March 2022 to March 2022	100	-
Hotel Nikko Alivila (Nakagamigun, Okinawa)	Renewal of elevator equipment	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 elevator equipment	From November 2022 to December 2022	72	-
Oriental Hotel Okinawa Resort & Spa (Nago-shi, Okinawa)	Renewal of air-conditioning equipment 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 sixth floor lobby and lounge area	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 include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned renovation work and whether the renovation work will be performed may change.

b. Capital expenditures during the period (Note)

Major construction work conducted by JHR during the fiscal year under review that represents capital expenditures is as below. Capital expenditures for the fiscal year under review totaled ¥3,367 million, and repair expenses that were accounted for as expense in the fiscal year 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 (JPY 1M)
Kobe Meriken Park Oriental Hotel (Kobe, 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)	Renewal of central monitoring device	From March 2021 to June 2021	63
Total			1,457

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