

**Semi-Annual Report**  
**11th Fiscal Period**

**Hoshino Resorts REIT, Inc.**

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

(from May 1, 2018 to October 31, 2018)

## I. Asset Management Report

### 1. Overview of asset management

#### (1) Trend in key indicators

Fiscal period		7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Operating revenue	(millions of yen)	3,981	4,462	4,644	5,540	5,802
Of the above, operating revenue from real estate leasing	(millions of yen)	3,981	4,462	4,644	5,540	5,802
Operating expenses	(millions of yen)	1,884	2,195	2,268	2,465	2,592
Of the above, operating expenses from real estate leasing	(millions of yen)	1,428	1,682	1,753	1,924	1,999
Operating profit	(millions of yen)	2,097	2,266	2,376	3,074	3,209
Ordinary profit	(millions of yen)	1,816	1,901	2,065	2,625	2,839
Profit	(millions of yen)	1,815	1,900	2,064	2,624	2,839
Total assets	(millions of yen)	105,709	123,204	126,998	163,194	163,704
(Change from previous period)	(%)	3.7	16.5	3.1	28.5	0.3
Net assets	(millions of yen)	74,407	74,491	79,596	100,754	105,577
(Change from previous period)	(%)	7.0	0.1	6.9	26.6	4.8
Interest-bearing liabilities	(millions of yen)	27,160	43,034	42,909	57,183	52,690
Unitholders' capital	(millions of yen)	72,591	72,591	77,532	98,129	102,737
Total number of investment units issued and outstanding	(units)	81,757	163,514	172,670	212,738	221,862
Net assets per unit (net asset value)	(Note 3) (yen)	455,052	455,568	460,974	473,607	475,868
Total distributions	(millions of yen)	1,815	1,900	2,064	2,624	2,838
Distributions per unit	(yen)	22,209	11,621	11,956	12,338	12,796
Of the above, distributions of earnings per unit	(yen)	22,209	11,621	11,956	12,338	12,796
Of the above, distributions in excess of earnings per unit	(yen)	–	–	–	–	–
Ratio of ordinary profit to total assets	(Note 4) (%)	1.7	1.7	1.7	1.8	1.7
(Annualized)	(Note 5) (%)	3.5	3.3	3.3	3.6	3.4
Return on equity	(Note 4) (%)	2.5	2.6	2.7	2.9	2.8
(Annualized)	(Note 5) (%)	5.0	5.1	5.3	5.9	5.5

Fiscal period	7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Unitholders' equity to total assets (Note 4) (%)	70.4	60.5	62.7	61.7	64.5
(Change from previous period) (%)	2.2	(9.9)	2.2	(0.9)	2.8
Payout ratio (Note 4) (%)	100.0	100.0	100.0	100.0	100.0
[Other Information]					
Number of operating days (days)	184	181	184	181	184
Number of properties at end of period (properties)	47	48	49	56	56
Depreciation during period (millions of yen)	831	956	1,013	1,141	1,169
Capital expenditures during period (millions of yen)	1,037	2,230	762	1,421	782
Rental NOI (Net Operating Income) (Note 4) (millions of yen)	3,384	3,736	3,904	4,757	4,972
FFO (Funds from Operation) (Note 4) (millions of yen)	2,647	2,857	3,078	3,767	4,009
FFO per unit (Note 4) (yen)	32,384	17,472	17,830	17,710	18,073
Total distributions / FFO ratio (Note 4) (%)	68.6	66.5	67.1	69.7	70.8
Ratio of interest-bearing liabilities to total assets at end of period (LTV) (%)	25.7	34.9	33.8	35.0	32.2

(Note 1) The amounts of operating revenue, etc. do not include consumption taxes.

(Note 2) Unless otherwise stated, monetary amounts are rounded down to the nearest indicated unit and percentage figures are rounded to one decimal place in this report.

(Note 3) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016. Net assets per unit is calculated based on the assumption that the split of investment units was implemented at the beginning of the 7th fiscal period.

(Note 4) The following formulas are used for the calculation:

Ratio of ordinary profit to total assets	$\text{Ordinary profit} / ((\text{Total assets at beginning of period} + \text{Total assets at end of period}) / 2) \times 100$
Return on equity	$\text{Profit} / ((\text{Net assets at beginning of period} + \text{Net assets at end of period}) / 2) \times 100$
Unitholders' equity to total assets	$\text{Net assets at end of period} / \text{Total assets at end of period} \times 100$
Payout ratio	$\text{Distributions per unit (excluding distributions in excess of earnings)} / \text{Basic earnings per unit} \times 100$ Payout ratio for the 7th fiscal period, 9th fiscal period, 10th fiscal period, and 11th fiscal period is calculated by the following formula due to the issuance of new investment units: $\text{Total distributions (excluding distributions in excess of earnings)} / \text{Profit} \times 100$
Rental NOI (Net Operating Income)	$\text{Operating revenue from real estate leasing} - \text{Operating expenses from real estate leasing} + \text{Depreciation} + \text{Loss on retirement of non-current assets}$
FFO (Funds from Operation)	$\text{Profit} + \text{Depreciation} + \text{Loss on retirement of non-current assets} + \text{Loss on disposal of property and equipment} - \text{Gains (losses) from sales of properties}$
FFO per unit	$\text{FFO} / \text{Total number of investment units issued and outstanding}$
Total distributions / FFO ratio	$\text{Total distributions (including distribution in excess of earnings)} / \text{FFO} \times 100$

(Note 5) Annualized portion of the calculation assumes 184 days for the 7th fiscal period, 181 days for the 8th fiscal period, 184 days for the 9th fiscal period, 181 days for the 10th fiscal period, and 184 days for the 11th fiscal period.

(2) Performance review of HRR for the fiscal period under review

i) Brief history of HRR

Hoshino Resorts REIT, Inc. (“HRR”) invests in hotels, ryokans (Japanese-style inns) and ancillary facilities that serve at the core of the tourism industry and for which stable use is expected for the medium to long term.

HRR was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including amendments thereto) (hereinafter, the “Investment Trusts Act”) with Hoshino Resort Asset Management Co., Ltd. (hereinafter, the “Asset Management Company”) as the organizer and with investments in capital of 150 million yen (300 units) on March 6, 2013. An issuance of new investment units through public offering (19,000 units) was implemented on July 11, 2013 as the payment due date, and the investment securities were listed on the Real Estate Investment Trust Securities Market of Tokyo Stock Exchange, Inc. (hereinafter, “Tokyo Stock Exchange”) (securities code: 3287) on July 12, 2013. HRR has steadily expanded its asset size since that time, and the assets held by HRR at the end of the fiscal period under review were 56 properties (sum total of acquisition price: 146,767 million yen).

ii) Investment environment and business performance

The Japanese economy continued along a gradual recovery trend in the fiscal period under review, reflecting continued improvement in the employment and income environments as well as improved corporate earnings in response to the yen’s depreciation and a global recovery in the manufacturing industry. In the tourism market, the Japanese government has positioned tourism as a pillar of its growth strategies and is aiming to achieve 40 million inbound tourists with inbound tourists’ spending amount of 8 trillion yen by 2020. As such, the number of inbound tourists continues to increase, having reached 28.69 million in fiscal 2017, up from 24.04 million in fiscal 2016. In the environment described above, the hotels/ryokans held by HRR were managed with a goal of securing stable earnings in the fiscal period under review, resulting in stable operational results in the fiscal period ended October 31, 2018.

iii) Overview of fund procurement

In the fiscal period under review, 4,389 million yen was procured from the issuance of new investment units through primary offering on May 1, 2018, 219 million yen was procured from the issuance of new investment units through third-party allotment on May 22, 2018, and these were allocated to part of the funds for repayment of short-term loans payable pertaining to the acquisition of hotel androoms Osaka Hommachi. The remaining funds were retained as cash on hand, and allocated to the funds for acquisition of Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares, acquired on October 30, 2018.

Moreover, in order to procure funds for repayment of the principal of an existing loan due for repayment, 2,288 million yen was procured from debt financing on July 17, 2018.

Furthermore, scheduled payment was made, resulting in balance of interest-bearing liabilities of 52,690 million yen and ratio of interest-bearing liabilities to total assets (LTV) of 32.2% as of October 31, 2018.

(Status of credit rating)

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

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

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

iv) Overview of business performance and distributions

As a result of the management described above, business performance in the fiscal period under review resulted in operating revenue of 5,802 million yen, operating profit of 3,209 million yen, ordinary profit of 2,839 million yen and profit of 2,839 million yen. Concerning distributions, to ensure application of special provisions for taxation on investment corporations (Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957, as amended; hereinafter, the “Act on Special Measures Concerning Taxation”)), the decision was made to distribute almost the entire amount of unappropriated retained earnings and distribution per investment unit was 12,796 yen.

(3) Status of capital increase, etc.

HRR conducted a capital increase through public offering (8,690 units) and a capital increase through third-party allotment (434 units) in May 2018, procuring funds totaling 4,608,459 thousand yen. The following are the changes in unitholders' capital and total number of investment units issued and outstanding for the most recent five years.

Date	Event	Unitholders' capital (thousands of yen)		Total number of investment units issued and outstanding (units)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
May 1, 2014	Capital increase through public offering	16,547,762	26,465,282	22,000	42,250	(Note 1)
May 27, 2014	Capital increase through third-party allotment	540,810	27,006,092	719	42,969	(Note 2)
May 1, 2015	Capital increase through public offering	8,673,580	35,679,673	6,400	49,369	(Note 3)
May 26, 2015	Capital increase through third-party allotment	433,679	36,113,352	320	49,689	(Note 4)
November 2, 2015	Capital increase through public offering	30,279,030	66,392,382	26,970	76,659	(Note 5)
November 25, 2015	Capital increase through third-party allotment	1,514,512	67,906,895	1,349	78,008	(Note 6)
May 2, 2016	Capital increase through public offering	4,461,050	72,367,946	3,570	81,578	(Note 7)
May 24, 2016	Capital increase through third-party allotment	223,677	72,591,623	179	81,757	(Note 8)
November 1, 2016	Split of investment units	–	72,591,623	81,757	163,514	(Note 9)
May 1, 2017	Capital increase through public offering	4,705,163	77,296,787	8,720	172,234	(Note 10)
May 23, 2017	Capital increase through third-party allotment	235,258	77,532,045	436	172,670	(Note 11)
November 1, 2017	Capital increase through public offering	19,616,644	97,148,689	38,160	210,830	(Note 12)
November 28, 2017	Capital increase through third-party allotment	980,832	98,129,521	1,908	212,738	(Note 13)
May 1, 2018	Capital increase through public offering	4,389,249	102,518,771	8,690	221,428	(Note 14)
May 22, 2018	Capital increase through third-party allotment	219,209	102,737,981	434	221,862	(Note 15)

- (Note 1) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 780,178 yen (paid-in amount of 752,171 yen) per unit.
- (Note 2) For the purpose of allocating funds for repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 752,171 yen per unit.
- (Note 3) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,404,215 yen (paid-in amount of 1,355,247 yen) per unit.
- (Note 4) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,355,247 yen per unit.
- (Note 5) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,162,024 yen (paid-in amount of 1,122,693 yen) per unit.
- (Note 6) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,122,693 yen per unit.
- (Note 7) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 1,294,745 yen (paid-in amount of 1,249,594 yen) per unit.
- (Note 8) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through third-party allotment with paid-in amount of 1,249,594 yen per unit.
- (Note 9) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016.

- (Note 10) For the purpose of allocating funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 559,080 yen (paid-in amount of 539,583 yen) per unit.
- (Note 11) For the purpose of allocating funds for part of the funds for acquisition of specified assets or part of the funds for repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 539,583 yen per unit.
- (Note 12) For the purpose of allocating funds for part of the funds for acquisition of specified assets, new investment units were issued through public offering at an offer price of 531,508 yen (paid-in amount of 514,063 yen) per unit.
- (Note 13) For the purpose of allocating funds for part of the funds for acquisition of specified assets or part of the funds for repayment of loans, new investment units were issued through third-party allotment with paid-in amount of 514,063 yen per unit.
- (Note 14) For the purpose of allocating funds for part of the funds for repayment of loans, new investment units were issued through public offering at an offer price of 523,342 yen (paid-in amount of 505,092 yen) per unit.
- (Note 15) For the purpose of allocating funds for part of the funds for acquisition of specified assets or part of the funds for repayment of loans in the future, new investment units were issued through third-party allotment with paid-in amount of 505,092 yen per unit.

[Changes in market price of investment unit]

The highest and lowest unit prices (closing price) of the investment units of HRR listed on J-REIT section of the Tokyo Stock Exchange for each period are as follows:

Fiscal period	7th fiscal period (Note) (Before ex rights) (From May 1, 2016 to October 31, 2016)	7th fiscal period (Note) (After ex rights) (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Highest (Yen)	1,330,000	626,000	623,000	598,000	585,000	586,000
Lowest (Yen)	1,203,000	615,000	562,000	547,000	538,000	527,000

(Note) A 2-for-1 split of investment units was implemented with the record date of October 31, 2016 and the effective date of November 1, 2016. Accordingly, transactions have been made at ex rights price on and after October 27, 2016.

(4) Distributions, etc.

With the aim of having the maximum amount of distributable profit deducted as expense pursuant to Article 67-15 of the Act on Special Measures Concerning Taxation, HRR resolved to distribute the entire amount of unappropriated retained earnings for the period, excluding fractions of distributions per unit that were less than 1 yen. Consequently, distributions per unit came to 12,796 yen.

Fiscal period	7th fiscal period (From May 1, 2016 to October 31, 2016)	8th fiscal period (From November 1, 2016 to April 30, 2017)	9th fiscal period (From May 1, 2017 to October 31, 2017)	10th fiscal period (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Total profit (thousands of yen)	1,815,763	1,900,191	2,064,450	2,624,739	2,839,034
Total unappropriated retained earnings (undisposed loss) (thousands of yen)	1,815,796	1,900,247	2,064,501	2,624,798	2,839,071
Retained earnings brought forward (thousands of yen)	55	50	59	37	125
Total cash distributions (thousands of yen)	1,815,741	1,900,196	2,064,442	2,624,761	2,838,946
(Distributions per unit) (yen)	22,209	11,621	11,956	12,338	12,796
Of the above, total distributions (thousands of yen)	1,815,741	1,900,196	2,064,442	2,624,761	2,838,946
(Distributions of earnings per unit) (yen)	22,209	11,621	11,956	12,338	12,796
Of the above, total refund of investments (thousands of yen)	—	—	—	—	—
(Refund of investments per unit) (yen)	—	—	—	—	—
Of total refund of investments, total distributions from reserve for temporary difference adjustments (Of refund of investments per unit, distributions from reserve for temporary difference adjustments per unit) (yen)	—	—	—	—	—
Of total refund of investments, total distributions from the unitholders' capital for tax purposes (Of refund of investments per unit, distributions from the unitholders' capital for tax purposes per unit) (yen)	—	—	—	—	—

## (5) Future management policy

### i) Future trends outlook

The Japanese economy going forward is, amid continued improvement in the employment and income situation, expected to continue to trend toward moderate economic recovery due in part to Bank of Japan's monetary easing policies continuing; however, there continue to be concerns of downside risks to the economy mainly stemming from the impact of uncertainty in overseas economies and of fluctuations in the financial and capital markets, and concerns regarding the economic impact, etc. of consecutive natural disasters. On the other hand, the Japanese government has set new goals with respect to promoting Japan as a tourism nation under its tourism policy which consists of the basic policies of achieving growth in tourism toward turning it into a core industry of Japan, thereby acting as a driver of the Japanese economy and helping bring vitality to communities. In the course of promoting the tourism policy, steps are expected to be taken that include creating tour packages which draw on the distinctive appeal of local areas, addressing needs with respect to *minpaku* services (the provision of lodging services for a fee utilizing private homes, in whole or in part), and strategically relaxing visa requirements. In this manner, with large economic ripple effects, the tourism industry is becoming increasingly important as one of the drivers of Japan's economic growth.

### ii) Future management policy and challenges to be addressed

Under such circumstances, HRR's basic policy is to form a portfolio with a stable revenue base centering on hotels, ryokans and ancillary facilities that can meet the travel needs of tourists.

In the hotel/ryokan industry which has trended toward being commoditized in general, HRR believes facilities that are differentiated from others due to an outstanding business model, operating skills, location and such are the ones that will be able to generate stable earnings and secure steady cash flow over a long-term period.

From this perspective, HRR selects investment properties from the stance of "superior know-how and experience" (whether the business model, brand power, etc. can be differentiated from competitors, and whether it is operated by an operator with extensive expertise) and "superior location and facilities" (whether the facility itself is superior as to its location, rarity of the building, etc.).

HRR seeks to flexibly form an optimum portfolio in order to secure long-term and stable cash flow. After proactively obtaining information on hotels, ryokans and ancillary facilities operated by the Hoshino Resorts Group (collectively refers to Hoshino Resorts Inc. (hereinafter "Hoshino Resorts") and its parent company and subsidiaries; the same shall apply hereinafter) (hereinafter the "properties operated by the Hoshino Resorts Group") and outside operators (hereinafter the "properties operated by outside operators"), including overseas properties in which the Hoshino Resorts Group is engaged (Note), HRR will examine individual investment properties upon their selection.

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

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

#### a. Properties operated by the Hoshino Resorts Group

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

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

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



financial difficulties and a lack of successors. As such, HRR anticipates further expansion of its pipeline going forward.

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

HRR believes the securing of stable earnings will be possible by investing mainly in the three brands (hereinafter the “main brands”) of HOSHINOYA, Hoshino Resorts KAI and Hoshino Resorts RISONARE (hereinafter may be referred to as “HOSHINOYA,” “KAI” and “RISONARE,” respectively), which HRR deems competitive. HRR intends to obtain information on the main brand properties (properties under main brands), actively utilizing the sponsor support agreement with Hoshino Resorts. As a result, if HRR decides that facilities are able to generate long-term and stable cash flow, proactive investments will be made. In addition, HRR may invest in other properties operated by the Hoshino Resorts Group (hereinafter, “other properties of the Hoshino Resorts Group”) in cases where long-term and stable cash flow is expected through using such properties steadily.

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

b. Properties operated by outside operators

Similar to the case of investing in properties operated by the Hoshino Resorts Group, HRR believes it will be able to secure long-term and stable cash flow when investing in properties operated by outside operators by making appropriate investments while taking “superior know-how and experience” and “superior location and facilities” into consideration, based on sufficient information collected by the Asset Management Company.

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

Specifically among the properties operated by outside operators, HRR discusses acquisition of hotels, ryokans and ancillary facilities that serve as urban tourism bases in which tourism needs that complement urban tourism (Note) are believed to exist (“urban tourism properties”) when it is judged that long-term and stable cash flow can be secured from the viewpoint of “superior know-how and experience” or “superior location and facilities” against the backdrop of urban tourism demand in cities where properties are located. In addition, HRR will actively invest in hotels, ryokans and ancillary facilities other than urban tourism properties (hereinafter, “other properties operated by outside operators”) for which tourism needs are believed to exist above and beyond urban tourism when it is judged that long-term and stable cash flow can be secured from the viewpoint of “superior know-how and experience” or “superior location and facilities.”

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

c. Overseas properties related to the Hoshino Resorts Group

With regard to HRR’s investment policy on the overseas properties related to the Hoshino Resorts Group, HRR makes it a policy to carry out prudent investment after (1) obtaining accurate information on the countries and regions in which the investment properties with potential are located; (2) performing a comprehensive analysis of the market to which the potential investment properties belong, including real-estate market trends, systems, and regulations in each country, which considers macro factors such as political trends, population trends, and economic growth; and (3) performing a comprehensive risk analysis of each country’s legal, accounting, and tax systems, as well as foreign exchange risks, etc., related to investment and revenue returns. In addition to the above policy, HRR also follows a policy of investment based on prudent selection of only overseas properties related to the Hoshino Resorts Group that can be expected to be used on a stable basis and to have the potential to secure long-term and stable cash flows.

Furthermore, HRR tries to reduce the risk of a significant drop in its cash flow resulting from changes in tourist needs or trends, natural disasters, domestic and overseas economic trends, etc. by diversifying its

portfolio while aiming simultaneously to strengthen stability in earnings through the expansion of asset size and other measures.

The Hoshino Resorts Group operates each facility after categorizing investment target hotels, ryokans and ancillary facilities into brands from various perspectives. HRR works to obtain portfolio diversification effect and to stabilize earnings through investments not only in the single brand of the Hoshino Resorts Group but also in properties of major brands and other properties of the Hoshino Resorts Group whose size, price settings and target customer base vary, in addition to urban tourism properties which are properties operated by outside operators, other properties operated by outside operators and overseas properties related to the Hoshino Resorts Group.

As of the date of this document, the portfolio is consisted of the following: main brand properties, other properties of the Hoshino Resorts Group, urban tourism properties constituting properties operated by outside operators, and other properties operated by outside operators. HRR believes that such facilities would promote to portfolio diversification effects and stabilization of revenues.

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

## (6) Significant subsequent events

### i) Acquisition of assets

With respect to acquisitions of assets carried out after the closing of accounts, as of December 14, 2018, HRR has concluded the sales and purchase agreement as shown below in accordance with the basic asset management policy set forth in the Articles of Incorporation.

Name of property	Location	Seller	Planned acquisition price (millions of yen) (Note 1)	Planned acquisition date
KAI Alps	Omachi-shi, Nagano	Asama onsen Hotel Management Co., Ltd.	3,060	March 29, 2019

(Note 1) "Planned acquisition price" indicates the sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions), rounded down to the nearest million yen.

(Note 2) The sales and purchase agreement for the acquisition of KAI Alps falls under a forward commitment, etc. specified in the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.," which has been established by the Financial Services Agency. (This commitment is defined as a postdated sales and purchase agreement under which the settlement and delivery of the property shall be made one month or more from the conclusion of the agreement, or any other agreement similar thereto. The same applies hereinafter.)

## 2. Profile of HRR

### (1) Status of unitholders' capital

	7th fiscal period (As of October 31, 2016)	8th fiscal period (As of April 30, 2017)	9th fiscal period (As of October 31, 2017)	10th fiscal period (As of April 30, 2018)	11th fiscal period (As of October 31, 2018)
Total number of investment units authorized (units)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total number of investment units issued and outstanding (units)	81,757	163,514	172,670	212,738	221,862
Unitholders' capital (millions of yen)	72,591	72,591	77,532	98,129	102,737
Number of unitholders (persons)	10,278	12,489	14,505	17,491	18,498

### (2) Matters concerning investment units

The top 10 unitholders based on the ratio of units owned to total number of units issued and outstanding as of October 31, 2018 are as follows:

Name	Address	Number of units owned (units)	Ratio to total number of units issued and outstanding (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	38,666	17.42
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	25,235	11.37
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	11,783	5.31
The Nomura Trust and Banking Co., Ltd. (Investment trust account)	2-2-2 Otemachi, Chiyoda-ku, Tokyo	10,356	4.66
Hoshino Resorts Inc.	2148 Oaza Nagakura, Karuiizawa-machi, Kitasaku-gun, Nagano	6,140	2.76
Mizuho Securities Co., Ltd.	1-5-1 Otemachi, Chiyoda-ku, Tokyo	6,084	2.74
JP MORGAN CHASE BANK 385632 (Standing proxy: Mizuho Bank, Ltd.)	Shinagawa Intercity Tower A 2-15-1 Konan, Minato-ku, Tokyo	3,908	1.76
The Hokkoku Bank, Ltd. (Standing proxy: Trust & Custody Services Bank, Ltd.)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	2,330	1.05
DFA INTERNATIONAL REAL ESTATE SECURITIES PORTFOLIO (Standing proxy: Citibank, N.A., Tokyo Branch)	6-27-30 Shinjuku, Shinjuku-ku, Tokyo	2,283	1.02
Trust & Custody Services Bank, Ltd. (Money trust taxable account)	Harumi Island Triton Square Office Tower Z 1-8-12 Harumi, Chuo-ku, Tokyo	2,260	1.01
Total		109,045	49.14

(Note) The ratio to total number of units issued and outstanding is rounded down to two decimal places.

### (3) Matters relating to officers

The Executive Director, Supervisory Directors and Independent Auditor for the fiscal period under review are as follows:

Title	Name	Major concurrent post, etc.	Total amount of compensation for each position during the fiscal period under review (thousands of yen)
Executive Director (Note 1)	Kenji Akimoto	President & CEO of Hoshino Resort Asset Management Co., Ltd.	– (Note 2)
Supervisory Director (Note 1)	Hiroshi Shinagawa	Attorney at law, Kinkadori Law Office (Note 4)	1,500
	Yukiko Fujikawa	Certified Public Accountant, Yukiko Fujikawa CPA Office	1,500
Independent Auditor (Note 3)	Grant Thornton Taiyo LLC	–	8,800

(Note 1) The Executive Director and Supervisory Directors do not hold investment units of HRR under their own or another person's name.

Although the Supervisory Directors may be officers in corporations other than the ones indicated above, there is no conflict of interest between HRR and such corporations, including those indicated above. In preparation for a situation where the Executive Director is absent or the number of officers is below the number of officers required by laws and regulations, a resolution was passed at the 4th General Meeting of Unitholders to appoint Tetsuro Takashi as the Substitute Executive Director. As of the release of this report, Tetsuro Takashi is serving concurrently as Director & CFO of the Asset Management Company.

(Note 2) The Executive Director does not receive compensations from HRR.

(Note 3) Dismissal or non-reappointment of the Independent Auditor is subject to consideration at the HRR's Board of Directors, pursuant to the provisions of the Investment Trusts Act in the case of dismissal, or in light of a comprehensive consideration of various circumstances in the case of non-reappointment.

(Note 4) Effective January 2019, Supervisory Director Hiroshi Shinagawa holds the concurrent position of Representative Partner of M-Partners legal professional corporation.

### (4) Asset Management Company, Asset Custodian and General Administrators

The Asset Management Company, Asset Custodian, and General Administrators as of October 31, 2018 are as follows:

Category of entrusted operation	Name
Asset Management Company	Hoshino Resort Asset Management Co., Ltd.
Asset Custodian	Mitsubishi UFJ Trust and Banking Corporation
General Administrator (General Administrator of unit register)	Mitsubishi UFJ Trust and Banking Corporation
General Administrator (General Administrator for accounting and administrative function)	Mitsubishi UFJ Trust and Banking Corporation
General Administrator (administration of investment corporation bonds)	Sumitomo Mitsui Banking Corporation

### 3. Status on Investment Properties

#### (1) Investment status

Asset type	Use of asset	10th fiscal period As of April 30, 2018		11th fiscal period As of October 31, 2018	
		Total amount held (millions of yen) (Note 1)	Ratio to total assets (%) (Note 2)	Total amount held (millions of yen) (Note 1)	Ratio to total assets (%) (Note 2)
Real estate	Hotel	128,887	79.0	128,609	78.6
	Ryokan	21,769	13.3	21,625	13.2
Subtotal		150,656	92.3	150,235	91.8
Investment securities		168	0.1	336	0.2
Deposits and other assets		12,369	7.6	13,132	8.0
Total assets (Note 3)		163,194	100.0	163,704	100.0
Total liabilities (Note 3)		62,440	38.3	58,127	35.5
Total net assets (Note 3)		100,754	61.7	105,577	64.5

(Note 1) “Total amount held” is the carrying amount (in the case of real estate, the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) “Ratio to total assets” is rounded to one decimal place.

(Note 3) “Total assets,” “Total liabilities” and “Total net assets” are stated at the book value.

#### (2) Major properties owned

The major components of assets (the 10 largest properties by book value) as of October 31, 2018 are as follows:

Name of property	Book value (millions of yen) (Note 1)	Leasable area (m <sup>2</sup> ) (Note 2)	Leased area (m <sup>2</sup> ) (Note 3)	Occupancy rate (%)	Ratio to total operating revenue from real estate leasing (%) (Note 4)	Primary use
ANA Crowne Plaza Hiroshima	17,858	32,332.00	32,332.00	100.0	10.0	Hotel
Hyatt Regency Osaka	16,484	80,197.60	80,197.60	100.0	6.7	Hotel
ANA Crowne Plaza Fukuoka	7,631	27,372.74	27,372.74	100.0	5.6	Hotel
HOSHINOYA Karuizawa	7,342	11,723.61	11,723.61	100.0	7.4	Ryokan
the b kobe	7,071	9,647.11	9,647.11	100.0	3.3	Hotel
ANA Crowne Plaza Kanazawa	6,787	23,835.00	23,835.00	100.0	7.4	Hotel
RISONARE Yatsugatake	5,909	33,853.45	33,853.45	100.0	6.1	Hotel
OMO7 Asahikawa	5,040	25,715.20	25,715.20	100.0	3.1	Hotel
HOSHINOYA Taketomi Island	4,925	4,249.87	4,249.87	100.0	2.9	Hotel
the b akasaka	4,894	4,027.00	4,027.00	100.0	2.0	Hotel
Total	83,944	252,953.58	252,953.58	100.0	54.6	–

(Note 1) “Book value” is the carrying amount (in the case of real estate, etc., the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) “Leasable area” is the leasable area to tenants.

(Note 3) In principle, “Leased area” is the leased area under the lease agreement with tenants.

(Note 4) “Ratio to total operating revenue from real estate leasing” represents the ratio to total real estate operating revenue, rounded to one decimal place.

### (3) Summary of portfolio properties

An overview of assets held by HRR as of October 31, 2018 is as follows:

Name of property	Location	Type of ownership	Leasable area (m <sup>2</sup> )	Book value at end of period (millions of yen) (Note 1)	Estimated value at end of period (millions of yen) (Note 2)
HOSHINOYA Karuizawa	Karuizawa-machi, Kitasaku-gun, Nagano	Ownership of real estate, etc.	11,723.61	7,342	11,800
HOSHINOYA Kyoto	Kyoto-shi, Kyoto	Ownership of real estate, etc.	3,097.69	3,286	4,270
HOSHINOYA Fuji	Fujikawaguchiko-machi, Minamitsuru-gun, Yamanashi	Ownership of real estate, etc.	2,103.55	4,113	4,320
HOSHINOYA Taketomi Island	Taketomi-cho, Yaeyama-gun, Okinawa	Ownership of real estate, etc.	4,249.87	4,925	5,260
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Ownership of real estate, etc.	33,853.45	5,909	7,000
RISONARE Atami	Atami-shi, Shizuoka	Ownership of real estate, etc.	23,385.18	4,407	4,290
KAI Matsumoto	Matsumoto-shi, Nagano	Ownership of real estate, etc.	4,056.12	633	812
KAI Izumo	Matsue-shi, Shimane	Ownership of real estate, etc.	3,909.02	725	862
KAI Ito	Ito-shi, Shizuoka	Ownership of real estate, etc.	6,918.92	696	980
KAI Hakone	Hakone-machi, Ashigarashimo-gun, Kanagawa	Ownership of real estate, etc.	4,649.67	1,153	1,320
KAI Aso	Kokonoe-machi, Kusu-gun, Oita	Ownership of real estate, etc.	1,543.53	618	691
KAI Kawaji	Nikko-shi, Tochigi	Ownership of real estate, etc.	8,190.38	1,020	1,160
KAI Kinugawa	Nikko-shi, Tochigi	Ownership of real estate, etc.	4,066.60	3,032	3,330
KAI Kaga	Kaga-shi, Ishikawa	Ownership of real estate, etc.	5,159.46	3,112	3,380
OMO7 Asahikawa	Asahikawa-shi, Hokkaido	Ownership of real estate, etc.	25,715.20	5,040	4,780
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Ownership of real estate, etc.	32,332.00	17,858	20,000
ANA Crowne Plaza Fukuoka	Fukuoka-shi, Fukuoka	Ownership of real estate, etc.	27,372.74	7,631	8,800
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Ownership of real estate, etc.	23,835.00	6,787	7,190
ANA Crowne Plaza Toyama	Toyama-shi, Toyama	Ownership of real estate, etc.	21,600.11	3,934	4,460
Hyatt Regency Osaka	Osaka-shi, Osaka	Ownership of real estate, etc.	80,197.60	16,484	16,600
the b akasaka	Minato-ku, Tokyo	Ownership of real estate, etc.	4,027.00	4,894	5,130
the b sangenjaya	Setagaya-ku, Tokyo	Ownership of real estate, etc.	2,672.20	4,465	4,670
the b nagoya	Nagoya-shi, Aichi	Ownership of real estate, etc.	8,058.64	4,531	4,680
the b kobe	Kobe-shi, Hyogo	Ownership of real estate, etc.	9,647.11	7,071	7,320
Quintessa Hotel Osaka Shinsaibashi	Osaka-shi, Osaka	Ownership of real estate, etc.	2,997.46	3,408	3,730

Name of property	Location	Type of ownership	Leasable area (m <sup>2</sup> )	Book value at end of period (millions of yen) (Note 1)	Estimated value at end of period (millions of yen) (Note 2)
hotel androoms Osaka Hommachi	Osaka-shi, Osaka	Ownership of real estate, etc.	3,191.32	4,372	4,450
Chisun Inn Shiojiri Kita IC	Shiojiri-shi, Nagano	Ownership of real estate, etc.	2,100.47	682	821
Chisun Inn Sano Fujioka IC	Sano-shi, Tochigi	Ownership of real estate, etc.	1,968.91	731	911
Chisun Inn Suwa IC	Suwa-shi, Nagano	Ownership of real estate, etc.	1,944.94	663	829
Chisun Inn Toyokawa IC	Toyokawa-shi, Aichi	Ownership of real estate, etc.	2,040.09	599	733
Chisun Inn Tosu	Tosu-shi, Saga	Ownership of real estate, etc.	1,968.02	496	655
Chisun Inn Chiba Hamano R16	Chiba-shi, Chiba	Ownership of real estate, etc.	2,023.29	781	1,020
Chisun Inn Kumamoto Miyukifueda	Kumamoto-shi, Kumamoto	Ownership of real estate, etc.	2,094.77	618	747
Chisun Inn Utsunomiya Kanuma	Utsunomiya-shi, Tochigi	Ownership of real estate, etc.	2,094.16	707	847
Chisun Inn Fukui	Fukui-shi, Fukui	Ownership of real estate, etc.	2,094.01	638	801
Chisun Inn Fukushima Nishi IC	Fukushima-shi, Fukushima	Ownership of real estate, etc.	2,094.01	678	768
Chisun Inn Niigata Chuo IC	Niigata-shi, Niigata	Ownership of real estate, etc.	2,094.16	622	776
Chisun Inn Nagasaki Airport	Omura-shi, Nagasaki	Ownership of real estate, etc.	1,968.02	616	757
Chisun Inn Hitachinaka	Hitachinaka-shi, Ibaraki	Ownership of real estate, etc.	1,968.30	714	920
Chisun Inn Tsuchiura Ami	Ami-machi, Inashiki-gun, Ibaraki	Ownership of real estate, etc.	1,968.03	740	921
Chisun Inn Kofu Isawa	Fuefuki-shi, Yamanashi	Ownership of real estate, etc.	1,968.47	640	788
Chisun Inn Marugame Zentsuji	Marugame-shi, Kagawa	Ownership of real estate, etc.	2,094.16	578	736
Chisun Inn Munakata	Munakata-shi, Fukuoka	Ownership of real estate, etc.	2,094.16	481	633
Chisun Inn Iwate Ichinoseki IC	Ichinoseki-shi, Iwate	Ownership of real estate, etc.	1,968.02	676	777
Chisun Inn Karuizawa	Karuizawa-machi, Kitasaku-gun, Nagano	Ownership of real estate, etc.	1,917.10	772	1,090
Chisun Inn Himeji Yumesakibashi	Himeji-shi, Hyogo	Ownership of real estate, etc.	2,406.95	594	735
Chisun Inn Kurashiki Mizushima	Kurashiki-shi, Okayama	Ownership of real estate, etc.	2,094.16	696	866
Candeo Hotels Handa	Handa-shi, Aichi	Ownership of real estate, etc.	2,814.05	605	702
Candeo Hotels Chino	Chino-shi, Nagano	Ownership of real estate, etc.	2,868.18	767	925
Candeo Hotels Fukuyama	Fukuyama-shi, Hiroshima	Ownership of real estate, etc.	3,985.73	1,032	1,250
Candeo Hotels Sano	Sano-shi, Tochigi	Ownership of real estate, etc.	2,828.71	1,222	1,480
Candeo Hotels Kameyama	Kameyama-shi, Mie	Ownership of real estate, etc.	3,912.03	474	537

Name of property	Location	Type of ownership	Leasable area (m <sup>2</sup> )	Book value at end of period (millions of yen) (Note 1)	Estimated value at end of period (millions of yen) (Note 2)
Comfort Hotel Hakodate	Hakodate-shi, Hokkaido	Ownership of real estate, etc.	2,927.44	920	1,040
Comfort Hotel Tomakomai	Tomakomai-shi, Hokkaido	Ownership of real estate, etc.	2,721.08	945	1,070
Comfort Hotel Kure	Kure-shi, Hiroshima	Ownership of real estate, etc.	3,121.02	1,108	1,230
Chisun Inn Kagoshima Taniyama	Kagoshima-shi, Kagoshima	Ownership of real estate, etc.	8,066.36	1,964	2,410
Total	–	–	434,762.23	150,235	169,060

(Note 1) “Book value at end of period” is the carrying amount (in the case of real estate, etc., the depreciated book value). The book value of real estate is including machinery and equipment, structures, and leasehold right, but excluding tools, furniture and fixtures, software, and construction in progress.

(Note 2) Appraisal of the property is entrusted to Japan Valuers Co., Ltd., JLL Morii Valuation & Advisory K.K. or Rich Appraisal Institute Co., Ltd. “Estimated value at end of period” is the appraisal value stated in the real estate appraisal report or investigation report with October 31, 2018 as the effective date of the valuation.

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

Name of property	10th fiscal period (From November 1, 2017 to April 30, 2018)				11th fiscal period (From May 1, 2018 to October 31, 2018)			
	Number of tenants at end of period (subleasing) (Note)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)	Number of tenants at end of period (subleasing) (Note)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)
HOSHINOYA Karuizawa	1 (14)	100.0	421	7.6	1 (15)	100.0	429	7.4
HOSHINOYA Kyoto	1 (0)	100.0	149	2.7	1 (0)	100.0	152	2.6
HOSHINOYA Fuji	1 (0)	100.0	142	2.6	1 (0)	100.0	142	2.5
HOSHINOYA Taketomi Island	1 (0)	100.0	168	3.0	1 (0)	100.0	168	2.9
RISONARE Yatsugatake	1 (18)	100.0	300	5.4	1 (18)	100.0	354	6.1
RISONARE Atami	1 (0)	100.0	156	2.8	1 (0)	100.0	156	2.7
KAI Matsumoto	1 (0)	100.0	45	0.8	1 (0)	100.0	45	0.8
KAI Izumo	1 (0)	100.0	54	1.0	1 (0)	100.0	55	0.9
KAI Ito	1 (0)	100.0	58	1.0	1 (0)	100.0	56	1.0
KAI Hakone	1 (0)	100.0	56	1.0	1 (0)	100.0	73	1.3
KAI Aso	1 (0)	100.0	24	0.4	1 (0)	100.0	28	0.5
KAI Kawaji	1 (0)	100.0	61	1.1	1 (0)	100.0	60	1.0
KAI Kinugawa	1 (0)	100.0	102	1.8	1 (0)	100.0	102	1.8
KAI Kaga	1 (0)	100.0	103	1.9	1 (0)	100.0	103	1.8
OMO7 Asahikawa	1 (6)	100.0	182	3.3	1 (6)	100.0	182	3.1
ANA Crowne Plaza Hiroshima	1 (7)	100.0	600	10.8	1 (7)	100.0	582	10.0
ANA Crowne Plaza Fukuoka	1 (5)	100.0	302	5.5	1 (5)	100.0	326	5.6
ANA Crowne Plaza Kanazawa	1 (5)	100.0	409	7.4	1 (5)	100.0	426	7.4
ANA Crowne Plaza Toyama	1 (7)	100.0	197	3.6	1 (7)	100.0	208	3.6
Hyatt Regency Osaka	1 (8)	100.0	377	6.8	1 (8)	100.0	388	6.7
the b akasaka	1 (1)	100.0	105	1.9	1 (1)	100.0	117	2.0



Name of property	10th fiscal period (From November 1, 2017 to April 30, 2018)				11th fiscal period (From May 1, 2018 to October 31, 2018)			
	Number of tenants at end of period (subleasing) (Note)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)	Number of tenants at end of period (subleasing) (Note)	Occupancy rate [At end of period] (%)	Operating revenue from real estate leasing [During the period] (millions of yen)	Ratio to total operating revenue from real estate leasing (%)
the b sangenjaya	1 (1)	100.0	114	2.1	1 (2)	100.0	113	2.0
the b nagoya	1 (5)	100.0	113	2.1	1 (5)	100.0	124	2.1
the b kobe	1 (13)	100.0	187	3.4	1 (13)	100.0	188	3.3
Quintessa Hotel Osaka Shinsaibashi	1 (0)	100.0	82	1.5	1 (0)	100.0	85	1.5
hotel androoms Osaka Hommachi	1 (0)	100.0	17	0.3	1 (0)	100.0	110	1.9
Chisun Inn Shiojiri Kita IC	1 (1)	100.0	30	0.6	1 (1)	100.0	32	0.6
Chisun Inn Sano Fujioka IC	1 (0)	100.0	32	0.6	1 (0)	100.0	32	0.6
Chisun Inn Suwa IC	1 (0)	100.0	31	0.6	1 (0)	100.0	32	0.6
Chisun Inn Toyokawa IC	1 (0)	100.0	27	0.5	1 (0)	100.0	28	0.5
Chisun Inn Tosu	1 (0)	100.0	25	0.5	1 (0)	100.0	26	0.5
Chisun Inn Chiba Hamano R16	1 (0)	100.0	33	0.6	1 (0)	100.0	34	0.6
Chisun Inn Kumamoto Miyukifueda	1 (0)	100.0	39	0.7	1 (0)	100.0	38	0.7
Chisun Inn Utsunomiya Kanuma	1 (0)	100.0	31	0.6	1 (0)	100.0	32	0.6
Chisun Inn Fukui	1 (0)	100.0	31	0.6	1 (0)	100.0	32	0.6
Chisun Inn Fukushima Nishi IC	1 (0)	100.0	32	0.6	1 (0)	100.0	30	0.5
Chisun Inn Niigata Chuo IC	1 (0)	100.0	30	0.5	1 (0)	100.0	30	0.5
Chisun Inn Nagasaki Airport	1 (0)	100.0	29	0.5	1 (0)	100.0	29	0.5
Chisun Inn Hitachinaka	1 (0)	100.0	31	0.6	1 (0)	100.0	30	0.5
Chisun Inn Tsuchiura Ami	1 (0)	100.0	29	0.5	1 (0)	100.0	28	0.5
Chisun Inn Kofu Isawa	1 (0)	100.0	29	0.5	1 (0)	100.0	28	0.5
Chisun Inn Marugame Zentsuji	1 (0)	100.0	29	0.5	1 (0)	100.0	29	0.5
Chisun Inn Munakata	1 (0)	100.0	24	0.4	1 (0)	100.0	26	0.5
Chisun Inn Iwate Ichinoseki IC	1 (1)	100.0	26	0.5	1 (1)	100.0	26	0.5
Chisun Inn Karuizawa	1 (0)	100.0	42	0.8	1 (0)	100.0	42	0.7
Chisun Inn Himeji Yumesakibashi	1 (0)	100.0	28	0.5	1 (0)	100.0	29	0.5
Chisun Inn Kurashiki Mizushima	1 (0)	100.0	33	0.6	1 (0)	100.0	33	0.6
Candeo Hotels Handa	1 (0)	100.0	26	0.5	1 (0)	100.0	26	0.5
Candeo Hotels Chino	1 (0)	100.0	32	0.6	1 (0)	100.0	32	0.6
Candeo Hotels Fukuyama	1 (0)	100.0	39	0.7	1 (0)	100.0	39	0.7
Candeo Hotels Sano	1 (0)	100.0	45	0.8	1 (0)	100.0	45	0.8
Candeo Hotels Kameyama	1 (0)	100.0	20	0.4	1 (0)	100.0	20	0.4
Comfort Hotel Hakodate	1 (0)	100.0	32	0.6	1 (0)	100.0	32	0.6
Comfort Hotel Tomakomai	1 (0)	100.0	33	0.6	1 (0)	100.0	33	0.6
Comfort Hotel Kure	1 (0)	100.0	37	0.7	1 (0)	100.0	37	0.6
Chisun Inn Kagoshima Taniyama	1 (1)	100.0	83	1.5	1 (1)	100.0	90	1.6
Total	56 (93)	100.0	5,540	100.0	56 (95)	100.0	5,802	100.0

(Note) “Number of tenants (subleasing)” refers to the total number of tenants, with the number of parties subleasing from the parties leasing the property from HRR shown in parentheses.

(4) Status of specified transaction contract amount and fair value

Category	Type of derivative transaction	Contract amount (thousands of yen) (Note 1)		Fair value (Note 2)
			Of which, due after one year	
OTC (over-the-counter)	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	21,388,000	18,888,000	–
Total		21,388,000	18,888,000	–

(Note 1) The contract amount for the interest rate swap transaction is based on the notional principal amount.

(Note 2) The fair value is omitted as the transaction satisfies the requirements for special accounting treatment based on the Accounting Standard for Financial Instruments.

(5) Status of other assets

The following is a summary of assets held by HRR other than those listed in the aforementioned “(3) Summary of portfolio properties,” as of October 31, 2018.

Name of securities	Number of shares (shares)	Acquisition price (thousands of yen)		Appraisal value (thousands of yen) (Note 1)		Loss (gain) on valuation of investment securities (thousands of yen)	Remarks	Share of investment (%) (Note 2)
		Unit price	Amount	Unit price	Amount			
Yomitan Hotel Management Co., Ltd. No. 1 Class B preferred shares	332	507	168,530	507	168,530	–	–	0.1
Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares	333	505	168,165	505	168,165	–	–	0.1

(Note 1) The “Appraisal value” states the acquisition price because the securities are unlisted securities. HRR and the Asset Management Company acquired the “Yomitan Hotel Management Co., Ltd. No. 1 through No. 3 Class B Preferred Shares Appraisal Report” dated November 6, 2018 (appraisal reference date of October 31, 2018), which had been prepared by Plutus Consulting Co., Ltd. HRR and the Asset Management Company then commissioned Grant Thornton Taiyo LLC to investigate the price concerning the appraisal value stated in the said report. The unit prices based on the intermediate value of the appraisal values of the aforementioned shares, which were calculated by HRR, based on the appraisal values stated in the said report, were 604 thousand yen per share of No. 1 Class B preferred shares, 576 thousand yen per share of No. 2 Class B preferred shares, and the total amounts of the appraisal values based on the respective unit prices were 200,619 thousand yen for the No. 1 Class B preferred shares and 191,965 thousand yen for the No. 2 Class B preferred shares.

(Note 2) The “Share of investment” states what percentage the acquisition price constitutes as a share of total assets. The percentage value is rounded to one decimal place.

(Note 3) The business activity of Yomitan Hotel Management Co., Ltd., as of the date of this document, is the development and operation of resorts. The same shall apply hereinafter.

With respect to the No. 3 Class B preferred shares (hereinafter, the “shares to be underwritten”), as of March 16, 2018, HRR has concluded an underwriting agreement pertaining to the shares to be underwritten (hereinafter, the “underwriting agreement”), with Yomitan Hotel Management Co., Ltd., the issuer of the shares to be underwritten. HRR treats the underwriting agreement as an agreement that falls under a forward commitment, etc. specified in the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” which has been established by the Financial Services Agency. For the underwriting agreement, each party shall compensate the counterparty for any damage, etc. thereto caused by or related to breach of duty under the underwriting agreement, but no provision for penalties has been stipulated. HRR is planning to allocate cash on hand upon underwriting the shares to be underwritten in accordance with the underwriting agreement.

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

[Shares to be underwritten]

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

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

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

(6) Status of asset holding by country and region

There is no portfolio overseas real estate outside Japan, as of October 31, 2018.

#### 4. Capital expenditures for properties held

##### (1) Future plan for capital expenditures

The following table summarizes the estimated amount of major capital expenditures for renovation scheduled in the fiscal period ending April 30, 2019 for properties held as of October 31, 2018. The estimated construction costs below include the amounts to be expensed for accounting purpose.

Name of property	Location	Purpose	Scheduled period	Estimated construction costs (millions of yen)		
				Total amount	Amount paid during the period	Total amount paid
KAI Ito	Ito-shi, Shizuoka	Large-scale renovation	From September 2018 to February 2019 (Note)	600	81	101
RISONARE Atami	Atami-shi, Shizuoka	Construction of additional guest rooms and renovation of guest rooms	From January 2019 to March 2019	220	3	3
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Renovation of guest rooms	From January 2019 to March 2019	95	5	5
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Renovation of guest rooms	From January 2019 to March 2019	50	–	–
ANA Crowne Plaza Kanazawa	Kanazawa-shi, Ishikawa	Renovation of guest rooms	From February 2019 to March 2019	36	–	–

(Note) Concerning the large-scale renovation of KAI Ito, although most of the construction work has been completed, the scheduled completion date has been prolonged till February 2019 due to delays in the delivery of some construction materials.

##### (2) Capital expenditures for the period

Of construction works falling under the category of capital expenditures conducted in the fiscal period under review for properties held as of October 31, 2018, the following are the major works conducted. The fiscal period under review's capital expenditures amounted to 782 million yen and repair expenses separately charged to expenses amounted to 86 million yen for a combined total of 868 million yen of construction work implemented.

Name of property	Location	Purpose	Period	Construction costs (millions of yen)
RISONARE Yatsugatake	Hokuto-shi, Yamanashi	Renovation of pool	From January 2018 to July 2018	128
ANA Crowne Plaza Hiroshima	Hiroshima-shi, Hiroshima	Upgrade of private branch exchange (PBX)	From May 2018 to September 2018	49
Hyatt Regency Osaka	Osaka-shi, Osaka	Renovation of club lounge	From May 2018 to July 2018	47

##### (3) Funds reserved for long-term repair plans

Not applicable.

## 5. Expenses and liabilities

### (1) Details of expenses relating to asset management, etc.

(Unit: thousands of yen)

Item	Previous fiscal period (From November 1, 2017 to April 30, 2018)	Current fiscal period (From May 1, 2018 to October 31, 2018)
Asset management fee	428,283	471,085
Asset custody fee	4,377	5,407
Administrative service fees	18,493	22,437
Directors' compensation	3,000	3,000
Audit fee	8,400	8,800
Other expenses	78,665	82,712
Total	541,220	593,443

## (2) Status of borrowings

The status of borrowings of HRR as of October 31, 2018 is as follows:

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Short-term loans payable	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation Development Bank of Japan Inc. Mizuho Bank, Ltd.	April 2, 2018	4,400	–	0.35369%	May 10, 2018	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal		4,400	–					
Long-term loans payable	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	2,288	–	1.92875%	July 16, 2018	(Note 4)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 16, 2013	1,208	1,188	2.45886%	July 16, 2020	(Note 5)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	May 2, 2014	300	300	1.52063%	May 2, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	May 2, 2014	885	871	1.99816%	April 30, 2021	(Note 6)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation The Ashikaga Bank, Ltd. The Shizuoka Bank, Ltd. The Bank of Fukuoka, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. The Hokuriku Bank, Ltd.	November 2, 2015	2,550	2,550	0.46909%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.	November 2, 2015	850	850	0.50000%	October 31, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	1,500	1,500	0.82080%	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	3,500	3,500	1.12193%	October 29, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	3,000	3,000	1.22788%	April 28, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 2, 2015	1,392	1,371	1.33575%	October 31, 2022	(Note 7)	(Note 3)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation	March 31, 2016	940	926	1.51809%	March 31, 2025	(Note 8)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc. The Hokuriku Bank, Ltd. The Bank of Fukuoka, Ltd. The Bank of Kyoto, Ltd.	May 2, 2016	900	900	0.50313%	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.	May 2, 2016	471	464	1.09313%	April 28, 2023	(Note 9)	(Note 3)	Unsecured/ Unguaranteed
	Development Bank of Japan Inc.	May 2, 2016	471	464	1.47689%	April 30, 2025	(Note 10)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd.	May 2, 2016	565	557	1.66686%	April 30, 2026	(Note 11)	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Sumitomo Mitsui Banking Corporation The Hokuriku Bank, Ltd. The Bank of Fukuoka, Ltd.	July 19, 2016	860	860	0.49695%	April 30, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
MUFG Bank, Ltd.	July 19, 2016	1,000	1,000	0.82289%	April 28, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed	

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Long-term loans payable	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Senshu Ikeda Bank, Ltd.	November 1, 2016	2,500	2,500	0.27850% (Note 2)	April 30, 2019	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Senshu Ikeda Bank, Ltd.	November 1, 2016	2,500	2,500	0.35600% (Note 2)	October 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Ashikaga Bank, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd.	November 1, 2016	2,000	2,000	0.54888%	April 30, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.76832%	October 31, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.85244%	April 28, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	November 1, 2016	2,500	2,500	0.93702%	October 31, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd.	May 2, 2017	700	700	0.51900% (Note 2)	May 2, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd. The Senshu Ikeda Bank, Ltd.	November 1, 2017	2,500	2,500	0.2950% (Note 2)	April 30, 2020	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd. Mizuho Bank, Ltd.	November 1, 2017	2,000	2,000	0.4295% (Note 2)	April 28, 2022	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited The Bank of Fukuoka, Ltd. Mizuho Bank, Ltd.	November 1, 2017	2,500	2,500	0.6250% (Note 2)	October 31, 2023	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed

Category	Lender	Drawdown date	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (Note 1)	Repayment due date	Repayment method	Use	Remarks
Long-term loans payable	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation Resona Bank, Limited	November 1, 2017	3,000	3,000	0.8300% (Note 2)	April 30, 2025	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	The Ashikaga Bank, Ltd. The Bank of Fukuoka, Ltd. The Hokuriku Bank, Ltd. The Yamaguchi Bank, Ltd. The Bank of Kyoto, Ltd.	April 27, 2018	600	600	0.3775% (Note 2)	October 29, 2021	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Sumitomo Mitsui Banking Corporation MUFG Bank, Ltd. Development Bank of Japan Inc. Mizuho Bank, Ltd.	April 27, 2018	2,800	2,800	0.6625% (Note 2)	April 30, 2024	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	MUFG Bank, Ltd. Development Bank of Japan Inc. Sumitomo Mitsui Banking Corporation	July 17, 2018	–	2,288	1.03900% (Note 2)	April 30, 2027	Lump-sum repayment	(Note 3)	Unsecured/ Unguaranteed
	Subtotal		51,283	51,190					
	Total		55,683	51,190					

(Note 1) Average interest rates on floating rate borrowings are the weighted average rate during the period.

(Note 2) HRR concludes interest rate swap agreements to hedge against the risk of interest rate increase. The interest rates presented for loans subject to interest rate swap transactions take into account the effect of the interest rate swap.

(Note 3) All borrowings were used as funds for acquiring real estate, paying its related costs, and repayment of loans.

(Note 4) Repayment of 32,500 thousand yen shall be due firstly on October 31, 2013 (total payment on first payment was 19,234 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 2,288,266 thousand yen shall be due in lump sum on the final repayment due date.

(Note 5) Repayment of 20,001 thousand yen shall be due firstly on October 31, 2013 (total payment on first payment was 11,838 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 1,128,149 thousand yen shall be due in lump sum on the final repayment due date.

(Note 6) Repayment of 14,287 thousand yen shall be due firstly on October 31, 2014 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 814,269 thousand yen shall be due in lump sum on the final repayment due date.

(Note 7) Repayment of 21,430 thousand yen shall be due firstly on April 28, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 1,221,410 thousand yen shall be due in lump sum on the final repayment due date.

(Note 8) Repayment of 14,286 thousand yen shall be due firstly on April 28, 2016 (total payment on first payment was 2,427 thousand yen) and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 754,711 thousand yen shall be due in lump sum on the final repayment due date.

(Note 9) Repayment of 7,143 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 407,141 thousand yen shall be due in lump sum on the final repayment due date.

(Note 10) Repayment of 7,143 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 378,569 thousand yen shall be due in lump sum on the final repayment due date.

(Note 11) Repayment of 8,572 thousand yen shall be due firstly on October 31, 2016 and subsequently on the last day of April and October of every year thereafter (If the concerned date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the concerned date.), and repayment of the remaining principal amount of 437,132 thousand yen shall be due in lump sum on the final repayment due date.



(3) Investment corporation bonds

The status of investment corporation bonds issued as of October 31, 2018 is as follows:

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

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

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

(4) Short-term investment corporation bonds

Not applicable.

(5) Subscription rights to new investment units

Not applicable.

## 6. Acquisitions and sales

- (1) Status of acquisitions and sales of real estate, asset-backed securities, infrastructure assets and infrastructure-related assets

Not applicable.

- (2) Status of acquisitions and sales of other assets

Asset type	Name of assets	Purchase		Sale		Balance at end of period	
		Number of shares	Amount (millions of yen) (Note)	Number of shares	Amount (millions of yen) (Note)	Number of shares	Amount (millions of yen) (Note)
Shares	Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares	333	166	–	–	333	166

(Note) “Amount” indicates the underwriting price based on the paid-in amount per share described in the underwriting agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions), rounded down to the nearest million yen.

- (3) Appraisal values of specified assets

- i) Real estate

Not applicable.

- ii) Other

For the transactions performed by HRR that require a price survey, etc. pursuant to Article 201 of the Investment Trusts Act, other than transactions stated in “i) Real estate” above, the surveys have been contracted out to Grant Thornton Taiyo LLC.

HRR has received survey reports from Grant Thornton Taiyo LLC for one interest rate swap transaction that was subject to surveys during the subject period from May 1, 2018 to October 31, 2018.

Furthermore, with regard to the surveys for the interest rate swap transactions, HRR has contracted surveys of the counterparty’s names, agreed figures, transaction periods, and other details of the interest rate swap transactions.

In addition, HRR has received survey reports from Grant Thornton Taiyo LLC for one transaction of Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares that was subject to surveys during the subject period from May 1, 2018 to October 31, 2018.

With regard to the aforementioned survey, HRR entrusted surveys of the parties acquiring Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares, the name of the securities, the number of shares in the transaction, the transaction price, and other details of the Yomitan Hotel Management Co., Ltd. No. 2 Class B preferred shares.

- (4) Transactions with interested parties

- i) Purchase and sale transactions with interested parties

Not applicable.

ii) Leasing to interested parties

Name of lessee	Name of property	Annual rent (millions of yen) (Note)
Hoshino Resorts Inc.	HOSHINOYA Karuizawa	630
	HOSHINOYA Fuji	284
	KAI Kinugawa	204
K.K. Horizon Hotels	RISONARE Yatsugatake	525
	RISONARE Atami	313
	ANA Crowne Plaza Hiroshima	606
	ANA Crowne Plaza Fukuoka	288
	ANA Crowne Plaza Kanazawa	546
	ANA Crowne Plaza Toyama	240
K.K. Arashiyama Onsen Rankyokan	HOSHINOYA Kyoto	203
	KAI Kaga	206
Hoshino Resort Management Co., Ltd.	HOSHINOYA Taketomi Island	336
	KAI Matsumoto	75
	KAI Izumo	75
	KAI Ito	80
	KAI Hakone	95
	KAI Aso	42
	KAI Kawaji	99
Asahikawa Grand Hotel Co., Ltd.	OMO7 Asahikawa	364
HRO Inc.	Hyatt Regency Osaka	776
KK Ishin MinatoAkasaka Operations	the b akasaka	135
KK Ishin Sangenjaya Operations	the b sangenjaya	117
KK Ishin NagoyaSakae Operations	the b nagoya	99
KK Ishin KobeSannomiya Operations	the b kobe	180
Osaka Hotel Management LLC	hotel androoms Osaka Hommachi	220

(Note) In the lease agreements with each lessee above for the properties above, in principle the rent comprises fixed rent and floating rent (however, for Hyatt Regency Osaka it comprises only floating rent). Except for Hyatt Regency Osaka, the entry under "Annual rent" is the amount obtained when the fixed rent (monthly amount) provided in the lease agreement on the building is annualized by multiplying by 12. However, with the agreement reached for each of RISONARE Atami and KAI Kinugawa to have a premium for a limited period from November 2, 2015 to October 31, 2018, KAI Kaga to have a premium for a limited period from May 2, 2016 to April 30, 2019, OMO7 Asahikawa to have a premium for a limited period from March 31, 2016 to October 31, 2019, HOSHINOYA Fuji to have a premium for a limited period from May 1, 2017 to April 30, 2020, HOSHINOYA Taketomi Island to have a premium for a limited period from November 1, 2017 to October 31, 2020 and hotel androoms Osaka Hommachi to have a premium for a limited period from April 2, 2018 to October 31, 2018, the annualized fixed rent is calculated based on the rent with the premium mentioned above, as of October 31, 2018. Fixed rent after the lapse of the premium period shall be less than the amount stated in the table above. As of October 31, 2018, KAI Ito was in the process of undergoing large-scale renovation work. In order to avoid the impact of reduced net sales due to the renovation work, it was agreed that a premium be added to the fixed rent portion when the said renovation work period was included in the calculation period for the floating rent. However, as the fixed rent as of October 31, 2018 is not subject to such premium, the calculation is made based on the rent amount before the premium. Furthermore, in the event that sales or profit of hotels, ryokans and ancillary facilities is below a certain amount, floating rent shall not apply. In addition, the lease agreement with each lessee above provides that the initial date of reckoning floating rent for RISONARE Atami, KAI Kinugawa and hotel androoms Osaka Hommachi is November 1, 2018 (12th fiscal period), KAI Kaga is May 1, 2019 (13th fiscal period), OMO7 Asahikawa is November 1, 2019 (14th fiscal period), HOSHINOYA Fuji is May 1, 2020 (15th fiscal period), and HOSHINOYA Taketomi Island is November 1, 2020 (16th fiscal period). Accordingly, floating rent shall not apply to the period before the concerned date, regardless of the amount of sales or profit of hotels, ryokans and ancillary facilities. For Hyatt Regency Osaka, the annual rent presented is the amount of floating rent calculated for October 2018 in accordance with the lease agreement annualized by multiplying by 12. Accordingly, the above calculated amounts may not be equivalent to the actual annual rent for each property. The same shall apply hereinafter.

iii) Leasing from interested parties

Name of lessor	Name of property	Monthly rent (yen)
Hoshino Resorts Inc.	HOSHINOYA Karuizawa (Note)	1,060,089
K.K. Horizon Hotels	HOSHINOYA Fuji (Note)	1,151,916
Hoshino Resort Management Co., Ltd.	HOSHINOYA Taketomi Island (main wing) (Note)	1,050,000
Bandai Resort Development Co., Ltd.	HOSHINOYA Taketomi Island (annex) (Note)	2,839

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

iv) Amount of other fees paid

Not applicable.

(5) Transactions with Asset Management Company pertaining to its business other than asset management

Not applicable.

**7. Financial information**

(1) Status of i) assets, ii) liabilities, iii) principal, and iv) profit and loss

Please refer to the “II. Balance Sheets,” “III. Statements of Income,” “IV. Statements of Changes in Net Assets,” “V. Notes to Financial Statements” and “VI. Statements of Cash Distributions” presented later in this report.

(2) Change in the calculation method of depreciation

Not applicable.

(3) Change in the valuation method of real estate and infrastructure assets

Not applicable.

**8. Beneficiary certificates of investment trusts established by HRR**

Not applicable.

**9. Disclosure regarding investments in real estate holding companies in foreign countries**

Not applicable.

**10. Disclosure regarding properties held by above mentioned real estate holding companies in foreign countries**

Not applicable.

## **11. Other**

### (1) Notice

Not applicable.

### (2) Treatment of fractions in amounts and ratios

Unless otherwise stated, monetary amounts have been rounded down and ratios have been rounded to the nearest specified unit in this report.

## II. Balance Sheets

(Unit: thousands of yen)

	10th fiscal period (Reference) (As of April 30, 2018)	11th fiscal period (As of October 31, 2018)
Assets		
Current assets		
Cash and deposits	10,055,273	11,186,021
Operating accounts receivable	46,889	62,047
Prepaid expenses	248,394	257,253
Consumption taxes receivable	387,420	–
Deferred tax assets	13	–
Other	125,678	80,163
Total current assets	10,863,669	11,585,485
Non-current assets		
Property, plant and equipment		
Buildings	76,574,949	77,218,420
Accumulated depreciation	(5,520,383)	(6,566,156)
Buildings, net	71,054,566	70,652,263
Structures	3,113,034	3,138,398
Accumulated depreciation	(173,430)	(214,539)
Structures, net	2,939,603	2,923,858
Machinery and equipment	83,801	83,801
Accumulated depreciation	(34,968)	(38,586)
Machinery and equipment, net	48,832	45,214
Tools, furniture and fixtures	764,845	879,227
Accumulated depreciation	(314,929)	(387,806)
Tools, furniture and fixtures, net	449,916	491,420
Land	73,134,835	73,134,835
Construction in progress	72,766	128,407
Total property, plant and equipment	147,700,519	147,376,000
Intangible assets		
Leasehold right	3,478,907	3,478,907
Software	34,086	27,777
Total intangible assets	3,512,994	3,506,685
Investments and other assets		
Investment securities	168,530	336,695
Long-term prepaid expenses	563,675	515,382
Deferred tax assets	–	15
Guarantee deposits	10,000	10,000
Other	364,906	365,006
Total investments and other assets	1,107,112	1,227,099
Total non-current assets	152,320,626	152,109,786
Deferred assets		
Investment corporation bond issuance costs	10,218	9,470
Total deferred assets	10,218	9,470
Total assets	163,194,514	163,704,742

## Balance Sheets

(Unit: thousands of yen)

	10th fiscal period (Reference) (As of April 30, 2018)	11th fiscal period (As of October 31, 2018)
<b>Liabilities</b>		
Current liabilities		
Operating accounts payable	366,635	248,852
Short-term loans payable	4,400,000	–
Current portion of long-term loans payable	4,973,990	6,385,724
Accounts payable - other	768,104	764,336
Income taxes payable	868	918
Accrued consumption taxes	–	317,384
Accrued expenses	6,659	5,424
Advances received	982,055	969,726
Total current liabilities	11,498,312	8,692,367
Non-current liabilities		
Long-term loans payable	46,309,980	44,805,118
Investment corporation bonds	1,500,000	1,500,000
Tenant leasehold and security deposits	3,131,900	3,130,204
Total non-current liabilities	50,941,880	49,435,322
Total liabilities	62,440,193	58,127,689
<b>Net assets</b>		
Unitholders' equity		
Unitholders' capital	98,129,521	102,737,981
Surplus		
Unappropriated retained earnings (undisposed loss)	2,624,798	2,839,071
Total surplus	2,624,798	2,839,071
Total unitholders' equity	100,754,320	105,577,052
Total net assets	*2 100,754,320	*2 105,577,052
Total liabilities and net assets	163,194,514	163,704,742

### III. Statements of Income

(Unit: thousands of yen)

	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)		11th fiscal period (From May 1, 2018 to October 31, 2018)	
Operating revenue				
Lease business revenue	*1	5,540,061	*1	5,802,597
Total operating revenue		5,540,061		5,802,597
Operating expenses				
Expenses related to rent business	*1	1,924,110	*1	1,999,269
Asset management fee		428,283		471,085
Asset custody fee		4,377		5,407
Administrative service fees		18,493		22,437
Directors' compensations		3,000		3,000
Audit fee		8,400		8,800
Other operating expenses		78,665		82,712
Total operating expenses		2,465,330		2,592,713
Operating profit		3,074,730		3,209,884
Non-operating income				
Interest income		43		51
Insurance income		302		8,309
Interest on refund		24		-
Miscellaneous income		996		936
Total non-operating income		1,367		9,297
Non-operating expenses				
Interest expenses		220,917		218,291
Interest expenses on investment corporation bonds		1,609		4,758
Amortization of investment corporation bond issuance costs		249		747
Borrowing related expenses		176,896		119,057
Investment unit issuance expenses		50,796		36,357
Other		13		11
Total non-operating expenses		450,482		379,224
Ordinary profit		2,625,615		2,839,957
Profit before income taxes		2,625,615		2,839,957
Income taxes - current		874		926
Income taxes - deferred		0		(2)
Total income taxes		875		923
Profit		2,624,739		2,839,034
Retained earnings brought forward		59		37
Unappropriated retained earnings (undisposed loss)		2,624,798		2,839,071



#### IV. Statements of Changes in Net Assets

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

(Unit: thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of period	77,532,045	2,064,501	2,064,501	79,596,547	79,596,547
Changes of items during period					
Issuance of new investment units	20,597,476	–	–	20,597,476	20,597,476
Dividends of surplus	–	(2,064,442)	(2,064,442)	(2,064,442)	(2,064,442)
Profit	–	2,624,739	2,624,739	2,624,739	2,624,739
Total changes of items during period	20,597,476	560,297	560,297	21,157,773	21,157,773
Balance at end of period	*1 98,129,521	2,624,798	2,624,798	100,754,320	100,754,320

11th fiscal period (from May 1, 2018 to October 31, 2018)

(Unit: thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Total unitholders' equity	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of period	98,129,521	2,624,798	2,624,798	100,754,320	100,754,320
Changes of items during period					
Issuance of new investment units	4,608,459	–	–	4,608,459	4,608,459
Dividends of surplus	–	(2,624,761)	(2,624,761)	(2,624,761)	(2,624,761)
Profit	–	2,839,034	2,839,034	2,839,034	2,839,034
Total changes of items during period	4,608,459	214,272	214,272	4,822,731	4,822,731
Balance at end of period	*1 102,737,981	2,839,071	2,839,071	105,577,052	105,577,052

**V. Notes to Financial Statements**  
**Summary of significant accounting policies**

Item	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
1. Valuation bases and methods of securities	Securities  Other securities (available-for-sale securities) Non-marketable securities Stated at cost based on the moving-average method.	Securities  Other securities (available-for-sale securities) Non-marketable securities Stated at cost based on the moving-average method.
2. Method of depreciation and amortization of non-current assets	i) Property, plant and equipment Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows: Buildings 3–57 years Structures 3–60 years Machinery and equipment 6–15 years Tools, furniture and fixtures 2–20 years  ii) Intangible assets Amortization is calculated using the straight-line method. The useful lives are as follows: Intangible assets 2–5 years  iii) Long-term prepaid expenses Amortization is calculated using the straight-line method.	i) Property, plant and equipment Depreciation is calculated using the straight-line method. The useful lives of principal property, plant and equipment are as follows: Buildings 3–57 years Structures 3–60 years Machinery and equipment 6–15 years Tools, furniture and fixtures 2–20 years  ii) Intangible assets Amortization is calculated using the straight-line method. The useful lives are as follows: Intangible assets 2–5 years  iii) Long-term prepaid expenses Amortization is calculated using the straight-line method.
3. Accounting for deferred assets	Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized over remaining life of the bonds using the straight-line method.	Investment corporation bond issuance costs Investment corporation bond issuance costs are amortized over remaining life of the bonds using the straight-line method.
4. Standards for revenue and expense recognition	Accounting for property-related taxes With respect to property tax, city planning tax, depreciable asset tax, etc. on real estate etc. held, of the tax amount assessed and determined, the amount corresponding to the relevant accounting period is accounted as expenses related to rent business. Furthermore, the amount equivalent to property-related taxes in the fiscal year in which the acquisition date falls that is paid to the seller as reimbursement upon acquisition of real estate is not recognized as expenses but included in the cost of acquisition of the concerned real estate.	Accounting for property-related taxes With respect to property tax, city planning tax, depreciable asset tax, etc. on real estate etc. held, of the tax amount assessed and determined, the amount corresponding to the relevant accounting period is accounted as expenses related to rent business. Furthermore, the amount equivalent to property-related taxes in the fiscal year in which the acquisition date falls that is paid to the seller as reimbursement upon acquisition of real estate is not recognized as expenses but included in the cost of acquisition of the concerned real estate.

Item	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
5. Hedge accounting method	<p>i) Hedge accounting method The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items Hedging instrument    Interest rate swap transaction  Hedged item            Interest on loans</p> <p>iii) Hedging policies HRR conducts interest rate swap transactions to hedge risks stipulated in the Articles of Incorporation of HRR pursuant to the financing policy.</p> <p>iv) Evaluation method for hedge effectiveness Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>	<p>i) Hedge accounting method The special accounting treatment is applied for interest rate swaps.</p> <p>ii) Hedging instruments and hedged items Hedging instrument    Interest rate swap transaction  Hedged item            Interest on loans</p> <p>iii) Hedging policies HRR conducts interest rate swap transactions to hedge risks stipulated in the Articles of Incorporation of HRR pursuant to the financing policy.</p> <p>iv) Evaluation method for hedge effectiveness Evaluation of the effectiveness of hedges is omitted as interest rate swaps meet the requirements for special accounting treatment.</p>
6. Other significant matters serving as the basis for preparation of financial statements	<p>Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>	<p>Accounting for consumption taxes Consumption tax and local consumption tax are excluded from the corresponding transaction amounts.</p>

#### Notes on Changes in Presentation Methods

10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
-	HRR has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal period ended October 31, 2018. Accordingly, as a result of changes in the presentation methods, deferred tax assets are presented under “Investments and other assets” and deferred tax liabilities are presented under “Non-current liabilities.”

## Notes to Balance Sheets

(Unit: thousands of yen)

Item	10th fiscal period (Reference) (As of April 30, 2018)	11th fiscal period (As of October 31, 2018)
1. Commitment line contracts	HRR has concluded commitment line contracts with four counterparty financial institutions. Total amount of committed line of credit 5,000,000 Balance executed as loans – Balance of unused committed line of credit 5,000,000	HRR has concluded commitment line contracts with four counterparty financial institutions. Total amount of committed line of credit 5,000,000 Balance executed as loans – Balance of unused committed line of credit 5,000,000
*2. Minimum net assets as required by Article 67, Paragraph 4 of the Investment Trusts Act	50,000	50,000

## Notes to Statements of Income

10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
*1. Components of operating profit (loss) from real estate leasing (Unit: thousands of yen)	*1. Components of operating profit (loss) from real estate leasing (Unit: thousands of yen)
A. Operating revenue from real estate leasing Lease business revenue Lease business revenue 5,540,061 Total operating revenue from real estate leasing 5,540,061	A. Operating revenue from real estate leasing Lease business revenue Lease business revenue 5,802,597 Total operating revenue from real estate leasing 5,802,597
B. Operating expenses from real estate leasing Expenses related to rent business Insurance expenses 19,707 Repair expenses 79,177 Land rent 59,387 Depreciation 1,141,661 Loss on retirement of non-current assets 203 Taxes and dues 406,864 Other expenses 217,108 Total operating expenses from real estate leasing 1,924,110	B. Operating expenses from real estate leasing Expenses related to rent business Insurance expenses 19,824 Repair expenses 86,837 Land rent 60,197 Depreciation 1,169,038 Loss on retirement of non-current assets 314 Taxes and dues 452,087 Other expenses 210,969 Total operating expenses from real estate leasing 1,999,269
C. Operating profit (loss) from real estate leasing [A – B] 3,615,951	C. Operating profit (loss) from real estate leasing [A – B] 3,803,328

## Notes to Statements of Changes in Net Assets

10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
*1. Total number of investment units authorized and total number of investment units issued and outstanding	*1. Total number of investment units authorized and total number of investment units issued and outstanding
Total number of investment units authorized 2,000,000 units	Total number of investment units authorized 2,000,000 units
Total number of investment units issued and outstanding 212,738 units	Total number of investment units issued and outstanding 221,862 units

## Tax-effect accounting

10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)																				
<p>1. Breakdown of deferred tax assets and deferred tax liabilities by major causes</p> <p style="text-align: right;">(Unit: thousands of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Deferred tax assets</td> <td style="width: 20%;"></td> </tr> <tr> <td>Enterprise tax payable excluded from deductible expenses</td> <td style="text-align: right;">13</td> </tr> <tr> <td><b>Total deferred tax assets</b></td> <td style="text-align: right; border-top: 1px solid black;"><b>13</b></td> </tr> <tr> <td>Net deferred tax assets</td> <td style="text-align: right;">13</td> </tr> </table>	Deferred tax assets		Enterprise tax payable excluded from deductible expenses	13	<b>Total deferred tax assets</b>	<b>13</b>	Net deferred tax assets	13	<p>1. Breakdown of deferred tax assets and deferred tax liabilities by major causes</p> <p style="text-align: right;">(Unit: thousands of yen)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Deferred tax assets</td> <td style="width: 20%;"></td> </tr> <tr> <td>Enterprise tax payable excluded from deductible expenses</td> <td style="text-align: right;">15</td> </tr> <tr> <td><b>Total deferred tax assets</b></td> <td style="text-align: right; border-top: 1px solid black;"><b>15</b></td> </tr> <tr> <td>Net deferred tax assets</td> <td style="text-align: right;">15</td> </tr> </table>	Deferred tax assets		Enterprise tax payable excluded from deductible expenses	15	<b>Total deferred tax assets</b>	<b>15</b>	Net deferred tax assets	15				
Deferred tax assets																					
Enterprise tax payable excluded from deductible expenses	13																				
<b>Total deferred tax assets</b>	<b>13</b>																				
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Deferred tax assets																					
Enterprise tax payable excluded from deductible expenses	15																				
<b>Total deferred tax assets</b>	<b>15</b>																				
Net deferred tax assets	15																				
<p>2. Breakdown by major items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax-effect accounting</p> <p style="text-align: right;">(Unit: %)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Statutory tax rate</td> <td style="width: 20%; text-align: right;">31.74</td> </tr> <tr> <td>[Adjustments]</td> <td></td> </tr> <tr> <td>Distributions deductible for tax purposes</td> <td style="text-align: right;">(31.73)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">0.02</td> </tr> <tr> <td><b>Effective income tax rate after application of tax-effect accounting</b></td> <td style="text-align: right; border-top: 1px solid black;"><b>0.03</b></td> </tr> </table>	Statutory tax rate	31.74	[Adjustments]		Distributions deductible for tax purposes	(31.73)	Other	0.02	<b>Effective income tax rate after application of tax-effect accounting</b>	<b>0.03</b>	<p>2. Breakdown by major items that caused significant differences between the statutory tax rate and the effective income tax rate after application of tax-effect accounting</p> <p style="text-align: right;">(Unit: %)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Statutory tax rate</td> <td style="width: 20%; text-align: right;">31.51</td> </tr> <tr> <td>[Adjustments]</td> <td></td> </tr> <tr> <td>Distributions deductible for tax purposes</td> <td style="text-align: right;">(31.50)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">0.02</td> </tr> <tr> <td><b>Effective income tax rate after application of tax-effect accounting</b></td> <td style="text-align: right; border-top: 1px solid black;"><b>0.03</b></td> </tr> </table>	Statutory tax rate	31.51	[Adjustments]		Distributions deductible for tax purposes	(31.50)	Other	0.02	<b>Effective income tax rate after application of tax-effect accounting</b>	<b>0.03</b>
Statutory tax rate	31.74																				
[Adjustments]																					
Distributions deductible for tax purposes	(31.73)																				
Other	0.02																				
<b>Effective income tax rate after application of tax-effect accounting</b>	<b>0.03</b>																				
Statutory tax rate	31.51																				
[Adjustments]																					
Distributions deductible for tax purposes	(31.50)																				
Other	0.02																				
<b>Effective income tax rate after application of tax-effect accounting</b>	<b>0.03</b>																				

## Financial instruments

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

### (1) Status of financial instruments

#### i) Policy for financial instruments

HRR procures funds for acquisition of new assets mainly through issuance of new investment units, loans from financial institutions and issuance of investment corporation bonds.

HRR enters into derivative transactions solely for the purpose of hedging the risk of fluctuations in interest rates on loans and other risks.

#### ii) Description of financial instruments and associated risks and of risk management system

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

In addition, loans with floating interest rates are exposed to the risk of rising interest rates, but HRR mitigates such risk by maintaining the LTV (ratio of interest-bearing liabilities to total assets) at a low level and maintaining the ratio of long-term and fixed-rate loans at a high level. Moreover, derivative transactions (interest rate swap transactions, etc.) are executed as hedging instruments in order to mitigate the risk of rising interest rates and stabilize its financial costs.

Deposits, which are used for investment of HRR's surplus funds, are exposed to credit risk, such as bankruptcy of the depository financial institution, but HRR exercises prudence by limiting the deposit period to short term, taking into consideration security and liquidity and fully taking into account the market environment and status of cash flows.

iii) Supplementary explanation concerning fair values of financial instruments

The fair value of financial instruments is based on the quoted market price, if available. When there is no available quoted market price, the fair value is reasonably estimated. Certain assumptions are used for the estimation of fair value. Accordingly, the result of such estimation may change if different assumptions are adopted.

(2) Fair values of financial instruments

Carrying amounts, fair values and the difference between the values as of April 30, 2018 are as follows:

(Unit: thousands of yen)

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

(Note 1) Liabilities are shown in parentheses.

(Note 2) Method of calculation of the fair value of financial instruments and matters related to derivative transactions

(1) Cash and deposits; (2) Short-term loans payable

Because these are settled in a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(3) Current portion of long-term loans payable; (4) Long-term loans payable

With respect to long-term loans payable, because those with floating interest rates reflect market interest rates in a short period of time, the fair value is deemed to resemble the book value and is thus stated at that book value. In the case of those with fixed interest rates, the fair value is measured by discounting the total principal and interest amount at the current rates that are reasonably estimated to be applicable if HRR enters into new similar loans. The fair value of the interest rate swap to which special accounting treatment has been applied is included in the fair value of long-term loans payable, which is the hedged item.

(5) Investment corporation bonds

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

(6) Derivative transactions

(i) Derivative transactions to which hedge accounting has not been applied

Not applicable.

(ii) Derivative transactions to which hedge accounting has been applied

Contract amount or nominal principal amount defined in the contract as of the closing date for each hedge accounting method is as follows:

(Unit: thousands of yen)

Hedge accounting method	Type of derivative transaction	Major hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, due after one year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	Long-term loans payable	19,100,000	16,600,000	(Note)	–

(Note) Interest rate swaps to which special accounting treatment is applied are accounted for as an integral part of long-term loans payable, which is the hedged item. Therefore, their fair value is included in the fair value of “(3) Current portion of long-term loans payable; (4) Long-term loans payable.”

(Note 3) Financial instruments for which the fair value is difficult to estimate

Tenant leasehold and security deposits are not subject to valuation at fair value, because a reasonable estimation of cash flows is recognized to be extremely difficult due to there being no market price and the

difficulty of calculating the actual deposit period from when lessees move in to when they move out. Investment securities are not subject to valuation at fair value, because discerning the fair value is extremely difficult due to there being no market price and being impossible to reasonably estimate their cash flows. The carrying amount of tenant leasehold and security deposits is as follows:

(Unit: thousands of yen)

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

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

(Unit: thousands of yen)

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

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

(Unit: thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Short-term loans payable	4,400,000	-	-	-	-	-
Long-term loans payable	4,973,990	8,785,724	7,433,853	9,217,148	8,395,696	12,477,559
Investment corporation bonds	-	-	-	-	-	1,500,000

11th fiscal period (from May 1, 2018 to October 31, 2018)

(1) Status of financial instruments

i) Policy for financial instruments

HRR procures funds for acquisition of new assets mainly through issuance of new investment units, loans from financial institutions and issuance of investment corporation bonds.

HRR enters into derivative transactions solely for the purpose of hedging the risk of fluctuations in interest rates on loans and other risks.

ii) Description of financial instruments and associated risks and of risk management system

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

In addition, loans with floating interest rates are exposed to the risk of rising interest rates, but HRR mitigates such risk by maintaining the LTV (ratio of interest-bearing liabilities to total assets) at a low level and maintaining the ratio of long-term and fixed-rate loans at a high level. Moreover, derivative transactions (interest rate swap transactions, etc.) are executed as hedging instruments in order to mitigate the risk of rising interest rates and stabilize its financial costs.

Deposits, which are used for investment of HRR's surplus funds, are exposed to credit risk, such as bankruptcy of the depository financial institution, but HRR exercises prudence by limiting the deposit period to short term, taking into consideration security and liquidity and fully taking into account the market environment and status of cash flows.

iii) Supplementary explanation concerning fair values of financial instruments

The fair value of financial instruments is based on the quoted market price, if available. When there is no available quoted market price, the fair value is reasonably estimated. Certain assumptions are used for the

estimation of fair value. Accordingly, the result of such estimation may change if different assumptions are adopted.

(2) Fair values of financial instruments

Carrying amounts, fair values and the difference between the values as of October 31, 2018 are as follows:

(Unit: thousands of yen)

	Carrying amount (Note 1)	Fair value (Note 1) (Note 2)	Difference
(1) Cash and deposits	11,186,021	11,186,021	–
(2) Current portion of long-term loans payable	(6,385,724)	(6,384,182)	(1,541)
(3) Long-term loans payable	(44,805,118)	(44,836,530)	31,412
(4) Investment corporation bonds	(1,500,000)	(1,497,300)	(2,700)
(5) Derivative transactions	–	–	–

(Note 1) Liabilities are shown in parentheses.

(Note 2) Method of calculation of the fair value of financial instruments and matters related to derivative transactions

(1) Cash and deposits

Because these are settled in a short period of time, the fair value is approximately the same as the book value and is thus stated at that book value.

(2) Current portion of long-term loans payable; (3) Long-term loans payable

With respect to long-term loans payable, because those with floating interest rates reflect market interest rates in a short period of time, the fair value is deemed to resemble the book value and is thus stated at that book value. In the case of those with fixed interest rates, the fair value is measured by discounting the total principal and interest amount at the current rates that are reasonably estimated to be applicable if HRR enters into new similar loans. The fair value of the interest rate swap to which special accounting treatment has been applied is included in the fair value of long-term loans payable, which is the hedged item.

(4) Investment corporation bonds

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

(5) Derivative transactions

(i) Derivative transactions to which hedge accounting has not been applied

Not applicable.

(ii) Derivative transactions to which hedge accounting has been applied

Contract amount or nominal principal amount defined in the contract as of the closing date for each hedge accounting method is as follows:

(Unit: thousands of yen)

Hedge accounting method	Type of derivative transaction	Major hedged item	Contract amount		Fair value	Calculation method of fair value
				Of which, due after one year		
Special accounting treatment for interest rate swaps	Interest rate swap transaction Receipt: floating interest rate Payment: fixed interest rate	Long-term loans payable	21,388,000	18,888,000	(Note)	–

(Note) Interest rate swaps to which special accounting treatment is applied are accounted for as an integral part of long-term loans payable, which is the hedged item. Therefore, their fair value is included in the fair value of “(2) Current portion of long-term loans payable; (3) Long-term loans payable.”

(Note 3) Financial instruments for which the fair value is difficult to estimate

Tenant leasehold and security deposits are not subject to valuation at fair value, because a reasonable estimation of cash flows is recognized to be extremely difficult due to there being no market price and the difficulty of calculating the actual deposit period from when lessees move in to when they move out. Investment securities are not subject to valuation at fair value, because there is no market price and it is impossible to reasonably estimate their cash flows. The carrying amount of tenant leasehold and security deposits is as follows:



(Unit: thousands of yen)

Carrying amount	
Tenant leasehold and security deposits	3,130,204
Investment securities	336,695

(Note 4) Redemption schedule for monetary claims after the closing date (October 31, 2018)

(Unit: thousands of yen)

Due within one year	
Cash and deposits	11,186,021

(Note 5) Redemption schedule for loans payable and investment corporation bonds after the closing date (October 31, 2018)

(Unit: thousands of yen)

	Due within one year	Due after one to two years	Due after two to three years	Due after three to four years	Due after four to five years	Due after five years
Long-term loans payable	6,385,724	8,693,872	7,891,417	9,517,128	8,967,143	9,735,558
Investment corporation bonds	—	—	—	—	—	1,500,000

## Investment and rental properties

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

HRR owns rental properties for hotels and ryokans in Nagano Prefecture and other areas. The following table summarized the carrying amount, including the change during the period, and the fair value of these rental properties.

(Unit: thousands of yen)

Carrying amount			Fair value at end of period
Balance at beginning of period	Change during period	Balance at end of period	
116,621,246	34,035,498	150,656,745	168,297,000

(Note 1) “Carrying amount” is the book value at acquisition cost less accumulated depreciation.

(Note 2) The change during the period primarily consisted of the increase due to acquisition of seven properties including HOSHINOYA Taketomi Island (33,783,877 thousand yen in total) and the decrease due to depreciation (1,066,709 thousand yen in total).

(Note 3) “Fair value at end of period” is the appraisal or survey values provided by an independent real estate appraiser.

The operating profit and expenses from investment and rental properties for the fiscal period ended April 30, 2018 are presented in “Notes to Statements of Income.”

11th fiscal period (from May 1, 2018 to October 31, 2018)

HRR owns rental properties for hotels and ryokans in Nagano Prefecture and other areas. The following table summarized the carrying amount, including the change during the period, and the fair value of these rental properties.

(Unit: thousands of yen)

Carrying amount			Fair value at end of period
Balance at beginning of period	Change during period	Balance at end of period	
150,656,745	(421,665)	150,235,080	169,060,000

(Note 1) “Carrying amount” is the book value at acquisition cost less accumulated depreciation.

(Note 2) The change during the period primarily consisted of the increase due to capital expenditures (667,696 thousand yen in total) and the decrease due to depreciation (1,090,526 thousand yen in total).

(Note 3) “Fair value at end of period” is the appraisal or survey values provided by an independent real estate appraiser.

The operating profit and expenses from investment and rental properties for the fiscal period ended October 31, 2018 are presented in “Notes to Statements of Income.”

## Transactions with related parties

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

Type	Name	Description of business or occupation	Voting rights holding ratio (%)	Relationship		Description of transaction	Amount of transaction (thousands of yen) (Note 2)	Account item	Balance at end of period (thousands of yen) (Note 2)
				Inter-locking officers etc.	Business relationship				
Parent etc. of Asset Management Company	Hoshino Resorts Inc.	Hotels and ryokans business	2.9	-	Real estate leasing	Purchase of real estate	20,800,000	-	-
						Real estate leasing	666,302	Operating accounts receivable	19,251
								Advances received	100,683
								Tenant leasehold and security deposits	472,230
Parent etc. of Asset Management Company	K.K. Horizon Hotels	Hotels and ryokans business	-	-	Real estate leasing	Real estate leasing	1,966,326	Operating accounts receivable	6,898
								Advances received	353,375
								Tenant leasehold and security deposits	1,074,100
Parent etc. of Asset Management Company	Hoshino Resort Management Co., Ltd.	Hotels and ryokans business	-	-	Real estate leasing	Purchase of real estate	4,900,000	-	-

(Note 1) The terms and conditions of these transactions are determined based on the same terms and conditions as those applied to general business transactions in view of the prevailing market price.

(Note 2) Consumption taxes are not included in the transaction amounts but included in the related balances at the end of the period.

11th fiscal period (from May 1, 2018 to October 31, 2018)

Type	Name	Description of business or occupation	Voting rights holding ratio (%)	Relationship		Description of transaction	Amount of transaction (thousands of yen) (Note 2)	Account item	Balance at end of period (thousands of yen) (Note 2)
				Inter-locking officers etc.	Business relationship				
Parent etc. of Asset Management Company	Hoshino Resorts Inc.	Hotels and ryokans business	2.8	-	Real estate leasing	Real estate leasing	674,224	Operating accounts receivable	20,677
								Advances received	93,987
								Tenant leasehold and security deposits	472,230
Parent etc. of Asset Management Company	K.K. Horizon Hotels	Hotels and ryokans business	-	-	Real estate leasing	Real estate leasing	2,055,534	Operating accounts receivable	16,620
								Advances received	349,981
								Tenant leasehold and security deposits	1,074,100

(Note 1) The terms and conditions of these transactions are determined based on the same terms and conditions as those applied to general business transactions in view of the prevailing market price.

(Note 2) Consumption taxes are not included in the transaction amounts but included in the related balances at the end of the period.

### Per unit information

(Unit: yen)

	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Net assets per unit	473,607	475,868
Basic earnings per unit	12,354	12,799

(Note 1) Basic earnings per unit are calculated by dividing profit by the daily weighted average number of investment units. In addition, diluted earnings per unit are not stated because there are no dilutive investment units.

(Note 2) The following is the basis for calculation of basic earnings per unit.

(Unit: thousands of yen)

	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Profit	2,624,739	2,839,034
Amount not attributable to common unitholders	-	-
Profit attributable to common investment units	2,624,739	2,839,034
Average number of investment units during period (units)	212,453	221,812

## Significant subsequent events

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

### (1) Issuance of new investment units

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

#### Issuance of new investment units through primary offering

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

#### Issuance of new investment units through third-party allotment

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

#### Use of funds

The funds procured from the primary offering were allocated to part of the funds for repayment of loans stated in “(2) Repayment of loans” below. The funds procured through the third-party allotment are retained as cash on hand by depositing with financial institutions until expenditure, and are scheduled to be allocated to part of the funds for acquisition of specified assets (as defined in Article 2, Paragraph 1 of the Investment Trusts Act) or part of the funds for repayment of loans in the future.

### (2) Repayment of loans

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

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

(Note 1) The base rate applicable to the interest calculation period for the interest payable on an interest payment due date shall be, of the Japanese Yen TIBOR (Tokyo Interbank Offered Rate) published by JBA TIBOR Administration at the prescribed point in time two business days prior to the interest payment due date immediately preceding that interest payment due date (the drawdown date for the first due date), the interest rate for the number of months corresponding to the interest calculation period. However, if there is no rate corresponding to the concerned period, then it shall be the base rate calculated based on the method provided in the contract.

(Note 2) If the maturity date is not a business day, then it shall be the next business day. If that business day falls into the next calendar month, then it shall be the business day immediately preceding the maturity date.

11th fiscal period (from May 1, 2018 to October 31, 2018)

(1) Acquisition of assets

With respect to acquisitions of assets carried out after the closing of accounts, as of December 14, 2018, HRR has concluded the sales and purchase agreement as shown below in accordance with the basic asset management policy set forth in the Articles of Incorporation.

Name of property	Location	Seller	Planned acquisition price (millions of yen) (Note 1)	Planned acquisition date
KAI Alps	Omachi-shi, Nagano	Asama onsen Hotel Management Co., Ltd.	3,060	March 29, 2019

(Note 1) “Planned acquisition price” indicates the sales/purchase price of the property stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions), rounded down to the nearest million yen.

(Note 2) The sales and purchase agreement for the acquisition of KAI Alps falls under a forward commitment, etc. specified in the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” which has been established by the Financial Services Agency.

## VI. Statements of Cash Distributions

(Unit: yen)

	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
I. Unappropriated retained earnings	2,624,798,793	2,839,071,354
II. Amount of distributions	2,624,761,444	2,838,946,152
[Amount of distribution per investment unit]	[12,338]	[12,796]
III. Retained earnings brought forward	37,349	125,202
Method of calculating distribution amount	In accordance with the policy described in Article 37, Paragraph 1 of the Articles of Incorporation of Hoshino Resorts REIT, Inc. (HRR) that “distributions shall be in excess of the amount equivalent to 90% of the amount of earnings available for distribution of HRR required by Article 67-15 of the Act on Special Measures Concerning Taxation,” the decision was made to distribute 2,624,761,444 yen, which is almost the entire amount of unappropriated retained earnings, as distributions of earnings. Furthermore, the distribution of cash in excess of earnings required by Article 37, Paragraph 2 of the Articles of Incorporation will not be conducted.	In accordance with the policy described in Article 37, Paragraph 1 of the Articles of Incorporation of Hoshino Resorts REIT, Inc. (HRR) that “distributions shall be in excess of the amount equivalent to 90% of the amount of earnings available for distribution of HRR required by Article 67-15 of the Act on Special Measures Concerning Taxation,” the decision was made to distribute 2,838,946,152 yen, which is almost the entire amount of unappropriated retained earnings, as distributions of earnings. Furthermore, the distribution of cash in excess of earnings required by Article 37, Paragraph 2 of the Articles of Incorporation will not be conducted.

## VII. Statements of Cash Flows (Reference Information)

(Unit: thousands of yen)

	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Cash flows from operating activities		
Profit before income taxes	2,625,615	2,839,957
Depreciation	1,142,529	1,169,712
Loss on retirement of non-current assets	203	314
Amortization of investment corporation bond issuance costs	249	747
Interest income	(43)	(51)
Interest expenses	222,526	223,050
Borrowing related expenses	176,896	119,057
Investment unit issuance expenses	50,796	36,357
(Increase) decrease in operating accounts receivable	(7,058)	(15,158)
(Increase) decrease in prepaid expenses	(32,135)	(8,859)
(Increase) decrease in consumption taxes refund receivable	(348,163)	387,420
Increase (decrease) in accrued consumption taxes	–	317,384
Increase (decrease) in operating accounts payable	(1,783)	25,718
Increase (decrease) in accounts payable - other	89,870	7,893
Increase (decrease) in advances received	174,341	(12,328)
(Increase) decrease in long-term prepaid expenses	(114,448)	48,293
Other, net	(129,262)	(69,925)
Subtotal	3,850,133	5,069,585
Interest income received	43	51
Interest expenses paid	(216,032)	(227,901)
Income taxes paid	(890)	(876)
Net cash provided by operating activities	3,633,254	4,840,858
Cash flows from investing activities		
Purchase of property, plant and equipment	(33,538,089)	(988,319)
Purchase of intangible assets	(1,428,361)	(10,260)
Purchase of investment securities	(168,530)	(166,366)
Repayments of tenant leasehold and security deposits	–	(1,696)
Proceeds from tenant leasehold and security deposits	242,018	–
Payments for lease and guarantee deposits	–	(100)
Net cash used in investing activities	(34,892,962)	(1,166,742)
Cash flows from financing activities		
Proceeds from short-term loans payable	4,400,000	–
Repayments of short-term loans payable	(1,500,000)	(4,400,000)
Proceeds from long-term loans payable	13,400,000	2,288,000
Repayments of long-term loans payable	(3,525,362)	(2,381,128)
Proceeds from issuance of investment units	20,597,476	4,608,459
Payments for investment unit issuance expenses	(50,796)	(36,357)
Proceeds from issuance of investment corporation bonds	1,500,000	–
Payments for investment corporation bond issuance costs	(10,467)	–
Dividends paid	(2,065,343)	(2,622,341)
Net cash provided by (used in) financing activities	32,745,506	(2,543,368)
Net increase (decrease) in cash and cash equivalents	1,485,799	1,130,747
Cash and cash equivalents at beginning of period	8,569,474	10,055,273
Cash and cash equivalents at end of period	*1 10,055,273	*1 11,186,021

### Summary of significant accounting policies (Reference information)

Item	10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)	11th fiscal period (From May 1, 2018 to October 31, 2018)
Scope of funds in the statements of cash flows	The funds (cash and cash equivalents) in the statements of cash flows comprise cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.	The funds (cash and cash equivalents) in the statements of cash flows comprise cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible to cash and are subject to an insignificant risk of changes in value.

### Notes to Statements of Cash Flows (Reference information)

10th fiscal period (Reference) (From November 1, 2017 to April 30, 2018)		11th fiscal period (From May 1, 2018 to October 31, 2018)	
*1. Reconciliation of cash and cash equivalents at end of the period to the corresponding Balance sheet item  (As of April 30, 2018) (Unit: thousands of yen)		*1. Reconciliation of cash and cash equivalents at end of the period to the corresponding Balance sheet item  (As of October 31, 2018) (Unit: thousands of yen)	
Cash and deposits	10,055,273	Cash and deposits	11,186,021
Cash and cash equivalents	10,055,273	Cash and cash equivalents	11,186,021



## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of  
Hoshino Resorts REIT, Inc.**

We have audited the accompanying financial statements of Hoshino Resorts REIT, Inc., which comprise the balance sheet as at October 31, 2018, and the statement of income, the statement of changes in net assets for the six months then ended, and notes to financial statements, all expressed in Japanese yen.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hoshino Resorts REIT, Inc. as at October 31, 2018, and its financial performance for the six months then ended in accordance with the Ordinance on Accountings of Investment Corporations and accounting principles generally accepted in Japan.

January 29, 2019  
Tokyo, Japan

*Grant Thornton Tuiyo LLC*

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