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**NIRAKU GC HOLDINGS**

株式会社ニラク・ジー・シー・ホールディングス

**NIRAKU GC HOLDINGS, INC.\***

*(Incorporated in Japan with limited liability)*

**(Stock Code: 1245)**

**MAJOR TRANSACTION  
ACQUISITION OF PROPERTIES IN FUKUSHIMA-KEN, JAPAN  
SUPPLEMENTAL ANNOUNCEMENT**

Reference is made to the announcement of 株式会社ニラク・ジー・シー・ホールディングス NIRAKU GC HOLDINGS, INC.\* (the “**Company**”) dated 21 June 2019 (the “**Announcement**”) with regard to the major transaction in relation to the Acquisition. Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

**BASIS OF CONSIDERATION**

As stated in the Announcement, the consideration for the Acquisition was determined after arm’s length negotiations between the parties by reference to the prevailing market conditions, as well as the location of the Properties and investment potential in the domestic Japanese amusement industry, centering on the pachinko hall business.

The Company and the Vendor are competitors in the pachinko hall business and have extensive knowledge about the domestic Japanese amusement industry, centering on the pachinko hall business. They are also familiar with the real estate situation in Koriyama-shi. As stated in the Company’s 2019 Annual Results announcement, the pachinko industry remains difficult with markets shrinking across the entire industry, more pachinko hall operators are experiencing management difficulties and a trend toward closing of pachinko halls. It is believed that this declining trend will continue for the time being, with no immediate solutions to resolve market-wide issues such as unveil new markets of younger people and prevent departure of existing players. Both parties acknowledged the value of the Properties to the Company in terms of strategic investments as a pachinko hall operation in the Fukushima-ken region and agreed to the consideration at a premium on the valuation of the Properties.

The valuation of the Properties was conducted on 11 March 2019 by JLL Morii Valuation & Advisory K.K., an independent valuer, using the cost approach (i.e. deducting the necessary depreciation from the replacement cost at the date of valuation) on an as-if basis. The Company acknowledged that market value should be accounted for as the main factor in determining the consideration in property acquisition. However, the Company also placed significant emphasis on the Properties' competitive advantage in terms of the location at trade area and large size (housing 960 units of pachinko and pachislot machines) as a pachinko hall operation when negotiating the consideration and agreeing to the consideration at a premium on the valuation of the Properties. The Company will formulate a business plan based on the characteristics of the Properties and expects the Properties to provide a consistent revenue stream and a positive impact to the operating profit of the Company.

## **REASONS FOR THE ACQUISITION**

As stated in the Announcement, the Company has ten stores in Koriyama-shi area. The Company's existing stores in Koriyama-shi are relatively small in terms of the number of pachinko machines. The Company plans to maintain the current performance of existing stores. Given the advantageous geographic location of the Properties in Koriyama-shi, the Company believes that the new store to be operated by the Company at the Properties will lure customers from other large competitors. The Company had difficulty luring customers from other large competitors in the past due to its small-scale stores and the fact that most stores were located relatively farther away from the commercial area in Koriyama-shi. As such, the business at the Properties and the Company's existing stores will strengthen the Company's competitiveness and give the Company a leading and dominant position in the pachinko hall business in Koriyama-shi area. The Company plans to expand its business performance in the entire Koriyama-shi area in the future. The Company estimates that currently around 31.7% of the customers in Koriyama-shi visit the Company's existing stores. The Company targets to increase this percentage by 10% with the addition of large-scale store at the Properties which the Company believes will lure more customers, over 40% of the customers in Koriyama-shi will visit the Company's stores.

The Properties are located in Koriyama-shi, Fukushima-ken, which is a regional urban center in the "Nakadori district" in Fukushima-ken, with a population of 330,000 people and is considered to be an advantage area, as the number of players is estimated to be approximately 4,000. The Properties are highly visible as they are situated alongside a busy main road and have already secured space for a parking lot. The Company plans to install 960 units of pachinko and pachislot machines in the Properties. It would be ranked higher in the nearby area and should have a competitive advantage due to its size. The Properties would increase the Company's market share in this city. The Company considers that it would face great difficulties to identify other similar pachinko hall operation of similar capacity or other suitable properties for the Company to operate its own pachinko hall in the nearby location.

The Properties are suitable for operating a relatively large-scale pachinko hall and if another competitor who takes over the pachinko hall, the business of the Company will be adversely affected. The current pachinko hall at the Properties was opened by the Vendor in August 2005. The Company has since mitigated the negative impact brought about by the Gaia Pachinko Hall. However, when the Vendor wished to withdraw from the Properties, the Company believed that acquiring the Properties would be in the interest of the Company. If another competitor acquired the Properties instead, it is likely that the competitor would open a new store at the Properties.

The Company estimated that a pachinko hall operation similar to the size of the Properties (i.e. with similar number of pachinko and pachislot machines installed) operated by a competitor would have a negative impact on the operating profit of the Company's pachinko halls in the nearby areas of approximately ¥500 million (equivalent to approximately HK\$35.65 million) per financial year. This estimation was made based on the impact to the Company's operating profit when a new pachinko hall, N-1 Koriyama Store, with 947 pachinko and pachislot machines was opened in Yokozuka 2-chome, Koriyama-shi, Fukuyushima-ken, by Sirius Corporation in October 2015. It is located about 1.5 km away from the Properties and the Company believes that this would suitably reflect the possible extent of the negative impact to the Company's business if the Properties were sold to other competitors. The Company measured the impact on its operating profit in the subsequent three financial years to be approximately ¥500 million (equivalent to approximately HK\$35.65 million) per financial year by comparing the operating profits in the subsequent three financial year (FY 2015, FY 2016 and FY 2017) since the opening of N-1 Koriyama Store with the financial year (FY2014) prior the opening of N-1 Koriyama Store.

## INFORMATION OF THE VENDOR

The Vendor, GAIA Co., Ltd., is owned and controlled by the Yoshihara Family. The Company confirmed to the extent of their best knowledge that (1) the Company (and its connected persons) does not have any special noteworthy relationship with the Vendor (and its ultimate beneficial owners) except for normal course of business relations; and (2) the Company (and its connected persons) does not have any agreement, arrangement, negotiation, understanding or undertaking, written or verbal, with the Vendor (and its ultimate beneficial owners) in relation to the Acquisition other than the Sale and Purchase Agreement.

On behalf of the Board  
株式会社ニラク・ジー・シー・ホールディングス  
**NIRAKU GC HOLDINGS, INC.\***

**Hisanori TANIGUCHI**

*Chairman, Executive Director and Chief Executive Officer*

Fukushima, Japan, 16 August 2019

*As at the date of this announcement, the executive Directors are Hisanori TANIGUCHI, Akinori OHISHI and Masataka WATANABE; the non-executive Director is Hiroshi BANNAI; and the independent non-executive Directors are Hiroaki MORITA, Michio MINAKATA, Yoshihiro KOIZUMI and Kuraji KUTSUWATA.*

\* For identification purposes only