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If you have sold or transferred all your shares in **株式会社ニラク・ジー・シー・ホールディングス Niraku GC Holdings, Inc.***, you should at once hand this circular to the purchaser(s) or the transferee(s), or to the licensed securities dealer or other registered institution in securities, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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MAJOR ACQUISITION
(ACQUISITION OF PROPERTIES IN FUKUSHIMA-KEN, JAPAN)

A letter from the Board is set out on pages 4 to 10 of this circular.

* for identification purpose only

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

“Acquisition”	the acquisition of the Properties by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement;
“Announcement”	the announcement of the Company dated 21 June 2019 in relation to the Acquisition;
“Board”	the board of Directors;
“business day”	a day (other than a Saturday, Sunday and public holiday) on which banks in Hong Kong are generally open for normal banking business;
“Company”	NIRAKU GC HOLDINGS, INC.* (株式会社ニラク・ジー・シー・ホールディングス), which is a stock company* (株式会社) incorporated in Japan with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the Acquisition pursuant to the Sale and Purchase Agreement in relation to the acquisition of the Properties entered into between the Purchase and the Vendor;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	the directors of the Company;
“EGM”	any extraordinary general meeting of the Company to be held for the Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transaction contemplated thereunder;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Third Party(ies)”	third party(ies) independent of, not connected or acting in concert (as defined in the Codes on Takeover and Mergers and Share Buy-backs) with the Company and any of its connected persons or any of their respective associates (as defined under the Listing Rules);

DEFINITIONS

“Japanese Yen”, “¥” or “Yen”	Japanese Yen, the lawful currency of Japan;
“Latest Practicable Date”	30 June 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Percentage Ratios”	has the meaning ascribed to it in Rule 14.07 of the Listing Rules;
“Properties”	include two parcels of land, namely, Nos. 35 and 10 other tracts and Nos. 64 and 3 other tracts, totalling approximately 10,869.53 sq.m, and buildings adjacent to them located at Omachi 2-chome, Koriyama-shi, Fukushima-ken, Japan;
“Purchaser”	Niraku Corporation, a wholly-owned subsidiary of the Company;
“Sale and Purchase Agreement”	the agreement for sale and purchase of the Properties entered into between the Vendor and the Purchaser on 5 February 2019;
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“Share(s)”	Common share(s)* (普通株式) in the share capital of the Company;
“Shareholder(s)”	the duly registered holder(s) of the Shares;
“sq.m.”	square metre;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;

DEFINITIONS

- | | |
|------------------------|--|
| “Taniguchi Consortium” | Mr. Hisanori TANIGUCHI (谷口久徳) [#] , a Controlling Shareholder, an Executive Director, our Chief Executive Officer and our Chairman of the Board and a group of (1) natural persons, namely Mr. Tatsuo TANIGUCHI (谷口龍雄), Mr. Masataka TANIGUCHI (谷口晶貴), Mr. Yoshihiro TEI (鄭義弘) [#] (also known as Mr. JEONG Jungwung), Mr. Mitsuhiro TEI (鄭允碩), Mr. Motohiro TEI (鄭元碩), Ms. Eijun TEI (鄭盈順), Ms. Rika TEI (鄭理香) and Ms. Noriko KANESHIRO (金城徳子), each being a family member of our Chairman; and (2) corporate entities, namely Jukki Limited* (有限会社十起), Densho Limited* (有限会社伝承), Echo Limited* (有限会社エコー), Daiki Limited* (有限会社大喜), Hokuyo Kanko Limited* (有限会社北陽観光) and KAWASHIMA Co., Ltd.* (株式会社KAWASHIMA), each being an entity controlled by the family members of our Chairman. Each member of the Taniguchi Consortium is an associate (as defined under the Listing Rules) of, and a person acting in concert (as defined under the Takeovers Code) with, our Chairman of the Board and is a controlling shareholder; |
| “Takeovers Code” | the Codes on Takeovers and Mergers and Share Buy-backs; |
| “Vendor” | GAIA Co., Ltd.; |
| “%” | per cent. |
- (*) The English titles marked with “*” are unofficial English translations of the Japanese titles of natural persons, legal persons, governmental authorities, institutions, laws, rules, regulations and other entities for which no official English translation exists. These titles are for identification purpose only.
- (#) The Japanese names marked with “#” are Japanese aliases* (通称名) adopted by non-Japanese residents in Japan as a second legal name which, upon registration under the Order for Enforcement of the Residential Basic Book Act* (住民基本台帳法施行規則) (Ministry of Home Affairs Regulation No. 35 of 1999) of Japan, may be used with legal force and recorded in their resident certificate* (住民票) and residential basics book card* (住民基本台帳カード). Unless otherwise marked with “#”, names of natural persons shown in this circular are legal names recorded in their passports or travel documents.

In this circular, certain amounts denominated in ¥ are translated into HK\$ at the exchange rate shown below, but such conversions shall not be construed as representations that amounts in ¥ were or may have been converted into HK\$ at such rate or any other exchange rates or at all: ¥ 1 = HK\$0.0713.

LETTER FROM 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.*

(Incorporated Japan with limited liability)

(Stock Code: 1245)

Executive Directors:

Mr. Hisanori TANIGUCHI (*Chairman*)

Mr. Akinori OHISHI

Mr. Masataka WATANABE

Registered Office:

1-1-39 Hohaccho

Koriyama-shi, Fukushima,

Japan 963-8811

Non-executive Director:

Mr. Hiroshi BANNAI

*Principal Place of Business
in Hong Kong:*

805B, 8/F,

Tsim Sha Tsui Centre

66 Mody Road,

Tsim Sha Tsui,

Kowloon, Hong Kong

Independent Non-executive Directors:

Mr. Hiroaki MORITA

Mr. Michio MINAKATA

Mr. Yoshihiro KOIZUMI

Mr. Kuraji KUTSUWATA

30 August 2019

To the Shareholders

Dear Sir or Madam,

MAJOR ACQUISITION (ACQUISITION OF PROPERTIES IN FUKUSHIMA-KEN, JAPAN)

INTRODUCTION

Reference is made to the Announcement, where it was announced that, the Purchaser entered into the Sale and Purchase Agreement with the Vendor in relation to the acquisition of the Properties located at Omachi 2-chome, Koriyama-shi, Fukushima-ken, Japan on 5 February 2019.

The purpose of this circular is to provide you with further details of the Acquisition for information purposes.

THE ACQUISITION

On 5 February 2019, the Purchaser entered into the Sale and Purchase Agreement with the Vendor in relation to the acquisition of the Properties located at Omachi 2-chome, Koriyama-shi, Fukushima-ken, Japan, at a consideration of ¥3.768 billion (inclusive of a 8% value added tax) (equivalent to approximately HK\$268.8 million).

LETTER FROM THE BOARD

PRINCIPLE TERMS OF THE SALE AND PURCHASE AGREEMENT

Date

5 February 2019

Parties

- (1) Purchaser: Niraku Corporation, a wholly-owned subsidiary of the Company; and
- (2) Vendor: GAIA Co., Ltd.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are Independent Third Parties of the Company and its connected persons.

Information about the Properties

The Properties to be acquired by the Purchaser include two parcels of land, namely, Nos. 35 and 10 other tracts and Nos. 64 and 3 other tracts, totalling approximately 10,869.53 sq. m., and buildings including a two stories retail store and a three stories car park constructed on the parcels of land located at Omachi 2-chome, Koriyama-shi, Fukushima-ken, Japan.

The Properties are currently occupied by the Vendor for pachinko hall operation. Pursuant to the Sale and Purchase Agreement, the Vendor would continue to operate the pachinko hall for a period of 10 months from the date of the Sale and Purchase Agreement and the Purchaser would receive a monthly rental of ¥24 million (equivalent to approximately HK\$1.71 million) from the Vendor.

Consideration and payment terms

The consideration for the Acquisition is ¥3.768 billion (equivalent to approximately HK\$268.8 million), payable in cash, which was satisfied by the Purchaser in the following manner:

1. An initial deposit of ¥376.8 million (equivalent to approximately HK\$26.9 million), representing 10% of the total consideration for the Acquisition, was paid by the Purchaser upon signing of the Sale and Purchase Agreement; and
2. ¥3,391.2 million (equivalent to approximately HK\$241.9 million), representing the remaining balance of the total consideration for the Acquisition, was paid by the Purchaser upon Completion.

As at the date of this circular, the total consideration has been settled by the Purchaser in cash and was funded by a combination of internal resources of the Group and bank mortgage financing to the extent where available.

LETTER FROM THE BOARD

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 account 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 trade area and large size (housing 960 units of pachinko and pachislot machines) as a pachinko 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.

The Directors (including the independent non-executive Directors) believe that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as whole.

Completion

Completion of the Acquisition has taken place on 28 March 2019.

REASONS FOR THE ACQUISITION

The Group is a leading pachinko hall operator in Fukushima Prefecture in Japan, and has over 60 years of pachinko hall operation experience. The Group has a strong pachinko hall network with 53 halls at present, stretching from Tokyo Metropolitan Area to Northeast Honshu, equipped with over 28,000 pachinko and pachislot machines serving customers in ten prefectures in Japan.

LETTER FROM THE BOARD

As disclosed in the Company's annual results for the year ended 31 March 2019, 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. The Board believes 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 prevention of departure of existing players.

Given the difficulties faced by the Company in this industry environment, the Company considers the competition presented by a pachinko hall to the size of the Properties would cause significant negative impact on the operating profit for its ten stores in the Koriyama-shi area. The Company plans to make necessary investments to the Properties, including interior renovations and acquisition of equipment, and operate a large scale pachinko hall, with approximately 1,000 pachinko and pachislot machines, targeting in the middle of 2020.

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, 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 it is situated alongside a busy main road and have already secured space for a parking lot. The Company plans to install 960 units in the Properties. It would be ranked higher by size 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.

LETTER FROM THE BOARD

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 are 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 years (financial year 2015, financial year 2016 and financial year 2017) since the opening of N-1 Koriyama Store with the financial year (financial year 2014) prior the opening of N-1 Koriyama Store.

Taking into account the above factors, the Directors consider that the terms of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Shareholders and the Company as a whole.

None of the Directors has any material interests in the Acquisition and therefore, none of them has abstained from voting on the Board resolution(s) which approved the Sale and Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP AND THE VENDOR

The Group is principally engaged in the business of pachinko hall operation.

To the knowledge of the Directors, the Vendor is principally engaged in pachinko hall operation.

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) do 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) do 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.

FINANCIAL EFFECTS OF THE PROPERTIES ACQUISITION

Immediately upon completion of Acquisition and assuming the remaining balance of the land premium payable under the Land Use Rights Grant Contract was satisfied by the internal resources of the Group, the Directors considers that there was no material effect on the total assets, total liabilities and earnings of the Group. Please refer to the 2019 Annual Result of the Company for details.

GENERAL

As one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition for the Company exceeds 25% but is less than 100%, the Acquisition constitutes a major transaction for the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Acquisition, thus no Shareholder is required to abstain from voting if the Company were to convene an EGM for the approval of the Acquisition. The Company has obtained a written shareholders' approval from the Taniguchi Consortium, the controlling shareholder group holding 821,280,460 Shares (representing approximately 68.7% of the total issued Shares as at the date of this circular), in lieu of holding an EGM to approve the Acquisition in accordance with Rule 14.44 of the Listing Rules.

As such, the failure by the Company to comply with the reporting and announcement requirements in respect of Acquisition in a timely manner constituted non-compliance with Chapter 14 of the Listing Rules. The failure to make timely disclosure was due to its inadvertent oversight and a misunderstanding by the management of the Company of the application of the relevant Listing Rules.

LETTER FROM THE BOARD

REMEDIAL ACTIONS

The Company deeply regrets its non-compliance with the Listing Rules but the Company would like to stress that the non-compliance was inadvertent. To prevent similar non-compliance from occurring in the future, the Company shall take the following measures and actions:

- i. the company secretarial and legal department of the Company shall continue to oversee and monitor the Company's on-going compliance with the Listing Rules;
- ii. the Company should conduct an internal training session to explain the relevant requirements and the reporting procedures for notifiable transactions under the Listing Rules, and to emphasise the importance of identifying such transactions prior to execution; and
- iii. the Company should, as and when appropriate and necessary, seek its external legal or other professional advice as to any action required to be taken in relation to any proposed transactions or events in the future.

Going forward, the Company will make such disclosure in a timely manner to ensure compliance with the Listing Rules.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
NIRAKU GC HOLDINGS, INC.*
株式会社ニラク・ジー・シー・ホールディングス
Chairman, Executive Director and Chief Executive Officer
Hisanori TANIGUCH

FINANCIAL INFORMATION OF THE GROUP

By way of reference, the financial information of the Group for the three years ended 31 March 2019 are disclosed in the following documents which have been published on the respective websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.ngch.co.jp/en/>:

- the annual report of the Company for the year ended 31 March 2017 published on 29 May 2017, from pages 46 to 106;
- the annual report of the Company for the year ended 31 March 2018 published on 6 June 2018, from pages 43 to 108; and
- the annual report of the Company for the year ended 31 March 2019 published on 5 June 2019, from pages 43 to 112.

INDEBTEDNESS

As at 30 June 2019, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the total indebtedness of the Group amounted to approximately ¥52,311 million, details of which are set out below:

	<i>¥ million</i>
Non-current portion	
Bank loans	3,067
Syndicated loans	8,119
Lease liabilities	<u>33,541</u>
	<u>44,727</u>
Current portion	
Bank loans	1,066
Syndicated loans	3,701
Lease liabilities	<u>2,817</u>
	<u>7,584</u>
Total borrowings	<u>52,311</u>

Borrowings

As at 30 June 2019, being the Latest Practicable Date for ascertaining certain information relating to this indebtedness statement, the Group had outstanding consolidated bank borrowings (after intra-group elimination) of approximately ¥15,953 million (equivalents to HK\$1,137 million) comprising bank loans of approximately ¥4,133 million and syndicated loans of approximately ¥11,820 million.

The borrowings under sales and leaseback arrangements with a third party lessor amounted to ¥2,550 million. These sales and leaseback arrangements included sell of certain leasehold improvements and pachislot machines at an aggregate consideration of ¥2,801 million and lease-back to the Group for a total lease payment of ¥2,979 million covering the periods ranged between 24 months to 84 months. During the lease period, the group cannot transfer or pledge to any party the relevant leasehold improvements and pachislot machines. For leasehold improvement, the Group has an option to renew for a further term of 1 year on the 20th of the preceding month before the end of each lease term at no cost.

Pledge of assets

As at 30 June 2019, total borrowings are pledged by certain assets and their carrying values are show as below:

	<i>¥ million</i>
Property, plant and equipment	10,930
Investment properties	644
Deposits and other receivables	<u>179</u>
	<u><u>11,753</u></u>

Loan facilities

As at 30 June 2019, the Group has undrawn borrowing facilities of ¥1,615 million (equivalent to HK\$115 million) which is expired over 1 year and under floating interest rate.

Lease liabilities

As at 30 June 2019, the Group had lease liabilities of ¥36,358 million. Assets arranged under leases represent buildings for pachinko and pachislot halls, pachinko and pachislot machines, and gaming machines for amusement arcades.

Contingent liabilities

As at 30 June 2019, the Group did not have any contingent liabilities.

Financial guarantee

As at 30 June 2019, the Group had not provided any guarantee to any party.

Save as aforesaid, the Group did not, as at 30 June 2019, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and

liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

COMMITMENTS

As at 30 June 2019, the Group has no outstanding capital expenditure commitments not provided for.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up.

WORKING CAPITAL

The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group; (ii) the Group's presently available banking facilities; and (iii) completion of the Sale and Purchase Agreement, the Group has sufficient working capital for its requirements for at least 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned under the paragraph headed "Reasons for the Acquisition" in the Letter from the Board in this circular, 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.

Furthermore, in the future, the pachinko industry will likely be confronted with other issues further constraining its profitability, such as change of gambling property for gaming machine due to the revision of gaming machine regulations, the increase in consumption tax, and measures to protect against gambling dependency following the lifting of casino restrictions, among others.

Given this industry environment, for the pachinko hall business, the Group has further promoted the implementation of sales policies necessary for achieving continuous profitable growth and cost efficiency, in compliance with various regulations, while at the same time striving to provide a gaming environment that meets the needs of diverse fans as an important sales strategy. As a result, despite the ongoing severity of the situation the pachinko industry as a whole is facing — such as the market shift following changes

of machine standards regulations and the decrease in sales (gross pay-in) that has accompanied this shift — the Group has successfully maintained the sales scale and has achieved an expansion of customer visits.

Despite the macro environment of pachinko industry is seen to be severe, the Group regards this market phenomenon as an opportunity for our future growth, and will focus on areas with existing pachinko halls where the Group can demonstrate its strengths. The Group intends to establish a foundation for future growth through opening of new halls seeking opportunity for acquisitions of other halls and allying with business partners.

Apart from continuously configure products to accommodate the characteristics of each region, improve the gaming environment and customer service, the Group will also work to enhance our overall organisation by implementing cost efficiency plan and work in unity to create halls that win the support of customers.

The Group will continue to position the establishment of a solid business foundation as our most important management issue by actively and intensively investing management resources in the domestic business, centered on the pachinko business.



APPRAISAL REPORT

7-Eleven Koriyamaomachi

Date of Issue 11 March 2019
Report Number 19-0114-2

(Client)

NIRAKU CORPORATION

(Recipient of the Appraisal Report other than the Client)

Broker, Seller



Preface

1. This real estate appraisal report (hereinafter, the “Report”) has been prepared by JLL Morii Valuation & Advisory K.K. (established 1948, hereinafter, “JLL Morii”) by its licensed real estate appraisers and assistant real estate appraisers (hereinafter, the “appraisers”) in keeping with their expertise and conscience, in accordance with the Act on Real Estate Appraisal (Act No. 152 of 1963, hereinafter, the “Act”).
2. JLL Morii warrants that the Report is issued after a fair and objective review, and both JLL Morii and its appraisers shall keep information that becomes known to them in the course of this work in strict confidence.
3. The Report's content and the appraised value thereby arrived at are valid only insofar as the assumptions specified below and the conditions of the investigation indicated in the text apply.
 - a. Inspection of rights relationships and contractual relationships and the survey of the physical status of the Properties are undertaken on the basis of the official register and any registered maps, as well as information provided by you. We do not make any explicit or implicit guarantees with respect to such rights relationships, contractual relationships or physical status of the Properties.
 - b. Confirmation of the subject property is done by survey of the exterior to the extent possible by visual inspection. With respect to soil contamination, buried properties, buried cultural properties, asbestos, building interior defects etc., it is assumed that none exists other than those described in this appraisal. JLL Morii shall assume no responsibility in the event such presence is established in the future.
 - c. The appraised value indicated as the conclusion of this work by no means guarantee the actual transaction value at the date of value or in the future.
4. The Report has been prepared by the named appraiser with the normal duty of care, however the responsibility for the Report shall be borne by JLL Morii.
5. A copy of the Report will be held at JLL Morii for a period of five years pursuant to legal provisions.
6. If parts of the Report are to be quoted or used for any purpose other than the original purpose, please consult with JLL Morii in advance and obtain consent in writing.
7. If the original copy of the Report has been prepared in Japanese, JLL Morii shall not be responsible for its content that has been translated into any other language.
8. Any disputes that may arise from this Report shall be subject to the laws of Japan, and shall be referred to the Tokyo District Court as the court of first instance.

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Report

1. Appraised Value

Market value for the subject property as of 28 February 2019 is as shown below.

Appraised Value
(Market value)

JPY193,000,000

· The appraised value above is based on the conditions mentioned in Conditions of the appraisal.

2. Description of the Subject Property

2.1. Land

Land		
Location and tract #	(Registered)	Nos. 64 and 3 other tracts, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Use	(Registered / Actual)	Building Site / Building Site
Area	(Registered)	Total 2,210.41 sq m
Holder of the title	GAIA Co., Ltd.	

2.2. Building

Building	
Location	No. 64-, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Building number	No. 64
Structure	Lightweight steel frame structure, alloy plating steel sheet roof, 1 story
Floor area	Total 199.59 sq m
Holder of the title	GAIA Co., Ltd.

Attached building	Number #1
Use	Shed
Structure	Lightweight steel frame structure, zinc plating steel sheet roof, 1 story
Floor area	Total 8.35 sqm

3. Basic Particulars of the Assignment

3.1. Basic Particulars of the Assignment

3.1.1. Subject property

The subject property is a 1-story rental retail building (7-Eleven Koriyamaomachi), located to the northwest of “Koriyama” Station on the JR Tohoku Main Line.

3.1.2. Property Type and Interest

Type: Commercial Land
Interest: Tenant-occupied Building and its Site

3.1.3. Value to be appraised

Market value

3.1.4. Date of Valuation

28 February 2019

3.1.5. Date of the Appraisal

08 March 2019

3.1.6. Conditions of the Appraisal

3.1.6.1. Conditions for the subject identification

As is

3.1.6.2. Assumptions

None in particular

3.1.6.3. Conditions for scope of work

- Determinants of value subject to the coverage: Factors related to soil contamination, asbestos, PCBs, and border.
- Scope of work: Research to be limited to confirmation of existence of statutory regulations and its content.
- Handling of the scope of work upon appraisal: They will be excluded from determinants of value in the analysis.

Above conditions are judged not to damage the interests of those who refer to this appraisal as those who refer to this appraisal shall make judgements by their own as to whether or not those factors may influence value, based on the research, assessments, and results involving determinants of value by the clients etc.

3.1.6.4. Other

None in particular

3.2. Purpose of Request of Appraisal and Range of Report Users , etc

3.2.1. Purpose of Request of Appraisal

Reference for the acquisition of the subject property

3.2.2. Background for requesting the appraisal

The client is considering the acquisition of the subject property, and needs to assess the fair value of the subject property in the marketplace, which has resulted in its appraisal request.

3.2.3. Recipient of the Report other than the Client

Broker, Seller

3.2.4. Disclosure of Appraisal Value

Auditor

3.2.5. Publication of Appraisal Value

None

3.2.6. Necessity of approval for expansion of report users after the issuance of the report

If the appraisal value is announced or disclosure is expanded after the report is issued, approval of the real estate appraiser responsible for this analysis and the company will be required with a written request of approval prior to such announcement or disclosure.

3.3. Relationships between the purpose and the conditions of the appraisal and value to be appraised and between the type of documents

The appraisal assignment, conducted for the purpose and under the conditions mentioned above, is intended to estimate the fair value of the subject property in the market. Therefore, the value to be appraised is "Market Value".

3.4. Interests Held by Appraisers and Appraisal Firms Involved

3.4.1. Interests in the subject property held by appraisers and appraisal firms involved

None

3.4.2. Relationships among the client, appraisers and appraisal firms involved

None

3.4.3. Relationships among the entities to which the report is submitted, appraisers and appraisal firms involved

None

3.5. Unknown factors regarding the appraisal assignment and research conducted

None in particular.

4. Identification of the subject property

4.1. Physical Identification

4.1.1. Site inspection

Date of site inspection: 19 February 2019
Appraisers who inspected the subject: Kenkichi Katsumi
Accompanied by: Mr. Shudo Kanai, NIRAKU CORPORATION

4.1.2. Data used for identification

Certificates of registration, Floor plan, Official lot map, Building plan, Lease agreement, etc.

4.1.3. Areas inspected

Land: Entire site, boundaries, etc.
Building: Retail store areas

4.1.4. Reasons for the areas that could not be inspected and measures taken

The back of house areas etc., could not be inspected because they are currently occupied and tenants' consent could not be obtained. Since the specifications of these areas can be reasonably assumed based on the building plans, etc., it is judged not to affect the analysis.

4.1.5. Particulars verified

Location, Shape, Size, Boundaries, Occupancy, etc.

4.1.6. Confirmation and result of identification

It has been confirmed that the state of the subject property is generally as it appears in the data.

4.1.7. Quantities Adopted in the Valuation

Land : Registration
Building : Registration
Net Rentable Area : The lease agreement, provided

4.2. Identification of the Property Interest

4.2.1. Identification of Lease Agreement

The subject property is leased by a lessor GAIA Co., Ltd, which owns the subject land and building, to an end-tenant, and lease agreement is in place.

Agreement	
Lessee	SEVEN-ELEVEN Japan Co., Ltd.
Lease type	Fixed term building lease agreement
Purpose of use	Retail store
Size of rent area	199.60 sq m
Lease tenure	For 20 years starting from 6 February 2014 to 5 February 2034
Rent	JPY 925,820 per month (JPY 15,333 per tsubo)
Deposit	JPY 2,000,000 (Approximately 2.16 months rent)
Special Agreement	<ul style="list-style-type: none"> ■ In addition to deposit, guaranty money (equivalent to building construction fee) of JPY 30,196,881 is set aside to the lessor and is reimbursed in 240 months. Should there be any amount left unreimbursed as of the termination date of the lease agreement, it will be returned to the lessee. ■ Lessee may cancel the contract with 6-month prior notice. Immediate cancellation is possible by paying 6 months rent. ■ Rent is subject to revision every 3 years upon discussion. Regardless of the beforementioned clause, revision may be conducted anytime upon discussion should the rent became inappropriate due to increase or decrease of tax/public due burden, change in economic conditions etc., ■ Lessee is responsible for the expenses for utilities (water, gas and electricity), cleaning fee and replacement, repair, etc. cost of equipment/facilities. However, lessor is responsible for the repair, etc. of the construction division A decided under the building construction agreement of the subject building.

4.2.2. Data used for identification

The lease agreement provided

5. General Factors Analysis

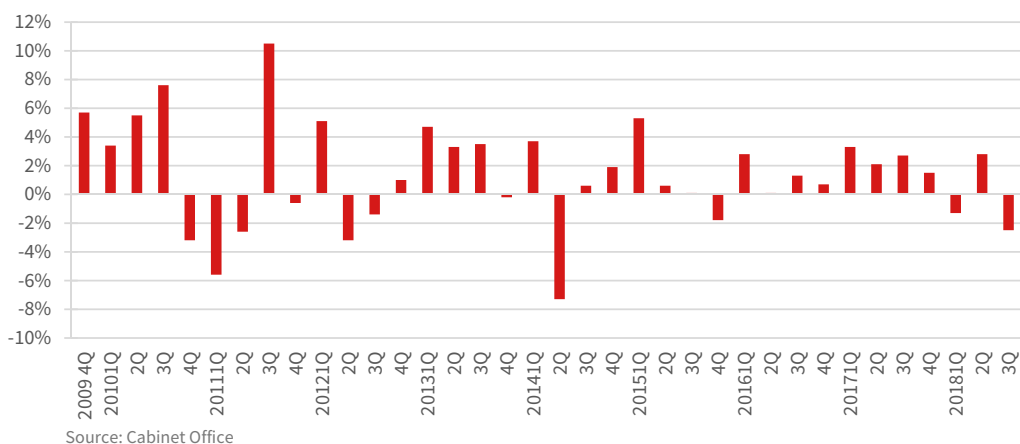
5.1. Recent Economic Developments

According to the monthly report issued in January 2019 by the Cabinet Office, The Japanese economy is recovering at a moderate pace. Concerning short-term prospects, the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to the risks including the effects of situations over trade issues on the world economy, the uncertainty in overseas economies including the prospect of Chinese economy and the effects of fluctuations in the financial and capital markets. And also, we should pay enough attention to the influence to the economies by the series of natural disasters.

The trends in the main economic indicators are as shown below.

5.1.1. GDP Trend

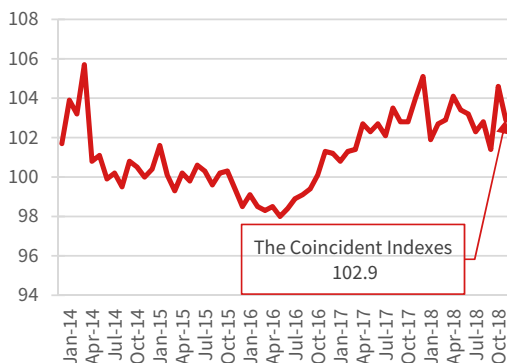
The nationwide real economic growth for 3Q 2018 announced by the Cabinet Office declined 0.6% q-o-q, or it shrank by 2.5% on an annualized basis.



5.1.2. Diffusion Index and Consumer Price Index

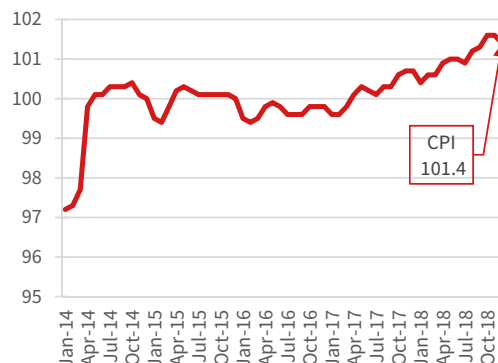
The Coincident Index of the business condition announced by the Cabinet Office for November 2018 recorded 102.9 (Y2010=100), showing --1.7 percentage points of change from the previous month. Nationwide CPI excluding fresh food for December 2018 recorded 101.4. This equals to a 0.7 % of increase year-on-year.

■ Diffusion Index (2015 = 100)



Source: Cabinet Office

■ Consumer Price Index (2015 = 100)



Source: Ministry of Internal Affairs and Communications

5.1.3. Stock Price Index and the Exchange Rate

The Nikkei 225 average on the Tokyo Stock Exchange for January 2019 ended at JPY 20,773.49, showing +3.8% change m-on-m or -10.1% y-on-y.

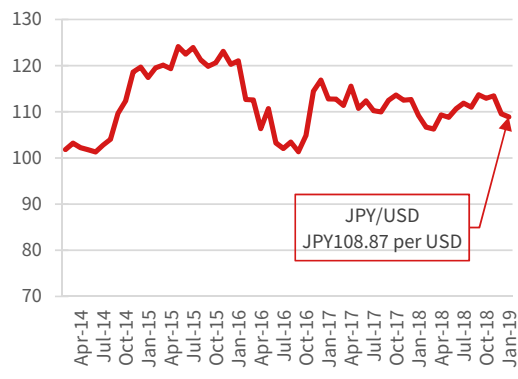
On the currency market, the exchange rate for the Japanese Yen versus the US dollar was JPY108.87 at the end of January 2019.

■ Nikkei 225 Average Stock Price



Source: Tokyo Stock Exchange

■ Exchange Rate (Tokyo Market)



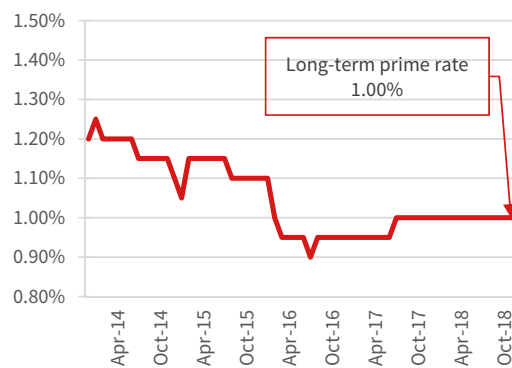
Source: Bank of Japan

5.1.4. Long-term Prime Rate and Short-term Prime Rate

Long-term prime rate as of December 2018 was 1.00 %, unchanged from the previous month.

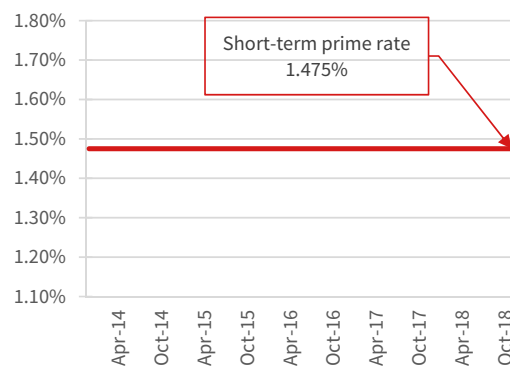
On the other hand, short-term prime rate as of December 2018 was 1.475 %, which also remained the same from the previous month.

■ Long-term Prime Rate



Source: Bank of Japan

■ Short-term Prime Rate



Source: Bank of Japan

5.2. Real Estate Market Trends

5.2.1. Land Price Trend as of July, 2018

The averaged nationwide land price across sectors over the year from July 2017 turned around and picked up for the first time in 27 years since 1991. Looking at the trend by sector, the residential land price continuously slowed its pace of decline. The commercial land price rose for the second consecutive year, gathering its pace of increase, while the industrial land price started to increase for the first time in 27 years, in contrast to the previous year when it unchanged y-on-y. The land price gathered its pace of increase in three major regions both for residential and commercial. In the Greater Osaka, the residential land price rose for the first time in four years, while the industrial land price also generally showed stronger growth. Other than three major regions, land price across sectors increased stronger than three major regions in four cities including Sapporo, Sendai, Hiroshima and Fukuoka. The land price in all other cities in non-major regions declined slower across sectors compared to the previous year.

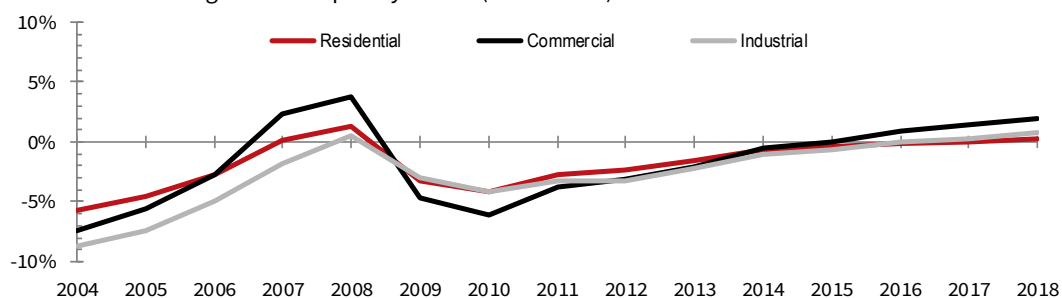
■ Residential land Price

Underpinned by the demand created by the continued low interest rate policy as well as the improved employment and income situation nationwide, the land prices, especially those in highly convenient areas in terms of transportation and living, continuously showed a slower pace of decline.

■ Commercial land Price

Due to the improvement in vibrancy and visitor circulation created by the progress of redevelopment projects, also the increase of the number of visitors from in and out of the country, the appetite for opening new retail shops and hotels remained strong in central areas of major cities. As for office properties, the vacancy rate continued declining in general, supported by the improved corporate performance, and in some areas, the rent started to increase. In addition to such improvement in profitability of commercial land, the favorable financing environment due to monetary easing made the appetite for real estate investment by non-private investors stronger, therefore the commercial land price continuously increased from the previous year and its pace even gathered.

■ Land Price Change across Japan by Sector (nationwide)



■ Land Price Change by Sector (As of July, 2018)

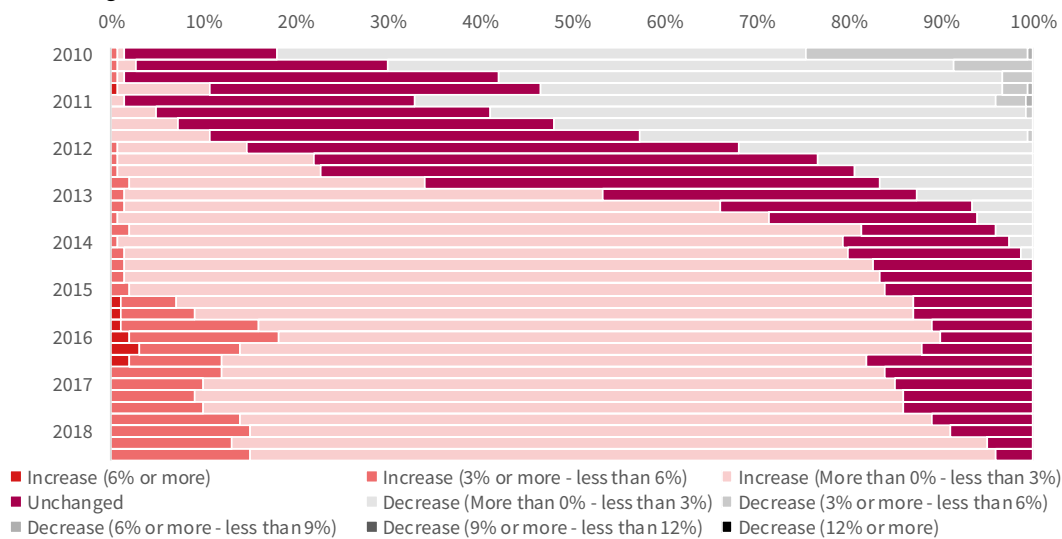
	Residential		Commercial		Industrial	
Nationwide	-0.3%	(0.3%↑)	1.1%	(0.6%↑)	0.5%	(0.5%↑)
Greater Tokyo	1.0%	(0.4%↑)	4.0%	(3.4%↑)	2.9%	(2.3%↑)
Greater Osaka	0.1%	(0.1%↑)	5.4%	(5.4%↑)	1.7%	(1.7%↑)
Greater Nagoya	0.8%	(0.2%↑)	3.3%	(2.7%↑)	0.5%	(-0.1%↓)
Other Regions	-0.8%	(0.2%↑)	-0.1%	(0.9%↑)	0.0%	(1.0%↑)

Source: Ministry of Land, Infrastructure, Transport and Tourism

5.2.2. Intensively Used Land Price Trends

The Ministry of Land, Infrastructure, Transport and Tourism issues the Land Value LOOK Report, which tracks the trend of the value of intensively used land in major cities of Japan every quarter, covering 43 areas in the Greater Tokyo, 25 areas in the Greater Osaka, 9 areas in the Greater Nagoya and 23 areas in the major regional cities, a total of 100 areas.

According to the report in Q3 2018, the number of areas where the land value increased was 96 (95 in Q1 2018), unchanged was 4 (5 in Q1), and declined was 0 (0 in Q1).

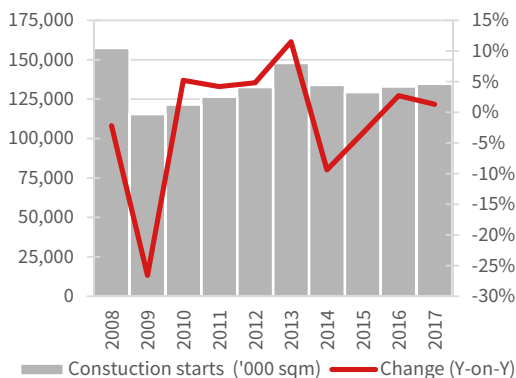


5.2.3. Building Start and Construction Cost Deflator

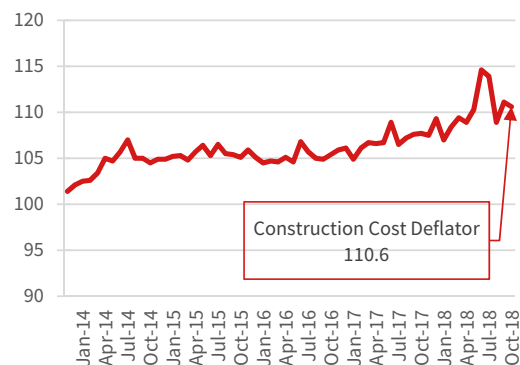
According to the Ministry of Land, Infrastructure, Transport and Tourism, the nationwide construction starts in 2017 was 134,679,000 sq m (1.3 % increase y-on-y).

On the other hand, the construction cost deflator in October 2018 was 110.6 (Y2011=100), which indicated +2.7% points y-on-y.

■ Building Start Trend



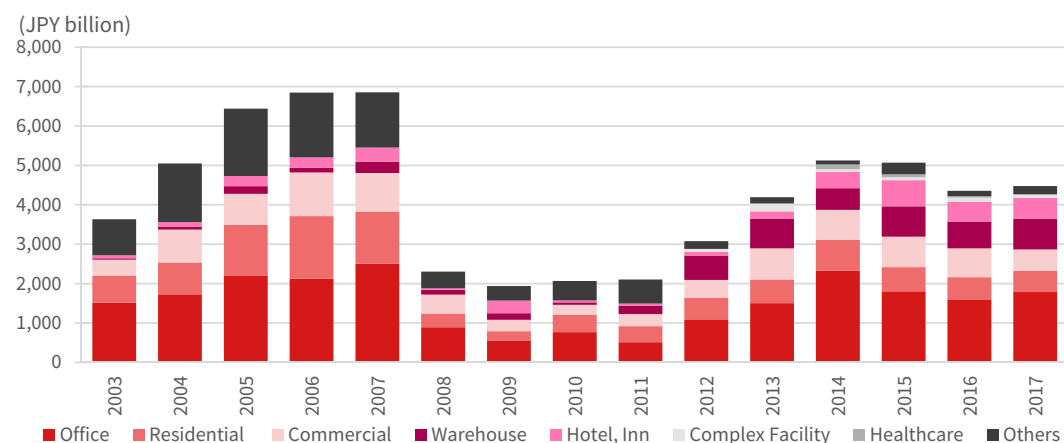
■ Construction Cost Deflator



5.2.4. Trend in Real Estate Securitization

According to the FY2017 Real Estate Securitization Survey issued by the Ministry of Land, Infrastructure, Transport and Tourism on May 31, 2018, the value of real estate as well as the trust beneficiary interests acquired by securitization vehicles and others for securitization purpose during FY2017 reached approximately JPY4.8 trillion with 1,093 cases. Among them, the value solely obtained by securitization vehicles was JPY2.6 trillion. On the other hand, the value disposed by securitization vehicles and others was approximately JPY4.2 trillion. Looking at the scheme of purchasers, J-REITs purchased approximately JPY1.83 trillion, accounting for 38.0% of the total value, followed by the GK-TK scheme with JPY1.41 trillion, TMK with JPY1.32 trillion and Joint Venture with JPY200 billion. As for the scheme of sellers, TMK disposed the most at JPY2.4 trillion, followed by the GK-TK scheme and others with JPY1.24 trillion. To see the invested value by sectors, office accounted for 41.0% of total, followed by warehouses at 17.9% and residential and commercial, both at 12.4%.

■ Trend in real estate obtained for securitization purpose by property purpose



Source: the Ministry of Land, Infrastructure, Transport and Tourism

5.2.5. J-REIT Market Trend

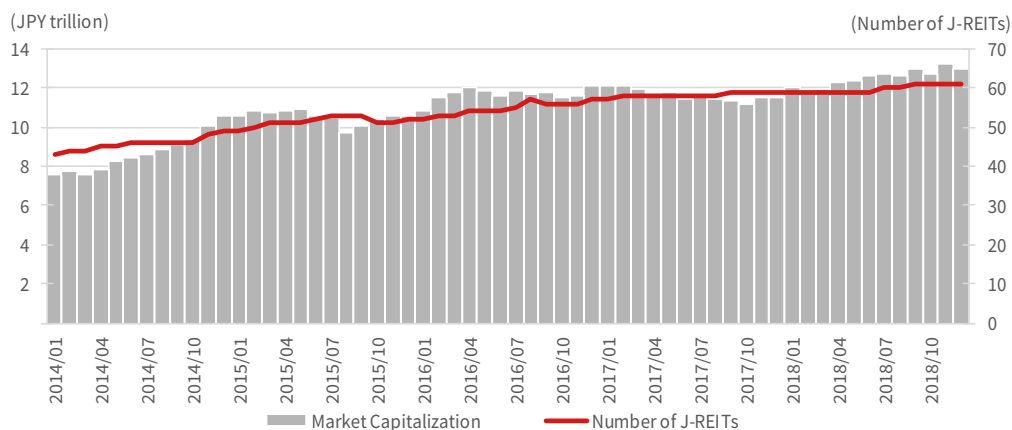
The market capitalization of the J-REITs listed on the Tokyo Stock Exchange as of December 2018 was JPY12.97 trillion with 61 J-REITs.

On the other hand, the TSE REIT Index increased from a year ago by 6.7 %, ended at 1,774.06.

In recent months, Takara Leben Real Estate Investment Corporation newly listed on the Tokyo Stock Exchange in July 2018, while Itochu Advance Logistics Investment Corporation successfully completed its IPO in September.

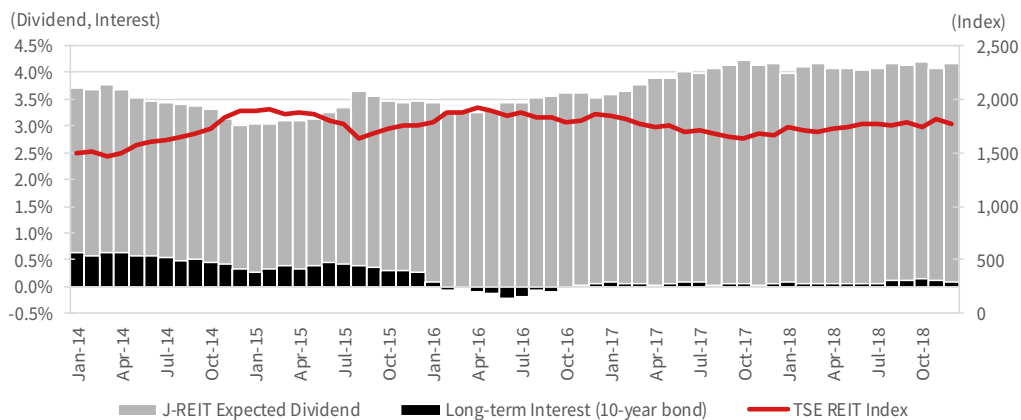
As for the private market, the Private REIT Quarterly survey conducted by The Association For Real Estate Securitization in 4Q 2018, the number of unlisted REITs included 28 with the AUM of JPY2.88 trillion (1.3% increase q-on-q), covering 713 properties.

■ J-REIT Aggregated Market Value and Number of Brands



Source: Tokyo Stock Exchange, Nikkei, Sumitomo Mitsui Trust Research Institute, etc.

■ J-REIT Dividend Yield Forecast, Long-term Interest and Tokyo Stock Exchange REIT index



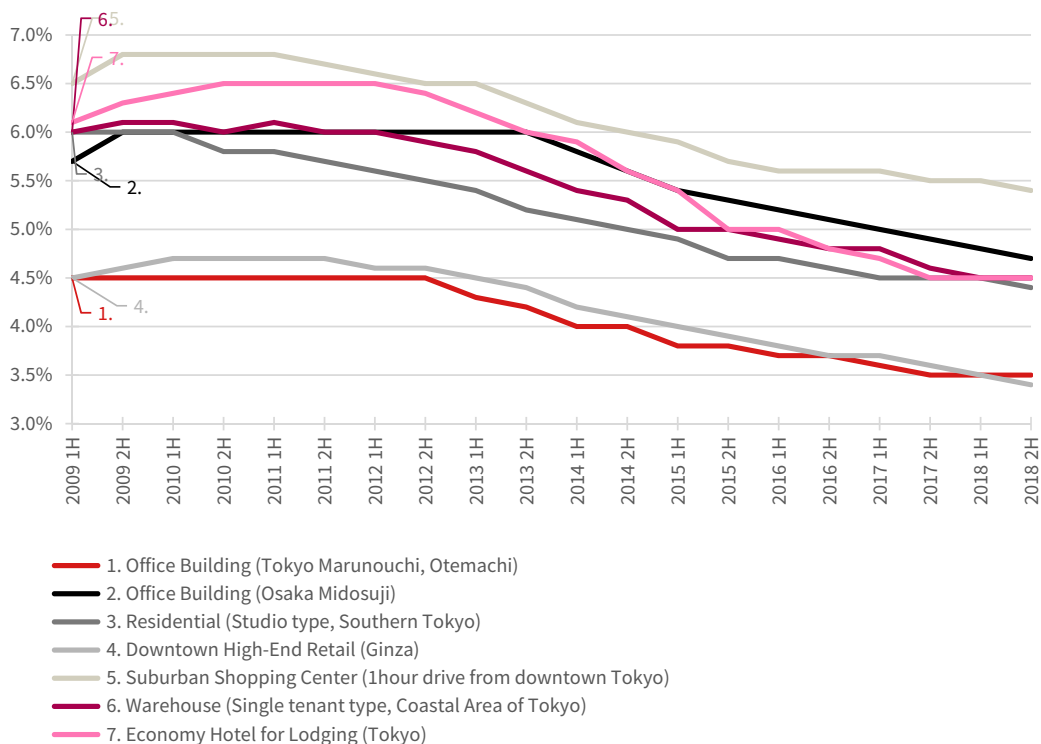
Source: Tokyo Stock Exchange, Nikkei, Sumitomo Mitsui Trust Research Institute, etc.

5.2.6. Real Estate Investor Survey

The Japanese Real Estate Investor Survey conducted by Japan Real Estate Institute as of October 2018 is as follows.

The expected yields for the real estate investment remained the same from six months ago at some selected areas despite the concerns against the overheat in the market, while the yields compressed by 0.1-0.3% points in most of the areas across the sectors, under the current easy monetary policy.

■ Trend in Real Estate Investment Expected Cap Rate by Investment Targets



Source: Japan Real Estate Institute

6. Area / Neighborhood Analysis

6.1. Area Summary

6.1.1. Description of Koriyama-shi, Fukushima-ken

Koriyama-shi is located in the center of Nakadori of Fukushima-ken, and is designated as a core city. The city is extended from east to west of Ou Mountains, with its west side located on the south bank of Lake Inawashiro which is located to the Sea of Japan side, and its east side reaches Abukuma upland. Downtown area is situated in between Utsunomiya-shi of Tochigi-ken and Sendai-shi of Miyagi-ken, and is connected to both cities by Tohoku Shinkansen, Tohoku Main Line, Tohoku expressway, and National Road Route 4. Further, the city has access to Aizuwakamatsu-shi and Niigata-shi in the west and Iwaki-shi in the east by Banetsu expressway, Banetsu-saisen (west line), Banetsu-tosen (east line) and National Road Route 49. Located at the cross road of transportation in east Japan, the city developed as a hub of economy, inland industry, logistics and transportation. Koriyama urban area is being formed with its second largest population and economy in the Tohoku area.

Given such characteristics of being a hub, the city also functions as an information distributing center of Fukushima-ken and is referred to as “mercantile city” and “economic prefectural capital”.

Koriyama station serving as a junction station, both people and goods gathered and as a result, Koriyama-shi became the largest city of Fukushima-ken with the introduction of municipal system in Taisho era. During the postwar rapid economic growth period, many companies from Keihin industrial zone moved into the area and ties with Kanto area was strengthened.

■ Population

	2015	2016	2017	2018	2019
Koriyama-shi	329,122	335,826	335,413	334,295	332,737
Fukushima-ken	1,935,142	1,911,933	1,896,758	1,877,876	1,859,220

■ Number of households

	2015	2016	2017	2018	2019
Koriyama-shi	135,416	138,678	140,101	140,891	141,719
Fukushima-ken	729,671	738,755	743,730	746,003	749,144

Source : Dated January 1/ Statistics Division, Bureau of Planning and Coordination of Fukushima-ken

6.2. Market Characteristic of Subject Property

6.2.1. Market area

The market area for the purchase and sale market is broadly defined to be commercial areas in prefectural capitals and core cities in each local region, with highly competitive substitution in commercial areas in Koriyama-shi.

The market area for the rental market is defined in the same way as in the purchase and sale market.

6.2.2. Market participants

■ Purchase and sale market

(Buyer's attribute and behaviour)

International/domestic public/private funding sources, institutional investors such as life insurance companies, and major real estate companies operating commercial facilities, business companies and private investors are the prospective buyers. Main buyers tend to make investment decisions based on the current NOI, projections of income and expenses, the rate of return, marketability, and the costs for funding. Real estate companies operating commercial facilities as well as developers and construction companies considering purchase of existing buildings for redevelopment are also prospective buyers and they tend to make investment decisions based on the current NOI, projections of income and expenses, the rate of return, marketability, costs for funding and profitability of investment on redevelopment project.

(Marker trend)

Although the steadiness of the real estate market has not largely changed due to the impact provided by the negative interest rate policy, etc., the preferred selling prices still remain very high. Selling prices of properties with prime locations in the suburban cities tend to show an increase and interest rates are on a declining trend. Against this backdrop, some of those on the demand side are displaying a cautious attitude.

■ Rental market

(Tenant's attribute and behaviour)

On the demand side are companies considering opening new stores in the subject area as the end-tenants. Main tenants tend to select properties based on the conditions of the site and the situation of competing properties, taking into consideration their rent affordability.

(Market trend)

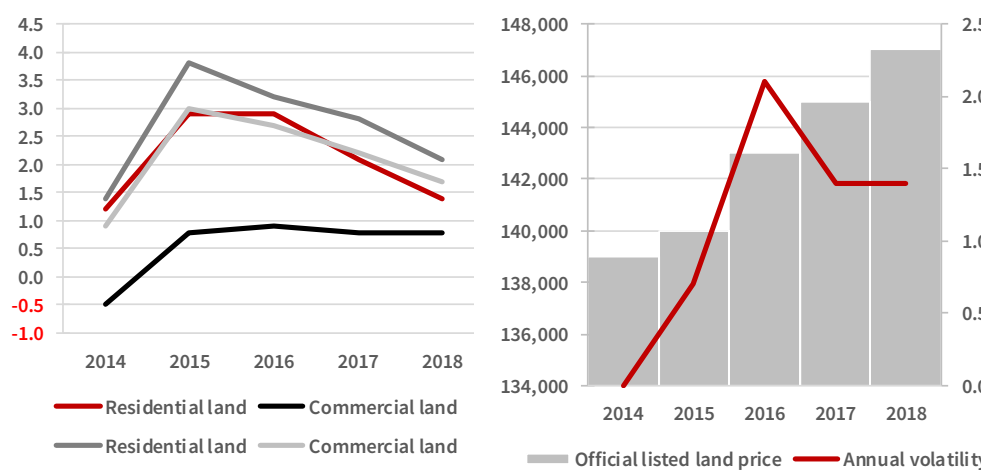
In both the Greater Tokyo area and regional areas there is a steady demand for commercial facilities with prime locations and competitive advantages, and their rents are stable.

On the other hand, both asking rents and contract rents are declining for commercial facilities that are less competitive; and their vacancy rates are remaining at a high level.

6.2.3. Land Price Trends in the Market Area

The latest figure of residential properties in Fukushima-ken in 2018 increased by 1.4% year-on-year, and that of commercial properties increased by 0.8% year-on-year. Latest figure of residential properties in Koriyama-shi in 2018 increased by 2.1% year-on-year and that of commercial properties increased by 1.7% year-on-year.

In addition, the latest figure of Official listed land price survey point “Koriyama 5-1” in similar areas, showed an increase of 1.4% year-on-year in 2018.



	Fukushima-ken		Koriyama-shi		Official listed land price survey point "Koriyama 5-1"	
	(Change, YoY)		(Change, YoY)		Value(JPY)	Change
	Residential land	Commercial land	Residential land	Commercial land		
2018	+ 1.4	+ 0.8	+ 2.1	+ 1.7	147,000	+ 1.4
2017	+ 2.1	+ 0.8	+ 2.8	+ 2.2	145,000	+ 1.4
2016	+ 2.9	+ 0.9	+ 3.2	+ 2.7	143,000	+ 2.1
2015	+ 2.9	+ 0.8	+ 3.8	+ 3.0	140,000	+ 0.7
2014	+ 1.2	- 0.5	+ 1.4	+ 0.9	139,000	± 0.0

Source: Ministry of Land, Infrastructure, Transport and Tourism

6.3. Neighborhood

Neighborhood	
Boundaries	Out of district No.1 to No.4 of Omachi 2-chome, Koriyama-shi, an area alongside an arterial road which the subject property has frontage on its southwest side.
Characteristics	Roadside commercial area with heavy traffic where retail stores and logistic facilities, etc. are located.
Frontage	Approximately 32m-wide public road with sidewalks on both sides
Transportation access	Approximately 800m northwest of “Koriyama” Station on the JR Tohoku Main Line.
Environment	<p>Topography : Downward slope from the west to the east which then turns into an upward slope, forming a dip.</p> <p>Water supply : Public system available</p> <p>Sewerage : Public sewage available</p> <p>Gas : Urban gas</p> <p>Hazardous/aversive facility : None in particular</p>
Administrative factors	<p>City Planning Area</p> <p>Urbanization Promotion Area</p> <p>Zoning : Commercial Area</p> <p>Designated building cover ratio (“BCR”) : 80%</p> <p>Designated floor area ratio (“FAR”) : 400%</p> <p>Fireproof / Quasi-fireproof Area : Quasi-fireproof Area</p> <p>Other restrictions : Parking promotion district (Koriyama station west exit district), Urban Function Induction area (Koriyama station central hub area)</p>
Future outlook	Nothing identified that would affect the composition of the neighborhood, and the neighborhood’s character is expected to remain as is.
Standard use	Judged to be a site suitable for a low-rise retail store based on characteristics and future projection of the neighborhood.
Standard lot	An inside lot with shape of rectangle and size of approximately 500 sq. m

7. Analysis of the Subject Property

7.1. Land Description

Land Description	
Current Use	Subject property is used as a low-rise retail store
Frontage	2-Street lot Southwest : Approximately 32m Public road (Article 42-1-1) North : Approximately 18.3m Public road (Article 42-1-1)
Transportation access	Approximately 800m northwest of “Koriyama” Station on the JR Tohoku Main Line.
Environment	Similar to the standard lot in the neighborhood.
Administrative factor	Designated BCR (80.00%) , Designated FAR (400.00%) Similar to the standard lot in the neighborhood in other aspects.
Site	Area (Registered) Total 2,210.41 sq m Frontage : Approximately 45m Depth : Approximately 35m Shape : Irregular Topography : Almost flat Site level : Almost level at the street level, but there is an approximately 1m height difference with a road in the north.
Buried cultural treasures	Based on the hearing with the public administration, the subject property is not designated as land containing buried cultural treasures. Not designated. Therefore, we have concluded that this factor does not influence determinants of value in this analysis.
Soil contamination	Whether the property is designated as an area requiring measures under Act for Controlling Soil Contamination or as an area requiring notification upon changing its character. : Not designated Based on the hearing with the public administration, it is confirmed that notification was submitted in 1976 for a gas station under the address 3-5, Omachi 2-chome as a specified facility under the sewage act. Based on the original research by the real estate appraiser, the record of land use in the subject property (including surrounding areas) is as follows; [Historical geographic survey] 1970 Parking lot, gas station, office etc., 1980 Parking lot, gas station, office etc., 1987 Family oriented restaurant, parking lot, gas station, office etc., 1997 Family oriented restaurant, parking lot, gas station, small-size retail store etc., Possibility of soil contamination cannot be completely denied from the results of its site inspection, hearing with the administrative agencies, and historical geographic survey conducted by old maps etc.,

Land Description	
	<p>As per mentioned in the conditions for scope of work, this factor is eliminated from determinants of values in this analysis.</p> <p>The above conclusion only indicates the existence/non-existence of signs of soil contamination that are found within the scope of our normal research, and it does not prove that there is no risk of soil contamination.</p>
Subsoil objects	<p>Based on the appraiser's original research conducted which include objective information, hearings and appearance inspection at the site, it is assumed that there exist no subsoil objects. Therefore, this factor is excluded from determinants of value in the analysis.</p> <p>The above conclusion only indicates the existence/non-existence of signs of subsoil objects that are found within the scope of our normal research, and it does not prove that there is no risk of subsoil objects.</p>
Borders	<p>It is unknown if the borders are confirmed. Based on the site inspection conducted, it is assumed that there is no serious crossing of borders that may impact on its value. However, as per mentioned in the conditions for scope of work, this factor is eliminated from determinants of values in this analysis.</p> <p>Further, the above conclusion only indicates the existence/non-existence of signs of the crossing of borders that are found within the scope of our normal research, and it does not prove that there is no risk.</p>
Other	None

7.2. Building Description

Building Description			
Date of construction	3 February 2014 (Registered) , 5-year-old		
Structure	Lightweight steel frame structure		
Stories	1 story		
Use	Retail store		
Floor area	【Main Building】		
	Floor	GFA *1	NRA *2
	1F	199.59 sq m	199.60 sq m
	Total	199.59 sq m	199.60 sq m
	【Accessory Building】		
	Floor	GFA *1	NRA *2
	No.1	8.35 sq m	-
	Grand total	207.94 sq m	199.60 sq m (Main and accessory buildings)
*1: GFA is based on the Registration. *2: NRA is based on the lease agreement provided.			
Building plan and design plan, etc.	Details are shown in the attachment Building Plan.		
Designer	K.K. Jes sekkei		
Contractor	AKIYAMA YUAVIS CONSTRUCTION CO.,LTD		
Grade	Standard		
Maintenance	The subject property is 5-year-old. It is relatively new and its maintenance is up to date.		
Conformity with surrounding environment	The subject property is a low-rise rental retail building and Matched the standard use in the neighborhood. Therefore, the subject building generally conforms to the surrounding environment.		
Hazardous materials	Judging from the hearing conducted, use of the building, its structure, and year of construction, the possibility of the use of Asbestos and PCBs is extremely low. As per mentioned in the conditions for scope of work, this factor is eliminated from determinants of values in this analysis. The above conclusion only indicates the existence/non-existence of signs of hazardous substances that are found within the scope of our normal research, and it does not prove that there is no risk of hazardous substances.		
Seismic adequacy	Considering from the year of building construction, it is judged that the building was constructed conforming to the new seismic adequacy standard. Therefore, this factor is excluded from determinants of value in the analysis.		
Legal compliance	Building Permission Certificate : Confirmed Building Inspection Certificate : Confirmed As per above, building inspection certificate was confirmed. Together with the result of site inspection and research conducted by local administrations, it is considered that legal conformity is guaranteed. (Based on the original research by the appraiser)		
Other	None		

7.3. Building and its Site Description

Building and its Site Description																	
Balance between Building and its Site	<p>BCR: Effective 9.49% < Permitted 80.00% FAR: Effective 9.41% < Permitted 400.00%</p> <p>The subject building does not fully utilize its permitted FAR. Although many of the buildings in the surrounding are low-rise buildings, etc., the utilization rate of the subject property is far too low. Although the building is efficiently located within the site, efficiency of site use is far from being maximized.</p>																
Leasing Status	<p>Subject property is a single tenant property and standard lease agreement is in place. Rent level etc., are judged to be almost in line with the market rent level.</p> <p>The details of the lessee, SEVEN-ELEVEN JAPAN Co., Ltd are as follow;</p> <table> <tr> <td>Company Name</td><td>SEVEN-ELEVEN JAPAN Co., Ltd</td></tr> <tr> <td>Corporate headquarter</td><td>8-8, Nibancho, Chiyoda-ku, Tokyo</td></tr> <tr> <td>Capital</td><td>JPY 17,200,000,000-</td></tr> <tr> <td>Date founded</td><td>20 November 1973</td></tr> <tr> <td>Representative</td><td>Furuya Kazuki, President</td></tr> <tr> <td>Number of employees</td><td>8,886 (As of the end of February 2018)</td></tr> <tr> <td>Main business</td><td>Convenience store etc.,</td></tr> <tr> <td>Number of stores</td><td>20,260(In Japan)</td></tr> </table>	Company Name	SEVEN-ELEVEN JAPAN Co., Ltd	Corporate headquarter	8-8, Nibancho, Chiyoda-ku, Tokyo	Capital	JPY 17,200,000,000-	Date founded	20 November 1973	Representative	Furuya Kazuki, President	Number of employees	8,886 (As of the end of February 2018)	Main business	Convenience store etc.,	Number of stores	20,260(In Japan)
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Representative	Furuya Kazuki, President																
Number of employees	8,886 (As of the end of February 2018)																
Main business	Convenience store etc.,																
Number of stores	20,260(In Japan)																
Competitiveness of the Subject Property	<p>The nearest station is “Koriyama” Station on the JR Tohoku Main Line.</p> <p>The subject property is located at an approximately 10-minute walk from this station. It is located close to a crossing of arterial roads with heavy traffic. Location-wise, its visibility and ability to pull in customers are high. There are plenty of population in the background area and the subject property locates in a roadside commercial area with high potential.</p> <p>Based on the above, the competitiveness of the subject property in terms of location/site is superior.</p>																

	<p>The building analysis is as mentioned in the earlier section. The subject property is a low-rise rental retail store. It is a relatively new building and maintenance is up to date. There are enough parking spaces secured to cover the needs of the building of its size and the building covers necessary functions required by prospective tenants. As the building has a simple design, its versatility is high and can expect enough demands from prospective tenants. However, its utilization of permitted FAR is extremely low while certain level of intensive use is deemed reasonable for the property considering its high potential in terms of location, although it is in the roadside commercial area. Therefore, question remains whether or not the subject property is fully leveraging on its scarcity value.</p> <p>Based on the above, the competitiveness of the subject in terms of building features is average.</p> <p>The subject property is used entirely as a convenience store, and a fixed-term building lease agreement is in place. Its tenant is SEVEN-ELEVEN JAPAN and is a directly managed store. Rent of the store is in a reasonable level in comparison against market rent. As before mentioned, the tenant is a directly managed store of SEVEN-ELEVEN and tenant's credit is extremely high. Further, its value as a vacant land exceeds its income approach value, and there is no issue should the tenant plans to leave. Therefore, it can be concluded that the property does not bear the risk of tenant's vacation. Based on the above, the competitiveness of the subject property in terms of contract and tenant is extremely superior.</p> <p>Both land and building are owned by the same entity, and there is no factor which inhibits marketability and competitiveness of the subject.</p> <p>Taking into account all of the above, we have concluded that the competitiveness of the subject property is judged to be superior.</p>
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7.4. Highest and Best Use as Improved

Highest and Best Use as Improved	
Highest and Best Use as Vacant Land	<p>Considering the characteristics of neighbourhood and the subject property and the future forecast, the highest and best use as vacant land is judged as below.</p> <p>Site for low-rise retail store</p>
Highest and Best Use as Improved	<p>Although the subject property matches the environment, the subject building and the land is maladapted. Considering from the fact that a fixed term building lease agreement is in place and that it is a single tenant occupied building, one can review a scenario of dismantling the building at the end of the lease period. However, there remains 15 more years till the maturation of the lease period, and it is extremely challenging to accurately access the land price 15 years ahead. Further, in terms of use, it conforms to the highest and best use of the site. The difference compared against the highest and best use as vacant land is limited.</p> <p>Therefore, the highest and best use as improved is judged as below.</p> <p>Continuing use as a low-rise rental retail store</p>

8. Application of Valuation Approaches

8.1. General Directions

The subject property is identified as a Tenant-occupied Building and its Site, and the cost approach and income approach are applied to conclude value. The sales comparison approach for building and its site as a whole is not applicable due to lack of sufficient sales comparables.

8.2. Cost Approach

The cost approach value is determined by deducting the necessary depreciation from the replacement cost at the date of valuation.

The process of estimation is shown in Appendix 4: *Cost Approach Value Estimate Table*.

8.2.1. Replacement Cost

The replacement cost of the site and the building are estimated, to which the incidental expense is added to assess the subject's replacement cost.

8.2.1.1. Land (Vacant Land)

The vacant land value is estimated by applying the sales comparison approach, with reference to the benchmark value. The process of the estimation is shown in Appendix 5: *Land Value Estimate Table*.

Sales comparison approach value and Benchmark value	
Sales comparison approach value	JPY 153,000 per sq. m
Benchmark value	JPY 120,000 per sq. m

(Benchmarked to Official listed land price survey point : Koriyama 5-1)

In this analysis, the standard value of the standard lot has been estimated at JPY 153,000 per sq. m, putting emphasis on the sales comparison approach value which reflects the actual state of the market, although there is a difference between the sales comparison approach value and the benchmark value.

The value of the subject land is assessed by multiplying the amount of land areas by the unit value which is estimated by adjusting for the attributes of the subject site. The basis for adjustment for the subject's attributes is as follows.

Item	Adjustment	Basis for adjustment
Large Size	- 20%	Judging by the relation between unit price and total value
2-Street Lot	+ 1%	Based on an increase in efficiency of use
Irregular	- 2%	Based on a decrease in efficiency of use
Visibility	+ 5%	Based on an increase in efficiency of use
Multiple	83%	

8.2.1.2. Building

We have estimated the value of the building by comparing with construction costs of similar buildings. As for structures, estimated the value by comparing with acquisition value of similar buildings.

8.2.1.3. Incidental Expenses

Incidental expenses are estimated by considering the following:

- Direct cost related to land such as acquisition fee, a development application fee and property tax, etc.
- Direct cost to building such as design/ supervision fee, building certificate application fee and registration fee, etc.
- Cost to building and its site such as financing cost and the equivalent amount of development risk, etc.

8.2.2. Depreciation

8.2.2.1. Depreciation for Land

No depreciation is deducted for land.

8.2.2.2. Depreciation for Building

The depreciation value of the building etc.,(building and structures) is assessed by applying both useful life depreciation and observation depreciation.

As for useful life depreciation, we classify the components of the building into the building frame, the finishing and the installation, then assesses each depreciation rate considering age and remained economic useful life. Residual rate at the end of useful life is estimated at 0%. As for observation depreciation, we conclude that there is no adjustment considering physical depreciation confirmed upon site inspection and competitiveness of the subject property in the market..

8.2.2.3. Depreciation for Incidental Expense

Estimated the depreciation rate to be 100% as a result of assessing depreciation value of incidental expenses.

8.2.2.4. Depreciation as Improved

Estimated the depreciation rate as a whole, understanding the subject property's level of divergence in terms of the highest and best use.

8.2.3. Cost Approach Value

Deducting the depreciation from the replacement cost assessed as above, we have estimated the cost approach value of the subject property as follows.

Replacement Cost		Depreciation		Cost Approach Value
JPY 360,362,460	—	JPY 137,302,419	≒	JPY 223,000,000

Cost Approach Value	JPY 223,000,000	
Land	JPY 196,700,000	(88%)
Building	JPY 19,400,000	(9%)
Structure	JPY 6,900,000	(3%)

■ The values of the land and the building etc., shown above, were obtained through allocating cost approach value based on the ratio of land value / building value etc., before depreciation as a whole.

8.3. Income Approach

The value estimate (income value) is derived by calculating the total sum of the present value for the expected future net cash flow for the subject property. The income approach value is estimated using the direct capitalization and DCF method.

The direct capitalization method derives a net cash flow ("NCF") of a single year, and capitalizes this with a capitalization rate to estimate value.

The DCF method aggregates a NCF of each year for multiple consecutive terms and reversionary value discounted to present value depending on their timing.

Materials provided by representative of the client which have been used in the income approach are shown below:

Title	Name in the Report	Date of issue, etc.
Property Tax Rolls	Property tax amounts	2018

8.3.1. Subject's New Market Rent

Before application of the income approach, the subject's new market rent is assessed. This affects cash flow forecasts in the DCF method, and the NCF for a single year, discount rate, capitalization rate, terminal capitalization rate, etc. in the direct capitalization method.

8.3.1.1. Rent Comparables

The contract/asking rents for competing properties in the surrounding area are as follows (including partial estimates). It was challenging to gather samples of suburban retail stores that would serve as suitable comparables. Unit price of rent has been assessed by referring to below comparables, especially paying attention to the size of buildings in comparison to the size of lands.

(Retail)

#	Signed/ Asking	Location	Completed	GFA *1	Stories *2	Contract area *3	Unit Rent (¥/Tb)
Subject	-	Omachi 2-chome, Koriyama-shi, Fukushima-ken	Feb-14	D	C	B	-
1	NA	Akita-shi, Akita-ken	2014	B	C	A	12,200
2	NA	Isesaki-shi, Gunma-ken	2013	B	C	A	11,100
3	NA	Ishinomaki-shi, Miyagi-ken	2014	B	C	A	10,800
4	NA	Fukaya-shi, Saitama-ken	2014	B	C	A	11,000
5	NA	Ishioka-shi, Ibaraki-ken	2014	B	C	A	12,700

*1 S : Over 1,000 Tb, A : 500 — 1,000 Tb, B : 300 — 500 Tb, C : 100 — 300 Tb, D : 100 Tb or less

*2 A : 3F or higher, B : 2F, C : 1F, D : B1F or below

*3 S : Over 500 Tb, A : 100 — 500 Tb, B : 30 — 100 Tb, C : 30 Tb or less

8.3.1.2. Subject's New Market Rent

Based on the above comparables, the actual contract and asking rents of the subject property, and interviews with real estate brokers, we have estimated the medium- to long-term average stabilized rent (including CAM) of the subject property as below, paying special attention to the sizes etc., of building against the size of lands. Deposits (refundable one-off payments) and key money (one-off payment regarded as advance payment of rent) are also estimated based on similar considerations.

#	Use	New Rent	Of which CAM	Deposit	Key money (Amortization)
1	New market rent for the subject property (Retail)	JPY 15,333 per Tb	JPY 0 per Tb	2 months	0 month

8.3.2. Forecast of Inflation

Along with the new market rent, we make projections of cash flow in the DCF method, and changes in prices which affect the NCF for a single year in the direct capitalization method, discount rate, capitalization rate, terminal capitalization rate, etc.

In calculating an estimate of the projected changes in prices, we account for future forecasts for GDP growth, GDP deflators and rent index trends, as well as historical rent indexes to arrive at the following estimates.

Forecast of Inflation	
Short-term forecast (1 - 3 years)	± 0.0%
Mid-term forecast (4 - 10 years)	± 0.0%
Long-term forecast (after 11years)	± 0.0%

8.3.3. Rates and Yields

8.3.3.1. Capitalization Rate

The capitalization rate used in the direct capitalization method and the discount rate, the terminal capitalization rate used in the DCF method have been estimated as below.

In this analysis, the capitalization rate of the subject property was assessed as follow by referring to below listed actual transactions. Potential of the market area of the subject property, competitiveness in terms of location/site conditions, building specification, rent type, contract condition, quality of tenant, and property interest etc., as well as forecast of variation of net operating income was taken into consideration. Although the capitalization rate assessed is slightly lower than the NCF rate in the below transactions, the vacant land value of the subject property exceeds the income approach value, and therefore even should the tenant leaves, there remains no risk. Further, the tenant credit is high and is highly stable. Therefore, referring also to the capitalization rate, the rate is judged to be reasonable.

*JPY M										
#	Signed/ Asking	Address	Completion	GFA (sq m)	NRA (sq m)	Transaction Price*	Per sqm*	Purchaser	Appraisal Cap Rate	NCF Cap Rate
1	Jan-18	Tokiwadai, Itabashi-ku, Tokyo-to	Aug-17	1,217	1,217	1,263	1,037,781	J-REIT	4.2%	4.6%
2	Jun-18	Daimyo, Chuo-ku, Fukuoka-shi, Fukuoka-ken	Apr-02	850	761	980	1,287,762	J-REIT	4.1%	4.7%
3	Nov-18	Nishiochiai, Suma-ku, Kobe-shi, Hyogo-ken	Aug-00	14,619	14,619	3,560	243,511	J-REIT	4.5%	4.7%
4	Oct-17	Chuo, Aoba-ku, Sendai-shi, Miyagi-ken	Mar-98	73,187	737	333	451,956	J-REIT	4.5%	4.7%
5	Jan-18	Saiwai-ku, Komukainishimachi, Kawasaki-shi, Kanagawa-ken	Jan-97	2,597	2,678	790	295,047	J-REIT	4.2%	5.2%
6	Jan-18	Takada, Itoshima-shi, Fukuoka- ken	Jul-08	3,003	2,843	900	316,592	J-REIT	5.3%	5.8%
7	Feb-19	Hon-amanuma, Suginami-ku, Tokyo-to	Sep-18	2,014	3,177	2,160	679,921	J-REIT	4.5%	6.1%
8	Feb-19	Honkomagome, Bunkyo-ku, Tokyo-to	Apr-94	1,067	1,067	750	702,938	J-REIT	4.4%	4.4%

Capitalization Rate

4.5%

8.3.3.2. Discount Rate

It is difficult to obtain third party market data with regard to discount rate. For the purpose of valuation we adopt the following three methodologies to determine the discount rate for the subject property.

8.3.3.2.1. Adding Risk Premiums to the Base Rate

This methodology applies various influential factors specific to the subject property, such as investment risks including illiquidity, management issues and its level of security as an asset, to interest rates of several financial assets such as government bonds in order to make appropriate adjustments. The quantity of risk caused by those factors varies depending on characteristic of property such as location, building age, specifications, property use, type of ownership, term of building lease, etc. We estimated respective risk premium to be added to the base rate (discount rate of typical A-class office building in Tokyo CBD calculated by adding risk premium of real estate investment to interest rate for risk-free government bond) caused by differences in those characteristic of the subject property and summed them up to arrive at the discount rate to be applied to the subject property as follows:

Item	Rate	Reference
Base rate	2.2%	-
Use	1.2%	Suburban Retail
Location	1.4%	Omachi 2-chome, Koriyama-shi, Fukushima-ken
Building age	0.1%	Approximately 5 years old
Specification	0.0%	Matches market demand
Size of exclusive area	0.0%	Matches market demand
Leases	-0.3%	Stability of tenant
Rights	0.0%	Fee simple
Other	-0.3%	No risk incurred from tenant's vacation due to its land value
Total	4.3%	

8.3.3.2.2. Band of Investment Method

This method derives the discount rate by calculating the weighted average of the financing components for the investments, debt and equity, with the discount rate for each factor. This report estimates the debt yield, loan-to-value (LTV), and internal rate of return (IRR) for the subject property and similar properties based on interviews with investors as the market participants, and derived the discount rate as shown below.

Debt yield	LTV	IRR	(1 - LTV)	Discount rate
1.5%	× 60%	+ 8.0%~10.0%	× 40%	≒ 4.1%~4.9%

8.3.3.2.3. Extracting Yield Rate from Capitalization Rate

This method derives the discount rate from the capitalization rate estimated as above, adjusting not only for projected NCF change in DCF analysis but also for factors that affect the NCF used in the direct capitalization method.

Factors	Impact on NCF
Expected change in NCF	±0.0%
Spread between NCF in direct capitalization and NCF in DCF analysis	-0.2%
Total	-0.2%

$$\begin{array}{rclclcl}
 \text{R (Capitalization rate)} & & \text{g (Growth rate)} & & \text{Y (Discount rate)} \\
 4.5\% & + & (-0.2\%) & = & 4.3\%
 \end{array}$$

8.3.3.2.4. Discount Rate

The discount rate determined by the methodologies above all includes various issues to be concerned. However, the approach takes property-specific factors into consideration and is reflective of the expected return of the market surrounding the subject property. We have made a comparison of the three discount rates obtained from three methodologies and conclude the discount rate to be adopted for the discounted cash flow method as follows.

Discount Rate	4.3%
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8.3.3.3. Terminal Capitalization Rate

The terminal capitalization rate is the capitalization rate at maturity of the holding period (the end of year **10**), and is estimated as below by combining the capitalization rate as at the date of valuation, term risk (change in the neighborhood and building age), spread between the NCF applied in the direct capitalization method and that of year **11**, and expected change in NCFs after the maturity of the holding period.

Terminal Capitalization Rate	4.6%
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8.3.4. Direct Capitalization Method

8.3.4.1. NCF

The NCF is estimated by deducting total expenses from the gross income. The process of estimation is shown in Appendix 6: *NCF Estimate Table and Forecast Variables* and Appendix 7: *Direct Capitalization Estimate Table*.

The assumptions regarding this estimate are as follows:

- The stabilized NCF, which focuses on the mid-/long-term profitability of the subject property, is applied in this analysis;
- The spread between the projected change in NCF of the DCF method and the NCF applied in the direct capitalization method is incorporated in the capitalization rate;
- The tenant turnover is estimated at retail: 20 years based on the past performance of the subject property and similar properties;
- As stated in the forecast inflation section, the expected change in prices is assumed to be $\pm 0.0\%$.

8.3.4.2. Capitalization Rate

As stated in the capitalization rate section earlier in the report.

8.3.4.3. Direct Capitalization Value

By applying the above capitalization rate to the net cash flow, we have estimated the direct capitalization value as follows.

NCF	Capitalization Rate	Emergency Repair Cost	Direct Capitalization Value
JPY 8,812,560	÷ 4.5%	— JPY 0	≡ JPY 196,000,000

**Direct Capitalization Value
(Per net rentable area)**

JPY 196,000,000
(JPY 982,000 per sq m)

8.3.5. DCF METHOD

The DCF Method discounts anticipated future net cash flow and a reversionary value to a present value at a chosen yield and add them up to estimate a value indication.

Please refer to Appendix 6: *NCF Estimate Table and Forecast Variables*, Appendix 8: *DCF Method Estimate Table* and Appendix 9: *DCF Method Cash Flow Table* for details.

The assumptions regarding the estimates are as follows:

- The analysis period is set at 10 years based on the typical holding period for real estate investors;
- The tenant turnover is estimated as in the direct capitalization method;
- We assume the NCF will stabilize at the end of projection period in line with tenant turnover
- As stated in the forecast inflation section, the expected change in prices is assumed at $\pm 0.0\%$;
- Cost of sales is estimated at 2% of selling price.

8.3.5.1. Sum of Present Value of NCF for the Holding Period

Please refer to Appendix 6: *NCF Estimate Table and Forecast Variables*

8.3.5.2. Present Value of Net Terminal Value

NCF in year 11 is capitalized with the terminal capitalization rate from which cost of sale is deducted, which is then multiplied with a present value factor to estimate the present value of net sales proceeds.

8.3.5.3. DCF Value

Based on above analysis, we have estimated the DCF value as below.

Sum of present value of NCF for the holding period	Present value of net terminal value	Emergency Repair Cost	DCF Value
JPY 70,207,622	+ JPY 123,236,388	− JPY 0	≡ JPY 193,000,000

**DCF Value
(Per net rentable area)**

**JPY 193,000,000
(JPY 967,000 per sq m)**

8.3.1. Income Approach Value

Direct capitalization value	JPY 196,000,000
DCF Value	JPY 193,000,000

Two value estimates are derived as above.

The value estimate using the direct capitalization method capitalizes a single-year NCF by the capitalization rate. It is a simple method as the only variables are the single-year NOI and capitalization rate, but on the other hand, it is difficult to reflect the discrepancies in the single-year NCF and the factors which underlie changes in expected NCF. In the analysis, expected changes in NCF and future risks in relation to the single-year NCF adopted are incorporated in the capitalization rate.

The value estimate using the DCF method is value based on explicit future scenarios regarding changes in cash flow and exit, and therefore relies on the accuracy of such predictions and their effects on future cash flow.

In the analysis, projectable change in NCF has been appropriately reflected in the cash flow.

Based on the above, the income approach value using the DCF method is judged to be more convincing. Therefore, we have concluded that the DCF value should be preferred and estimated the income approach value as follows.

Income Approach Value (Per net rentable area)	JPY 193,000,000 (JPY 967,000 per sq m)
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9. Reconciliation and Conclusion of value

9.1. Reconsideration of the Value Estimates

The value estimates shown below have been obtained, and the values are reconsidered to determine our confidence and conclude valuation.

Cost Approach Value	JPY 223,000,000
Income Approach Value	JPY 193,000,000

The cost approach focuses on cost. For assessment of replacement cost, the sales comparison approach has been applied for land, with sufficient reference to the benchmark price. As for the building and structures, construction costs, etc. of similar buildings were used as a reference. We estimated the incidental expenses taking into account the market condition of various expenses for land and building etc., There is no depreciation for land, and a combination of useful life and observed depreciation is used to assess depreciation of the building etc., As for the incidental expenses, we depreciate in terms of the period to hold its usefulness.

In addition, we have estimated considering the marketability as a building and its site.

The cost approach value derived as above is an empirical value supported by sufficient data.

The income approach value mainly focuses on profitability. In the analysis, both the direct capitalization method and DCF method are used to estimate value.

Valuation derived using the direct capitalization method used NCF based on mid- to long-term income producing capability, and is considered objective and realistic. The capitalization rate is derived from market transactions to reflect current market conditions.

In the DCF analysis, a NCF for each year is estimated using the cash flow table, reflecting changes in income and expenses over the next 11-year period.

The discount rate is derived by using 3 methods. The terminal capitalization rate is estimated by adding future risk premiums to the capitalization rate as at the date of valuation.

In the analysis, the DCF value is more heavily weighted in indicating the income approach value because the change in NCFs can be appropriately predicted; however, the value is generally verified by the direct capitalization value.

Further, the following issues are considered:

- Appropriateness of selection, evaluation and use of data
- Appropriateness of use of the basic principles that underlie value of real estate
- Appropriateness of factor analyses
- Appropriateness of judgments regarding adjustments in applying each approach
- Consistency of judgments of factors that affect value common to each approach
- Appropriateness of the relationship between unit price and aggregate value

9.2. Judgments Regarding the Level of Conviction of each Value Estimate

The subject property is a rental retail building, and major prospective buyers focus on income producing capabilities of properties. Therefore, the income approach value is judged to reflect the actual state of the market more accurately.

9.3. Appraised Value

Therefore, we consider the income approach value to be of primary relevance, while the cost approach value has been used as reference, and we have concluded the value of the subject property as of the date of valuation as follows.

Appraised Value (Per net rentable area)	JPY193,000,000 (JPY 967,000 per sqm)
--	--

Additional Statements

1. If obligation to return deposit is assumed by the new buyer upon transaction, it is appropriate that the purchase price deducts such deposit from the appraised value. Construction cooperation money has been paid to the lessor by the lessee as deposit and has been reimbursed over the 20 years. It is common that such construction cooperation money gets settled upon the sale. Therefore, we have conducted the appraisal based on the assumption that this does not get succeeded by the buyer.
2. The appraised value does not include consumption tax and local consumption tax which will be levied upon the transaction.
3. Division of Roles

	Name of Appraisal Firm	Name of Appraiser	Sign and Seal	Scope of Work
Assignee	JLL Morii Valuation & Advisory K.K.	Kenichi Katsumi	✓	Preparation and application of all appraisal procedures.
		Yasuhiro Takebe		Screening of the assignment
		Hiroaki Honda		Review of appraisal report
		Junichiro Iida		Collection of land sales comparables
Business Alliance	None			



APPRAISAL REPORT

GAIA Koriyamaomachi

Date of Issue 11 March 2019
Report Number 19-0114

(Client)

NIRAKU CORPORATION

(Recipient of the Appraisal Report other than the Client)

Broker, Seller



Preface

1. This real estate appraisal report (hereinafter, the “Report”) has been prepared by JLL Morii Valuation & Advisory K.K. (established 1948, hereinafter, “JLL Morii”) by its licensed real estate appraisers and assistant real estate appraisers (hereinafter, the “appraisers”) in keeping with their expertise and conscience, in accordance with the Act on Real Estate Appraisal (Act No. 152 of 1963, hereinafter, the “Act”).
2. JLL Morii warrants that the Report is issued after a fair and objective review, and both JLL Morii and its appraisers shall keep information that becomes known to them in the course of this work in strict confidence.
3. The Report's content and the appraised value thereby arrived at are valid only insofar as the assumptions specified below and the conditions of the investigation indicated in the text apply.
 - a. Inspection of rights relationships and contractual relationships and the survey of the physical status of the Properties are undertaken on the basis of the official register and any registered maps, as well as information provided by you. We do not make any explicit or implicit guarantees with respect to such rights relationships, contractual relationships or physical status of the Properties.
 - b. Confirmation of the subject property is done by survey of the exterior to the extent possible by visual inspection. With respect to soil contamination, buried properties, buried cultural properties, asbestos, building interior defects etc., it is assumed that none exists other than those described in this appraisal. JLL Morii shall assume no responsibility in the event such presence is established in the future.
 - c. The appraised value indicated as the conclusion of this work by no means guarantee the actual transaction value at the date of value or in the future.
4. The Report has been prepared by the named appraiser with the normal duty of care, however the responsibility for the Report shall be borne by JLL Morii.
5. A copy of the Report will be held at JLL Morii for a period of five years pursuant to legal provisions.
6. If parts of the Report are to be quoted or used for any purpose other than the original purpose, please consult with JLL Morii in advance and obtain consent in writing.
7. If the original copy of the Report has been prepared in Japanese, JLL Morii shall not be responsible for its content that has been translated into any other language.
8. Any disputes that may arise from this Report shall be subject to the laws of Japan, and shall be referred to the Tokyo District Court as the court of first instance.

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Report

1. Appraised Value

Market value for the subject property as of 28 February 2019 is as shown below.

Appraised Value
(Market value)

JPY2,030,000,000

· The appraised value above is based on the conditions mentioned in Conditions of the appraisal.

2. Description of the Subject Property

2.1. Land

Land		
Location and tract #	(Registered)	Nos. 35 and 10 other tracts, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Use	(Registered / Actual)	Building Site / Building Site
Area	(Registered)	Total 8,659.12 sq m
Holder of the title	GAIA Co., Ltd.	

2.2. Building 1

Building	
Location	No.35, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Building number	37-1
Structure	Steel framed structure, alloy plating steel sheet roof, 2 stories
Floor area	Total 2,130.53 sq m
Holder of the title	GAIA Co., Ltd.

2.3. Building 2

Building	
Location	No. 35, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Building number	52-1
Structure	Wood framed structure, alloy plating steel sheet roof, 1 story
Floor area	Total 21.69 sq m
Holder of the title	GAIA Co., Ltd.

2.4. Building 3

建物	
Location	No. 35, Omachi 2-chome, Koriyama-shi, Fukushima-ken
Building number	57-1
Structure	Steel framed structure, flat roof, 3 stories
Floor area	Total 11,305.08 sq m
Holder of the title	GAIA Co., Ltd.

3. Basic Particulars of the Assignment

3.1. Basic Particulars of the Assignment

3.1.1. Subject property

The subject property is a 2-story rental retail building (GAIA Koriyamaomachi), located to the northwest of “Koriyama” Station on the JR Tohoku Main Line.

3.1.2. Property Type and Interest

Type: Commercial Land

Interest: Owner-occupied Building and its Site

3.1.3. Value to be appraised

Market value

3.1.4. Date of Valuation

28 February 2019

3.1.5. Date of the Appraisal

08 March 2019

3.1.6. Conditions of the Appraisal

3.1.6.1. Conditions for the subject identification

As is

3.1.6.2. Assumptions

None in particular

3.1.6.3. Conditions for scope of work

- Determinants of value subject to the coverage: Factors related to soil contamination, asbestos, PCBs, and border.

- Scope of work: Research to be limited to confirmation of existence of statutory regulations and its content.

- Handling of the scope of work upon appraisal: They will be excluded from determinants of value in the analysis.

Above conditions are judged not to damage the interests of those who refer to this appraisal as those who refer to this appraisal shall make judgements by their own as to whether or not those factors may influence value, based on the research, assessments, and results involving determinants of value by the clients etc.

3.1.6.4. Other

None in particular

3.2. Purpose of Request of Appraisal and Range of Report Users , etc

3.2.1. Purpose of Request of Appraisal

Reference for the acquisition of the subject property

3.2.2. Background for requesting the appraisal

The client is considering the acquisition of the subject property, and needs to assess the fair value of the subject property in the marketplace, which has resulted in its appraisal request.

3.2.3. Recipient of the Report other than the Client

Broker, Seller

3.2.4. Disclosure of Appraisal Value

Auditor

3.2.5. Publication of Appraisal Value

None

3.2.6. Necessity of approval for expansion of report users after the issuance of the report

If the appraisal value is announced or disclosure is expanded after the report is issued, approval of the real estate appraiser responsible for this analysis and the company will be required with a written request of approval prior to such announcement or disclosure.

3.3. Relationships between the purpose and the conditions of the appraisal and value to be appraised and between the type of documents

The appraisal assignment, conducted for the purpose and under the conditions mentioned above, is intended to estimate the fair value of the subject property in the market. Therefore, the value to be appraised is "Market Value".

3.4. Interests Held by Appraisers and Appraisal Firms Involved

3.4.1. Interests in the subject property held by appraisers and appraisal firms involved

None

3.4.2. Relationships among the client, appraisers and appraisal firms involved

None

3.4.3. Relationships among the entities to which the report is submitted, appraisers and appraisal firms involved

None

3.5. Unknown factors regarding the appraisal assignment and research conducted

None in particular.

4. Identification of the subject property

4.1. Physical Identification

4.1.1. Site inspection

Date of site inspection: 19 February 2019

Appraisers who inspected the subject: Kenkichi Katsumi

Accompanied by: Mr. Shudo Kanai, NIRAKU CORPORATION

4.1.2. Data used for identification

Certificates of registration, Floor plan, Official lot map, Building plan, Lease agreement, etc.

4.1.3. Areas inspected

Land: Entire site, boundaries, etc.

Building: Retail store on the 1st floor and back of house area on the 2nd floor, etc.

4.1.4. Particulars verified

Location, Shape, Size, Boundaries, Occupancy, etc.

4.1.5. Confirmation and result of identification

It has been confirmed that the state of the subject property is generally as it appears in the data.

4.1.6. Quantities Adopted in the Valuation

Land : Registration

Building : Registration

Net Rentable Area : Registration (assuming leasing)

4.2. Identification of the Property Interest

The subject property is owner-occupied as at the time of valuation, and there is no right attached that may restrict the usufructuary right.

Tract Nos. 58, 59, and 465 that are used as a unit with the subject property belong to other owner and land lease agreement is in place. Although these sites are included in property size in the building permission certificate, lease contract is in place with intended use as parking lot and it is regarded as land lease agreement in accordance with the Civil Law, without the application of Act of Land and Building Lease. Further, certain amount of rent is incurred for the land, and the right of lease is judged to have no value. Therefore, it is not included in land size upon appraisal. However, emphasizing on the fact that it is used as a unit with the subject property, car parking fee has been included in the income capitalization approach while the rent has been assessed based on the assumption that the parking lot is available for use.

4.2.1. Data used for identification

Certificate of registration

5. General Factors Analysis

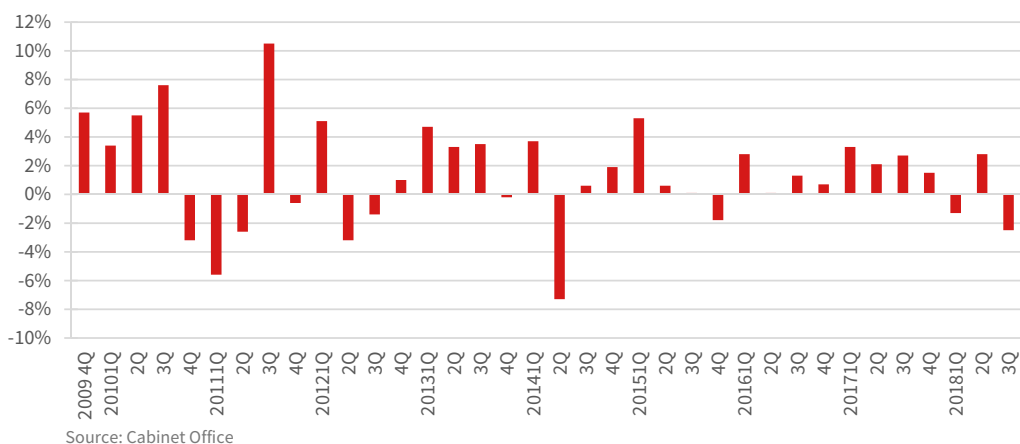
5.1. Recent Economic Developments

According to the monthly report issued in January 2019 by the Cabinet Office, The Japanese economy is recovering at a moderate pace. Concerning short-term prospects, the economy is expected to continue recovering, supported by the effects of the policies, while employment and income situation is improving. However, attention should be given to the risks including the effects of situations over trade issues on the world economy, the uncertainty in overseas economies including the prospect of Chinese economy and the effects of fluctuations in the financial and capital markets. And also, we should pay enough attention to the influence to the economies by the series of natural disasters.

The trends in the main economic indicators are as shown below.

5.1.1. GDP Trend

The nationwide real economic growth for 3Q 2018 announced by the Cabinet Office declined 0.6% q-o-q, or it shrank by 2.5% on an annualized basis.

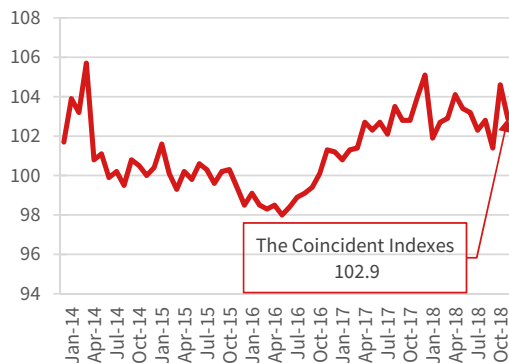


5.1.2. Diffusion Index and Consumer Price Index

The Coincident Index of the business condition announced by the Cabinet Office for November 2018 recorded 102.9 (Y2015=100), showing --1.7 percentage points of change from the previous month.

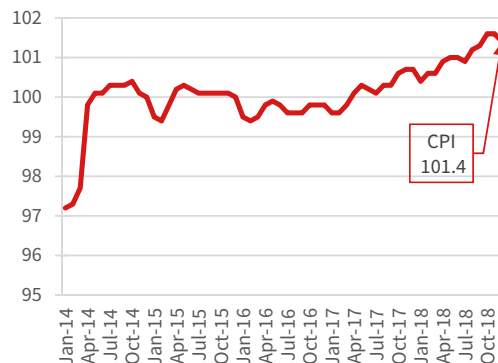
Nationwide CPI excluding fresh food for December 2018 recorded 101.4 (Y2015=100). This equals to a 0.7 % of increase year-on-year.

■ Diffusion Index (2010 = 100)



Source: Cabinet Office

■ Consumer Price Index (2015 = 100)



Source: Ministry of Internal Affairs and Communications

5.1.3. Stock Price Index and the Exchange Rate

The Nikkei 225 average on the Tokyo Stock Exchange for January 2019 ended at JPY 20,773.49, showing +3.8% change m-on-m or -10.1% y-on-y.

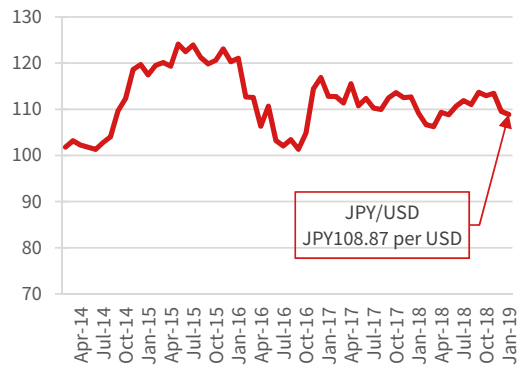
On the currency market, the exchange rate for the Japanese Yen versus the US dollar was JPY108.87 at the end of January 2019.

■ Nikkei 225 Average Stock Price



Source: Tokyo Stock Exchange

■ Exchange Rate (Tokyo Market)



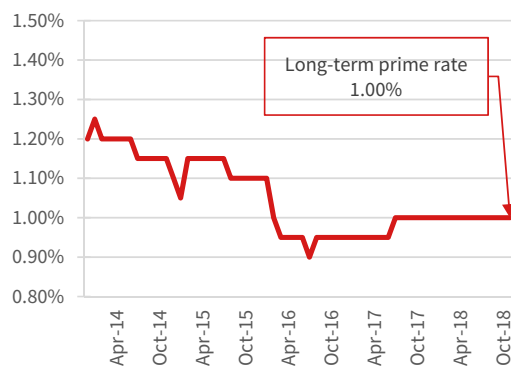
Source: Bank of Japan

5.1.4. Long-term Prime Rate and Short-term Prime Rate

Long-term prime rate as of December 2018 was 1.00 %, unchanged from the previous month.

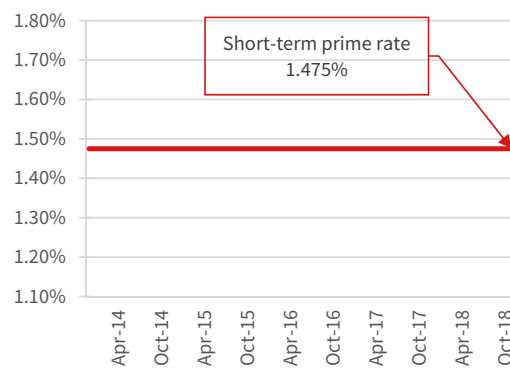
On the other hand, short-term prime rate as of December 2018 was 1.475 %, which also remained the same from the previous month.

■ Long-term Prime Rate



Source: Bank of Japan

■ Short-term Prime Rate



Source: Bank of Japan

5.2. Real Estate Market Trends

5.2.1. Land Price Trend as of July, 2018

The averaged nationwide land price across sectors over the year from July 2017 turned around and picked up for the first time in 27 years since 1991. Looking at the trend by sector, the residential land price continuously slowed its pace of decline. The commercial land price rose for the second consecutive year, gathering its pace of increase, while the industrial land price started to increase for the first time in 27 years, in contrast to the previous year when it unchanged y-on-y. The land price gathered its pace of increase in three major regions both for residential and commercial. In the Greater Osaka, the residential land price rose for the first time in four years, while the industrial land price also generally showed stronger growth. Other than three major regions, land price across sectors increased stronger than three major regions in four cities including Sapporo, Sendai, Hiroshima and Fukuoka. The land price in all other cities in non-major regions declined slower across sectors compared to the previous year.

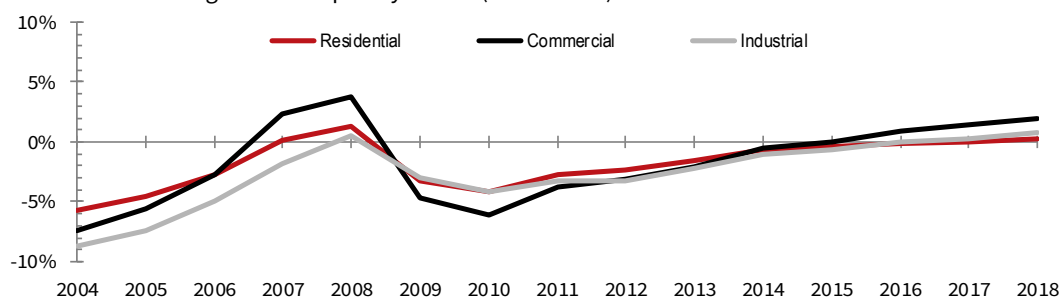
■ Residential land Price

Underpinned by the demand created by the continued low interest rate policy as well as the improved employment and income situation nationwide, the land prices, especially those in highly convenient areas in terms of transportation and living, continuously showed a slower pace of decline.

■ Commercial land Price

Due to the improvement in vibrancy and visitor circulation created by the progress of redevelopment projects, also the increase of the number of visitors from in and out of the country, the appetite for opening new retail shops and hotels remained strong in central areas of major cities. As for office properties, the vacancy rate continued declining in general, supported by the improved corporate performance, and in some areas, the rent started to increase. In addition to such improvement in profitability of commercial land, the favorable financing environment due to monetary easing made the appetite for real estate investment by non-private investors stronger, therefore the commercial land price continuously increased from the previous year and its pace even gathered.

■ Land Price Change across Japan by Sector (nationwide)



■ Land Price Change by Sector (As of July, 2018)

	Residential		Commercial		Industrial	
Nationwide	-0.3%	(0.3%↑)	1.1%	(0.6%↑)	0.5%	(0.5%↑)
Greater Tokyo	1.0%	(0.4%↑)	4.0%	(3.4%↑)	2.9%	(2.3%↑)
Greater Osaka	0.1%	(0.1%↑)	5.4%	(5.4%↑)	1.7%	(1.7%↑)
Greater Nagoya	0.8%	(0.2%↑)	3.3%	(2.7%↑)	0.5%	(-0.1%↓)
Other Regions	-0.8%	(0.2%↑)	-0.1%	(0.9%↑)	0.0%	(1.0%↑)

Source: Ministry of Land, Infrastructure, Transport and Tourism

5.2.2. Intensively Used Land Price Trends

The Ministry of Land, Infrastructure, Transport and Tourism issues the Land Value LOOK Report, which tracks the trend of the value of intensively used land in major cities of Japan every quarter, covering 43 areas in the Greater Tokyo, 25 areas in the Greater Osaka, 9 areas in the Greater Nagoya and 23 areas in the major regional cities, a total of 100 areas.

According to the report in Q3 2018, the number of areas where the land value increased was 96 (95 in Q1 2018), unchanged was 4 (5 in Q1), and declined was 0 (0 in Q1).



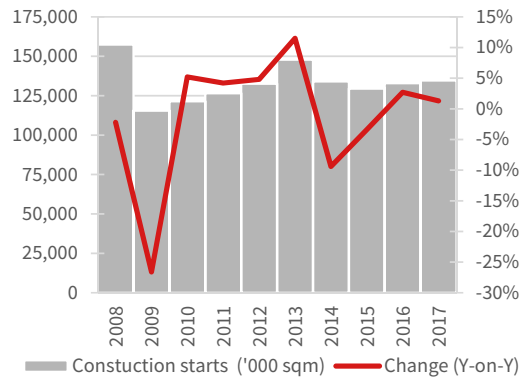
Source: the Ministry of Land, Infrastructure, Transport and Tourism

5.2.3. Building Start and Construction Cost Deflator

According to the Ministry of Land, Infrastructure, Transport and Tourism, the nationwide construction starts in 2017 was 134,679,000 sq m (1.3 % increase y-on-y).

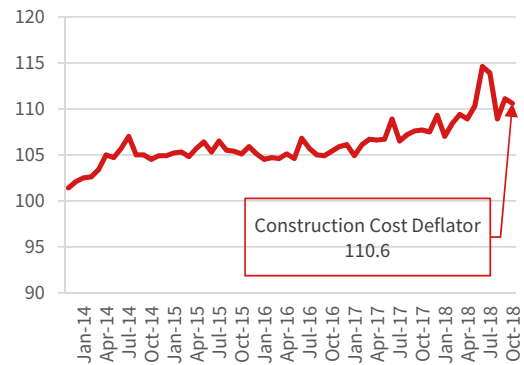
On the other hand, the construction cost deflator in October 2018 was 110.6 (Y2011=100), which indicated +2.7% points y-on-y.

■ Building Start Trend



Source: the Ministry of Land, Infrastructure, Transport and Tourism

■ Construction Cost Deflator



Source: the Ministry of Land, Infrastructure, Transport and Tourism

6. Area / Neighborhood Analysis

6.1. Area Summary

6.1.1. Description of Koriyama-shi, Fukushima-ken

Koriyama-shi is located in the center of Nakadori of Fukushima-ken, and is designated as a core city. The city is extended from east to west of Ou Mountains, with its west side located on the south bank of Lake Inawashiro which is located to the Sea of Japan side, and its east side reaches Abukuma upland. Downtown area is situated in between Utsunomiya-shi of Tochigi-ken and Sendai-shi of Miyagi-ken, and is connected to both cities by Tohoku Shinkansen, Tohoku Main Line, Tohoku expressway, and National Road Route 4. Further, the city has access to Aizuwakamatsu-shi and Niigata-shi in the west and Iwaki-shi in the east by Banetsu expressway, Banetsu-saisen (west line), Banetsu-tosen (east line) and National Road Route 49. Located at the cross road of transportation in east Japan, the city developed as a hub of economy, inland industry, logistics and transportation. Koriyama urban area is being formed with its second largest population and economy in the Tohoku area. Given such characteristics of being a hub, the city also functions as an information distributing center of Fukushima-ken and is referred to as “mercantile city” and “economic prefectural capital”. Koriyama station serving as a junction station, both people and goods gathered and as a result, Koriyama-shi became the largest city of Fukushima-ken with the introduction of municipal system in Taisho era. During the postwar rapid economic growth period, many companies from Keihin industrial zone moved into the area and ties with Kanto area was strengthened.

6.1.2. Population and Number of households

■ Population

	2015	2016	2017	2018	2019
Koriyama-shi	329,122	335,826	335,413	334,295	332,737
Fukushima-ken	1,935,142	1,911,933	1,896,758	1,877,876	1,859,220

■ Number of households

	2015	2016	2017	2018	2019
Koriyama-shi	135,416	138,678	140,101	140,891	141,719
Fukushima-ken	729,671	738,755	743,730	746,003	749,144

Source : Dated January 1/ Statistics Division, Bureau of Planning and Coordination of Fukushima-ken

6.2. Market Characteristic of Subject Property

6.2.1. Market area

The market area for the purchase and sale market is broadly defined to be commercial areas in prefectural capitals and core cities in each local region, with highly competitive substitution in commercial areas in Koriyama-shi..

The market area for the rental market is defined in the same way as in the purchase and sale market.

6.2.2. Market participants

■ Purchase and sale market

(Buyer's attribute and behaviour)

Main buyers would be companies considering opening new retail store etc., in the area, and such prospective buyers tend to make investment decisions placing emphasis on location, competitor's situation, maintenance and design of the building, and asset value of the property, etc. while taking into consideration the business profitability and the cost for launching new store.

Real estate companies operating commercial facilities as well as developers and construction companies considering purchase of existing buildings for redevelopment are also prospective buyers and they tend to make investment decisions based on the current NOI, projections of income and expenses, the rate of return, marketability, costs for funding and profitability of investment on redevelopment project.

(Market trend)

Although the steadiness of the real estate market has not largely changed due to the impact provided by the negative interest rate policy, etc., the preferred selling prices still remain very high. Selling prices of properties with prime locations in the suburban cities tend to show an increase and interest rates are on a declining trend. Against this backdrop, some of those on the demand side are displaying a cautious attitude.

■ Rental market

(Tenant's attribute and behaviour)

On the demand side are companies considering opening new stores in the subject area as the end-tenants. Main tenants tend to select properties based on the conditions of the site and the situation of competing properties, taking into consideration their rent affordability.

(Market trend)

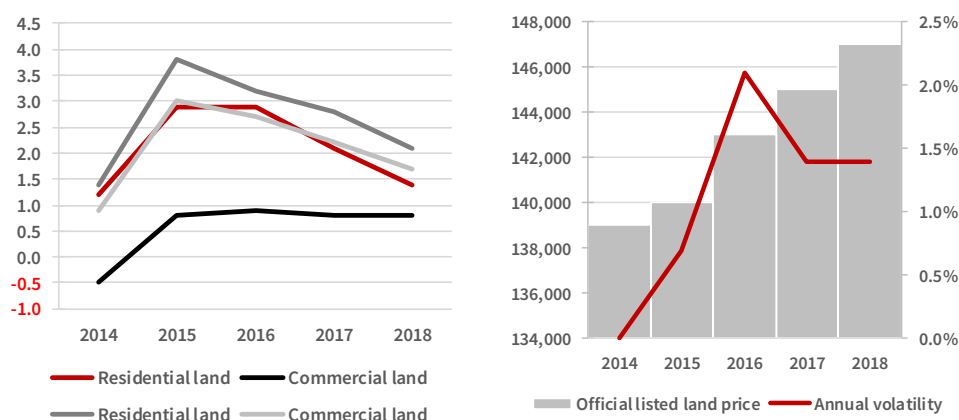
In both the Greater Tokyo area and regional areas there is a steady demand for large size commercial facilities with prime locations and competitive advantages, and their rents are stable.

On the other hand, both asking rents and contract rents are declining for commercial facilities that are less competitive; and their vacancy rates are remaining at a high level.

6.2.3. Land Price Trends in the Market Area

The latest figure of residential properties in Fukushima-ken in 2018 increased by 1.4% year-on-year, and that of commercial properties increased by 0.8% year-on-year. Latest figure of residential properties in Koriyama-shi in 2018 increased by 2.1% year-on-year and that of commercial properties increased by 1.7% year-on-year.

In addition, the latest figure of official listed land price survey point “Koriyama 5-1” in similar areas, showed an increase of 1.4% year-on-year in 2018.

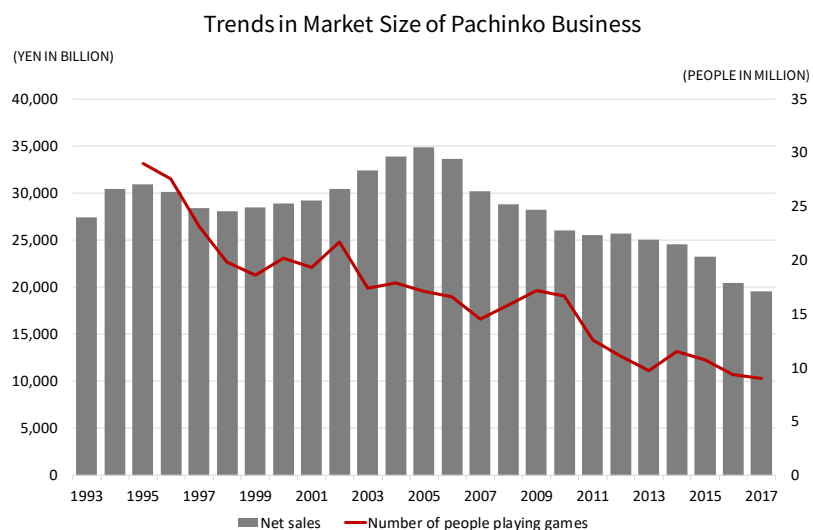


	Fukushima-ken		Koriyama-shi		Official listed land price survey point "Koriyama 5-1"	
	(Change, YoY)		(Change, YoY)		Value(JPY)	Change
	Residential land	Commercial land	Residential land	Commercial land		
2018	+ 1.4	+ 0.8	+ 2.1	+ 1.7	147,000	+ 1.4
2017	+ 2.1	+ 0.8	+ 2.8	+ 2.2	145,000	+ 1.4
2016	+ 2.9	+ 0.9	+ 3.2	+ 2.7	143,000	+ 2.1
2015	+ 2.9	+ 0.8	+ 3.8	+ 3.0	140,000	+ 0.7
2014	+ 1.2	- 0.5	+ 1.4	+ 0.9	139,000	± 0.0

Source: Ministry of Land, Infrastructure, Transport and Tourism

6.2.4. Trends in pachinko business

Overview of pachinko parlor operation	<p>A pachinko parlor is a store where machines such as pachinko and pachislot, etc. are installed for customers to play games, and customers exchange steel balls, etc. that they win with prizes. A pachinko parlor is also known as a “pachinko hall”, “pachinko parlor” or “<i>Pachiya</i>”.</p> <p>The operation of pachinko parlor in Japan is legally defined as an Adults Entertainment Business, specified as “an operation to install equipment for customers to play games that could arouse the gambling spirit” in Article 2-1-4 of the Act on Control and Improvement of Amusement Business, etc. (hereinafter, “Entertainment Business Law”) . Game coins for pachinko, etc. are regulated under the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Business, which is an act of National Public Safety Commission. Under this regulation, as of January 2019, a steel ball for pachinko is set at worth JPY4.32- or less, and a coin for pachislot is set at worth JPY21.6- or less (including consumption tax).</p>
Regulations for pachinko parlor openings	<p>Store openings of pachinko parlors are regulated by zoning rules under the City Planning Act, and at the same time they are also regulated by prefectural governments’ ordinances, which specify distance requirements from facilities which protect children, elderly and people with disabilities such as schools, welfare facilities, and hospitals, and ban a 24h operation. In addition, there are municipalities which regulate store opening that are more strict than those of prefectural governments.</p> <p>Entertainment facilities which install pachinko are required to obtain a business permit from police before establishing facilities.</p>
Market size	<p>According to “Leisure White Paper 2018”, the number of people playing pachinko in 2017 is 9 million, with net sales (charge for rental steel balls/coins) of JPY19.54 trillion, showing a decline in net sales for the 5 consecutive years. The sales peaked in 2005 at JPY34.862 trillion, and have been on a declining trend thereafter. The main cause for drop in net sales is a decrease in the number of people playing pachinko. The number has been declining year by year due to the increased diversification in entertainment options available, defection of customers resulting from diminished gambling factor due to revision of law, and increased social attention towards pachinko addictions. The latest figure of number of people playing pachinko in 2017 was 9 million people, about 30% of what it was in 1995, 29 million people. On the other hand, the net sales per customer, calculated by dividing net sales by the number of customers, hit an all-time high of approximately JPY2.58 million in 2013 and the average of 2.1 million yen has been maintained ever since. This indicates that the main customers have changed from light to heavy users.</p>



Source: "Leisure White Paper 2018" (Japan Productivity Center)

The ratio of people playing pachinko by area

The ratio of people playing pachinko by area in 2017 is as shown below (Descending order).

The Southern Tohoku region has a high rate of 15% or more.

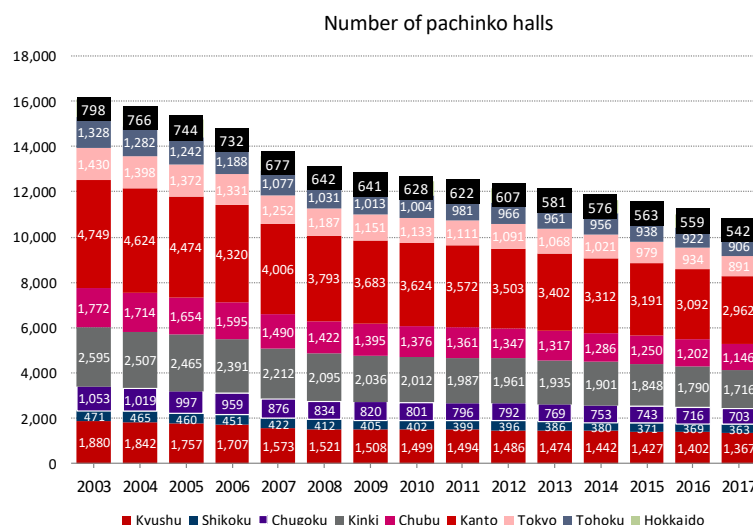
Area	The ratio of people playing pachinko(%)	Area	The ratio of people playing pachinko(%)
Southern Tohoku region	15.8	Nagano/Yamanashi	8.8
Shizuoka	12.8	Northern Kanto region	8.8
Chugoku region	11.6	Hokkaido	8.6
Hokuriku region	11.3	Northern Tohoku region	8.3
Shikoku region	11.1	Chiba	8.2
Oita/Miyazaki/Kagoshima	11.1	Tokyo	7.7
Nagasaki/Saga/Kumamoto	10.4	Okinawa	7.7
Aichi	9.7	Shiga/Kyoto	7.5
Mie/Nara/Wakayama	9.5	Saitama	7.5
Osaka	9.0	Gifu	7.1
Kanagawa	9.0	Nigata	4.5
Fukuoka	8.9	Hyogo	3.1

Source: "Leisure White Paper 2018" (Japan Productivity Center)

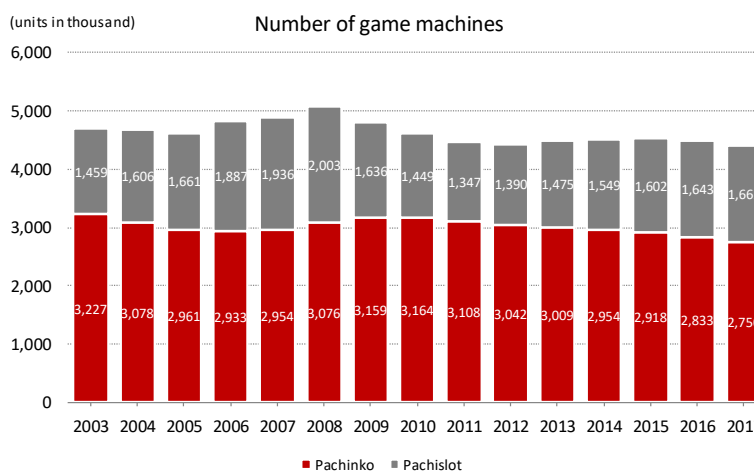
Number of pachinko halls and game machines installed

According to the document released by Zennichi Yuren (All-Japan game business federation), the trends in the number of pachinko halls and game machines are as follow. The number of pachinko halls has been declining since 1996 for 22 consecutive years and the number of pachinko game machines has declined for 7 consecutive years. Further, the number of slot machines has turned to decrease for the first time in 8 years. According to “Leisure White Paper 2016・2018”, average store size has grown as a result of number of small to medium size stores declining greatly and large-scale stores opening in various areas. Average number of pachinko machines per store exceeds 400. Most of the new launches are of companies seeking expansion and oligopolization, and are backed by supplies of vacant stores available due to increase of owners pulling out of business.

【Number of pachinko halls】



【Number of game machines】



Source : Zennichi Yuren

Management
indicator

According to 2018 TKC Management Indicators (Fiscal Year ended December 31, 2017), management indicators of profit-making companies in the pachinko business are as shown below. Compared to other service businesses, the marginal profit ratio and labor's share are at a lower level.

Net sales	Annual sales	JPY 1,886,028,000
	Year-over-year	89.5 %
Labor cost	Marginal profit ratio	21.8 %
	Labor share	30.1 %
	Yearly labor cost per person	JPY 3,350,000
Profitability	Ordinary income (per year)	JPY 53,822,000
	Recurring profit margin	2.9 %
	Ordinary income to total assets	4.8 %
Debt capacity	Equity ratio	49.6 %
	Gearing ratio	68.9 %
	Equity capital	JPY 554,332,000
	Redemption period (years)	1.8 years
	Interest coverage ratio	4.0 times
	Operating income before amortization (annual)	JPY 118,622,000

※Number of companies: 153; Average number of employees: 37

Source: TKC Corporation

※ Calculation of management indicators

1. Management indicator for net sales

No.	Item	Formula
1	Net sales (in thousand yen)	
2	Year-over-year net sales comparison (in thousand yen)	$= \frac{\text{Net sales for the year}}{\text{Net sales for the previous year}} \times 100$

2. Management indicator for profit allocation

No.	Item	Formula
3	Marginal profit ratio (%)	$= \frac{\text{Marginal profit}}{\text{Net sales}} \times 100$
4	Labor's share	$= \frac{\text{Labor cost}}{\text{Marginal profit}} \times 100$
5	Labor cost per person (per month)(in thousand yen)	$= \frac{\text{Labor cost} / 12}{\text{Average number of employees}}$

(*1) Marginal profit=Net sales—Variable expenses

(*2) Labor cost includes compensation paid to directors, wage, salary, miscellaneous wages, bonus, retirement benefit, and welfare expense, etc.

3. Management indicator for profitability

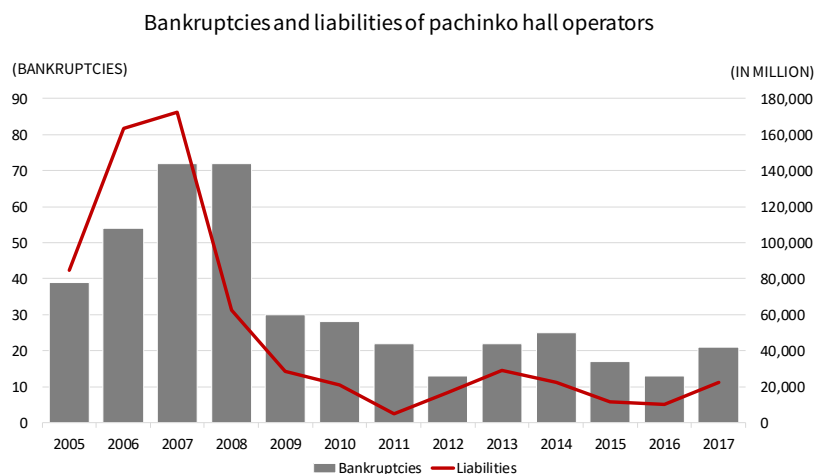
No.	Item	Formula
6	Ordinary income (in thousand yen)	
7	Recurring profit margin (%)	$= \frac{\text{Ordinary income}}{\text{Net sales}} \times 100$
8	Ordinary income to total assets (%)	$= \frac{\text{Ordinary income}}{\text{Total assets}} \times 100$

4. Management indicator for debt capacity

No.	Item	Formula
9	Equity ratio(%)	$= \frac{\text{Equity capital}}{\text{Total capital}} \times 100$
10	Gearing ratio(%)	$= \frac{\text{Interest-bearing debt}}{\text{Equity capital}} \times 100$
11	Equity capital (yen in thousands)	$= \text{Net assets (in total)} - \text{Stock acquisition right}$
12	Redemption period (years)	$= \frac{\text{Interest-bearing debt} - \text{Working capital-Cash and deposits}}{\text{Ordinary income} - \text{Income taxes} + \text{Depreciation allowance}} \times 100$
13	Interest coverage ratio (times)	$= \frac{\text{Operating income} + \text{Interest and dividends income received}}{\text{Interest and discount paid}} \times 100$
14	Operating income before amortization (yen in thousands)	$= \text{Operating income} + \text{Total depreciation allowance}$

(*3) Interest-bearing debt includes short-term borrowings, current portion of long-term borrowings, and long-term borrowings, but excludes bills discounted.

Trends in bankruptcy According to the data by Teikoku Databank, Ltd., there were 21 bankruptcies of pachinko hall operators in 2017, with liabilities totaling JPY22.219 million. Compared to the 2008 peak over the last 10 years (72 bankruptcies), the number of bankruptcies dropped to about one-third.



Source : Teikoku Databank, Ltd.

6.3. Neighborhood

Neighborhood	
Boundaries	Out of district No.1 to No.4 of Omachi 2-chome, Koriyama-shi, an area alongside an arterial road which the subject property has frontage on its southwest side.
Characteristics	Roadside commercial area with heavy traffic where retail stores and logistic facilities are located.
Frontage	Approximately 32m-wide public road with sidewalks on both sides
Transportation access	Approximately 800m northwest of “Koriyama” Station on the JR Tohoku Main Line.
Environment	<p>Topography : Downward slope from the west to the east which then turns into an upward slope, forming a dip.</p> <p>Water supply : Public system available</p> <p>Sewerage : Public sewage available</p> <p>Gas : Urban gas</p> <p>Hazardous/aversive facility : None in particular</p>
Administrative factors	<p>City Planning Area</p> <p>Urbanization Promotion Area</p> <p>Zoning : Commercial Area</p> <p>Designated building cover ratio (“BCR”) : 80%</p> <p>Designated floor area ratio (“FAR”) : 400%</p> <p>Fireproof / Quasi-fireproof Area : Quasi-fireproof Area</p> <p>Other restrictions : Parking promotion district (Koriyama station west exit district), Urban Function Induction area (Koriyama station central hub area)</p>
Future outlook	Nothing identified that would affect the composition of the neighborhood, and the neighborhood’s character is expected to remain as is.
Standard use	Judged to be a site suitable for a low-rise retail store based on characteristics and future projection of the neighborhood.
Standard lot	An inside lot with shape of rectangle and size of approximately 500 sq. m

7. Analysis of the Subject Property

7.1. Land Description

Land Description	
Current Use	Subject property is used as a low-rise retail store
Frontage	4-Street lot Southwest : Approximately 32m Public road (Article 42-1-1) North : Approximately 18.3m Public road (Article 42-1-1) East : Approximately 18m Public road (Article 42-1-1) South : Approximately 5.5m Public road (Article 42-1-1)
Transportation access	Approximately 800m northwest of “Koriyama” Station on the JR Tohoku Main Line.
Environment	Similar to the standard lot in the neighborhood.
Administrative factor	Designated BCR (90.00%) , Designated FAR (400.00%) Similar to the standard lot in the neighborhood in other aspects.
Site	Area (Registered) Total 8,659.12 sq m Frontage : Approximately 40m Depth : Approximately 80m Shape : Irregular Topography : Downward slope from the west to the east which then turns into an upward slope, forming a dip. Site level : Almost level at the street level, but there is an approximately 1m height difference with a road in the north.
Buried cultural treasures	Based on the hearing with the public administration, the subject property is not designated as land containing buried cultural treasures. Therefore, we have concluded that this factor does not influence determinants of value in this analysis.
Soil contamination	Whether the property is designated as an area requiring measures under Act for Controlling Soil Contamination or as an area requiring notification upon changing its character. : <input type="checkbox"/> Not designated Based on the hearing with the public administration, it is confirmed that notification was submitted in 1976 for a gas station under the address 3-5, Omachi 2-chome as a specified facility under the sewage act. Based on the original research by the real estate appraiser, the record of land use in the subject property (including surrounding areas) is as follows; [Historical geographic survey] 1970 Parking lot, gas station, office etc., 1980 Parking lot, gas station, office etc., 1987 Family oriented restaurant, parking lot, gas station, office etc., 1997 Family oriented restaurant, parking lot, gas station, small-size retail store etc.,

Land Description	
	<p>Possibility of soil contamination cannot be completely denied from the results of its site inspection, hearing with the administrative agencies, and historical geographic survey conducted by old maps etc., As per mentioned in the conditions for scope of work, this factor is eliminated from determinants of values in this analysis.</p> <p>The above conclusion only indicates the existence/non-existence of signs of soil contamination that are found within the scope of our normal research, and it does not prove that there is no risk of soil contamination.</p>
Subsoil objects	<p>Based on the appraiser's original research conducted which include objective information, hearings and appearance inspection at the site, it is assumed that there exist no subsoil objects. Therefore, this factor is excluded from determinants of value in the analysis.</p> <p>The above conclusion only indicates the existence/non-existence of signs of subsoil objects that are found within the scope of our normal research, and it does not prove that there is no risk of subsoil objects.</p>
Borders	<p>It is unknown if the borders are confirmed. Based on the site inspection conducted, it is assumed that there is no serious crossing of borders that may impact on its value. However, as per mentioned in the conditions for scope of work, this factor is eliminated from determinants of values in this analysis.</p> <p>Further, the above conclusion only indicates the existence/non-existence of signs of the crossing of borders that are found within the scope of our normal research, and it does not prove that there is no risk.</p>
Other	None

7.2. Building Description

Building 1

Date of construction	5 July 2005 (Registered) , 14-year-old														
Structure	Steel framed structure														
Stories	2 stories														
Use	Entertainment facility														
Floor area	<table><tr><th>Floor</th><th>GFA *1</th><th>Main use</th></tr><tr><td>1F</td><td>1,893.80 sq m</td><td>Retail</td></tr><tr><td>2F</td><td>236.73 sq m</td><td>Retail</td></tr><tr><td>Total</td><td>2,130.53 sq m</td><td></td></tr></table>			Floor	GFA *1	Main use	1F	1,893.80 sq m	Retail	2F	236.73 sq m	Retail	Total	2,130.53 sq m	
Floor	GFA *1	Main use													
1F	1,893.80 sq m	Retail													
2F	236.73 sq m	Retail													
Total	2,130.53 sq m														
*1: GFA is based on the Registration.															

Building 2

Date of construction	5 July 2005 (Registered) , 14-year-old											
Structure	Wooden frame structure											
Stories	1 story											
Use	Retail store											
Floor area	<table><tr><th>Floor</th><th>GFA *1</th><th>Main use</th></tr><tr><td>1F</td><td>21.69 sq m</td><td>Retail</td></tr><tr><td>Total</td><td>21.69 sq m</td><td></td></tr></table>			Floor	GFA *1	Main use	1F	21.69 sq m	Retail	Total	21.69 sq m	
Floor	GFA *1	Main use										
1F	21.69 sq m	Retail										
Total	21.69 sq m											
*1: GFA is based on the Registration.												

Building 3

Date of construction	5 July 2005 (Registered) , 14-year-old																	
Structure	Steel framed structure																	
Stories	3 stories																	
Use	Parking lot																	
Floor area	<table><tr><th>Floor</th><th>GFA *1</th><th>Main use</th></tr><tr><td>1F</td><td>3,768.36 sq m</td><td>Car Parking</td></tr><tr><td>2F</td><td>3,768.36 sq m</td><td>Car Parking</td></tr><tr><td>3F</td><td>3,768.36 sq m</td><td>Car Parking</td></tr><tr><td>Total</td><td>11,305.08 sq m</td><td></td></tr></table>			Floor	GFA *1	Main use	1F	3,768.36 sq m	Car Parking	2F	3,768.36 sq m	Car Parking	3F	3,768.36 sq m	Car Parking	Total	11,305.08 sq m	
Floor	GFA *1	Main use																
1F	3,768.36 sq m	Car Parking																
2F	3,768.36 sq m	Car Parking																
3F	3,768.36 sq m	Car Parking																
Total	11,305.08 sq m																	
*1: GFA is based on the Registration.																		

【Common subject matter】

Building Description	
Building plan and design plan, etc.	Details are shown in the attachment Building Plan.
Designer	MORO Architectural Design Office
Contractor	SATO KOGYO CO.,LTD.
Key specifications	Pachinko machine : 520 machines Pachislot machine : 440 machines Parking lot : for 744 cars
Grade	Standard
Maintenance	The subject property is 14-year-old. There is ordinary wear and tear, but the maintenance is in good condition.
Conformity with surrounding environment	The subject property is a low-rise retail building and matches the standard use in the neighborhood. Therefore, the subject building generally conforms to the surrounding environment.
Hazardous materials	Judging from the hearing conducted, use of the building, its structure, and year of construction, the possibility of the use of Asbestos and PCBs is extremely low. Therefore, this factor is eliminated from determinants of values in this analysis.
Seismic adequacy	Considering from the year of building construction, it is judged that the building was constructed conforming to the new seismic adequacy standard. Therefore, this factor is excluded from determinants of value in the analysis.
Legal compliance	Building Permission Certificate : Confirmed Building Inspection Certificate : Confirmed As per above, building inspection certificate was confirmed. Together with the result of site inspection and research conducted by local administrations, it is considered that legal conformity is guaranteed. (based on the original research by real estate appraiser)
Other	None

7.3. Building and its Site Description

Building and its Site Description	
Balance between Building and its Site	<p>BCR: Effective 59.28% < Permitted 90.00% FAR: Effective 109.28% < Permitted 400.00%</p> <p>Although the subject property does not fully utilize its permitted FAR, it matches the standard use of the neighbourhood and the building is efficiently located within the site. Therefore, the efficiency of site use is maximized.</p>
Competitiveness of the Subject Property	<p>The nearest station is “Koriyama” Station on the JR Tohoku Main Line. The subject property is located at an approximately 10-minute walk from this station. It is located close to a crossing of arterial roads with heavy traffic. Location-wise, its visibility and ability to pull in customers are high. There are plenty of population in the background area and the subject property locates in a roadside commercial area with high potential.</p> <p>The subject is a 4-street lot with irregular shape, larger than the standard lot. Although a part of the site can be utilized only as a driveway, it has frontage to multiple arterial roads with heavy traffic and its transportation access is high.</p> <p>Based on the above, the competitiveness of the subject property in terms of location/site is superior.</p> <p>The building analysis is as mentioned in the earlier section. The subject property is a low-rise owner-occupied retail store (with large size multi-story car park). Its maintenance is up to date, and there are enough parking spaces secured to cover the needs of the building of its size and the building covers necessary functions required by prospective tenants. Although the building is designed and constructed for owner occupied property, its design is simple and therefore the versatility is high. Although prospective tenant will be limited for its large size, considering its prime location demands for re-tenanting can be well expected.</p> <p>Based on the above, the competitiveness of the subject in terms of building features is superior.</p> <p>Both land and building are owned by the same entity, and there is no factor which inhibits marketability and competitiveness of the subject.</p> <p>Taking into account all of the above, we have concluded that the competitiveness of the subject property is judged to be superior.</p>

7.4. Highest and Best Use as Improved

Highest and Best Use as Improved	
Highest and Best Use as Vacant Land	<p>Considering the characteristics of neighbourhood and the subject property and the future forecast, the highest and best use as vacant land is judged as below.</p> <p>Site for low-rise retail store</p>
Highest and Best Use as Improved	<p>The subject property matches the environment, and the subject building conforms to the site and is consistent with the highest and best use. Therefore, the highest and best use as improved is judged as below.</p> <p>Continuing use as a low-rise retail building</p>

8. Application of Valuation Approaches

8.1. General Directions

The subject property is identified as an Owner-occupied Building and its Site, and the cost approach and income approach are applied to conclude value. The sales comparison approach for building and its site as a whole is not applicable due to lack of sufficient sales comparables.

8.2. Cost Approach

The cost approach value is determined by deducting the necessary depreciation from the replacement cost at the date of valuation.

The process of estimation is shown in Appendix 3: *Cost Approach Value Estimate Table*.

8.2.1. Replacement Cost

The replacement cost of the site and the building are estimated, to which the incidental expense is added to assess the subject's replacement cost.

8.2.1.1. Land (Vacant Land)

The vacant land value is estimated by applying the sales comparison approach, with reference to the benchmark value. The process of the estimation is shown in Appendix 4: *Land Value Estimate Table*.

Sales comparison approach value and Benchmark value	
Sales comparison approach value	JPY 153,000 per sq. m
Benchmark value	JPY 120,000 per sq. m

(Benchmarked to Official listed land price survey point : Koriyama 5-1)

In this analysis, the standard value of the standard lot has been estimated at JPY 153,000 per sq. m, putting emphasis on the sales comparison approach value which reflects the actual state of the market, although there is a difference between the sales comparison approach value and the benchmark value.

The value of the subject land is assessed by multiplying the amount of land areas by the unit value which is estimated by adjusting for the attributes of the subject site. The basis for adjustment for the subject's attributes is as follows.

Item	Adjustment	Basis for adjustment
Large Size	- 20%	Judging by the relation between unit price and total value
4-Street Lot	+ 4%	Based on an increase in efficiency of use
Irregular	- 7%	Based on a decrease in efficiency of use
Visibility	+ 5%	Based on an increase in efficiency of use
Multiple	81%	

8.2.1.2. Building

We have estimated the value of the building by comparing with construction costs of similar buildings. As for structures, we have estimated the value by comparing with acquisition value of similar buildings.

8.2.1.3. Incidental Expense (Entrepreneurial Profit and Other Costs)

Incidental expenses are estimated by considering the following:

- Direct cost related to land such as acquisition fee, a development application fee and property tax, etc.
- Direct cost to building such as design/ supervision fee, building certificate application fee and registration fee, etc.
- Cost to building and its site such as financing cost and the equivalent amount of development risk, etc.

8.2.2. Depreciation

8.2.2.1. Depreciation for Land

No depreciation is deducted for land.

8.2.2.2. Depreciation for Building

The depreciation value of the building etc.,(building and structures) is assessed by applying both useful life depreciation and observation depreciation.

As for useful life depreciation, we classify the components of the building into the building frame, the finishing and the installation, then assesses each depreciation rate considering age and remained economic useful life. Residual rate at the end of useful life is estimated at 0%. As for observation depreciation, we conclude that there is no adjustment considering physical depreciation confirmed upon site inspection and competitiveness of the subject property obtained through market analysis.

8.2.2.3. Depreciation for Incidental Expense

Depreciation rate is estimated based on the useful life for the building (economic useful life of the building frame).

8.2.2.4. Depreciation as Improved

No depreciation is recognized for the subject property as improved because the subject property is maintained in the highest and best use.

8.2.3. Cost Approach Value

Deducting the depreciation from the replacement cost assessed as above, we have estimated the cost approach value of the subject property as follows.

Replacement Cost		Depreciation		Cost Approach Value
JPY 2,701,254,720	—	JPY 667,323,304	≡	JPY 2,030,000,000

Cost Approach Value	JPY 2,030,000,000	
Land	JPY 1,239,000,000	(61%)
Building	JPY 771,000,000	(38%)
Structure	JPY 20,000,000	(1%)

The values of the land and the building etc., shown above were obtained through allocating cost approach value based on the ratio of land value / building value etc., before depreciation as a whole.

8.3. Income Approach

Although the subject property is an owner-occupied land and building, the value is estimated assuming it will be leased. The value estimate (income value) is derived by calculating the total sum of the present value for the expected future net cash flow for the subject property. The income approach value is estimated using the direct capitalization and DCF method.

The direct capitalization method derives a net cash flow ("NCF") of a single year, and capitalizes this with a capitalization rate to estimate value.

8.3.1. Subject's New Market Rent

Before application of the income approach, the subject's new market rent which affects the capitalization rate of net cash flow for a single year in the direct capitalization method is assessed.

8.3.1.1. Rent Comparables

The contract/asking rents for competing properties in the surrounding area are as follows (including partial estimates).

(Retail)

#	Signed/ Asking	Location	Completed	GFA *1	Stories *2	Contract area *3	Unit Rent (¥/Tb)
Subject	-	Omachi 2-chome, Koriyama-shi, Fukushima-ken	Jul-05	A	C	S	-
1	NA	Akita-shi, Akita-ken	2014	B	C	A	12,200
2	NA	Isesaki-shi, Gunma-ken	2013	B	C	A	11,100
3	NA	Ishinomaki-shi, Miyagi-ken	2014	B	C	A	10,800
4	NA	Fukaya-shi, Saitama-ken	2014	B	C	A	11,000
5	NA	Ishioka-shi, Ibaraki-ken	2014	B	C	A	12,700

*1 S : Over 1,000 Tb, A : 500 — 1,000 Tb, B : 300 — 500 Tb, C : 100 — 300 Tb, D : 100 Tb or less

*2 A : 3F or higher, B : 2F, C : 1F, D : B1F or below

*3 S : Over 500 Tb, A : 100 — 500 Tb, B : 30 — 100 Tb, C : 30 Tb or less

8.3.1.2. Subject's New Market Rent

Based on the above comparables, the actual contract and asking rents of the subject property, and interviews with real estate brokers, we have estimated the medium- to long-term average stabilized rent (including CAM) of the subject property as below. Deposits (refundable one-off payments) and key money (one-off payment regarded as advance payment of rent) are also estimated based on similar considerations.

#	Use	New Rent	Of which CAM	Deposit	Key money (Amortization)
1	New market rent for the subject property (Retail)	JPY 12,000 per Tb	JPY 0 per Tb	6 months	0 month
2	New market rent for the subject property (multi-story car park)	JPY2,000 per Tb	JPY 0 per Tb	6 months	0 month

8.3.2. Forecast of Inflation

Along with the new market rent, we assess the expected changes in prices that affect net cash flow for a single year in the direct capitalization method and the capitalization rate.

In assessing estimated change in prices, we account for future forecasts for GDP growth, GDP deflators and rent index trends, as well as historical rent indexes to arrive at the following estimates.

Forecast of Inflation	
Short-term forecast (1 - 3 years)	± 0.0%
Mid-term forecast (4 - 10 years)	± 0.0%
Long-term forecast (after 11years)	± 0.0%

8.3.3. Rates and Yields**8.3.3.1. Capitalization Rate**

The capitalization rate has been estimated as below referring to the capitalization rate of similar property, hearing with real estate investors, and various indexes published.

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Capitalization Rate	7.5%
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8.3.4. Direct Capitalization Method

8.3.4.1. NCF

The NCF is estimated by deducting total expenses from the gross income. The process of estimation is shown in Appendix 5: *NCF Estimate Table and Forecast Variables* and Appendix 6: *Direct Capitalization Estimate Table*.

The assumptions regarding this estimate are as follows:

- The tenant turnover is estimated at 15 years for both retail store and multi-story car park based on the past performance of the subject property and similar properties;
- As stated in the forecast inflation section, the expected change in prices is assumed to be $\pm 0.0\%$.

8.3.4.2. Capitalization Rate

As stated in the capitalization rate section earlier in the report.

8.3.4.3. Direct Capitalization Value

By applying the above capitalization rate to the net cash flow, we have estimated the direct capitalization value as follows.

NCF	Capitalization Rate	Emergency Repair Cost	Direct Capitalization Value
JPY 143,803,808	÷ 7.5%	— JPY 0	≒ JPY 1,920,000,000
Direct Capitalization Value (Per net rentable area)		JPY 1,920,000,000 (JPY 143,000 per sq m)	

9. Reconciliation and Conclusion of value

9.1. Reconsideration of the Value Estimates

The value estimates shown below have been obtained, and the values are reconsidered to determine our confidence and conclude valuation.

Cost Approach Value	JPY 2,030,000,000
Income Approach Value	JPY 1,920,000,000

The cost approach focuses on cost. For assessment of replacement cost, the sales comparison approach has been applied for land, with sufficient reference to the benchmark price. As for the building and structures, the construction costs, etc. of similar buildings has been taken into account to estimate the replacement cost. We estimate the incidental expenses taking into account the market condition of various expenses for land and building etc., There is no depreciation for land, and a combination of useful life and observed depreciation is used to assess depreciation of the building etc., As for the incidental expenses, we depreciate in terms of the period to hold its usefulness.

In addition, we have estimated considering the marketability as a building and its site.

The cost approach value derived as above is an empirical value supported by sufficient data.

The income approach value mainly focuses on profitability. In the analysis, the direct capitalization method is used to estimate value.

Net operating income derived from assessment of income approach value using in direct capitalization method is estimated through referring to actual figures of similar properties. Further, the capitalization rate is estimated through “comparison with similar properties”, reflecting current market conditions.

As subject property is an owner-occupied retail building, and includes multiple assumptions upon assessment of net operating income, reliability of the income approach value is relatively low.

Further, the following issues are considered:

- Appropriateness of selection, evaluation and use of data
- Appropriateness of use of the basic principles that underlie value of real estate
- Appropriateness of factor analyses
- Appropriateness of judgments regarding adjustments in applying each approach
- Consistency of judgments of factors that affect value common to each approach
- Appropriateness of the relationship between unit price and aggregate value

9.2. Judgments Regarding the Level of Conviction of each Value Estimate

The subject property is an owner-occupied retail building and major prospective tenants, companies etc., considering opening new stores, are judged to make investment decisions based on cost required for opening new stores and asset value of the subject property. Therefore, the value which reflects actual state of the market is judged to be cost approach value. Further, in this appraisal, income approach value gained was almost at the same level of cost approach value, and therefore we could examine the cost approach value from the perspective of profitability with the assumption that the property be leased.

9.3. Appraised Value

Therefore, we consider the cost approach value to be of primary relevance, while the income approach value has been used as reference, and we have concluded the value of the subject property as of the date of valuation as follows..

Appraised Value
(Per net rentable area)

JPY2,030,000,000
(JPY 151,000 per sqm)

Additional Statements

1. If obligation to return deposit is assumed by the new buyer upon transaction, it is appropriate that the purchase price deducts such deposit from the appraised value.
2. The appraised value does not include consumption tax and local consumption tax which will be levied upon the transaction.
3. Division of Roles

	Name of Appraisal Firm	Name of Appraiser	Sign and Seal	Scope of Work
Assignee	JLL Morii Valuation & Advisory K.K.	Kenichi Katsumi	✓	Preparation and application of all appraisal procedures.
		Yasuhiro Takebe		Screening of the assignment
		Hiroaki Honda		Review of appraisal report
		Iida Junichiro		Collection of land sales comparables
Business Alliance	None			

Set out below is the management discussion and analysis of the Group for each of the years ended 31 March 2017, 2018 and 2019.

FINANCIAL REVIEW

Revenue from Pachinko and Pachislot Business

Revenue from pachinko and pachislot is derived from gross pay-in netted with gross pay-out.

Revenue from pachinko and pachislot business for the years ended 31 March 2017, 2018 and 2019 amounted to ¥28,396 million, ¥25,263 million and ¥25,881 million. The decline of revenue in 2018 was primarily due to the recession of the pachinko and pachislot Industry. The rise of revenue in 2019 was attributable to the full year effect of revenue generated from a new hall which was opened in December 2017 as well as general improvement in hall performance despite the slump in pachinko industry.

Gross pay-ins

The Group's gross pay-ins from pachinko and pachislot business for the years ended 31 March 2017, 2018 and 2019 amounted to ¥143,130 million, ¥138,493 million and ¥141,731 million. The decline in 2018 was resulted from shrinkage of customer base and the replacement of high-gaming element machines to low-gaming element machines which in turn generate less revenue. The increase in 2019 was mainly generated from Hitachi-Omiya hall which was opened in late December 2017.

Gross pay-out

Gross pay-out for the years ended 31 March 2017, 2018 and 2019 amounted to ¥114,734 million, ¥113,230 million and ¥115,850 million. The decrease in 2018 and the increase in 2019 generally mirrored the change in gross pay-ins.

Revenue margin

The revenue margin for the years ended 31 March 2017, 2018 and 2019 were 19.8%, 18.2% and 18.3%. The decrease in revenue margin in 2018 was due to strategic increase in pay-out ratio to stimulate higher customer visit, which lowered the gross profit in the short term; while the revenue margins in 2019 maintained at similar level as in 2018.

Revenue from Amusement Arcade Business

In November 2017, the Group acquired 100% of equity interest in Dream Games, a company engages in the operation of entertainment and amusement facilities in Cambodia and Vietnam. As a result of the acquisition, the financial results of Dream Games and its subsidiaries were consolidated into the Group's financial statements.

Revenue contributed from amusement arcade business amounted to ¥417 million in 2018 and ¥1,535 million in 2019. Apart from the improvement in the performance of amusement arcade business, the surge of revenue was due to the full year effect of consolidated revenue in current year, while the amount in 2018 represented 4 months' revenue subsequent to acquisition of Dream Games.

Other revenue

Other revenue represents incomes from vending machines and hotel and restaurant operations.

Vending machines income for the years ended 31 March 2017, 2018 and 2019 amounted to ¥564 million, ¥536 million and ¥507 million in 2019. The decrease was resulted from decrease in customer visits and the number of vending machines.

Revenue from hotel operations for the years ended 31 March 2017, 2018 and 2019 amounted to ¥130 million, ¥158 million and ¥132 million. The increase in 2018 was due to increase in average occupancy rate; while the fall in 2019 was due to increasing competition in the vicinity.

Revenue from restaurant for the years ended 31 March 2017, 2018 and 2019 amounted to ¥90 million, ¥180 million and ¥270 million. The year-on-year increase in revenue was due to the effect of Nishi-Shinjuku restaurant and Shinbashi restaurant which were opened in September 2016 and August 2017 respectively; and opening of Komeda Café in two pachinko halls in 2019 which generated additional income.

Hall operating expenses

Hall operating expenses for the years ended 31 March 2017, 2018 and 2019 amounted to ¥24,110 million, ¥22,640 million and ¥22,875 million. The drop in expenses in 2018 was due to plunge in pachinko and pachislot machine expenses; while the slight increase in expense in 2019 was mainly resulted from the full year hall expenses of Dream Game.

Administrative and other operating expenses

Administrative and other operating expenses for the years ended 31 March 2017, 2018 and 2019 amounted to ¥4,391 million, ¥3,918 million and ¥4,502 million. The fall in 2018 and the rise in 2019 was due to impairment losses of ¥271 million and ¥195 million were provided in 2017 and 2019 but nil in 2018; netted with continuous implementation of cost savings measures.

Finance costs, net

Finance costs, net for the years ended 31 March 2017, 2018 and 2019 amounted to ¥531 million, ¥510 million and ¥455 million. The drop was attributable to the centralisation of borrowings from individual subsidiaries level to the Company, allowing higher cost savings on borrowings.

Profit/(loss) attributable to owners of the Company, basic earnings/(loss) per share and dividend

For the years ended 31 March 2017 and 2019, profit attributable to owners of the Company amounted to ¥492 million and ¥610 million; while loss attributable to owners of the Company for the year ended 31 March 2018 amounted to ¥15 million. The turnaround from profit to loss in 2018 was mainly due to the drop in gross pay-in by 3.2%; and increase in pay-out ratio which lower the profit margin in the short term. The turnaround from loss to profit in 2019 was mainly attributable to additional revenue driven from the new pachinko hall and Dream Games business, general improvement in hall performance, together with the decline in machine expenses.

Basic earnings per share for the years ended 31 March 2017 and 2019 were ¥0.410 and ¥0.510; and basic loss per share for the year ended 31 March 2018 was ¥0.013.

CAPITAL STRUCTURE

The Group principally meets its working capital and other liquidity requirements through a combination of capital contributions, including cash flow from operations and bank borrowings. The Group's daily operation is mainly financed by operating cash flows, and relies on short- and long-term borrowings for financing working capital, future expansion plans and unexpected needs. The Group's treasury objective is mainly to ensure there is sufficient cash flow to meet the payment of expenses, loans and to fund any capital expenditure and commitment that the Group may have from time to time. The Group's cash surpluses are placed in short-term and long-term fixed deposits to maintain liquidity. The Group has not experienced any difficulty in repaying its borrowings.

The Group's principal business activities are carried out in Japan, with income, expenditure, assets and liabilities mainly denominated in Japanese Yen, as such, the Group does not have any material foreign exchange exposure.

The table below sets forth the information regarding the cash and cash equivalents, bank deposits, bank borrowings, obligations under finance leases, working capital, total equity and gearing ratio of the Group as at 31 March 2017, 2018 and 2019, and operating cash flows before movements in working capital of the Group for the years ended 31 March 2017, 2018 and 2019, respectively:

	As at 31 March		
	2017 ¥ million	2018 ¥ million	2019 ¥ million
Cash and cash equivalents	13,404	15,594	15,176
Bank deposits	<u>287</u>	<u>90</u>	<u>43</u>
	<u>13,691</u>	<u>15,684</u>	<u>15,219</u>
Bank loans	2,860	3,574	4,294
Syndicated loans	8,190	11,166	11,788
Obligations under finance leases	<u>5,208</u>	<u>4,135</u>	<u>3,420</u>
	<u>16,258</u>	<u>18,875</u>	<u>19,502</u>
Working capital	8,066	8,548	6,631
Total equity	27,499	27,136	27,511
Gearing ratio	<u>59.1%</u>	<u>69.6%</u>	<u>70.9%</u>
For the year ended 31 March			
	2017 ¥ million	2018 ¥ million	2019 ¥ million
Operating cash flows before movements in working capital	<u>4,156</u>	<u>2,925</u>	<u>4,278</u>

Net current assets of the Group totaled ¥8,066 million, ¥8,548 million and ¥6,631 million as at 31 March 2017, 2018 and 2019, and current ratio was 2.12, 1.97 and 1.68 as at 31 March 2017, 2018 and 2019.

As at 31 March 2017, 2018 and 2019, there were cash and cash equivalents of ¥13,404 million, ¥15,594 million and ¥15,176 million, which are denominated in the following currencies:

	As at 31 March		
	2017	2018	2019
	¥ million	¥ million	¥ million
Japanese Yen	12,354	14,865	14,340
United States dollar	345	456	445
Hong Kong dollar	705	218	252
Other currencies	—	—	139
	<u>13,404</u>	<u>15,594</u>	<u>15,176</u>

The Group had total borrowings of ¥16,258 million, ¥18,875 million and ¥19,502 million as at 31 March 2017, 2018 and 2019. Current portion of borrowings and current portion of obligations under finance leases amounted to ¥3,554 million, ¥4,774 million and ¥4,993 million as at 31 March 2017, 2018 and 2019.

The Group's bank borrowings during the three years comprised bank loans and syndicated loans. As at 31 March 2017, 2018 and 2019, the total bank borrowings amounted to ¥11,050 million, ¥14,740 million and ¥16,082 million with the average effective interest rates per annum ranged from 1.1% to 1.8% in 2017, 0.8% to 1.1% in 2018 and 0.99% to 1.91% in 2019. Approximately 6.4%, 4.2% and 9.3% of bank borrowings as at 31 March 2017, 2018 and 2019 were fixed rate borrowings.

HEDGING OF FLOATING RATE BORROWINGS AND FOREIGN EXCHANGE

As at 31 March 2017, 2018 and 2019, the Group had one, one and three floating to fixed interest rate swap contracts with banks in Japan (i.e. the Group pays fixed interest rates and receives interests at floating rate). These interest rate swap contracts were entered into as a measure to manage interest rate risk in relation to loans of the Group. As interest rates of some of the Group's loans are on a floating rate basis, the floating to fixed interest rate swap contracts enabled the Group to reduce the volatility in the amount of interest being paid. For the years ended 31 March 2017, 2018 and 2019, the change on fair value for interest rate swap contracts amounted to gain of ¥4 million, gain of ¥3 million and loss of ¥23 million.

The Group's debts were primarily denominated in Japanese Yen. After the acquisition of Dream Games in November 2017, the Group maintains an appropriate level of external borrowings in Vietnam Dong for natural hedging of Vietnam Dong attributed to projects in Vietnam. The Vietnam Dong exposure of the Group is mainly derived from the translation of non-current assets and liabilities of the Vietnam subsidiary with functional currency of Vietnam Dong and the Vietnam Dong deposits held for future development costs.

As at 31 March 2018 and 2019, the translation of non-current assets and liabilities of subsidiaries with functional currency other than Japanese Yen to Japanese Yen by using exchange rates at that day resulted in loss of ¥93 million in 2018 and a gain of ¥99 million in 2019 were recognised in equity. Apart from this, the Group does not have any material foreign exchange exposure.

GEARING RATIO

The gearing ratio, defined as the aggregate of interest-bearing loans and obligations under finance leases, divided by total equity, were 59.1%, 69.6% and 70.9% as at 31 March 2017, 2018 and 2019. The increase of 10.5% in 2018 was mainly due to the increase in total borrowings of ¥2,617 million and decrease in total equity of ¥363 million. The increase of 1.3% in 2019 was mainly due to the increase in total borrowings of ¥627 million and total equity of ¥375 million.

CAPITAL EXPENDITURE

Capital expenditure mainly comprises expenditure for (i) the purchase of property, plant and equipment mainly used for construction of buildings, and (ii) the purchase of equipment and tools for the expansion and maintenance of pachinko and pachislot hall and amusement arcade operations. The table below shows a breakdown of the capital expenditure for the indicated periods:

	As at 31 March		
	2017	2018	2019
	¥ million	¥ million	¥ million
Property, plant and equipment	653	1,915	5,084
Investment properties	—	3	14
Intangible assets	—	—	83
Others	5	1	—
	<u>658</u>	<u>1,919</u>	<u>5,181</u>

CHARGES ON ASSETS

As at 31 March 2017, 2018 and 2019, the carrying values of charged assets were as below:

	As at 31 March		
	2017	2018	2019
	¥ million	¥ million	¥ million
Property, plant and equipment	8,195	8,340	11,050
Investment properties	678	662	650
Deposits and other receivables	585	582	180
	<u>9,458</u>	<u>9,584</u>	<u>11,880</u>

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 March 2017, 2018 and 2019.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this circular, the Group had no plan authorised by the Board for other material investments or additions of capital assets as at the date of this circular.

There are no important events affecting the Company that have occurred since the end of the previous financial year.

EMPLOYEES AND REMUNERATION POLICY

The Group's success, to a considerable extent, depends upon its ability to attract, motivate and retain a sufficient number of qualified employees, including area managers, hall managers, sales managers and staff. The Group offers competitive wages, bonuses and other benefits to full time employees. Opportunity for advancement is also crucial in building employee loyalty and work dedication. The Group provides clear career paths, job rotation and training to its full-time employees. As at 31 March 2017, 2018 and 2019, the Group had 1,435, 1,776 and 1,846 employees.

The remuneration policy of the Group (including those for directors and employees) is determined by the Remuneration Committee under the Board as per the performance, qualifications and competence of the employees. Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the directors). The remuneration policy and remuneration packages of the executive Directors and members of the senior management of the Group are reviewed by the Remuneration Committee.

Details of Management discussion and analysis on the Group for the respective years are disclosed in the following documents which have been published on the respective websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.ngch.co.jp/en/>:

- the annual report of the Company for the year ended 31 March 2017 published on 29 May 2017, from pages 10 to 15;
- the annual report of the Company for the year ended 31 March 2018 published on 6 June 2018, from pages 9 to 14; and
- the annual report of the Company for the year ended 31 March 2019 published on 5 June 2019, from pages 10 to 14.

1. Responsibility Statement

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. Disclosure of Directors' Interests

As at 30 June 2019, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares of the Company (the “Shares”), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register as required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

	Capacity/Nature of interest	Total	Approximate % of shareholding
Hisanori TANIGUCHI (谷口久徳) (formerly known as JEONG Seonggi)	Beneficial owner; interest of controlled corporation ⁽¹⁾	225,560,460 common Shares	18.86%
Hiroshi BANNAL (坂内弘)	Beneficial owner	216,000 common Shares	0.02%

Notes:

1. The interests held by Hisanori TANIGUCHI (谷口久徳) shown above include the 214,060,460 Shares held in his own name for his own benefit and the 11,500,000 Shares held by Densho Limited* (有限會社伝承), a company collectively wholly-owned by his children, the voting rights of which are exercisable by him.
2. All interests stated are long positions.
3. There were 1,195,850,460 Shares in issue as at 30 June 2019.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. Directors' Service Contract

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or be determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

4. Litigation

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

5. Competing Interests

As at the Latest Practicable Date, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

6. Interests in Assets and Contracts

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 March 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at such date and which was significant in relation to the business of the Group.

7. Material Contracts

The following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Group after the date of two years before the Announcement Date and up to and including the Latest Practicable Date:

(i) *Investment in a subsidiary*

On 20 November 2017, the company acquired 100% of the issued share capital of Dream Games Singapore Pte. Ltd. and its subsidiaries (“Dream Games”) at a cash consideration of ¥1,870 million. Dream Games is engaged in the operation of entertainment and amusement facilities in Cambodia and Vietnam. The Acquisition represents a strategic opportunity for the Group to establish its leading presence in gaming and entertainment industry in Southeast Asia and broaden the types of entertainment provided by the Group.

(ii) *Interest in an associate*

On 8 November 2018, a wholly-owned subsidiary of the Group entered into an agreement to subscribe for 20,000 shares, representing 40% equity interests, of a newly incorporated Hong Kong entity, Yes! E-Sports Asia Holdings Limited (“YEAH”) at a cash consideration of USD40,000. YEAH is established to be a hub for developing and expanding the e-Sports business in Asia.

In addition to the capital contribution, the Group has also entered a loan agreement with YEAH to provide it with a US\$3,200,000 loan (equivalent to approximately ¥354 million) with interest rate at 4% per annum. The loan was provided on 15 November 2018 and is repayable every six months by instalments over four years after 2 years grace period. The Group has the right to demand for full repayment by the time YEAH has surplus funds (defined as any amount of funds, including cash and cash equivalents, in excess of debt or debt-like liabilities such as lease obligations) that exceeds US\$3,200,000 principal amount of the loan.

YEAH is a private company and there is no quoted market price. There is no contingent liability relating to the Group’s interest in the associate.

8. General

- (a) The address of the registered office of the Company is 1-1-39 Hohaccho, Koriyama-shi, Fukushima, Japan 963-8811 and the Principal place of Business in Hong Kong is at 805B, 8/F, Tsim Sha Tsui Centre, 66 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

- (b) The joint company secretary of the Company are Ms. YIU Wai Man Karen, who is a member of the Hong Kong Institute of Certified Public Accountants and Ms. NG Sau Mei, who is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (c) The branch share registrar and the transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. Documents available for Inspection

Copies of the following documents will be available for inspection during the following business hours (i.e. from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m.) on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this circular unless (i) a tropical cyclone warning signal number 8 or above is hoisted; or (ii) a black rainstorm warning signal is issued:

- (a) the articles of association of the Company;
- (b) the material contracts referred to under the paragraph headed “Material Contracts” in this Appendix III;
- (c) the annual reports of the Company for the three years ended 31 March 2017, 31 March 2018 and 31 March 2019;
- (d) the property valuation report set out in Appendix II to this circular; and
- (e) this circular.